

Financial Mouse Trap

By [The Mogambo Guru](#)

08/26/06 **The Daily Reckoning PRESENTS:** As our government spends more and more ridiculously huge amounts of U.S. dollars – we become increasingly dependant on that kind of spending to keep our economy moving. The Mighty Mogambo explains...

FINANCIAL MOUSE TRAP

If you are wondering why I am drooling and babbling incoherently, one reason could be that that I am pretty sloshed by this time. And, I am “in my cups,” because Total Fed Credit went down by four billion dollars. Not overly remarkable in itself, but the growth of TFC, from which springs the excessive creation of money and debt that has been killing America for over 40 years, looks like it really has stopped accelerating! Wow! But only time will tell.

As I pour myself another drink of tequila anesthesia, I note with disgust that required reserves in the banks dropped to a miniscule \$40 billion, which is within a hair’s breadth of revisiting the historic lows set in 2001. I almost yawn with the ennui of it all, as this is just more of the typical, and despicable, Federal Reserve crapola.

Then, suddenly, the glass dropped from my hand when my bleary, bloodshot eyes caught the headline “Yuan Gains Most Since Peg Ends as China Allows It to Track Asia,” which is the headline of a Bloomberg news article published August 16, 2006. It says, “The central bank on Aug. 9 said it would allow more ‘flexibility’ in the new system, which allows the yuan to float with reference to currencies of leading trading partners.” Subsequently, “China permitted the biggest gain in the yuan since ending a peg to the dollar in July last year, a day after allowing the largest decline, suggesting the central bank is easing controls over the exchange rate.”

In light of the fact that the yuan has only appreciated (so I understand it) about 1.5% in the last year or so since the yuan-dollar peg was ostensibly removed, a sudden, significant move in the dollar-yuan exchange rate has now occurred. How significant? “The yuan rose as much as 0.24 percent against the dollar today, as 13 of 15 leading Asian currencies climbed,” the article says. The dollar fell the equivalent of another 16% of its total to-date decline, in one day! One day!

Then it really starts to get bizarre and surreal when we read about the new U.S. Treasury Secretary, Henry Paulson, saying, “a rising yuan would benefit both (America) and China.” Hahaha! How things have changed! Up until just this moment, the “official” government policy and mind-numbing mantra has been: “A strong dollar is in the best interests of the United States.”

But now, suddenly, a weaker dollar is in the “best interests” of the United States? Hahaha! And people are not buying gold in panic when they hear such things coming out of the mouth of our secretary of the U.S. Treasury? Maybe they will when they see what is coming out of the mouth of The Mogambo, which is the fabled Mogambo Vomit Of Fear (MVOF), which (in case you

were wondering) is like ordinary puke, except with less of an alcohol-tinged after-taste. Some blood, though.

But it gets, thankfully, uproariously funny, as from the same Bloomberg article we hear about how a stronger yuan “would help China slow an economy that grew 11.3 percent in the second quarter from a year earlier, and threatens to ignite inflation.” Hahaha! I’m busting a gut here! Hahahaha!

I thought all you had to do to be an economist in America was learn to spell ‘economist’ and memorize a few buzz-words, and so that is how I became the Famous Mogambo Economist (FME) that I am today. So, you can see how my Tiny Mogambo Brain (TMB) would be confused by all of this.

Let me see if I can get this straight: Because the yuan gains in strength, imports into China will be cheaper, and thus imported energy will be cheaper, imported commodities will be cheaper, and this, somehow, is going to slow the booming Chinese economy. This is an economy where there is an unimaginable pent-up demand, where wages are rising at 10% a year, that also uses a fiat currency, that also allows low fractional-reserves via commands from a central bank, and has, in train, massive, massive, massive infrastructure plans for the next few decades? Hahaha! Stop! Please stop! Hahahaha! I’m laughing so hard here that I think I made a little poopie in my pants! Hahaha! How embarrassing!

But my levity is soon dissipated, perhaps because there is a really foul smell around here all of a sudden, or perhaps because the latest reading on inflation, as measured by the consumer price index from the BLS, came in at 4.1%...4.1% inflation! And trust me when I say that it takes a lot more tranquilizers and anti-depressants than you think it will take before you stop screaming in your sleep about how inflation may well be, as they say, a “silent tax,” but all I can hear is the loud munch, munch, munch of invisible monsters eating my financial legs off.

And sure enough, I look down, and there are hostile creditors and enormous, ravenous governments eating my right leg off. My zombie wife and family are eating my left leg off, and all of them are eerily intoning, in their dull, monotone voices, “More! I must have more money because prices are high! Give me more money!” All I can think about is how in the world I am going to play golf without any legs, and how I’ll have to buy all new, custom-made shorter clubs. I’ll bet those babies are going to cost a fortune! That means I’ll soon be tapping into the last of the money remaining in the children’s college funds, and I am thinking to myself, “These people are so low and base that they would pick on a poor crippled man who doesn’t have any legs? Screw ‘em!”

And then, I wake up bathed in a cold sweat. I think it is all a dream. But when I walk out to the kitchen, the family immediately starts whining that they need more money because prices are so high. And can they have some money? And how come we don’t have any money? And when are we going to get some money? And why don’t I get a real job like other husbands and fathers and make some more money?

So, I patiently and kindly explain, as I always do, “Shut up, you greedy little punks! I make the same money I made 20 years ago! But somehow it’s my fault that the Federal Reserve provided the financing for insane amounts of government spending, and so it’s my fault that all this monetary madness of mountains of money and debt ballooned into price inflation, as it always freaking does?”

Oh, I know by the blank, confused looks on their faces that they will not listen to the Big Stupid Mogambo (BSM), no matter how loudly I yell or how many frozen waffles I throw at them. Or you either. But perhaps you, and they, will listen to Dallas Federal Reserve Bank president Richard Fisher, who has neither a loud voice, nor a supply of frozen-waffles-as-missiles handy, but is reported by Reuters to have said that inflation “is a sinister force that has the capacity to charm and romance the heck out of you, but in the end wrecks only havoc.” Atlanta Fed President Jack Guynn says that inflation is “poisonous.” Exactly so!

Perhaps this is what prompted reader Rebecca I., probably in an oblique reference to my many rat-like qualities, to pen the perfect analogy to Mr. Fisher when she writes, “I equate fiat currency like a mouse trap. The easy credit and instant gratification it gives you is the bait. The bar that is sprung when the bait is taken is called inflation. As we munch on the bait, the spring has been sprung and we ignorantly wait for the bar to fall.”

Predictably, I am quickly screaming about inflation and how it is going to kill all of us rats, and how it is all the fault of the Federal Reserve, who allowed Congress to spend money and go into unfathomable debt to get more money to spend, like irresponsible, half-witted children.

Like, for example, the people of Massachusetts in general, and Boston in particular, who have turned their state into one composed almost entirely of government employees and government spending, who send the same kind of idiotic ethic to Congress in the forms of the repellent Ted Kennedy and the equally loathsome John Kerry.

Specifically, Boston went massively into debt to build a huge, whopping tunnel and transportation infrastructure project that not only plumbs new depths in the definition of “shoddy, substandard and dangerous” (in that falling concrete is already killing people), but that came in 500% over budget! The thing, projected to cost less than a whopping \$3 billion, ended up costing almost \$15 billion, thanks to their infamous pandemic Leftist stupidity leavened by trashy, low-life corruption. Hahahaha!

And now, they will learn the ugly truth about the downside of sudden deluges of government spending. The ugly fact is that the economy of the whole region was malignantly distorted at the instant the first dollar of the project was spent, and it got grossly more so as more horrifically, humongously huge amounts of money were spent, year after year.

Whether they realize it or not (and they probably don’t, as they seem to be really stupid), their economy is now totally dependent on somebody continuing to spend that kind of gigantic money. Hahaha! Chumps! But now, not only is there is no more tidal wave of money flowing through those now-customary channels, but there is no new wave of money to even replace it! And this does not even count the perpetual, budget-busting new costs of hugely more

maintenance and repairs on the new structures, nor the millions (or billions) it will take to correct the poor workmanship. So, what kind of economy prospers when billions of dollars a year in annual spending disappears from the economy, which is also now paying down a backbreaking debt, and is now also saddled with huge, new on-going costs? Welcome to the world of fiat money and Leftist “build it and they will come” stupidity, Massachusetts!

But this is not about how Boston is going to go bankrupt, or how Kennedy and Kerry will predictably attach a rider to some Congressional legislation to funnel all of our money to Massachusetts to bail them out, or even about how if we really want to help America we would throw Massachusetts out of the country, but about fiat money and how the Federal Reserve creating the money to buy all the government debt, including the debt to build this foul Boston Boondoggle, will always produce price inflation and a distorted, moribund economy.

And, if you want to know the specific aftermath of such monetary idiocy, then let me quote Bill Bonner at DailyReckoning.com, who says, “Booms beget busts, and riches beget rags.” Later, he gets less blunt and more, characteristically, transcendently philosophical when he says that for “every yin there really is a yang, a fit for every start.”

Until next week,

The Mogambo Guru
for The Daily Reckoning
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Mogambo sez: Some things never change, and one of them is the Boring Advice Of The Mogambo (BAOTM): buy some gold, some oil, and lots and lots of silver, and you will make a lot of money, or don't and you won't. It doesn't get simpler than that!