Feed Your Kids Pig Chow

By The Mogambo Guru

01/29/07 **The Daily Reckoning PRESENTS:** With a crowd of onlookers urging him forward, the Mighty Mogambo attacks the insanity of Bernanke's Fed policy with great vehemence and Icky Mogambo Spittle (IMS). Find out how inflation could be the cause of great change in your children's diets, as the Mogambo explains why you might need to…

FEED YOUR KIDS PIG CHOW

When I heard one of the talking heads on TV intimate that the new Democrat-controlled Congress would be more combative towards Ben Bernanke, chairman of the Federal Reserve, when he testified before the Banking Committee, I excitedly exclaimed "Oh, goody! At last!"

Detailed clinical records prove that my only fantasy that does not involve beautiful ladies looking, acting and/or sounding deliciously wicked (and usually scandalously underdressed) is the one where I am called as a guest member of the banking committee, and I where get to grill this horrid little man about him, his econometric ilk, and his stupid theories.

After a few hours of me relentlessly pounding him, pounding him, pounding him, relentlessly scoring point after telling point, I would say, "I conclude that something needs to be done about this mess that you and your bastard banking buddies have created, and by God, I'm just the guy to do it!"

Encouraged by the shouting ("Go, go, Mogambo!") of the assembled onlookers, I would leap over the dais ("boinnng!"), bound across the floor, reach across the table, grab this Bernanke character by his tie, haul him up and across the table to where I can get a firm hold of that little pencil-neck geek, and start slapping the living hell out him – whack whack whack – while yelling, "What in the hell have the Federal Reserve and your greedy moron co-conspirators running the banks done to us, you filthy, lying, despicable bastard? You and your ridiculous economic theories and your precious computer models have killed us with monetary inflation!"

Maybe you don't want to know about any of my bizarre delusions, but perhaps you won't be so dismissive when you learn that whole teams of court-ordered psychiatrists find it absolutely fascinating.

But even more fascinating are the workings of this important banking committee, as history has consistently shown that all economic and financial calamities (booms that turn inevitably to inflation and busts) are caused by (dramatic pause accompanied ominously by wolves howling in the distance and the pitiful screams of the damned) The Banks.

It's not for nothing that Thomas Jefferson said, "I believe that banking institutions are more dangerous to our liberties than standing armies." And it is further not for nothing that he is being proved horribly, tragically correct.

Alas, the hoped-for glorious spectacle of Bernanke having to answer real questions was not to be. But it was better than usual, as none of the panel said anything to actually indicate they were socialist, communist, fascist morons, and indeed a couple of them were mildly contentious (Sanders), but mostly in a good-fellow-well-met kind of collegial way.

So, parading their ignorance and cowardice, nothing was said about the inflation (caused by the banks) that is raging, and has now gotten so bad that the government is raising wages 40% by fiat! Command-and-control communism at its worst!

For example, the latest, deliberately-understated official reading of official annual price inflation went to 2.5%, up from the previous laughably-low 2.0% inflation per year. Real price inflation, which I define as, “The kind of inflation that takes more dollars out of my pocket every freaking time I turn around,” is actually running a lot higher than that.

Even so, using Dr. Bartlett’s suggestion, I now rephrase the statistic from “2.5% inflation” to “Prices will double in 28 years.”

According to John Williams at ShadowStats.com, the official numbers are bad enough, in that, “Seasonally-adjusted PPI rose 0.9% for the month, following a 2.0% gain in November. Annual PPI inflation rose to 1.1% in December from 0.9% in November. The seasonally-adjusted December CPI gained 0.55% (0.15% unadjusted) after being reported as unchanged in November. Unadjusted, year-to-year December CPI was up 2.54% versus 1.97% in November. The annual average inflation rate for 2006 was 3.23%, slightly lower than the 3.39% in 2004, which was the highest annual inflation rate since 1991.”

These numbers are bad enough, but the Real Horror Story (RHS) is revealed when he continues, “Net of the methodological gimmicks added to CPI reporting in recent decades, annual inflation for the SGS Alternate Consumer Price Measure was 10.0% in December, up from 9.4% in November. The average alternate inflation rate for all of 2006 was 10.2%, up from 10.1% in 2005, and at its highest level since 1981.”

Ten percent inflation! This is insane! This is beyond insane! Prices will double in seven years!

And no mention was made by the banking committee about the absurdly low levels of reserves in the banks, which is the root cause of the inflation! In fact, required reserves in the banks have dropped to a laughable $39.35 billion.

And what are these reserves for? It tells you, right there in a footnote: They are “Demand for reserves to back deposits”! Hahaha!

Please pardon my laughing right in your face…and the little Icky Mogambo Spittle (IMS) I seem to have gotten on your shirt in the process (sorry about that)…but you may perhaps understand my apoplexy when I explain that this is probably the biggest pile of lying crap of the whole stinking mess!

The fact is – according to their own figures! – bank deposits have generally been rising, year after year, as the monetary inflation of the Federal Reserve works its way into loans and then into deposits (all that money has to go somewhere!). But required reserves against these deposits are not only nominally lower (in dollars) than at anytime in freaking decades, but as a percentage of deposits, these "required reserves" (which I put in quotation marks to indicate ridicule and contempt) are at the lowest freaking point in the entire freaking history of banking in the whole freaking history of the whole freaking world! Hahaha!

The aggregate, total required reserves in the banks are so miniscule (audience shouts out "How miniscule, Mighty Mogambo Moron (MMM)?") that I answer, "$39 billion is less than what the government borrows in a month! $39 billion is a lousy two week's worth of trade deficit! Hell, in 1998, when deposits at the banks were about $3 trillion, required reserves were over $45 billion! Now deposits are a lot bigger at $4.8 trillion, but amazingly, required reserves are now less! Only $39 billion!"

Oops! I see I got a little more IMS on your shirt, but damn! The reserve requirement against a new dollar of deposits is less than zero! More deposits means, perversely, less reserves! Insane!

But beyond this happy fantasy of being on the banking committee so that I might wreak havoc with my relentless persecution of Ben Bernanke and the whole Federal Reserve system, imagine my screams of outrage and disbelief at the real-life arrogance of Bernanke as he actually explained, right to their faces, the hedonic techniques they used to adjust the price changes in the basket of goods and services (like the Consumer Price Index, which is the most popularly known measure of inflation).

To my utter astonishment, Mr. Bernanke explained that they lied their heads off by saying that if the price of something in the basket of goods and services they measure goes up in price (to which I scream "Which IS inflation, isn't it?"), then they assume that the average consumer will buy less of it!

I am agog! What in the hell the penny-pinching shopping behaviors of cash-strapped consumers has to do with existing prices is totally, totally beyond me, but it apparently makes some stupid kind of sense to this Bernanke idiot, and apparently also to the Congressional idiots on the banking committee, who sat around stupidly nodding their heads at this outrage – I assume because they are not bright enough to know when their intelligence is blatantly being insulted! Jeez!

Then, he explained to these Congressional halfwits, your average consumer will settle for a basket of goods and services containing less satisfaction (but at the same cost) by not getting what they want, because the price is too high, but happily substituting something else that is cheaper but less desirable, and thus, at the end of the asinine mumbo-jumbo, the consumer did not end up spending more money to buy the aggregate basket of goods and services! So (they figure), no inflation! Hahaha!

As an aside, I am sorry to report that this fabulous "hedonic substitution technique" does not "qualify" under "Minimum Standards for the Care of Dependent Minors" in the state of Florida, which I found out from some very snotty social workers. The crux of my case was that I noticed that real people-food was expensive when converted to dollars per pound, but pig chow was cheap per pound, although the caloric content was similar, especially when you added table scraps to their diets. And the kids are always whining about something, anyway, so let them whine about their food for a while. It'll be a nice change of pace for everybody!

Well, you can see where I am going with this, and I already told you that it is not legal where I live, so there is not much else to say, except that the appeal went VERY badly.

Until next week,

The Mogambo Guru
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**** Mogambo sez: If you are not getting freaked out as this economic Frankenstein starts dying, then you are not paying attention. But if you are getting freaked out by it all, then good for you!

And if you are getting freaked out, but you are not buying gold and silver in the face of the disaster that is unfolding, then I know that you are not paying attention to the One True Lesson (OTL) of economic history concerning a fiat currency and the excessive creation of money and credit. Die a horrible financial death like everyone else or convert to silver and gold, and get rich beyond your dreams.

I love it when the choice is that simple! Don't you?