

Borrowing to Get a Better Bargain

By [The Mogambo Guru](#)

03/17/08 The Mogambo has a rare and unprecedented need to, from time to time, punish stupidity by being rude, sarcastic, insulting, arrogant, argumentative and truly hateful. It's a good thing the subject of borrowing money came up. Now prepare yourself for the Random Mogambo Attack Mode (RMAM)...

A reader of Agora Financial's 5-Minute Forecast wrote, "You spend a lot of time talking about the loss of purchasing power of the dollar – and rightly so. Therefore, I fail to see the problem with anyone spending dollars as quickly as possible and incurring debt. That dollar spent today will be worth less, if not worthless, tomorrow, and the dollar repaid will be of lower value than the dollar borrowed. Can't have the argument both ways."

I was hoping that someone would ask me to field that question, as I was really chomping at the bit at the sight of a potential target for a test-drive of Random Mogambo Attack Mode (RMAM), where I take strange, unnatural delight in punishing stupidity by being rude, sarcastic, insulting, arrogant, argumentative and truly hateful, as is implied by the words "Attack Mode".

And my reply would have been a real bargain, too, as it was a "two-fer"; not only would I have rebutted the argument, but I would have also been entertaining in a horrifying, embarrassing way, for no extra charge! Free!

For those who wish to hear my entire reply, I have handily expurgated the screaming obscenities, malicious lies, various libels, incoherent words and phrases, personal attacks and random death threats, and now the entire 50-page essay is boiled down to just the paragraph, "If you can guarantee that you will have an income that will rise faster than inflation, interest and taxes for the rest of your future life as your debt rises for the rest of your future life, then you are right; borrow as much as you want and party down, dude! You will, indeed, be paying back with cheaper dollars, handing yourself a bargain in the process, which is no problem for you because you are so smart and important that your employer will no doubt be happy – happy! – to pay you more and more wages and benefits at a rate that is actually higher than inflation in prices and taxes, for all the rest of your life! Lucky you!

"But if you are like the rest of us miserable creeps out here who are living hand-to-mouth and are one lousy 'written reprimand in our employee file' away from being fired and probably sued for sexual harassment or that whole embezzling thing, then no; borrowing for the sake of getting more of a bargain on some consumer item is really, really, really stupid."

And I say this because a study by the University of Central Florida found that, as reported by the St. Petersburg Times, "56 percent of low-income respondents said they could not pay their bills if they missed one month's pay", which is not very remarkable since these are low-income people. But the startling part is that "38 percent of middle-income respondents" also said that

they could not pay their bills if they missed one month's income, and that "24 percent of upper-income respondents made that same claim"!

And what percent of each class felt like they were so far in debt that "they will never be able to get out"? Oops! Low income: 25 percent. Middle income: 14 percent. Upper income: 10 percent!

And they are not going to get any help from their houses going up in value, as Martin Weiss of moneyandmarkets.com reports that, "The S&P/Schiller Home Price Index plunged 9.1% in December. Worse, the median price of new homes sold has tanked 15.1% from January of last year, the biggest drop in any month since at least 1964, when they first began tracking this measure."

And so it is obvious that the reason nobody has any money is because they have no more money or credit after paying higher prices for everything else, as you can surmise from Ambrose Evans-Pritchard at Telegraph.uk.co, who reports that "40pc of the world economy has an inflation problem", which he proves by reporting inflation of consumer prices in China (7%), Vietnam (15%), Russia (12%), Bulgaria (12%) Romania (8%) Estonia (11%), The Emirates (12%), Qatar (14%), and India (5%).

And where did all of this inflation in prices come from that is making people hungry and angry? Mr. Evans-Pritchard is right on the money when he says, "I totally agree with those who blame the debt crisis on the irresponsible policies of the Fed and fellow central banks from 2003 to 2006, and indeed for [the] better part of fifteen years. They stoked this bubble by artificially holding rates too low (by government fiat). The money leaked into asset prices, just as it [did] in the US in [the] 1920s, and in Japan in the 1980s. (Two other low inflation eras).

"In effect", he says, "central banks rigged the price of credit. In doing so they caused massive 'inter-temporal misallocations', to use the posh term of the BIS. Or put another way, they stole prosperity from the future."

You can imagine the powerful cinematic effect when he added, with just the perfect touch of ominous undertones, and augmented by my adding a soundtrack of people screaming while being torn apart by ravenous wolves, "The future has now arrived." Ugh.

Until next week,

The Mogambo Guru
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The Mogambo Sez: "There is a darkness descending upon us." Well, that was my first thought, and with which I was pleased in a strange, pretentious little literati way, but upon reflection, now I change that to, "The thread holding the sword of Damocles suspended above our economic heads is unraveling", which suits the situation perfectly, but unfortunately doesn't lead me to a clever segue to how you should buy gold and silver bullion, and oil stocks to save your financial

butt, but which is, once you think about it, so obvious I don't even have to mention it to someone as smart as you!