

Hollywood Economics

By [The Mogambo Guru](#)

03/14/05 The basic elements of economics can prove too difficult for some to understand... realizing this, and thinking how unfair it would be for anyone to miss out in the joy that is the story of the U.S economy, The Mogambo Guru explains it in way that we can all grasp...

"Everything that could go wrong did go wrong, yet the U.S. economy sailed right on through," writes Caroline Baum on Bloomberg.com.

"If you consider the litany of negatives buffeting the economy since the bursting of the stock market bubble in 2000 and the 2001 recession, it's something of a miracle that it managed to grow 2.3 percent in 2002, 4.4 percent in 2003 and 3.9 percent in 2004 (all on a fourth-quarter over fourth-quarter basis)."

She does admit, "The economy expanded in 2001 as well, albeit at a miniscule 0.2 percent rate."

Zero Percent Inflation: Prices Jump 10%; Sales Rise 7.8%. Not Good.

Yep, and I'll tell you how it is done, only in Hollywood style. The scene is set in the swanky offices of your typical CEO, or Chairman of the Board, or majority stockholder, all of them ruthless tyrants whose names strikes horror in the hearts of the proletariat trash who toil under my brutal command, night and day, while I am living it up by seriously under-funding their stupid little pensions that I am trying to dump on the government, so they will end up with something, so what in the hell are they bellyaching about?

Suppose I sold a hundred widgets last year at ten bucks a pop. So total GDP = \$1,000. This year, I sell 98 widgets at \$11 each. GDP = \$1,078, which is an increase of \$78! The freaking economy is soaring by 7.8 percent! The economy is white hot! Yow! Buy stocks, any stocks, but especially shares of Mogambo Enterprises if the SEC hasn't shut them down already.

In normal times, that is to say, during the entire freaking course of human history up until the last fifty years or so when people really started losing their minds, probably due to something in the water, but when prices go up by 10 percent and sales go up by only 7.8 percent, you were typically in big freaking trouble. And then you started drinking heavily, which made everything worse. And especially so, ESPECIALLY SO, when total production was actually reduced by 2% to start with! I mean, it's head for the hills time! And now you gotta finally make that decision whether to take your family with you, or abandon them to the wolves like they deserve, the ungrateful little leeches, and now that I think about it they were nothing but a millstone around my neck in the best of times, which weren't such hot times to start with, and even those relatively wonderful days are gone, and now it's every man for himself, so get outta my freaking way, I'm coming through!

Zero Percent Inflation: Adjusting For Quality

But nowadays things are different. Thanks to Michael Boskin and the Federal Reserve, those pesky questions about the ten percent inflation, and how this is supposed to be such a bad thing, can be easily explained away! Ain't science wonderful?

It goes (pause for dramatic effect) like this: The government official looks at you like you are some kind of lowlife dimwit and who needs to be spoken to gently, or maybe we'll cry or something, and he says, "You forgot to adjust for quality, stupid asker of stupid questions! I know that's you on the end of this phone, Mogambo, you stinking lowlife dimwit! But for the last damn time, last year the damn things caused three deaths." Then he holds up three fingers to make sure that I somehow grasp, with my obviously limited intellect, the whole concept of the number "three" and then I say, "I'm on the end of the phone, you moron! I can't see you holding up three fingers!" And then he gets really huffy like only a dimwitted career government worker can get.

Through clenched teeth he goes on to say, "And this year only caused one person to bite the big one, and too bad it isn't you, Mogambo, and why don't you be the one to die, you horrible little man? So anyway, the whole point is that widgets are getting safer! Don't you get it? So you are getting more widget for your money!" And so I say, "Huh? I was happy with the OLD widget, as I never had one where I drank a lot of beer or took medications that made me drowsy or took shots of straight liquor, mostly tequila, when I was consuming, operating or building a widget, and even then only under the supervision of an adult or a boss who hates my guts as much as I hate him, and I caution you to never try this at home, as I AM a professional at this widget thing."

But, somehow, the basic widget did NOT go up in price, see, and you merely paid extra for the extra quality! Therefore, and my brain is already reeling from the paradox, there was no inflation in price! Even though the price went up! And the explanation for this seeming impossibility is that you only paid more for the extra quality, sort of like paying \$600 more for a car with a better stereo! But if you bring up the point that this is a really stupid thing to say because I never listen to the radio anyway; I am always too busy yelling at the other drivers on the road and criticizing their stupid lack of driving skills, and if I had the radio on, then I couldn't hear their stupid replies (although I can always see their rude hand gestures, sometimes from the kids!), so a damn \$600 dollar radio means nothing to me. But then they always say, "What about the passengers? Wouldn't they like to listen to something soothing instead of your stupid screaming all the time?" and I say, "Screw them!"

But this is not about some damn radio, and why the car costs so much, which we wouldn't even be looking at if the wife hadn't decided that she is suddenly too classy and "uptown" to hitchhike anymore. No, this is about how, through the magic of mathematical wizardry and sheer nerve, then they can prove – ya gotta love it! – that inflation was now, magically, zero! Zero percent inflation! Nirvana! Utopia! Economic perfection! Then (and this is the best part because the media, and the stock shills, and the bond shills, and the real estate shills all really eat this stuff up), and after you adjust GDP for inflation, you still had growth in GDP!

Of course, I gotta come home and listen to the wife moaning about the high cost of widgets, and then I politely tell her, "You forgot to adjust for quality, you stupid woman! After you adjust for quality, they are NOT higher in price! Don't you know any of this stuff, ya old bag?"

Regards,

The Mogambo Guru
for The Daily Reckoning