

A Mogambo, A Machinegun and a Boom

By [The Mogambo Guru](#)

10/10/05 As Halloween is right around the corner, it seems fitting that there are some seriously frightening things happening in the economic world. The Mogambo Guru explains...

I am, as hard as that is to believe, getting freaked out more and more. The Federal Reserve didn't increase total credit by much, but they did continue accelerating down the Road To Economic Hell (RTEH) by buying, outright, \$2.4 billion of debt last week.

In short, the government borrows by issuing debt, and the Federal Reserve creates the money to buy the debt! Bingo! This not only creates more money and credit, the thing that got us to this point, but funds the activities of the government! Gaaahhhh!

The bigger news in this filthy area of the economic world, for me, is that foreign holdings of U.S. debt deposited at the Fed went up by a whopping \$7.6 billion last week. Whew!

Inflation Is a Killer: A Lot Higher Than Two Percent

The biggest, scariest thing of all was that nominal incomes dropped. And when you adjust nominal incomes by the reduction in buying power from all the inflation around here, then it is no wonder that inflation-adjusted incomes dropped so much, too. But I wail like a wounded banshee (ooOOooOOoo!) when I realize that the government's piddly little chain-weighted, hedonically adjusted statistical adjustment to incomes for inflation is around two percent. At that, I laugh this Big Booming Mogambo Laugh (BBML)! Hahahaha!

I am here to tell you, with the courage found only in a guy fully clad in body armor and sporting a machinegun in one hand and a flamethrower in the other, inflation is a lot higher than two or three percent...horribly higher. It is like somewhere in the range of six to nine percent, at least. And so when you adjust incomes for the real rate of interest, then the drop in real, inflation-adjusted incomes is getting to be pretty significant!

I am finally not screaming and angry and scared and hysterical over what is happening in the world of inflation, central banks and governments; namely getting bigger and meaner and more insane with every tick of the clock. This cannot, and will not, end well. Tick tock.

Well, let me put it a non-clock oriented way: Booms have never worked out in all of history, except at the beginning, where it has worked every time. You always get a boom when you stimulate, stimulate, stimulate the economy, year after year. The endings never worked out well, because inflation in prices always results from inflation in money and credit. And here we are again, standing up to our ears in debt at another ending of a period in which monetary and fiscal sins were indulged in, the boom happened, and now we are again standing by the side of the road on the way out of town with the company payroll under arm, one step ahead of auditors and

creditors, inflation rising up to devour everything. My only consolation is that at least I got out with a few bucks, and my kids are old enough to beg, so they will be fine.

But it is inflation that is the killer. For example, in my little hometown Leftist rag of a newspaper, the St. Petersburg Times, we have been getting stories of how the rise in gasoline prices is squeezing people, and how they are coping...mostly by cutting back.

Inflation Is a Killer: The Price of Inflation

And what do I mean by “cutting back”? Well, consider alert reader Charlie R, who writes, “Yesterday I was at a local Ford dealership. Sales were very, very slow. Across the street is a Chevy dealer. Six months ago they had 16 salesmen, today only eight, and are about to let more go. A muffler and tire shop laid off half of its employees. A furniture store is about to close the doors.”

Here, listening (well, reading) this, is exact place where The Mogambo weeps, and the Mighty Heart Of The Mogambo (MHOTM) breaks, because this is the price of inflation. Driving the car, at work, in your sleep, wondering, wondering, wondering how in the hell you are going to pay all of this money, when you ain't got no money, and you ain't a-gonna get no mo' money, neither!

Somebody, I forget who, noted that the latest University of Michigan consumer sentiment also produced a stock market crash signal, in that it had a one-month fall that was the biggest drop in fifteen years or something.

What does one do? Well, The Mogambo starts borrowing money like crazy. And when that (predictably) doesn't work anymore, I work double shifts at the stop light, wearing my sign that says, “Homeless. Crazy. Please help! Help me! Give me money or I will take down your license plate number, track you down, and you will be sorry!” And I don't want to hear from any of you about how this is extortion and the poor woman hasn't had a good night's sleep ever since she looked in her rear view mirror and saw me writing her tag number down, because this is not about who is extorting who, or who threatened who, or who did what to somebody's ugly yard ornaments.

No, this is about inflation in prices that comes after you have inflation in the supply of money and credit because the Federal Reserve acted like halfwits and morons. Without an increase in wages, people can't afford to buy as much stuff!

Regards,

The Mogambo Guru
for The Daily Reckoning

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Mogambo Sez: President Bush has opened the Strategic Petroleum Reserve in response to high gasoline prices, and thus temporarily driven down the price of oil. But nothing has fundamentally

changed, except to get worse. So, Mogambo Tip O' The Day (MTOTD) is to buy oil and oil stocks, as not only is demand still outpacing supply, but Bush has to refill the SPR pretty soon, adding to demand. Ergo, oil prices will shoot back up.

And the gold lease rates on gold have started back down, which usually means that the people that manipulate the price of gold are trying to manufacture a lower gold price. In practice, this means that you can soon buy gold on the cheap. Do so, or suffer the consequences of having your spouse and family laugh at you and say hurtful things like, "Hell, even an idiot like The Mogambo knew to buy gold!"