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Trillions Embarrass a Billion-Dollar Bulwark

by The Mogambo Guru

"Half of the Fed's stash of government debt has been used up already! Yikes! And how big is the entire rest of the Fed's stash of government securities? A piddly $629 billion! Hahaha!"

Junior Mogambo Ranger (JMR) Azvitt sent a piece by John Browne of Euro Pacific Capital, who writes that professor Robert Shiller "has determined that house prices rose in line with inflation, between 1900 and 1995, at 3.3 percent per annum. Beginning in 1996, the Greenspan property bubble drove average house prices to a position where, by 2007, they were some 40 percent above their aggregate century-long 'trend' value."

By this time I thought I was in a time warp, as this overvaluation thing is old news. But Mr. Browne looks at me disapprovingly, as it is painfully obvious that I am "slow" and I did not understand the significance of housing values that revert to the historical mean, as "To 'de-leverage', as Treasury Secretary Paulson so soothingly describes it, will require the squeezing out of this 40 percent of price inflation; or some $12 trillion! This figure, which excludes the de-leveraging of other debt-ridden areas such as commercial real estate, credit cards and auto loans, is just $2 trillion short of our entire annual GDP! It is a gigantic figure, of which there is understandably little or no mention."

Well, to be fair, the standard answer from those of us in the Outraged Lunatic Gold-Bug Fringe Element (OLGBFE) is that the loathsome, corrupt Fed will create the money and the loathsome, corrupt Congress will spend it, bailing everyone out, creating an inflation in consumer prices that will destroy the country, and thus we dismiss the whole thing with a casual wave of our hands as a fait accompli.

But perhaps it doesn't matter anyway, as he says that when you notice that "the $436 billion the Fed has recently injected into our economy and the fact that it represents some 50 percent of the Fed's balance sheet, a massive problem of relative size is manifest. It begs the question of whether the Fed has the resources to do anything but make a dent in the crisis."

Half of the Fed's stash of government debt has been used up already! Yikes! And how big is the entire rest of the Fed's stash of government securities? A piddly $629 billion! Hahaha! This is what they have as a bulwark against a couple trillion dollars in housing losses alone, not to mention the losses on some of the other $700 trillion in global derivatives! Hahahaha!

Just as I was going to raise my hand to add this interesting little factoid to the mix, he cuts me off with the gloomy assessment, "Faced with these realities, it is unlikely that the Fed has much chance of averting a serious recession. If Congress fails to act soon, depression will threaten."

By this time I am getting a little peevish that he, too, is worried about some stupid recession, when it is the inflationary impact of all of this dollar-and-debt creation that is the real killer! So I was just getting ready to give this Browne guy a lesson in economics, when he again anticipates me by saying, "In short, if we are to stall a depression, we must necessarily experience both far greater inflation and lower interest rates. The result will be renewed downward pressure on the U.S. dollar and the unseen erosion of U.S. dollar based wealth."

And it is not just the American housing bubble that is giving us trouble and forcing us to endure higher inflation, or the British housing bubble, or the Australian housing bubble, or the Spanish housing bubble, or the Irish housing bubble, but if you want to read something really spooky, as a reader writes to Agora Financial's 5-Minute Forecast, "I have seen no comments anywhere on the coming mother of all real estate bubbles: urban China. I live in Guangzhou, where a shoddily constructed three-bedroom apartment in a desirable locale is now costing 3-4 million yuan (approx. $430,000-570,000)."

To show the degree of speculation, he adds, "I sold my apartment last month for 30% more than I bought it six months earlier."

And there is plenty of supply, too, as "Vacant apartments are ubiquitous. So is new building, however, driven on by a consortium of banks, municipalities and developers. Growth is fueled by speculators using funds borrowed from cash-flush government companies to buy and resell blocks of apartments."

Well, speaking of "cash-flush government companies", Doug Noland in his Credit Bubble Bulletin notes that the banks, now just another slimy part of a corrupt government, are still able to shovel money out of the doors, as "Bank Credit surged another $41.7bn (week of 3/19) to a record $9.490 TN. Notably, Bank Credit has now increased $277bn y-t-d, or 13.0% annualized. Bank Credit posted a 35-week surge of $847bn (14.6% annualized) and a 52-week rise of $1.154 TN, or 13.8%."

This reminds me, with a shudder, that John Williams at his ShadowStats.com recently reported that his latest estimate of the broadest money supply, M3, is running at 20% annualized.

With all the losses and slow business conditions, it is easy to predict that tax revenues are down, and the increase in the federal government's usual appetite for issuing new government debt is also easy to predict.

And so it is perhaps not too surprising that Junior Mogambo Ranger (JMR) Len S. picked up this interesting bit of news, "Beginning with the 13- and 26-week bill auctions of Monday, April 7, 2008, all Treasury marketable bills, notes, bonds and Treasury Inflation-Protected Securities (TIPS) will be available to the public in minimum and multiple amounts of $100. Marketable Treasury securities have been available in $1,000 minimums and multiples since August 1998."

JMR Len figures that "the Treasury is NOT doing this out of the kindness of their hearts. By lowering the amount to $100, it opens up Treasuries to the smaller investors thinking this is a good deal". To this, he adds True Mogambo Cynicism (TMC) when he says, "but if it was such a good deal, the big boys would have fought tooth and nail to keep it at $1000 per Treasury to keep the 'good deal' for themselves."

He asks, "Could it be that the foreign investors have become so fed up with Treasury's low interest rates after inflation is factored in, that foreigners are avoiding future sales of Treasuries in the near-to-long-term future?" Since I have no idea, I say, "Well, the money has to come from somewhere!"

If just won't be enough. It can never be enough. And that is why we are doomed. Ugh.