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Ingesting the Polluted Ocean of Commerce

by The Mogambo Guru

"Now get this: Total reserves are $43 billion (about the same as it has been for more than a decade!), and out of that total, $17 billion of it is borrowed from the Fed! Hahahaha! We are so freaking doomed!"

It was no big surprise that Total Fed Credit was up a whopping $9.6 billion last week as the Fed continued creating money and credit to bail out its nasty little friends on Wall Street to prevent the boom, that resulted from decades of the Federal Reserve stupidly creating too much money and credit, from turning in the bust that is, alas, inevitable.

And to help fund it all, the Fed's account known as "U.S. Government Securities owned outright" was down by $32.2 billion last week! Wow! This is about 5% of the bonds it owns! In one shot!

And the banks themselves are still showing a negative "non-borrowed reserves"! Now get this: Total reserves are $43 billion (about the same as it has been for more than a decade!), and out of that total, $17 billion of it is borrowed from the Fed! Hahahaha! We are so freaking doomed!

Not to be outdone, or maybe to shut me up because they are tired of hearing my voice wailing and bewailing what's going on, foreign central banks came charging in and bought up another $17 billion of U.S. government and agency debt to stash in their $2.2 trillion account at the Fed, which is simultaneously astonishing and unremarkable in comparison of the sheer, staggering supply of dollars that the Fed has created over the last couple of decades or so, and that is why prices are going up in dollar terms and my screams of fear and outrage are going up in decibel terms.

Dan North, of Euler Hermes, says that Americans have "basically polluted the world with dollars", which I think is a good metaphor for the situation, and please marvel as I wax ecologically lyrical when I write. "And as you dip your hungry and thirsty lips into the polluted ocean of commerce for your eat and drink, you will surely die of dollar poisoning, and on your financial deathbed of ashes left by the fires of price inflation, you will hear the mocking, rude laughter of The Mogambo ringing in your ears, and you will recoil in horror as you realize, albeit too, too late, that the Loudmouth Idiot Mogambo (LIM) was right and the Austrian School of economics was right; the creation of excess money and credit (monetary inflation) leads to consumer price inflation, which is a Very, Very Bad Thing (VVBT), and that buying gold and silver are the two best things that you could have done with your money!"

Well, it is not King Lear, I guess, but you get the point. But part of the reason why the Fed is doing all of this crazy stuff may perhaps be found at the famous "Mortgage-Lender Implode-O-Meter" website, which reports that "Since late 2006, 241 major U.S. lending operations have 'imploded'."

Or maybe it's enough to see the results, regardless of the cause, and MoneyandMarkets.com can supply part of the answer when they write "the difference between the interest rate on high-yield corporate bonds and the rate on equivalent

Treasury issues - is a key credit crisis indicator."

And with that in mind, they go on to note the chronology of:

"July 30, 2007: Crisis Indicator Surges: More Than Doubles to 576!

"August - October, 2007: Fed's First Massive Response: Crisis Indicator Falls to 354

"March 10, 2008: Credit Crisis Indicator Explodes: This Time to 774 Points!

"March 14, 2008: Fed Deploys the Nuclear Option"

By which he means all of these astonishing, sudden, massively all-or-nothing Fed actions.

And I agree that it is perhaps appropriate to have all-or-nothing acts of desperation, as the situation is truly desperate, for which most of the problem may be found in the Wall Street Journal writing about the "U.S. Debt Reckoning". They report that "American household debt has more than doubled in a decade to $13.8 trillion at the end of 2007 from $6.4 trillion in 1999, the vast majority of it in mortgage and home equity lines, according to Fed data."

I sigh and groan when I realize that the rest of the article contained no explanatory statistics about these facts, and that means that the calculator and I are going to meet in combat again, like I knew we would, and it's man against machine.

The answer, finally wrought out of sweat and blood, is that household debt went up by $7.4 trillion in eight years, which is close enough to say that this one subset of consumer debt increased by a whopping one trillion dollars a year for eight years! I involuntarily shout, "Yikes!" at the revelation!

This new money, produced by borrowing it, was the fuel that made the boom. Now it's gone, and it ain't coming back. And so what is going to power the boom that is supposed to get us out of this bust and make everything alright again? Oops!

No matter how adept you are with calculators, the answer is actually 7734 upside down, which is not 666, to be sure, but it still means "We're freaking doomed!"