# Overly Taxed Earthling Brains

By The Mogambo Guru

12/11/06 **The Daily Reckoning PRESENTS:** Some would argue that inflation is no laughing matter – but try telling that to our fearless Masked Economist. He can even find the humor in Really, Really Bad News (RRBN). Read on…

**OVERLY TAXED EARTHLING BRAINS**

To show you how utterly clueless this Bernanke character is about how the world works, he says he thinks it is a "worrisome possibility" that companies will "pass all or part of their higher labor costs through to prices." Hahaha!

I can see it now! CFOs and accountants around the world will slap their foreheads and say, "That is where we made our big mistake! We lost money because we set our prices too low! We forgot to add in labor costs when we set prices! Hahaha! The joke's on us!"

And it is not, I am sorry to say, just Bernanke, either. As equally clueless is Amar Mann, an economist at the Bureau of Labor Statistics in San Francisco, who says, "It's too early to tell if higher labor costs are being passed on to consumers." Hahahaha! Well, if it ain't being passed on to the consumer, then it is being passed on to the business owners in the form of less profits, because all expenses have to be passed along to the consumer, dork! So is one better than the other? Hahaha!

Well, I don't think we have to worry too much about profits, as the Commerce Department said "Corporate profits from current production rose 31 percent in the year through September, the biggest 12-month gain in 22 years."

But in keeping with the depressing news about incomes, they go on to say that increasing productivity (less labor per unit of output) means that more people do not have jobs producing these units of output, as we learn from Bloomberg.com reporting "Private sector wages as a share of the cash that corporations are generating from production fell to 50.5 percent, a post-World War II low, according to calculations by Bloomberg News using figures compiled by the Bureau of Economic Analysis."

If you want another huge source of cluelessness, then I proudly present the ludicrous Barney Frank, the Massachusetts Democrat who is to be the chairman of the House Financial Services Committee, and who said that he is "troubled to hear" that Bernanke is more concerned about inflation than an economic slowdown! Hahaha! This is too rich! The man doesn't know the first thing about economics! What in the hell is the matter with Massachusetts that they elect these sorts of people? How embarrassing for them. And how disastrous for the United States!

So, here's a Big Important Mogambo Economic Note (BIMEN) to Barney Frank, which I will keep short, so as not to overly-tax his puny Earthling brain: There is nothing more important than preventing inflation when it comes to economics. Nothing. Preventing inflation is THE thing to worry about.

And in case Rep. Frank asks, which he probably will since he has proven himself to be so clueless, “Who in the hell is this Arrogant Mogambo Idiot (AMI), and what do I do with this interesting fact?” Tell him that I said, “Read it. Learn it. Live it. Make us proud for a change, instead of embarrassing yourself and making me so mad that I would love to come up there and slap your stupid little face so long and so hard for saying something so idiotic that you would never, ever say such a thing again, or even think it.”

The Really Big, Really Bad News (RBRBN) is that the Chicago Purchasing Managers’ index dipped below to 49.9%, which means actual economic contraction. And the decline was rapid, too, as it fell from 53.5% in October!

And since businesses are contracting, there is no need for workers, which fits exactly with the report going on to note that “The number of U.S. workers applying for jobless benefits (First-time claims) climbed by the highest amount in more than a year last week, to 357,000, the Labor Department said.”

Continuing the bad news, they report, “The number of workers continuing to collect unemployment benefits jumped by 45,000 during the week ending Nov. 18, to 2.48 million. The four-week average of continuing claims also rose, by 18,750 to 2.45 million.” So, it looks like not only are people getting fired right before Christmas (“Happy Holidays!”), but they aren’t finding new jobs, either (“And a Happy New Year!”). Bummer, huh?

Perhaps this has something to do with MarketWatch.com reporting that “Led by falling orders for new airplanes, demand for U.S.-made durable goods fell 8.3% in October, offsetting September’s 8.7% gain, the Commerce Department said Tuesday. It was the biggest drop in orders for durable goods since July 2000.”

If you want some more really bad news, then consider that the measly 2% increase in GDP growth is less than a third of the $850 billion current account deficit, which is about 7% of GDP. We are literally giving away to foreigners, who hate our guts for any of a zillion reasons, one out of every fourteen dollars that this whole country earns! And we owe a net $3 trillion to foreigners, which, at even 5% interest, comes to paying them $150 billion a year!

If that is not enough to make a donut turn to dirt in your mouth, then fixate on the dismal fact that the federal government’s budgeted deficit is 3.5% of GDP! Hahaha! And this is just the “official” budget deficit! Not only is Congress going to spend about 25% of GDP, per the budget, but they are budgeting themselves to spend a whopping 3.5% of GDP that they must borrow!

And the news gets even worse, as the actual deficit, as is always spent through supplemental appropriations and various emergency appropriations throughout the year (and so never appears in the budget at all) will be more than $700 billion this year! And you don’t think we are screwed? Hahaha! This is monstrous fiscal madness! No wonder I am screaming for you to buy gold!

And it is not just us, as I gather from GoldMoney.com's James Turk, who writes, "Gold is rising against all of the world's currencies. The rates of increase are of course different as some currencies are weaker than others. But regardless, it is clear that gold's long-term trend is rising."

"What's more," he says, "gold is still undervalued. There is any number of ways to make this point, but perhaps the simplest is to look at the price of gold in inflation-adjusted dollars. In 1980 inflation-adjusted dollars, gold today is only $250 per ounce, which is not even one-third of the $850 record high reached that year."

I jealously see the way everyone is slavishly hanging onto his every word, and being envious and petty, I am dying to get a little attention. Cleverly, I was going to interrupt him to note how the explosion in the monetary aggregates around the world, as central banks everywhere create more and more money, creates price inflation, which makes gold go up in price. But before I could put my clever plan into effect, he, in a burst of ESP or something, abruptly says, "All national currencies are being debased by inflation and/or other monetary disorders."

Damn! Thwarted, but thinking quickly, I was then going to use that as a springboard ("boiiiing!") to demonstrate, full circle, how this meant you should buy gold, but again he anticipates me! He says, "So what would you rather hold? Gold, or some national currency?"

Relentless in my childish thirst for fame and attention, I am getting frantic. So I thought I would bring up the fact that monetary and price inflation have been going on for a long time, and then I would somehow relate that to the rising price of gold. But then James Turk busts my chops again! But he did it so neatly, and so elegantly, when he said "A dollar purchases today what 10 cents purchased in 1971″ that it overwhelmed my natural outrage of disappointment and raw jealousy.

But as for inflation, exactly! And since thinking about retirement is all the rage, this means that every day since 1971, every step of the way, more and more people retired or otherwise converted to a fixed income for one reason or another. And every one of them saw inflation eat their guts out as prices rose but their incomes did not, more and more, every day until they died, or until today (or both, if you count Zombie-Americans), and all along the way they continuously wailed to Congress to give them more money and benefits, which the government happily did the whole way, but their standards of living still declined because of the increase of money and credit with which to pay for it caused more inflation, and now any person still alive that retired in 1971 is receiving the equivalent of one-tenth their initial retirement non-government income!

So, if it takes a dollar to buy what a dime bought in 1971, what was the average compounding inflation? 6.8% per year! Hahaha! Less than inflation right now (when measured the same old-fashioned way). It's getting worse! Welcome to the hell of inflation!

Until next week,

The Mogambo Guru
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**Editor's Note:** Richard Daughty is general partner and COO for Smith Consultant Group, serving the financial and medical communities, and the editor of The Mogambo Guru economic newsletter – an avocational exercise to heap disrespect on those who desperately deserve it.

**Mogambo sez:** Something bad is coming soon, and when it gets here, you will be very happy that you own gold and silver, and those who don't will envy you and hate you for your success. But you will be so rich you don't care, and you can move away to someplace nice where you don't have to put up with such riffraff or relatives.