

Money Down the Rat Hole

By [The Mogambo Guru](#)

07/04/05 The Mogambo is in full lock-down mode at his bunker – complete with a camouflage Speedo. Why is he so frantic? The lack of growth in Total Fed Credit has a lot to do with it...

Total Fed Credit has gone to zero for over a month now. This is, for me, the ultimate in bad news.

The lack of growth in Fed Credit is bad news because, as Peter Zihlmann of P. Zihlmann Investments explains, "The present expansion is the longest running expansion on record. It has surpassed all other economic expansions before it. The driving force behind it is the rapid growth of the money supply and the explosion of credit that has accompanied it." Many people are saying that the money supply is anemic, too, but that is not exactly true. In fact, M3 has accelerated over the last month above its trend for the last few years, although the monetary base has pretty much leveled off.

But if there really is no rapid growth in the money supply, and there is no explosion in new credit, then the longest-running expansion in history must be just that; history.

Gary Lammert, who is a practitioner of fractal analysis, writes that even when there is money and credit being pumped out, there is nothing to guarantee that the money will be spent on anything useful. "But without the growing money supply flowing into investments for the production of real and useful items that can be sold in a competitive manner to the global markets, the generated economic activity may be malinvested into cul de sacs of domestic services, speculative financial assets, and purely domestic production items such as housing construction."

The Next Economic Stimulus: So Far in Debt They Can't Take Any More

So the money may be thrown down some rat hole or another, such as stocks or bonds or houses.

"Every great economic cycle," he goes on to say, "has a recognizable -usually in retrospective- apogee inflection point or day where markets peak and begin their primary descent. While the primary cause of this inflection point in major economic cycles is a decelerating rate of growth money supply (prior to an actual contracting money supply), the inciting composite elements of that decelerating money supply are a combination of fundamental evolving feedback conditions occurring in the real economy at the consumer level. At the consumer level – ongoing wages, consumer debt load, forward consumption status, and projected job status dependent on near term production needs – all factor into the deceleration of borrowing and hence money supply."

In short, sometimes people are already so far in debt that they don't want to take on any more damn debt and then have to listen to their wives or husbands whining and complaining that they

can't afford to eat as it is, and borrowing MORE damn money to buy ANOTHER damn machinegun is crazy. Some people have called this the "puke point."

And if that wasn't enough, in the last week, foreigners have suddenly stopped buying our debt through their accounts at the Fed. And the banks have suddenly divested themselves of \$74 billion in government debt. In one week! One! And the banks got rid of another \$11.5 billion in "other securities," to boot!

The only bright spot, if you want to call it that, is that mortgage activity in the banks took a big jump, as usual, meaning that the only thing that is selling well is the ultimate in humongously-expensive, time-consuming, non-productive things, namely houses.

The Next Economic Stimulus: Not Normal Times

Now, left to its own devices, the economy would, under normal circumstances, drift into a little recession, the excesses would be cleaned out, and the stupid businesses (the only kind that will hire me) would all go under, and the mismanaged businesses would all go under, freeing up resources of all kinds, and the busted people who acted like idiots would all be swearing that if they ever, EVER, get their hands on another dime, they will never, never, EVER act so stupid with it again as long as they lived. And, for awhile, people will try and save some money and make do without things they want, and savings would grow, and pent-up demand would grow, and then one day, for reasons that nobody can actually enumerate, things get a little better, and then they get a little more better, and then better and better and better, and after awhile the economy is perking again, only slightly different, since there are no stupid businesses or mismanaged business stinking up the joint.

But these are not normal times. The cover of Barron's this week, with the headline, "When Will He Stop?" should convince you of that. The illustration is of Alan Greenspan pumping up a balloon with a bicycle pump. The balloon, emblazoned with "4%", is leaking air. The article, inside, by Randall W. Forsyth, who is one of the Assistant Managing Editors of Barron's, wrote the cover story. He entitled it, "Leaky Balloon" with the subhead, "Greenspan's end game." The story itself is nothing, as the whole purpose of that particular newspaper is to get people to buy stocks, and it would irritate advertisers to even suggest that everything was not wonderful, or even hint that today is not the perfect time to buy stocks, and lots of them. So it is not surprising that it does not even mention the cause of our problems; an out-of-control Federal Reserve and the resultant enormous levels of staggering, stultifying, smothering debt in every freaking corner of the world. So how insightful can it be?

But the article does contain a helpful suggestion as to where the next stimulus is going to be. He quotes Independent Strategy, a London-based consultancy, as saying "there is a paucity of corporate spending the U.S. and the rest of the developed world."

If this is true, and even if it is not true, then you can count on Congress to pass some more tax incentives to encourage businesses to spend. And since mere deductions, which only means that the business does not have to pay tax on the money they spent, are insufficient, look for tax

credits, where the business gets actual cash from the government! Spend a buck, get some, if not all, of your money back! Talk about an economic stimulus!

Perhaps this explains an article in the Washington Post, entitled "The Road to Riches Is Called K Street," informs us that the number of registered lobbyists in Washington, D.C. has, since 2000, more than doubled. The fees they charge their clients have doubled.

Why this sudden lobbying activity? The Post explains: "The lobbying boom has been caused by three factors, experts say: rapid growth in government, Republican control of both the White House and Congress, and wide acceptance among corporations that they need to hire professional lobbyists to secure their share of federal benefits."

The Next Economic Stimulus: Pro-Business, but Pro-Government

Patrick J. Griffin, who is identified as "President Bill Clinton's top lobbyist," says that the clients of lobbyists, "see that they can win things, that there's something to be gained." It's this next part that caused me to spew beer out of my nose. "Washington has become a profit center." Like this is news or something! Hahahaha!

But it IS news, because of the sudden sheer size of the money involved, as the article then went on to chronicle how the Republicans have sold out, becoming as loathsome as the Democrats, only better dressed, when they write, "The Republicans in charge aren't just pro-business, they are also pro-government. Federal outlays increased nearly 30 percent from 2000 to 2004, to \$2.29 trillion. And despite the budget deficit, federal spending is set to increase again this year, especially in programs that are prime lobbying targets, such as defense, homeland security, and medical coverage." In short, things to kill people, things to spy on people, and socialized medicine. Terrific. Just freaking terrific.

Having said that, this is where I always make my big mistake, as I always underestimate the lengths to which government will go, and the depths to which they will sink, to desperately try and ameliorate the damage that they continuously do. So I, foolishly trying in vain to learn from my mistakes, now say that you should look for more tax rebates, something on the order of a thousand bucks to everybody! Look for tax credits for buying cars and houses! Look for taxpayer money being spent to pay poor people's down payments on houses! Look for elimination of capital gains on investments! Look for spending on energy development of all kinds! Drilling for oil! Solar! Wind power! Hydrogen power! Nuclear power! Biomass! Natural gas! Anything, Jack, anything!

And this is entirely possible, because when you have a fiat currency, there is no end to what a government can do to literally put money into people's pockets. It is limited only to the extent of the human imagination, greed and fear.

Regards,

The Mogambo Guru
for The Daily Reckoning