

Smoot-Hawley 2006

By [The Mogambo Guru](#)

08/14/06 **The Daily Reckoning PRESENTS:** In the battle of the falling currencies, the U.S. dollar is certainly in the lead. In fact, the greenback has lost 80% of its purchasing power since 1971. The Mogambo asserts that when money starts losing its purchasing power, inflation becomes the economy killer. Read on...

SMOOT-HAWLEY 2006

There is the desperate need for a raise in the minimum wage, in that \$5.15 an hour is the lowest real (inflation-adjusted) wage in 50 years.

Nevertheless, I was happy to see that Congress engineered a close defeat of the increase in the minimum wage. With the cost of things rising (thanks to the price of energy rising, thanks to the dollar falling in purchasing power, thanks to the idiotic Congress constantly deficit-spending – and ultimately thanks to the horrid Federal Reserve creating the money to create some debt to buy the debt) – a raise in the minimum wage by 40% in three years would be too, too, too much. Think “Smoot-Hawley,” which was a tariff widely accepted as a prime cause of the Great Depression. This mandated raising of wages, and thus mandated higher prices, is, in effect, just another tariff! And a big one, too!

This is especially true since the working people with more seniority, who are now making 40% more than minimum wage thanks to their years of service, are going to get real testy that they didn't get proportionally higher raises, too, as now they are only making minimum wage again! As we working-class slobs in the dregs of the labor pool say when this happens, “We get the same coolie wages as the rookie new hires.” Although, it is just me who says, “And as a guy who has to clean the Executive Washroom, I say that you guys are slobs!”

And then, griping and complaining about raises, coupled with the price inflation that is already being felt, concessions will be made, and higher and higher wages will go bouncy, bouncy, bouncy through the economy, always soon reflected in higher prices, and then more higher prices. And more and more higher prices. And then, the government needs more money to pay both the costs of bigger assistance programs to help both the increasing number of “the needy,” and the need of huge existing programs for more money to pay higher expenses and higher wages to themselves, too!

And then, the minimum-wage people will have to start screaming for yet another raise in the minimum wage, and it's all going around, around and around, prices going higher and higher, spiraling, spiraling, spiraling up and up, until the economy is in a shambles. And, I am crying in fear for America. My family and neighbors are crying because I won't give them any money, and my wife is crying, “Please give them some money! Inflation is killing them!”

Then, pretty soon we are all sobbing and crying and blubbering about the horrors of inflation, until I get tired of their whining because I told them to buy gold, but they didn't listen, and so I let loose with a couple of blasts of a 12-gauge shotgun as my clever, non-verbal way of saying: "And who's laughing last, losers?" And then, their bitter tears turn to screams of fear and they scurry to get out of my house, which is all I wanted in the first place.

Oh, I am sure that workers need higher wages, as prices have risen a lot in the last few years. And yet, while your TV was ablaze with breathless reports that 80% of Americans support a higher minimum wage, none of the precious news media carried the exciting video footage of the recent Mogambo press conference about the same subject, where he issued a Memorable Mogambo Memo Moment (MMMM) that read, in its entirety:

"To minimum wage workers and everybody else, hear my voice! Suffering from inflation is what you are getting because it is what you deserve, you stupid halfwit morons! Because when you elect morons to spend and expand the government like this, and you let a central bank empower itself to create monstrously excessive amounts of money and credit like this, by enabling the creation of excessive amounts of debt, more and more, year after year, then how can you be so stupid, so incredibly stupid, so impossibly stupid, so arrogantly stupid as to think that for once in all of history, it would not lead to the horrors of inflation in prices? Hahaha! I laugh at you in contempt, and all my little buddies in this whole sector of the universe laugh at you! And with any luck, some Disgusting Mogambo Spittle (DMS) will fly from my lips while I yell at you, and it will land on your shoe, which will add that extra, unexpected little bit of gross unpleasantness that defines the Whole Mogambo Experience (WME)!"

So, I am under control up to this point, but cracks appeared in my brave, stoic visage when I saw that, due to the incredible mismanagement by the Federal Reserve and criminally incompetent Congressional oversight, the dollar seems to be rolling back over, and now my country's currency is falling, falling, falling in purchasing value vis-à-vis other currencies. And, it is doubly worse, in that the other currencies in the world are losing buying power, too, by committing the same inflationary sins of excessive creation of money and credit, using a fiat currency and a ludicrously low fractional-reserve ratio! So, while all major currencies are falling in buying power, the dollar is merely suffering the most!

And, none of this was helped by the Fed declining to raise interest rates on Tuesday.

All of this means that anything imported is going to rise, rise, rise in price as the dollar falls, falls, falls in value. Like oil. As soon as I remembered that unsettling little factoid, that's when I lost it completely! The next thing I knew, I was on the floor, desperately wrestling with my twisting, screaming, kicking, scratching, biting wife as I was trying to pry that darn key to the arms locker out of her hand. I was crying out, "I feel an urge for Mogambo Vengeance Of Outrage (MVOO), vexatious woman!" The next thing I know, she's all over me like some groin-kicking Amazon, only with more man-hating fury ("Born of revenge," as she likes to put it).

So, My Whole Mogambo Groin Area (MWGA) was hurting and throbbing, and I temporarily lost interest in weaponry as my life was swimming in front of my eyes. But thanks to my unnatural fixation on inflation, all I could see was something recently sent to me from alert

reader Bill W., who describes inflation perfectly by saying, “If someone gave you a \$100 bill in August 1971, and you put it in a book and forgot about it, only to find it today, you could only buy what cost \$20 in 1971.”

My immediate reaction was: “Book? What book? We have a book around here someplace that has a hundred bucks in it? Great!” And then, energized, I jumped up, and the whole rest of the day was spent frantically-but-fruitlessly searching in books for my hundred bucks, but never finding it. And then, I thought about having to confront my family about how they (a bunch of ungrateful, thieving parasites who are bleeding me dry as it is), stole my hundred bucks! Of course, they denied it, the liars. See what I have to put up with around here?

But this is not about how the Long-Suffering Mogambo (LSM) was cheated out of another hundred bucks, but about inflation and how Bill is running around showing off his hundred clams like he’s such hot stuff. Waving his precious little hundred-dollar bill in my face, which makes my loss hurt even more, he says, “Put another way, in order to buy something that would have cost \$100 in 1971, you now need \$500.”

On the other hand, he cheerfully notes, “If that \$100 bill had kept its value, you could have purchased 165 gallons of gas ($\$500/3.03$ for regular unleaded).” My eyes grow misty as I contemplate the concept of filling up my gas tank 10 times for a hundred bucks, and I mentally calculate how far, far away I could drive to finally get away from my family and responsibilities with 10 tanks of gas! But my fantasy went “poof!” when he burst my little bubble by going on to say: “Because of the silent tax (inflation), you are only able to buy 33 gallons ($\$100/3.03$ for regular unleaded).”

This is how inflation is the economy killer; money loses its buying power. And the horrendous over-creation of money and credit by the Federal Reserve all these decades has resulted in the dollar losing about 80% of its buying power since 1971, the year that the dollar’s last tiny, tentative, tenuous connection to gold was severed by Nixon, another Republican scumbag.

So, with the dollar turning to dirt and economic crises are at hand, then gold will, if it behaves as it always has in the history of mankind, go up and up and up in price, approaching infinity as the dollar approaches zero. I know what you are thinking. You are thinking: “How high can gold go?”

If you want to know how high gold will go, then you are asking the wrong guy, but perhaps my old buddy Phil S. can help, as he makes the interesting calculation of valuing the Fed’s hoard of gold. He first multiplies the number of ounces of gold said to be in the vaults of the Federal Reserve (according to them) times the rough, going-price of gold. “ $260,000,000 \text{ oz} \times \$650 = \$162,500,000,000$.”

Then, he adds the fact that the “2005 deficit, including accruals, was \$3.5 trillion!!” Editorially, note the rare double exclamation point, the use of which becomes apparent when he divides this real, accrual-based deficit by the number of ounces of gold ($\$3,500,000,000,000$ divided by $260,000,000 \text{ oz}$) to derive the startling conclusion that “\$13,462 per Treasury oz equals 1 year’s

deficit!!!” – which brings us to a perfect example of the extremely rare triple exclamation point. And rightfully so! Perfectly done, Phil!

So, the next time somebody asks you how high gold could go, since \$13,462 is just the dollar value of the 2005 government budget deficit alone, anything up to \$100,000 per ounce is not too unreasonable to suit me!

Until next week,

The Mogambo Guru
for The Daily Reckoning

Mogambo sez: Gold and silver are rising in terms of dollars, because the U.S. dollar is the currency of a nation of vicious idiots, who are now forced to maintain the viability of their idiocy with more viciousness.

Gold and silver, on the other hand, are the currencies of the anti-idiots. The markets are showing us what they think of each. Stay with the winners, and buy more gold and silver every day.

And while you are out there guaranteeing your future happiness with your astute “buy gold and silver” investment strategy, pick up some commodities (especially oil), too. Soon, you’ll be pleasantly pleased that you did.