Weirdness Abounds

By The Mogambo Guru

10/18/04 Two men have just won the Noble Prize in economics for having proved theories that the Mogambo Guru has known as truth for years. Will the winners come forward to share their prize with the Mogambo?

The Federal Reserve, tired of waiting for us idiot Americans to drive down to the bank in our almost-new SUV to borrow more money to buy new SUVs so that the money supply can expand, is moving into Buying Outright Mode to accomplish the same thing. This is, of course, the second ultimate monetary fraud, the first ultimate monetary fraud being that you would accept an IOU from the Mogambo ("Money down the rat hole!").

And when you look at the category known as "U.S. Government Securities Bought Outright," it is up another $2 billion. The way it works is that, and you gotta admire the utter simplicity of it, the banks buy Treasury debt from the government, and the government spends the money. Then, later, when they think nobody is looking, the Fed sneaks around and creates some money out of thin air, and uses that new money to buy the debt from the banks and then run that debt through the shredder. And since that gives the banks their money back, the banks use that new money to go out and buy up more Treasury debt, so that the government can spend some more money! It's like a miracle!

The Treasury was likewise emboldened that nobody has raised so much as a peep that they have exceeded the borrowing limit as set by Congress, and so they went out and sold another big stinking pile of American government debt, taking us to $4.420 trillion in total, which is up healthily over the statutory maximum of $4.384 trillion. But let me go over my MasterCard limit by a lousy 10 bucks and all hell breaks loose around here like I got into a fistfight with Mrs. Kravitz again or something!

Weird things are abounding. The biggest surprise to me is that there are a lot of idiots in the world who are not under court-ordered supervision who are buying bonds at the exact same time as interest rates are rising! Basic economic theory, the stuff you learned on the very first day of Economics 101, says that rising interest rates make bond prices go down. And if you own bonds, then you lose money, capital gain-wise. But yet, here these morons are, bidding up bonds, and thus saddling themselves with lower yields for extended periods and potential losses!

Alan Greenspan: Idiotic Monetary Policy

The big news is that the new winners of the Nobel Prize in economics, Edward Prescott and Finn Kyland, won the coveted prize by essentially saying that Alan Greenspan, and the idiotic course of monetary policy they are rabidly pursuing, is wrong! I love this stuff! Ergo, they also win the Mogambo Prize (no money or fame, but I take them on a ride around the neighborhood, while we play the radio real loud and honk at pretty girls), in that they, to quote The Wall Street Journal, say that their theory shows, "Government policymakers invited long-term trouble" when they ran around like idiots to address short-run problems by throwing money and credit around by the profligate boatload, when, by doing so, they operate at the expense of ignoring the prudent long term goals of, I assume, low inflation and stable money supply.

In particular, again quoting the WSJ, "Most central bankers around the world typically espoused a commitment to contain inflation, but in practice central bankers would shift policy to tolerate a little more inflation in the short run as a trade-off for stronger economic growth and rising employment." In other words, the Mogambo was right, and Alan Greenspan and the other horrid little central banking nitwits are morons! But am I, and my contribution, even mentioned anywhere? No!

These two guys also deserve some credit for putting, what is hoped, the last nails in the coffin of the whole stupid Keynesian economic theory, where the government comes roaring in and tries to desperately correct its nearly fatal fiscal and monetary mistakes with the added mistake of more rampant deficit spending.

But the lesson about inflation is not entirely learned, as in the same Oct. 12 issue of the WSJ, where we read an article by a guy named David Henderson, who is a "research fellow with the Hoover Institution and an economics professor." Anyway, he wrote an essay entitled "A Nobel Tiger in the Tail," wherein he characterizes Alan Greenspan as an "inflation hawk"! I rub my eyes in disbelief, as he goes on to write "In the last 17 years, U.S. inflation has averaged only 3%." Only 3%! Only! Three! Percent! My stomach churns in outrage; my teeth grind themselves into powder, and my trigger finger spasms reflexively. I regain control of myself with my usual Mighty Mogambo Real He-Man Effort (MMRH-ME). Snagging my calculator off the desk and furiously punching buttons in my fury, hour after hour, until somebody mercifully takes it away from me and uses it to figure out that that three percent inflation for three years is a 9.3% increase in prices.

Alan Greenspan: Not Tame, Not Low

Remember, you pay prices with AFTER-tax money. Therefore, with a 28% tax rate, do you really think that over the next three years that you are going to get an increase in your before-tax income of 13%? You had better, because this is the amount of increase that you need to merely keep up with 3% inflation! If you do NOT think you are going to get a cumulative 13% raise in the next three years, then you will suffer a fall in your standard of living. NOW do you think that 3% inflation is "tame"? Do you think 3% inflation is "low"? Huh? Do you?

I am too paralyzed with rage to continue, and anyway, passersby are stuffing rags into my mouth to try and muffle my screaming, and so we will turn to someone who DOES comprehend economics, and by this I mean, of course, Mark Rostenko, of the Sovereign Strategist. He says, "The writing’s on the wall, folks." So I look over at the wall, and sure enough somebody has written, "The Mogambo is a big fat idiot!" But this is not what he is referring to, as he immediately proceeds to say he was referring to a figurative wall, in that, "Long-term interest rates are falling. Retail sales are slumping. The consumer isn’t making more money and the government is only making up job numbers. Are we in for another round of recession? Before you answer, consider that oil shocks = recessions."

Well, Mr. Rostenko's views gets me immediately back to those two new Nobel Prize winners Prescott and Kyland (which, now that I think about it, is, by rights, MY prize and MY money, and not only do I get neither, but they act like they never heard of me, and then they hang up on me when I call them up and demand my cut, and then I have to call them back, and they say, "We no speakee English," and laugh at me, and then they hang up again), who say that supply-side shocks, like "a surge in the price of oil," could have a big impact on economics, mainly by "causing a recession or a boom." See how all of this fits so neatly together?

Regards,

The Mogambo Guru
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