

New Jobs for the Smuggling Industry

By [The Mogambo Guru](#)

08/07/06 **The Daily Reckoning PRESENTS:** Well, apparently the Mogambo is wielding a loaded, large-caliber handgun, and screaming about inflation and the minimum wage. Perhaps you should read on before things get out of hand...

NEW JOBS FOR THE SMUGGLING INDUSTRY

It is inflation that I am yelling about! Perhaps you will find it particularly instructive if you watch my lips when I tell you that it is inflation in prices that causes societal misery, as people listening to their children crying in hunger usually starts to wear on your nerves after a very short while. And that is why the Founding Fathers were careful to write into the Constitution that money shall be ONLY of silver and gold. To prevent inflation!

But the Founding Fathers were just a bunch of old, dead white men, while I am an old, live white man carelessly toying with a loaded, large-caliber handgun. So, perhaps you should listen to me, and I, too, say you can only prevent price inflation by preventing monetary inflation, which you get when you let banks create excess money and credit out of paper and electronic digits. But since nobody can create gold out of thin air, you automatically prevent price inflation by preventing monetary inflation!

The first time I ever heard of this idea of benefits theoretically derived from constantly increasing the money supply, by constantly increasing debt, I made an Almost Fatal Mogambo Mistake Of Analogy (AFMMOA); I figured, using this terrific logic, that the more weight I gained, financed by increasing debt, the more my family would love me! I admit that I was, at the time, desperate for even a flicker of a chance of getting any love from that crew of twisted, hateful boneheads, and was willing to try anything if it would shut them up for five lousy minutes.

To make a long story short, I learned that getting to be really, really obese is, alas, not a way to make your family love you. And, I further discovered that when they threw objects at me, they apparently couldn't miss a target that big.

My hands tremble slightly as I remember all of this, but that is normal. Then, my gaze swept across a table in Barron's, and my fear turned to that old familiar anger, as I saw that the banks belonging to the Federal Reserve system (nearly all of them), sucked up \$15.5 billion in U.S. government securities last week! This takes their total to \$1.217 trillion, which is back to the historical high point, first achieved about this time in 2004, and then again in 2005.

So, with a sigh, I direct your attention to a chart of government securities owned by the banks that shows that it has, overall, mostly hit a plateau in 2004. Varying a little bit up and down, we are now, for the third time, at the upper end of that range.

Reserves in the banks have not changed (which even today are only \$41.5 billion, and actually below the average since 1997). In fact, to show you how precise I am, I'll tell you that total reserves in the banks have been bouncing along like this since hitting the lows of under \$39 billion in early 2001.

Then I groaned aloud when I noticed that the money supply (as measured by M2) is apparently falling, too, which is completely predictable, as there has been a widely reported slowdown in the expansion of credit for mortgages and business investment.

All of this stuff is whirling, whirling, whirling around in my head as I pretend to listen to my stupid wife and nasty, bratty children telling me how wonderful it had been all week, and how they discovered, while I was away, that they enjoyed life after all. I think they were implying that they want me to go away again, or die, or both, when they said, "Why don't you go away again, or die, or both?"

But this is reduced to mere background noise when I read that the "movement" to increase the minimum wage is heating up. And this time, it is not just the stupid, brain-dead Democrats that are leading the Big Parade Of Loudmouth People Who Are So Completely Ignorant Of The Rudiments Of Economics That Something Must Be Seriously Wrong With Them. Standing so close beside them that they are getting each other's cooties are the now-loathsome Republicans, demonstrating either A: things economic are now so completely desperate that they are willing to do, or say, anything to temporarily forestall us from drowning in the ocean of disgusting drool and slobber that comes from being a nation of economic and Constitutional imbeciles, or B: Republicans are now actually as stupid as Democrats, which, given the astonishing dumbing-down of the American school system over the last 50 years, is probably (Occam's Razor-like) the simplest and best explanation.

I will admit that people needing higher wages because prices are higher is a valid point, but that is not the issue, as sad a tale as it is. The real issue is why the prices are higher in the first place, making erstwhile perfectly satisfactory wages suddenly inadequate. So, I casually ask the class the innocent rhetorical question, "Why do people need higher wages?"

Well, the place exploded in a simultaneous shout: "Because things cost more, you stupid Mogambo moron (SMM)!" and then they all joined together to laugh at me!

My eyes stinging with tears, I took out my Mogambo Educator's Daily Logbook (MEDL) and made a quick note to myself: "Seek revenge: Fail everybody and torment their parents for bribes!" Then, I fired back, my voice cold and heartless, "This is the effect popularly called 'inflation.' And why do things cost so much more?" Instantly, all their hands flew up, as they all know the answer by now: Price inflation follows inflation in the money supply, and the hateful, stupid Congress allowed the hateful, stupid Federal Reserve to act completely irresponsible in that regard since the 1960's.

But I ignored them, and go on: "And when inflation in prices gets so bad that you are forced to buy less stuff, then that is popularly called..." and before I could even finish the sentence the entire class again yelled out: "A fall in the standard of living!" And then, they all high-fived each

other and laughed some more. I sensed that my lectures had become somewhat predictable, so I pulled down my zipper so everybody could see my Spiderman underwear. I laughed as I thought to myself: "Predict that, you little punks!"

Over the sounds of disgust (mostly "ewww!" and gagging up vomit), I blithely continued, as if I did not hear them, "A fall in the standard of living." I don't tell them that a reduction in the standard of living results in a constant clash of cultures (The family: "We're starving and dressed in rags! And we need medicine, too!" Me: "Your point being what?").

And a fall in the standard of living is, in effect, inflation. It's a horror. In fact, inflation is such an economic horror that it is the only economic variable that the Founding Fathers tried to control in the Constitution! They tried to prevent inflation by preventing the government's ability to create excess money. Why? Because inflation should be, now and always, zero.

And if the U.S. economy were operating perfectly, inflation would be less than zero! Prices would always be slowly dropping, year after year, as the promise of productivity and competition paid off in more goods and services, resulting in higher employment, but also with lower prices! A huge rise in the national standard of living!

But since the filthy, traitorous Supreme Court keeps on allowing the money of the United States to be mere paper and promises, instead of gold and silver as literally required by the Constitution, and as long as the filthy, traitorous Congress allows the Federal Reserve (an un-audited private bank, partially owned by foreigners!) to create excess money and credit (that they own!), we will suffer from inflation, wailing and crying the whole time, or at least listening to The Mogambo wailing and crying the whole time, interspersed, as it usually is, with obscenities and vague death threats.

The minimum-wage worker can't make ends meet now because things cost too much to be able to afford them. So (and here is where The Mogambo Laughs And Laughs And Laughs (LALAL) at the sheer stupidity of mandating higher wages), businesses are now required, as a result of paying higher labor costs, to charge their customers higher prices to make up for it! Hahaha! A higher price, caused by requiring higher wages, is the solution to higher prices? Hahahaha!

This is the genius of the electorate? Instead of stopping inflation by reining in the Federal Reserve, we are going to make the inflation situation worse by mandating higher wages? Hahahaha! What suicidal idiocy! It makes you wonder why anyone has any respect for democracy at all! Hahahahaha!

And there are a lot of people who do not have jobs, and therefore do not have the ability to get higher wages, who are going to suffer. One of these groups is the criminal class. When prices go up, organized crime's net profit falls, and you don't have to see many movies starring Al Pacino before you realize that those guys don't take that kind of news lightly.

Therefore, as my new Mogambo Conspiracy Theory Of The Week (MCTOTW), the reason that California is so hot to raise taxes on cigarettes to about \$7 a pack is that there will be a boom in

smuggling, as Canada has found out, which has contributed to a drop in the sales of legal smokes by almost 9% in the last year since they instituted such a tax.

So the proposed enormous tax on cigarettes is really just a “New Jobs for the Smuggling Industry” government program, giving the unemployed-and-desperate something to do to get some cash, as dealing in drugs and prostitution won’t even make ends meet anymore.

Until next week,

The Mogambo Guru
for The Daily Reckoning
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Mogambo sez: Gold, silver and oil have been a winner for the last three years, and they will surely be a winner for the next three, too. And almost certainly more. So, keep loading up with them. One day you will be Very, Very Glad (VVG) you did.