

# This Inflation Thing

By [The Mogambo Guru](#)

08/30/04 Two adjacent news clippings – set in the Philippines – trigger a great booming laugh, audible for miles. Such a hearty laugh could only belong to one man...

Foreign Custody Holdings at the Fed – the place where foreign nationals holding foreign passports and speak with funny foreign accents come waltzing in with bulging suitcases full of money – is a very busy place, thanks to the trade deficit.

As they struggle into the lobby of the Federal Reserve, knees buckling under the enormous weight of all that cash, they look up at the menu of things for sale in America – it's posted right there on the wall – and ask, "Where can we spend all this damn money?"

And because they can't see anything they really like, they amass more big ol' globs of Treasury and agency debt to add to the previous massive, huge globs of Treasury and agency debt they have been buying for years and years, and then they get back on an airplane and fly back to the foreign country they call home.

And then they get back, and their foreign wives meet them at the door of their foreign-looking little houses, and they ask, "Well, what did you buy with all that money?" and they say, "I bought some American Treasury and agency debt," and she starts screaming, "What? We are up to here with American Treasury and agency debt! We got Treasury and agency debt everywhere! In the cellar! In the attic! In the hall! In the guest room! In the kitchen! We even have stacks of American Treasury and agency debt in the bedroom, and I gotta sleep in there all night with it, inhaling the stench. And when I send you off to invest our money, you come back and tell me you bought MORE American Treasury and agency debt? What are you, some kind of moron?"

## **The Philippine Economy: Expanding Economies**

Anyway, ignoring these unseemly domestic problems, foreigners bought another \$9.3 billion for the week, which is higher than normal by quite some way, and stashed it at the Fed. This brings their total holdings at the Fed to (hit the "Total" button) \$1.266 trillion, of which \$320 billion of that was acquired in just the last 12 months.

Two adjacent Bloomberg news clips that the clever Doug Noland juxtaposed in his new Credit Bubble Bulletin essay on the Prudent Bear site, entitled "Speculative Finance and Liquidity Bulges," combine into a perfect illustration.

The first one, which sets up the joke, reports: "The Philippine economy expanded as much as 6% in the second quarter as manufacturing and services picked up, according to official estimates."

Well, to be fair, this is news to somebody? How could they NOT have an expanding economy? Everybody has an expanding economy! That is the whole freaking point of deficit spending and

creating excess money and credit via the central banks! It expands economies! Nobody would ever suggest otherwise, and by "nobody" and "ever" I mean that there is not one instance of an idiot ever saying so, in the whole history of idiots, which is probably a long, long line of really dumb people all genetically related to me somehow, and I am as surprised as you are about that!

Of course, deficit spending will energize an economy, you fool! Tons and tons of instantaneous spending will always energize an economy! And with globalization, when one economy is energized, it tends to leak out into all the other economies after a few iterations of the system.

OK, now we know about the worldwide explosive expansion of credit, all of which stems initially from Alan Greenspan and his Federal Reserve, and how it is a tonic for economies. It is usually at this exact point where I throw in some verrrrryyyy disrespectful and insulting remarks about either A) monetary policy, B) fiscal policy or C) something entirely unrelated ("Oh, look!" she says. "A puppy with a pretty ribbon tied around its neck!" and I say "Yeah, just like the Federal Reserve has tied a rope around our necks, and pretty soon you are going to see how much fun it will be to have your legs slowly gnawed off by inflation in prices!")

But it always comes down, in the final analysis, to price. And price means money. And money means Federal Reserve. And Federal Reserve means Alan Greenspan. And Alan Greenspan means continuous Federal Reserve expansion of money and credit. And expansion of money and credit means expansion of the money supply into "surplus mode." And a money supply in "surplus mode" means all that money will eventually find a home in prices. And that means higher prices.

### **The Philippine Economy: Inflation in the Philippines**

But anyway, we were talking about a pair of news items, before I got sidetracked, the second of which said: "Philippine inflation may average more than the government's 5% limit this year, an official said at a press briefing in Manila."

Hahahahaha! People recoil in horror as the Mogambo literally falls to the ground and laughs heartily with that famous Mogambo Booming Laugh Until You Think He Is Going To Laugh Himself To Death Because He Is Laughing So Hard (MBLUYTHIGTLHTDBHILSH) – hahahahahahahahaha – at the object lesson presented so adroitly by Mr. Noland, one that is so, so, so deliciously profound! It is this! This inflation thing! This is the reason why people don't go around deficit spending and creating excess money and credit! Because it leads to inflation! It always does! And it always does because it has to! Because where else can all that extra money go?

And if you want to see how much fun price inflation is, just manage to stay alive a few more years, because it ought to get cooking pretty good right about then. You will be in the thick of it, where prices are rising month after month, year after year, and your after-tax income is NOT rising nearly as fast. And the newspapers will be full of heartbreaking stories about more and more misery affecting more and more people, and the television newscasts will show scenes of mobs of angry, desperate, starving, bankrupt people marching on state capitols and Congress, demanding free money!

Yes, people, this inflation thing.

Regards,

**The Mogambo Guru  
for The Daily Reckoning  
August 30, 2004**