

Attention to Deficits Disorder

By [The Mogambo Guru](#)

03/21/05 Some people go through life with blinders on, happily oblivious to the state of the economy; they never give the trade deficit or inflation more than a fleeting thought. Sadly, The Mogambo is not fortunate enough to have the luxury of ignorance...

A lot of things scare me nowadays, and the two biggest things I fear are 1) that my wife wants to go on the Jerry Springer show to tell me something, and 2) that the U.S. Treasury issued \$49 billion in new debt, which they did, in ten lousy days. Annualized, this rate of issuance runs to \$1.78 trillion, which is, by strange coincidence, the exact amount of money it would take to buy enough tranquilizers to make me NOT scared of this, or hearing Jerry Springer say to me, "Come on out, Mogambo, and hear what your wife wants to tell you, you worthless little bastard!"

Foreign banks only plopped \$1.6 billion into their custody holdings at the Fed. This may have something to do with how they want to "diversify" their holding of foreign reserves, as many of them have hinted in the last few weeks. This means that they do not want to hold more dollars, but what else is there? The world is awash in the things, they are accumulating more of them at the rate of \$660 billion a year in trade deficits, and there are more dollars and dollar-denominated assets sloshing around the globe than practically all the other currencies combined! They want to diversify? Into what? And how?

But when you take a look at the chart of the dollar, one is hard-pressed to come up with a bullish case, and that means that the value of the dollar will continue to go down, which means that oil will continue to go up, which means that oil equities are going to go up, and that means that (if you believe in cost-push inflation) that the price of everything is going to go up because the cost of energy has gone up, and that means that gold should go up, and silver should go up, and uranium should go up as one country after another looks at their predicted energy consumption and discovers that only nuclear power has the necessary most-bang-for-the-buck to even try and pull it off.

The Dollar and Bulls: Bad News for the Bulls

For the bulls, the bad news is that Total Fed Credit, that original source of magical money-from-thin-air, is down by \$7.2 billion this week. The amount of credit being created by the Fed is surprisingly muted here lately. If this keeps up, you can kiss the stock market and capital gains goodbye, as an economy as bizarre, as large, as expensive, as government-centered, and as malignant as this one cannot exist without more and more money being created all the time, and at ever-greater rates. So this change in credit-creation is so potentially important that you might want to make a note of this in your diaries, "Dear Diary, Today The Mogambo says to keep an eye on Total Fed Credit, and if it does not start shooting to the moon soon, then we can all kiss our butts goodbye. P.S. I saw David in the hallway at school today. He is so cute!!!! I hope he asks me to the prom!!!!!"

Perhaps this "cute David" thing is what alarms Jim Shepherd, of the Shepherd Investment Strategist. Or maybe it is the strange goings-on with Fed Credit. I don't know. But something sure has him spooked, as he has a new flier out that says, simply, "Huge Crash Near." I could not have said it better!

This is a bad time of year for me, as my infrequent big bills all hit at once, and when combined with the monthly bills, hits me like a sledgehammer between the eyes, Well, auto insurance; up. Health insurance; up. Monthly bills; up. Food; up. To the sharp-eyed detectives among us, after a while you recognize a pattern. And for those of us who are not so gifted as to be able to recognize patterns, here is the answer. The pattern is that things are going up in price.

And, in fact, they have been going up in price for quite awhile now. Years, in fact. And every time you pay the higher prices, you vaguely recognize that things are a little more expensive these days. But you chuckle knowingly to yourself – heh heh – and accept that "a little the inflation is one of those things that you can't do anything about." And month after month, prices keep going up some more. More and more. Always more and more! And then one day, perhaps a day like today, and in fact a day that was EXACTLY like today, because it WAS today, I went over the tipping point, and all the years and years of prices hitting five, ten, fifteen percent per year increases has finally, one day, produced a number on a bill that is so large that instead of writing the check, I rush to the window, fling it open, and shout, "I'm mad as hell and I'm not going to take it anymore!"

And then everybody realizes that I stole that line from the Howard Beale character in the movie "Network" and that proves that everyone was right, and I AM incapable of demonstrating originality or any real creativity, and thus I am actually handicapped by more than just looking funny and smelling bad. I'm creativity impaired, too!

The Dollar and Bulls: Rage and Outrage

Then if you ask them if they knew about the Federal Reserve creating more and more money and credit, and how the government is going more and more into debt, and how this is going to create an inflationary firestorm that will more than decimate the world's wealth, they admit, "No, we did not know that" and so I shout, "Ha! That proves you are imbeciles!" Which was, apparently, the wrong thing to say because somebody called security and things got, for me, real ugly, and real fast. So this proves that their reaction to inflation was anger. Anger and uniformed security personnel. Well, their whole reaction to inflation was anger and uniformed security personnel and pepper spray.

But pepper spray making my eyes water and forcing me to gasp for breath does not change the fact that the universal reaction to inflation is rage AND outrage, which both contain the word "rage," so right off the bat you get a good idea of the tenor the situation. You watch, helpless, as prices rise faster than your after-tax, after-benefits, after-deductions, net net net take-home wages, that pitiful little bit that is left after everybody has had their chance to chew the guts out of your paycheck, like ravenous vultures. This brings up your homework assignment for tonight. I want you to perform a spreadsheet analysis that assumes that your income is slashed by five percent. You must now make cuts in discretionary spending to balance your budget. Detail these

cuts in spending to achieve a balanced budget under the new paradigm of lower purchasing power.

Then, for the next year, take another five percent loss of income. Again detail the cuts to achieve a balanced budget. Then the third year, take another five percent loss of income. Detail those spending cuts, too. And the fourth and the fifth and the sixth year do the same thing. And then you'll notice, which I call The Mogambo Moment Of Enlightenment (TMMOE), that the price of inflation is measured in the aggregate price of happiness lost. And the sheer tonnage of lost happiness accumulates, year after year, as prices rise year after year, and it adds up and up, and pretty soon you realize that life ain't fun anymore, and all your money goes to pay for necessities, and they, as I said, ain't fun.

From Reuters we read, "The United States posted a record \$113.94 billion budget deficit in February, above most Wall Street forecasts, as higher government receipts were not enough to cover a spending increase. The government took in \$100.87 billion in February, nearly \$9 billion more than a year ago, but outlays rose more than \$26 billion, causing the budget gap to stretch."

When Alan Greenspan took office in 1987, the national debt stood at \$2.3 trillion. Now it is over \$7.4 trillion. John Myers, formerly of Outstanding Investments, never says it in so many words, but that is a LOT of money. But he does allow, "Currently Uncle Sam is carrying around a debt of \$7.4 trillion. It is almost impossible to really understand just how big \$7,400 billion is. But to put it into some perspective consider the following about America's federal debt: It is twice the value of all the oil beneath the sands of Saudi Arabia. It is larger than the combined GDP of Germany, France, England and Canada. It is 15 times more than the value of all the gold that has ever been mined since the dawn of mankind."

This is all thanks for Alan Greenspan and the Federal Reserve. Bill Fleckenstein calls Alan Greenspan, "The most incompetent and irresponsible Fed chairman in the history of the world." I say the same thing, only with more obscenities and at a higher volume.

Regards,

The Mogambo Guru
for The Daily Reckoning