

House Arrest

By [The Mogambo Guru](#)

06/06/05 Buying a house does come with certain responsibilities – but it should also come along with a feeling of pride and accomplishment. But, the Mogambo points out, those feelings will fade once homeowners realize that they could be paying off their interest-only mortgage forever – and that they are prisoners in their own home...

Phil Spicer, who is usually calm and steady and is usually found sitting on my chest, soothingly trying to get ME to calm down and stop screaming about monetary policy and how he promises that everything is going to be alright, has had his mind boggled by the idea of someone buying a house for \$750,000, especially when one considers that "the annual interest cost (at 5%) would be \$37,500 a year." Then he adds in property taxes at twelve grand, plus insurance and those kinds of things, and when one hits the "total button" on the calculator, it looks like \$4,000 per month is the monthly cost of buying one of these homes.

And he did not even mention the cost of what to put INTO the damn house, because believe me when I tell you that you are wasting your social-climbing money buying that big, fancy house, unless the insides are as spectacular as the outside. And as a guy who once disastrously tried living in one of those upscale houses, I can reliably report that the typical neighbors are not impressed with ratty furniture rescued from the dump, or bookcases made out of boards and some concrete blocks. And after you visit one of THEIR houses on a reciprocal visit, you will learn that you must add many, many more thousands of dollars, tens of thousands, for furnishings alone.

And since we are talking about reciprocal things, that means you gotta invite them over to your house, which means MORE thousands of dollars for drinks, food, munchies, decorations, and, (depending on your circle of friends), drugs, establishing alibis, and a live band really making it wail, dude.

Interest-Only Mortgages: "Interest-Only Mortgages Are Enslavement!"

But there is more to life than money, live bands, getting totally wasted (although a lot of life is also involved in recovering from spending too much money, tinnitus from the live band and suffering from a killer hangover). Then Mr. Spicer gets into the real meat of the thing, as far as I am concerned, and notes, "Interest-only mortgages are enslavement!"

And he is exactly right, as even the thought of owing money perpetually, but making interest payments month after month after month until I die, gives me the willies. The only way that it is NOT enslavement is if Ben Bernanke gets appointed to be the chairman of the Federal Reserve over my strong objections. This guy is saying that he advises that we "target inflation" which is a benign-sounding term that actually translates, after running it through the Mogambo Translating Machine (MTL), that he intends to CAUSE INFLATION!

Ben Bernanke, and a lot of other mentally ill people here and around the world, actually thinks that you can have a permanent, constant inflation, and that somehow, I guess, "A rising tide lifts all boats." This is a nice metaphor for boats, but is ridiculous when used in economics, because I am here to tell you, with that patented snotty Mogambo smug arrogance (PSMSA), that in an economy there is NEVER an example of rising ANYTHING that is good for ALL the boats. Some of the boats, yes. Many of the boats, sometimes. A few of the boats, often. But all the boats, never. And while this applies to beneficial things like tax breaks, it goes double for inflation. Triple, even. Or more!

But one of the "boats" will be, according to the Bernanke theory of permanent inflation lifting all boats (BTOPILAB), houses. And so your house, for which you paid a king's ransom today, will go forever, again theoretically, up and up in value! You will be able to constantly, all your life, borrow money against your appreciating house, and so you will never again, in all your life, have to work, and you can borrow and spend, and borrow and spend, and borrow and spend and borrow spend borrow spend borrowspendborrowspend until you wonder, "I wonder if this Mogambo idiot is going to ever stop borrowing and spending and borrowing and spending?" But then, suddenly, it stops. You hear the sound of ravenous wolves howling in the distance. Creepy.

Interest-Only Mortgages: The Opposite of the Fed's Explicit Mission

Notice the use of all-capital letters when I say that Mr. Bernanke wants to "CAUSE INFLATION, which is a clever literary device that I use to indicate special emphasis. He is even saying, out loud, and in front of witnesses, that he literally advocates the "targeting of inflation"!

This Ben Bernanke person is on record as advising the exact freaking opposite of the Federal Reserve's explicit freaking mission in life, which is to achieve "price stability"! That is what they are freaking supposed to do! That is what the Federal Reserve is literally freaking chartered to do, dammit! A bunch of private businessmen are given the awesome power of creating all the money and credit for the entire nation, at their total discretion. In return, they are supposed to achieve price freaking stability, so that the economy neither booms nor busts, but just keeping on perking away in a steady, controlled growth, with no price inflation (which is the literal definition of "price stability"), and everybody will be happy! Look it up if you don't believe me! It's all right there!

Except for the "freaking" thing. I put that part in because I thought it added a little "elusive, indefinable pleasing quality" which, in French, translates as *je ne sais quoi*, which I use as an example of my new respect for the French, who have had the good sense to reject the monster known as the European Constitution, which is not just another layer of government, but a HUGE, new, suffocating layer of trans-national government, and at least the French are smart enough to recognize that layers of government always get larger, and more expensive, and they all have "mission creep" as they take on more and more responsibilities, and a whole NEW government, with a bizarre Constitution that runs over 500 pages, is even worse!

But we were not speaking of the French, nor the EU Constitution, but about how Ben Bernanke and lots of other people suddenly want to, to my horror, create inflation. And if the moronic Mogambo (MM) immediately recognizes the glaring error of that, then surely someone with

YOUR brains, and YOUR education, and YOUR good looks, and YOUR high-IQ brilliance must REALLY comprehend the profundity that if prices are going up, then prices are NOT "stable"!

Interest-Only Mortgages: A \$750,000 House As a Fixer-Upper

And now I want you to look deep into my eyes to see my utter, utter conviction when I say to you that the prices of things you need WILL be going up thanks to all the money and credit that has been created since Alan Greenspan took control of the Fed in 1987. But if we ever made the horrific mistake of appointing Ben Bernanke to anything where he has any power, or say-so, or authority of any kind, then we will never again see "price stability", because this horrid little man has promised to cause inflation with his every breath! Right there, for everybody to see! And to make sure that you wake up in the dark of the night, bathed in sweat, screaming in bloody fear, President Bush wants him as the head of his economic advisory team! Arrrggghhhh!

And if he gets in charge of the Federal Reserve and he actually does this, then, yes, one day in the future, a \$750,000 house will be a chump-change fixer-upper, lived in by rats and derelict gold-bug screwballs, perhaps even The Mogambo himself, still screaming about the horrors of inflation and how it is going to kill all of us. Of course, the price of a small pizza, one lousy topping, cash-and-carry crappy crust and all, (betcha can't say "cash-and-carry crappy crust" five times real fast!), will cost \$75. Per slice.

And let's not forget about property taxes, because they are not going to be "price stable," either! They are also going to go up and up. And not only going up in nominal terms as a fixed percentage of your house's value, but as a constantly-increasing percentage of your house's value, because every dime that any government gets its hands on gets spent on something that requires funding in the future. It is always either some building that will always need painting and a new air conditioner, or a new group of unfortunates that needs a handout, but which always needs more money because prices are rising faster than their handouts. And that means that the government spending will rise faster than simple inflation, and the cost to taxpayers for those things must always rise faster than simple price inflation. And that means constantly higher and higher taxes.

As a perfect example, on the Bloomberg new site we read, "Venezuela boosted government spending by 28 percent in March as surging revenue from record oil prices paid for bigger outlays for social programs."

And what this Bernanke guy is not telling you is that, thanks to his inflation, your retirement is toast. Hewitt Associations figures the average 401(k) plan has a balance of just \$69,000. So, guess what? At retirement your stupid little \$69,000 that you have in your stupid little 401(k) will be worth less than what a janitor makes in a month. How far do you think you are going to get on that?

But, now that you mention it, we were not talking about inflation or the Federal Reserve or Ben Bernanke. We were talking about houses. Seemingly thankful to get back to talking about houses, Mr. Spicer goes on to note, "Houses deteriorate over time," which is true in the best of

cases, and more so now, because if you think that these crappy little cracker-box houses that they are putting up these days, made on the cheap whenever possible, will NOT need lots and lots of loving care from expensive construction labor every day of their attenuated existence, then you are not dealing in reality as the rest of us know it. And then you will spend the rest of your life telling the story of how the house seemed to just fall apart and how these construction guys screwed you and screwed you and screwed you out of so much money, that you finally had to sell the house at a loss? Hahahaha! Look! I am laughing, because it seems so ludicrous to imagine otherwise! Hahaha!

Regards,

The Mogambo Guru
for The Daily Reckoning

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P.S. The Mogambo Sez: Keep buying precious metals and oil. Why? Ask Bill Bonner, who says; "We buy gold because we see a dangerously unbalanced world economy with no painless way to set it straight. Americans cannot continue to run up debts forever. Their houses are not going to increase in price at three times the rate of GDP growth for much longer. The Chinese cannot continue to build factories in order to make products for people who can't afford to pay for them. And the Japanese are not going to lend money forever to a country that cannot pay it back. But the most alarming feature of the world financial market circa 2005 is that so few people find it alarming. Every hedge fund manager and homeowner is leveraged to the eyeballs. Every analyst and strategist is confident. Every central banker is complacent."