

A Vicious Circle

By [The Mogambo Guru](#)

01/02/07 **The Daily Reckoning PRESENTS:** The U.S. economy is a myriad of contradictions and confusions – one, in particular, being that consumer spending is keeping the economy afloat. Hmm...the Mogambo can't help but wonder – where is the consumer getting the money to begin with? Read on...

A VICIOUS CIRCLE

The alarms started ringing the instant that the figures for Total Fed Credit hit the airwaves, and in that same instant I was scurrying like a frightened rat-in-a-trap. In my panic, I must have turned on one too many self-defense systems in the Mogambo Bunker Of Mortal Dread (MBOMD), and the newly installed Mogambo Intruder Pacification System (MIPS) did its job. And while the exact details of who shot the living hell out of who's stupid boat are still in contentious debate, I know exactly who threatened to (and I quote), "Come in there and kick some Nutcase Mogambo Butt (NMB)!", thus constituting a legal case of assault, albeit flimsy, of my own.

In all the hubbub, I forgot about checking Total Fed Credit to see what set off the alarms in the first place, and also in that selfsame hubbub I forgot all about donning, as I usually do, an adult disposable diaper in case it is bad news, economically speaking.

Well, Total Fed Credit was up \$7.6 billion, foreign central banks stashed another \$11.8 billion at the Fed, the Treasury printed up another \$2.4 billion in actual cash, repo activity in the banks last Thursday alone was a staggering \$32 billion, and the nation's current-account deficit went through the \$880 billion per year mark. Gahhh!

With big numbers like these impacting my fragile nervous system, the rest is history.

I know, I know; I should feel sorry for the dumb, ignorant bastards who are doomed because their money is doomed because the Federal Reserve is creating so much money and so much credit that we are cruising to a huge inflationary bonfire and the destruction of the American economy, and they don't have any gold to protect themselves and blah blah blah.

Then I remember that they are the same dolts who consistently elected and re-elected collectivist bozos to erect a suffocating, huge, expensive system of governments that not only looked the other way, but encouraged the Federal Reserve to create all that money because everyone wanted inflation in stocks, bonds, the size of government, and (later in the cycle) houses! There was just too much money to be made!

And now we have price inflation in everything, painfully manifested in a dollar that is losing its buying power, just like the Austrian Business Cycle Theory so elegantly, and so confidently, predicts. After this short mental exercise, I naturally deduce "To hell with them AND their stupid boats! And the stupid trailer they had it on, too!"

And it is not just us, either, as the stupid idea of constantly increasing government size, spending and number of people being given money is becoming apparent to the British, as the blaring headline of the Daily Express, “Highest Taxes In History”, so dramatically attests. The article notes that things are getting much worse, as “When a crippling barrage of more than 100 stealth taxes is added, workers are paying almost half their earnings” in taxes.

I will note, with an appropriate dose of Snarling Mogambo Outrage (SMO), that paying roughly 50% of income is exactly the proportion of income that Americans pay in total taxes, too, when you include income taxes, Social Security taxes, surtaxes, sales taxes, property taxes, excise taxes, government fees, etc.

And why is all of this happening? Well, in a recent essay, Dr. Kurt Richebächer quotes Jean-Baptiste Say from his 1803 “A Treatise on Political Economy.” “The encouragement of mere consumption is no benefit to commerce because the difficulty lies in supplying the means, not in stimulating the desire for consumption; and production alone furnishes those means. Thus, it is the aim of good government to stimulate production, of bad government to encourage consumption.”

Well, I got some bad news for Mr. Say, and it is a good thing that he is dead because he would probably croak from a brain explosion if he knew that not only do today’s bad governments encourage consumption, but they are also actually the country’s largest consumer!

And, to compound their folly, they actually give out money to people so that they, too, can consume, or the government provides the services to be consumed, or (as in the case of health care) the government requires that people with insurance and/or wealth pay higher prices for healthcare to cover the bills of those who don’t (or won’t) pay. This is, for one thing, communism gone freaking insane.

But Americans can handle some degree of insanity, just like my parents, who kept me shackled and locked in the basement all those years and referred to me as Mogambo, Spawn Of Satan (MSOS), but led otherwise perfectly normal lives.

The bad part is 1) one day I am going to get big enough to bust out of this stinking basement to seek my unholy revenge, and 2) that all this money the governments are spending has to come either from taxes, or from borrowing.

The economic ugliness of raising the money via raising taxes is obvious and legendary. But the problems of raising the money by borrowing are not so obvious, which is too bad, because they are worse, as it only postpones the repayment (either in higher taxes or higher inflation).

And, even more egregiously, since there are no savings to be borrowed, all this money that the government needs to borrow and spend is created by the Federal Reserve, which increases the money supply, which causes prices to go even higher, which is what always causes the destruction of economies, and is behind the government’s current need for more money! It’s a vicious cycle!

They say that consumer spending is what is keeping us afloat, which doesn't explain where the consumer got the money in the first place. In truth, government spending is now so huge that the money (earned or borrowed) came, originally, from the government deficit—spending the money that the Federal Reserve created just for the purpose, year after year, until the debt thus created now totals \$8.6 trillion (roughly, a stack of \$1,000 bills 540 miles high), which merely means that the government borrowed, and spent, and owes one enormously humongous load of money. The consumer merely ended up with it, just in time to be credited with keeping the economy afloat by spending it.

To show you what I mean, the government budgeted \$2.6 trillion, and they spent another \$600 billion on top of that, to the tune of \$3.2 trillion in cash outlays last year! The GDP of the United States is only \$13 trillion, for crying out loud! And the actual, real-life deficit last fiscal year, as reported by the Treasury itself, was \$4.6 trillion! 35% of GDP! In one year!

Until next week,

The Mogambo Guru
for The Daily Reckoning