

Inflation: The Real Hamburger

By [The Mogambo Guru](#)

10/02/06 **The Daily Reckoning PRESENTS:** What in the world do McDonald's hamburgers have to do with economy? More than you would think. Professor Mogambo explains...

INFLATION: THE REAL HAMBURGLAR

Paying a dollar for a single McDonald's hamburger seems like a lot to me, since I can remember when you could get a McDonald's hamburger for 15 cents in 1966.

So, class, put down your books and take out a clean sheet of paper for today's Mogambo Pop Quiz (MPQ). The question is, "If in 1966 I had started to save for my retirement, how much money would I need to save, per day, to buy one hamburger, per day, in the future, knowing that the hamburger is currently selling for 15 cents, but would cost a dollar in 40 years?"

Since everyone in the class is moaning and whining and scratching their heads, I kindly provide the hint, "Firstly, we note that inflation in the price of the burger has been 670% over 40 years. That's comes out to 4.9% inflation, per year, compounded."

Uncharacteristically forsaking my usual unhelpful, vengeful and insulting pedantry, I announce that I will magnanimously, "Assume that inflation and expenses equals net capital gains."

I foolishly thought that would be enough to enable them to solve the problem, but with my Mogambo Super Hearing (MSH) I can hear them whispering into their little cell-phones to each other, "What in the hell is this Mogambo idiot talking about?"

I make a mental note that since the government is tapping all of our phones now, I can simply have FBI give me a list of exactly who was talking to who in my class, and maybe get a transcript of their little conversations, so that I can take my calculated revenge with their final grades.

Having done that, I put a big, false smile on my face so that they would not suspect anything, and I go on to helpfully hint, "If you had saved up your retirement in cash, you actually lost 'money', as your money lost its buying power at the rate of 4.9% per year." Again I paused; expecting to see their young, fresh little faces light up at the sudden comprehension. But nothing! If anything, their faces were even MORE blank, and they were even MORE stupid than they were a minute ago. And then they wonder why I hate them so much!

Abruptly losing my patience, I leap atop a desk and scream out, "If you had invested the money into assets on a buy-and-hold basis, year after year, it looks like you made money, doesn't it?" Frightened, they all nervously nod their heads up and down. Enraged, I go on, shouting, "But after you pay capital gains taxes, income taxes, miscellaneous other taxes, fees, expenses and commissions, and maybe some state income taxes, and after all THAT you then deduct from that

pitifully diminished ‘gain’ the vast diminution of your wealth caused by persistent, grinding inflation, you ain’t really earned squat! Hahaha! Squat! In fact, you lost wealth, you little twits! Hahaha! You are worse off than when you started! Welcome to ugly economic reality, you stupid, halfwitted morons!”

Still they sat there, perplexed and apparently paralyzed with fear for some reason. Tiring of this game, I give them the answer, “Mathematically, with real (inflation-adjusted) net gains of zero, to get a hamburger in the future, you have to save a hamburger today.”

A murmur runs through the class! I have finally connected with these little boneheads! Excitedly, I quickly go on to say “Extrapolating, if you want to have a retirement lasting 20 years, after working for 40 years, and to do so with a retirement income equal to the buying power of 100% of your current income, then, adjusting for inflation and taxes, you have to save 50% of your income per year, every year that you work, for the whole 40 years! Hahahaha! Fifty percent!”

At that, they all jumped up, screaming, and ran from the class in horror, so I never got the chance to tell them that it gets worse if you are only 20 years away from retirement, because then you have to save (hahaha!) 100% of your income today!

The point of all of this? According to my Daily Lesson Plan, I was teaching that it is very, very ugly (VVU) out here in the real world of Stark Mogambo Reality (SMR).

And all of this misery is because of inflation in the monetary aggregates by the Federal Reserve, which has to show up as inflation in prices as all this new money floods through the economy. And it, sadly, does. And thus it erodes the value of you, your money, and your pitiful little retirement account that is so pathetically inadequate that I laugh in scorn (LIS).

And in that regard, what did not get (in my opinion) adequate media coverage was the release of the Leading, Coincident and Lagging Indicators. The only trusted news outlet really raising a fuss was the Mogambo True Patriot Monetary News Service, located at 1776 on your radio dial, and available everywhere, except where the government is jamming the broadcast signal in an attempt to silence The Mogambo, preventing His Mogambo-ness from spreading the news that you can, “Kiss your fat, stupid butts goodbye, American morons, because you ignored the Constitution and let your money be nothing but paper and electronic accounting balances, and as a result the government and the banks went nuts with creating and spending too much money, and now you are all freaking doomed by the inflation in prices and the hell of an economy composed of government spending! Hahaha!”

Anyway, for those of you who were prevented by government censors from hearing that important, important broadcast, what happened was that the Leading Indicator (which, as advertised, indicates future profits) went down 0.3. Bad enough. The Coincident Indicator (again as promised, the indicator of current economic activity) went up by the smallest increment possible, 0.1. Worse enough, if I may be permitted to coin a phrase.

The really horrifying news was that the Lagging Indicator (which is the indicator of inflation) zoomed (relatively) by 0.4! Worst enough!

If you look up that curious combination of things in the “Risk/Reward Matrix” section of your Mogambo Handy-Dandy Desk Reference (MHDDR), you will notice that it is far, far, far into the Doom Zone, which is sort of like the Twilight Zone, in that things are pretty weird and twisted, except that in the Twilight Zone everybody is usually still alive at the end of the episode, whereas in the Doom Zone everybody dies a horrible death by being eaten alive by inflation, with lots and lots of screaming in pain and fear, and the episodes always end with silence and something burping, instead of the cool, dulcet tones of Rod Serling saying, “Thus little Bobby learned the true meaning of Christmas, in the Twilight Zone.”

But it was inflation we were talking about, because that is all I ever talk about, and that brings up the news about how the drought has severely reduced this year’s crops of things that we eat, such as wheat fields, soybean bushes, corn stalks and pizza shrubs. For example, from Bloomberg we learn, “The continental U.S. endured the hottest summer since the Dust Bowl of the 1930s, and the second-warmest since recordkeeping began more than a century ago.”

And this almost certainly has something to do with the El Nino region of the Pacific Ocean that is, again this year, very big and very warm and commensurately more influential of the weather. For example, from FreeMarketNews.com comes the item “John Ing, of Maison Placements Canada, in a post on gold-eagle.com takes the inflationary side, noting that the anchovies have once again gone missing off the Peruvian coast.”

What do anchovies have to do with anything? Well, before I can explain how this reduced supply of anchovy protein and rising global demand for protein spills over into the supply/demand dynamics of alternative sources of protein, they rudely interrupt me by saying, “The last time this happened soybeans rose to record highs, carrying precious metals prices along with them.”

Until next we meet,

The Mogambo Guru
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Mogambo sez: Whether or not the current economic and financial weirdnesses are caused by the government trying to keep things up-tempo until the elections, they are surely trying. Remember that ever since Clinton, the mantra is “It’s the economy, stupid!”

Their bigger problem is that the big Presidential election is only two years away, so they have to keep this bloated, stinking monstrosity of a world economy afloat for a long, long time yet. Your best-case scenario is that they succeed enough to keep the prices of gold and silver extraordinarily low the whole time, so that you can have two more glorious, fabulous years of accumulating gold and silver at astonishing, historic bargains, multiplying your eventual gain when it all blows apart!