

A Free Lunch on Easy Street

By [The Mogambo Guru](#)

01/31/05 Americans are living way beyond their means...and the Mogambo wonders how much longer it can last. He knows that borrowing and spending one's way to prosperity never works out...but try telling that to everyone in Consumerland.

So, do you every wonder what the Chinese are going to do with all those dollars they are accumulating? Did you ever wonder if maybe they wake up in the morning and think to themselves, "Hong choi hin gong?" which, of course, means, "I wonder how much value those damn American dollars lost last night?" Well, wonder no more! They have decided to buy things with them before they turn into just worthless paper, which will probably be a lot sooner than anyone thinks. If you don't believe me (and if you DO believe me then there is something very wrong with you, so you deserve whatever bad happens to you) let's just see what some other fine folks have to say (and for the record, these are people who think as YOU do, namely that the Mogambo is a loudmouth jerk, so at least you have something in common!) For instance, over at the Christian Science Monitor, there is an article, China's Risky Scramble for Oil, by David R. Francis that starts off noting that, "The average American consumes 25 barrels of oil a year. In China, the average is about 1.3 barrels per year; in India, less than one."

We're gluttons. I know that you think it looks bad to criticize us Americans as gluttons when I have just stuffed an entire donut, dripping with delicious icing, into my mouth at once, and now my cheeks are puffed out and I look like some kind of deranged squirrel, and when I talk, I sound like, "Mmfph gmgg thmmnqnn!" But there is a reason for that; by eating the donuts as an integral, audio-visual aid and, as such, is a necessary part of the class lecture, they are a tax deduction! And the fact that I originally borrowed the money to buy the donuts means that, net net net, I am MAKING money by eating donuts! Man! Why didn't I think of this earlier? This is the best plan I ever had!

But, sadly, my brilliant Mogambo tax windfall bonanza (BMTWB) is not going to have much of an impact on my lifestyle, because I consume a lot fewer donuts than I do barrels of oil. And it is going to get worse, too, as Mr. Francis goes on to say, "So as the 2.4 billion Chinese and Indians move to improve their living standards, they're going to want more oil – likely more than can be produced. That perceived shortage is setting off an intensifying scramble to tie up oil reserves around the world. So far, China has been the most aggressive player. But the competition is just getting going."

Economic Gluttony: How Strong Is the Competition?

How strong is the competition? Well, I know that everybody in the whole world is out to get me, personally, and so I assume that the selfsame whole world would all like to take oil and donuts right out of my mouth, the greedy bastards. Not much help, I admit, but it gives you a certain "perspective" on things. So, in desperation we turn to Mr. Francis again, and in reply he writes, "The challenge is huge. For China and India to reach just one-quarter of the level of U.S. oil

consumption, world output would have to rise by 44 percent. To get to half the U.S. level, world production would need to nearly double."

I love this kind of thing! I grab you by the front of your shirt with my grubby little fist, and haul you in close to my face so that I can look deep, deep, deep into your eyes, and I say, "World oil output is maxed out, and refining capacity is maxed out, too, and so just where in the hell is all of this additional output going to come from? Hahahaha!" Then, I say that if there is one thing that I am pretty sure is true, and it is that when demand exceeds supply, the only way to equilibrate the two forces is for the price to go up. And although I have never actually shown a profit in my life, (or even been near one, as far as I can tell), mostly because I am an incompetent loser whose entire inventory of managerial skills ranges from "bad" to "nonexistent", I have HEARD and READ about profits, and as I understand it, you would make a profit if prices go up.

I just happen to have a copy of The Mogambo Unabridged Dictionary (TMUD) nearby, so it is child's play to look up "competition." There are, of course, many alternate definitions. But we are interested in the one definition categorized under "Competition, resource, international, long-term, price action; phases of. Page 4744." So we go to page 4744 and we read that, in this case, it is defined as, "A period of time when prices start heading up, leading to a time when prices are still heading up, which leads to a time period where prices have seemingly always headed up, culminating in a period when prices continued to go up but that, suddenly, stop going up. Over the long-term, even at relatively low levels of inflation, prices will rise enough to make your freaking eyes pop out of your head".

As a result, "The growing demand for oil is leading to a growing global conflict," warns Amos Nur, who is a geophysicist at Stanford University. And if you don't think so, too, then ask the people of Iraq if they have noticed any conflict with foreigners.

But it is not only oil! Oh, no! As Jim Willie reports, that the Chinese are making bids to, for starters, acquire Noranda Copper, gobble up vast tracts of undeveloped land in Alberta's energy fields, buy up Australia and Brazil to secure large supplies of minerals, and buy the American energy firm Unocal. Mr. Willie says, "The captured booty will be mineral and energy properties, which will elevate the tone of the commodity bull market and eventually trigger a bidding war on mining and energy stocks in the coming years. Political fallout is certain. Tensions will heighten".

But it isn't just the Chinese, either! Man, it just keeps getting worse and worse! He goes on, like driving a stake into my heart, to report about how "A newly coalesced group has formed. Greater Asia has banded together to form the Shanghai Cooperative Group in order to create what could become a more powerful commodity supply organization than OPEC itself. China, India, Russia, and the former Soviet Moslem Republics form the nucleus."

Economic Gluttony: No Free Lunch

So what does this all mean? I have my own ideas, most of which revolve around me eating an entire pepperoni and sausage pizza, but perhaps Mr. Willie can come up with something better. And sure enough, he does! "My conclusion," he says, "calls for an amplification of current trends

in a declining U.S. dollar and rising commodity prices, with the added risk of the U.S.A. locked out of markets." You mean that China and India and Russia and the former Soviet Moslem Republics that he talks about might want to hurt us? Why? Didn't we spend most of the last century kicking all their nasty little butts and humiliating them? Wasn't that enough already? They want ANOTHER little taste of American competition?

This is very alarming to me, mostly because I am the easily excitable type, but also because we Americans are living waaaAAAAaaayyyy beyond our means, and have been for a long, long time. And that means that OUR standards of living are going to have to come down. And they are! When the prices we pay for things go up faster than our incomes (with which we pay for those things), our standard of living is falling! So, welcome to the future, chumps! There ain't a damn thing anybody can do about it, because believe me when I tell you that every dirtbag government that ever lived, and every economist that ever lived, have ALL sought the Holy Grail of somehow magically managing things to produce a Utopian "prosperity without earning" and "getting rich by amassing un-payable debts."

So far, and wait a moment as I tally up the final score, we have all failed miserably in our quests for A Free Lunch On Easy Street (FLOES). Not one of us even came close. The lesson seems to be that a country and everyone in it cannot continually borrow and spend their way to prosperity, no matter how much we want to, or how cool that would be, or how many Congressional buttheads say that they can. But you can borrow and spend yourself into bankruptcy and ruination. And you WILL, too, if you ever try that stupidity.

The end-result of inflation is always heartbreaking. And that is why all intelligent people have strenuously tried to avoid inflation, until the suicidal idiocy known as the Greenspan Fed took over in 1987.

Regards,

**The Mogambo Guru
for The Daily Reckoning**