

25-Cent Tacos Still a Pipedream

By [The Mogambo Guru](#)

10/30/06 **The Daily Reckoning PRESENTS:** The Mogambo is a bit confused. How is it that gold exports are up, but our gold isn't actually leaving the country? The answer to this question – and more – below...

25-CENT TACOS STILL A PIPE DREAM

I was looking at the Market Laboratory/Economic Indicators page of Barron's this week, when I was struck by the fact that the six-month Certificate of Deposit is yielding 5.35%, and how this interest rate is way above almost every other listed money rate in the world.

“A Swap Story: Borrowed From The Bank of England”, an essay by Rob Kirby of KirbyAnalytics.com, is very interesting. Noting that the Commerce Department reported, “U.S. gold exports rose 55.0% in August from the previous month, and was up 83.0% from the previous year”, Mr. Kirby refers to an email he got that contained the interesting point that “with a deficit in gold supply worldwide, it is highly unlikely that this is U.S. owned gold leaving the country.” If you are like me, then you suddenly have questions, like “Huh? Gold exports are up, but our gold is not leaving the country? How can this be? And how come we can put a man on the moon, but we still can't get a good 25-cent taco?”

The anonymous writer, rudely and foolishly ignoring my Important Mogambo Taco Question (IMTQ), answers the easier question (the gold paradox), by explaining, “You should be aware that when a foreign central bank repatriates its gold from storage at the Federal Reserve Bank of New York, it shows up as an export credit in the trade data of the [United States].” Wow!

So using this fabulous technique, when my snotty neighbor comes over here to angrily demand that I return his stupid barbecue grill that I am still storing in my garage after having “borrowed” it sometime last year (or maybe the year before, I forget which), I can now count the entire transaction on the books as a credit to me? Wonderful! Hahahaha!

This is terrific! Now, the next time someone – like my wife for instance – starts up with me about how I don't make enough money to suit her, or the kids, or her friends, or her family, or the people I owe money to, or even complete strangers who reflexively just hate “me for being me,” I will whip out my thus-adjusted financial statements and shove that big, fat, juicy credit right in her hateful little face! “Chew on that, demon-woman!” Hahaha!

Apparently, no one is interested in my little victory here, and instead they want to know things like, “Why are they doing this?” Well, at last count, there were two prevailing theories. One theory is that the foreign central banks have (to their horror) deduced that “That Stupid Mogambo Loudmouth (SML) was right! Fiat currencies are crapola! We need to get our gold! And get some more, too! Otherwise, we're freaking doomed!”

The other, more accepted (and probably correct) theory is enunciated by Mr. Kirby himself, who explains, “you can’t blame these ECB banks! When a nation drops habeas corpus and the Geneva Convention, a little matter like theft of other nation’s stored gold is not a stretch.”

Then Mr. Kirby puts dry numbers on the wet human face, and says that it’s “amazing to think that the U.S. Trade Deficit would have been another \$2.5-3 billion worse without the inclusion of this ‘export’, eh?”

“Ehhh” indeed, the lying, manipulative, greasy bastards! Well, that’s what I think anyway. But Mr. Kirby is far too refined to scream insults until his throat is raw and sore. But instead, he makes the same point in a more roundabout way, like using “the words of former Secretary of the Treasury [Clinton Admin.] Robert Rubin as he revealed the motivation or drivers of crisis management in the interaction between himself, Lawrence Summers, the ESF [exchange stabilization fund], the IMF and presumably the Maestro at the Fed – during the Clinton administration.

“On pages 290-291 of his book, *In An Uncertain World*, referencing the Brazilian financial crisis of the late 1990s, Rubin outlines how very expensive ‘bad decisions’ can buy time. Sometimes, he asserts, these bad decisions have a great deal of merit because they can, ‘...probably defer the impact of the collapse for six or eight months, and that will more than justify the effort.’”

Wow! So applying Rubin Theory to a real life situation – suppose I go into debt to buy a very expensive custom golf bag, a very, very expensive set of golf clubs, and a very, very, very expensive country club membership, but I ain’t got no money, and ain’t a-gonna get any, either.

Obviously, I need to hide this from my wife for another six to eight months, at which time I will merely declare bankruptcy, start drinking heavily, maybe do some drugs, ruin everyone’s life, desert the wife and kids, try to collect welfare, get into a fight when they say no, end up in jail and die of a brutal beating from fellow inmates who, it turns out, hate me as much as my family and neighbors do. But I get six or eight months of free golf!

So, using Extreme Rubin Theory, if I cleverly kill anyone who knows I have these things, then it is worth it, because it bought me some time? Hahaha! Situational ethics at its finest!

Actually, this is an old idea. If you have ever watched any old Perry Mason episodes, starring Raymond Burr, then you know how many murderers confess, on the witness stand in the episode’s last minute, that they killed someone to get “a little more time!”

Thus life, and politics, and the economy, imitate television? Things are worse than I thought!

The good news, I suppose, was that “consumer prices in the [United States] fell last month by the most since November 2005, reflecting a decline in energy costs that may temper inflation in coming months. The consumer price index dropped 0.5 percent in September following [a] 0.2 percent increase in August,” the Labor Department said in Washington.

In response to this silliness, I am in the back of the room making rude noises that sound like flatulence, which may or may not have contained actual flatulence (depending on who you are talking to), and which may be what motivated them to admit that “excluding food and energy, so-called core prices rose 0.2 percent for a third month.”

Since no government agents stormed the room and kidnapped anybody to prevent bad news from getting leaked, they apparently felt emboldened to also admit that “today’s report also showed that core prices rose at the fastest pace in a decade in the 12 months through September, showing inflation has yet to dissipate.”

Still no government goon squad agents crashed through the doors to arrest everyone. You could feel their confidence rising as the report went on to say, “Core prices rose 2.9 percent from a year earlier, the biggest 12-month jump since February 1996, after a 2.8 percent gain.”

I gulp. By this time, my beady, rat-like eyes are nervously eying the locations of exits, mentally scoping out lines of retreat and the whereabouts of people I can grab to use as a human shield during my getaway.

Feeling stronger by the minute, they reveal, “So far this year, consumer prices are rising at a 3.4 percent rate. Core prices are rising at a 3 percent rate, after a 2 percent pace during the same period last year. Food prices, which account for about a fifth of the CPI, rose 0.3 percent in September after rising 0.4 percent the month before.”

Gaahh! By this time I am edging my way towards a window I can jump out of, as this is still terrible news! I can’t believe that the Bush administration would allow these Labor Department people to keep “poisoning” the American people with their vile, un-American exposure of the truth about the horror of inflation all around us!

Even though inflation is building and building, if you are retired, don’t look for Social Security to save you, as “today’s report also suggested retired U.S. workers receiving Social Security benefits will earn about \$33 more each month beginning in January, a smaller increase than they received this year. The estimated monthly payment will rise 3.3 percent in 2007, compared with a 4.1 percent increase this year that was the biggest since 1990. The adjustment will bring the monthly average to approximately \$1,035 from this year’s average of \$1,002.”

And out of that \$33 a month increase, Medicare Part B premiums will increase \$5 a month, dropping the net increase to \$28 a month. About four bucks a week. Whoopee!

In a related point, Dean S. who is a pharmacist, writes, “In the past, indigent and handicapped adults that qualified for Medicaid benefits were paid for out of state funds, a portion of which were provided by federal funds. Most of those beneficiaries are now in Medicare Part D plans paid by federal funds.” And so, even relieved of the expense of medical care for the indigent by dumping it on the federal government, the states are still spending like crazy? We’re freaking doomed!

Until next week,

The Mogambo Guru
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Mogambo sez: Even through the steel-reinforced concrete walls of the Big Blooming Mogambo Bunker (BBMB) I can almost feel the coming cataclysm, and pity those who have not moved their money into silver, gold and other commodities – especially oil – or have otherwise bet against the dollar and the preposterous U.S. economy.

But they will soon learn a valuable lesson, as have all stupid people who have foolishly entrusted a government to issue fiat money, and as have all stupid people who have foolishly allowed the banks to engage in such preposterous amounts of fractional-reserve banking, and as have all stupid people who have foolishly allowed their governments to grow so large as to actually become their economy.

And it is a cruel lesson that their children will learn first-hand, too, and their children's children will learn second-hand. So there is, I suppose, an upside to it all, if increasing national smarts can be counted as increasing national wealth. Cold comfort, perhaps, but maybe better than nothing, which is what they deserve, and which is exactly what they will get.