

Gonzalo Lira

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THURSDAY, APRIL 14, 2011

Burning The Candle At Both Ends: Raising the Debt Ceiling, and Extending QE-2 Indefinitely

14

This coming May 16, the U.S. Federal government debt ceiling will be breached; that is, the national credit card—**currently topped** at \$14,294,000,000,000—will be maxed out. (Yeah, I know: It's one thing to read “\$14 trillion” and quite another to see the actual number, written out with all those zeroes.)

Shortly thereafter, the Federal Reserve's policy colloquially known as Quantitative Easing-2 (QE-2)—whereby the Fed created \$600,000,000,000 of new money, and used it to purchase Treasury bonds—will end.

These two issues seem to be miles apart—notice, *seem to be*. But they are as intimately related as yin and yang—Mickey and Minnie—Ritz crackers and cheese.

Both policies aim to prop up the sliding U.S. economy, each of them coming at this effort from different directions—one from the demand side, one from the supply side. And the suspension of *either* policy will result in the exact same thing—government shutdown, and default on the U.S. sovereign debt.

Don't believe me? Let's look at them each in turn:

On the one hand, the deficit is the product of fiscal stimulus, whereby the Federal government spends and spends so that the aggregate demand of the U.S. economy does not fall because of the economic slowdown.

The rationale is, as the economy slows because of the recession, and people spend



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less, the Federal government steps in with more deficit spending, to prop up aggregate demand. Thus, the overall demand in the United States does not fall, as the economy recovers. And when it is finally back on its feet, the private sector in a sense takes over the spending burden that the Federal government has been carrying.

That at least is the rationale.

Quantitative Easing, on the other hand, is the Federal Reserve's efforts to prop up deteriorating asset prices—that is, inflate prices which have fallen drastically. They do this by overpaying for assets, and thereby giving these assets price support. The first iteration of QE was Fed money-printing to help support the prices of the so-called toxic assets, while QE-2 has been the Fed money-printing to help support the prices of Treasury bonds.

Asset prices are falling because they were overpriced to begin with—overpriced for the better part of two decades, thanks to the Fed's easy money policies. When the bubble in asset prices finally popped, not only did asset prices fall, they also dragged down the rest of the economy—this is more or less what we've been experiencing for the last three-four years.

So basically, the Federal government and the Federal Reserve are burning the candle—ie., the economy—from both ends: The Federal government by way of “stimulus spending”, and the Federal Reserve by way of Quantitative Easing, the one trying to make the economy “grow again” by bouying aggregate demand to the tune of 10% of GDP, the other trying to halt asset price deterioration by printing money.

Did I say “burning” the candle from both ends? Excuse me, I meant to say, they are putting a *blowtorch* to the economy—and whistling Dixie all the while.

Now, QE-2 is set to end in June, while the debt ceiling will be hit in mid-May. With these two deadlines looming, there have been a lot of people who think that neither will be extended—or at least *hope* neither will be extended.

These people are living in dreamland: The debt ceiling *will* be raised, and QE-2 *will* be extended. Both policies *will* continue not because I happen to agree with either one of them—in fact, I don't. Rather, both policies will be extended because—if they are not—the Day of Reckoning will suddenly arrive:

The Federal government will become bankrupt.

If the debt ceiling is not raised, then the Federal government will not be able to issue debt and get the cash to pay for its obligations—including Social Security, the military, Federal employee salaries, etc. Most important of all, if the debt ceiling is not raised, then the Treasury won't be able to raise the cash to pay the interests on Treasury bonds—which means that the United States will, for the first time in 220 years, default on its sovereign debt.

And if QE-2 is not extended, then the Federal government will not be able to find buyers for its debt issuance—and therefore won't be able to get the cash to pay for its abovementioned obligations, including paying the interest on the Treasury bonds.

In other words, we are about to hit the wall. And the clowns running the circus are going to do everything in their power to avoid that splatter.



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So they are going to extend the debt ceiling *and* extend QE-2—because that’s the only way they know to avoid hitting that wall. That’s the only way they can keep the Federal government from shutting down—and the United States from defaulting on its sovereign debt.

Many conservatives think (hope?) that the Republican party in the House and Senate will kill the raising of the debt ceiling. These conservatives are wrong, because whatever fiscal principles the Republican party might have, they do not want to appear to be the ones who forced the government to shut down.

They learned from their mistake in 1995, when Newt Gingrich forced the government to shutdown briefly. The electorate blamed the Republicans, and handed them a solid defeat in the next election.

The Republicans won’t repeat that mistake.

Furthermore, the Republicans will *not* put themselves in the position of being the party that forced a sovereign debt default of the United States for the first time in 220 years.

So before the May 16 deadline, they might talk tough about “fiscal austerity” and “cutting back on the deficit” and all that other sensible-sounding talk—but when the chips are down, the Republicans *will* vote for a raise in the debt ceiling, regardless of all the talk. Because the Republicans will *not* let the Federal government shut down, and they will *not* allow the United States to default on its sovereign debt.

And as to QE-2 morphing into QE-3?

As I have shown [elsewhere](#)—and it’s not controversial or even debatable—the Federal Reserve has been monetizing roughly half of the fiscal year 2011 Federal government deficit by way of QE-2 and QE-*lite* (the reinvestment of the excedents from the asset purchases of QE-1). That is, the Fed has been *printing* half of the deficit, and giving it to the government, the Too Big To Fail banks acting essentially as the intermediary of this unholy trade.

Between QE-*lite* and QE-2, the Fed is purchasing roughly \$100,000,000,000 a month in Treasuries, out of the roughly \$150,000,000,000 a month the Treasury Department needs to fund.

The simple fact is, the Treasury Department *does not have buyers who can replace the Fed*. They simply don’t, no matter how you cut it. Skipping across the globe, we see that Japan, China, South Asia, the Middle East and Europe simply do not have the cash—or the inclination—to lend \$100,000,000,000 a *month* to the Treasury Department.

If the Fed *were* to end QE-2 come June, prices of Treasury bonds would collapse—regardless of what some pundits are saying, *vis-à-vis* the “markets have priced in the end of QE-2” and other such happy daydreams.

And they *are* daydreams—the markets *haven’t* priced in the end of QE-2. If they had, then PIMCO and Bill Gross wouldn’t have this new-found phobia for Treasury bonds. Like I’ve said before, PIMCO dumping Treasury bonds is like Baskin & Robbins dumping chocolate ice cream. The only reason they would exit Treasuries is if they foresee the potential for a major price dive—which is *exactly* what would happen if QE-2 ends on schedule in June.



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LATEST INTERVIEW WITH MAX KEISER:

And I did it with my eyes closed, too. December 2, 2010. Interview starts at 13:45.

Now with regards raising the debt ceiling: Fiscal year 2012 starts October 1, and it's looking like that year will be another deficit of about +10% of GDP—in other words, a deficit north of \$1,400,000,000,000.

Some people I've talked to expect the debt ceiling to be raised incrementally, so that the Republicans can milk every raise in the debt ceiling between now and the November 2012 elections.

That's a shrewd analysis, but I'm not sure about it. I actually think it'll be one big boost of \$2 trillion: Enough to cover FY 2011 and FY 2012, but have the issue conveniently rear its ugly head in the summer/fall of 2012—just before the elections.

As to QE-3 (the extension of QE-2): The Federal Reserve will have to continue printing at least \$75,000,000,000 a month, and probably closer to \$110,000,000,000 a month. Like I said, it's all a problem of supply and demand: The Treasury will be providing too much of a supply of Treasury bonds for the market to sop up. The Federal Reserve is the buyer of last resort. The buyer of *only* resort.

So! What happens after the debt ceiling is raised, and QE-2 is extended indefinitely?

Nothing.

Not immediately, at any rate.

Bonds prices will remain stable. There might even be a bump up, from shorts covering. Stocks might jump a bit, on the "good news". Commodity prices will continue their steady, relentless rise.

So it will all seem so very, very "normal", after the two policies are extended.

The only thing that will continue rising is consumer prices. And housing prices will continue to fall—in fact, there'll be a continuing rise in defaults, as rising consumer prices put the squeeze on mortgaged homeowners.

And when the new debt ceiling is reached, and QE-3 ends? What then?

Why, they'll be extended again—of course.

See, politically, it is always much easier to continue a bad policy—even a terrible policy—if it will avoid an imminent crisis.

The imminent crisis we got: The shutdown of the Federal government, the sovereign default of the United States. If the debt ceiling isn't lifted, the government will shut down and default. If QE-2 isn't morphed into QE-3, then the Treasury won't find enough buyers for its issuance, so then the government will shut down and default.

If the choice is between having the government shut down and default on its debt, and kicking the can down the road, then there's really no choice at all: Kick the can down the road! Extend QE-2, and raise the debt ceiling—full speed ahead!

Now of course, what will happen if this particular can is kicked down this path to oblivion? What will happen to the United States as it gets into more and more debt, while printing more and more money?



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Guess.

If you're interested, you can find my recorded presentation "Hyperinflation In America" here. I discuss in detail what I would do, if and when the dollar crashes.

Reactions: smart (17) stupid (0) agree (23) disagree (2)

Posted at 7:09 AM
4 Ratings No rating

33 comments:

Shimshon said...

"...which means that the United States will, for the first time in 220 years, default on its sovereign debt..."

While the US likes to boast of never overtly defaulting on its debt, it has not-so-covertly defaulted at least twice.

First in 1933 when it reneged on its promise to redeem gold certificates.

Second in 1971 when Nixon closed the gold window.

Both were very clearly defaults, even if no one in the mainstream media refers to them that way.

April 14, 2011 8:06 AM

Robert said...

I think the Republicans are setting themselves up for post-Armageddon America. They'll say, "see, I told you so. We should have cut spending back in 2011."

April 14, 2011 8:19 AM

Kentucky Packrat said...

Most important of all, if the debt ceiling is not raised, then the Treasury won't be able to raise the cash to pay the interests on Treasury bonds—which means that the United States will, for the first time in 220 years, default on its sovereign debt.

Technically, the Treasury doesn't HAVE to borrow the interest on the debt if the debt ceiling isn't raised. The US government does draw enough income to service our current debt load.

Practically, of course, we can't. There's no way any politician is going to slash the US Government by 1/2 to 2/3 and keep paying our debt.

I find myself hoping that some politician will stop the insanity, even though I know they won't. The longer this goes on, the worse the pain gets when we are forced to fix it.

I had hoped the bond market would stop the insanity first, but it looks like the Fed is prepared to monetize the entire Treasury market. That only leaves the currency market, which has the subtlety of a neutron bomb. The question of the

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HAMP was nothing but a scam, as I wrote about back in October: <http://is.gd/ts3qAX>
FINALLY, they're filing a law suit.



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day is: when does the currency market complete its turn on the US?

April 14, 2011 8:55 AM

Count deKuntier said...

That would explain why the Chinese talking heads have been touting the meeting of the BRICS. Suppose they've got to get things in order before the big bang. Especially with the Beijing housing market going pop (h/t Zero Hedge). The people around here (Qingdao) are a bit nervous about what happens to them when the US implodes. Probably back to dirt farming.

C deK

April 14, 2011 9:20 AM

Anonymous said...

It is a slow day in the small Colorado town of Pumphandle and streets are deserted. Times are tough, everybody is in debt, and everybody is living on credit.

A tourist visiting the area drives through town, stops at the motel, and lays a \$100 bill on the desk saying he wants to inspect the rooms upstairs to pick one for the night.

As soon as he walks upstairs, the motel owner grabs the bill and runs next door to pay his debt to the butcher.

The butcher takes the \$100 and runs down the street to retire his debt to the pig farmer.

The pig farmer takes the \$100 and heads off to pay his bill to his supplier, the Co-op.

The guy at the Co-op takes the \$100 and runs to pay his debt to the local prostitute, who has also been facing hard times and has had to offer her "services" on credit.

The hooker rushes to the hotel and pays off her room bill with the hotel owner.

The hotel proprietor then places the \$100 back on the counter so the traveler will not suspect anything.

At that moment the traveler comes down the stairs, states that the rooms are not satisfactory, picks up the \$100 bill and leaves.

No one produced anything.

No one earned anything...

However, the whole town is now out of debt and now looks to the future with a lot more optimism.

And that, ladies and gentlemen, is how a "stimulus package" works.



April 14, 2011 9:45 AM

Anonymous said...

These are the insightful words of humorist and columnist Dave Barry:

Q. What is an Economic Stimulus Payment?

A. It is money that the federal government will send to taxpayers.

Mainstream Media Watch:
Better Late Than Never?—"6...

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Q. Where will the government get this money?

A. From taxpayers.

Q. So the government is giving me back my own money?

A. Only a smidgen.

Q. What is the purpose of this payment?

A. The plan is that you will use the money to purchase a high-definition TV set, thus stimulating the economy.

Q. But isn't that stimulating the economy of China?

A. Shut up.

April 14, 2011 9:52 AM

Anonymous said...

Overheard in New York:

Guy: You're not wearing any pants. We should have taken a cab.

Girl: We are in a recession, you can fondle me at home.

April 14, 2011 9:53 AM

Anonymous said...

Three contractors are bidding to fix a broken fence at the White House.

One is from Chicago, another is from Tennessee, and the third is from Minnesota.

All three go with a White House official to examine the fence. The Minnesota contractor takes out a tape measure and does some measuring, then works some figures with a pencil.

"Well," he says, "I figure the job will run about \$900 -- \$400 for materials, \$400 for my crew and \$100 profit for me."

The Tennessee contractor also does some measuring and figuring, then says, "I can do this job for \$700: \$300 for materials, \$300 for my crew and \$100 profit for me."

The Chicago contractor doesn't measure or figure, but leans over to the White House official and whispers, "\$2,700."

The official, incredulous, says, "You didn't even measure like the other guys! How did you come up with such a high figure?"

The Chicago contractor whispers back, "\$1,000 for me, \$1,000 for you, and we hire the guy from Tennessee to fix the fence."

"Done!" replies the government official.

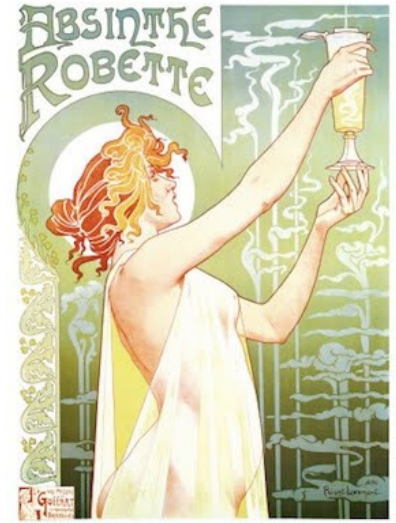
And that, my friends, is how the new stimulus plan will work.

April 14, 2011 9:57 AM

Anonymous said...

Everyone can learn on a personal level from the obvious wisdom of the "QE" programs.

If you own a company, and are losing money left and right, the correct way to



Robette Absinthe Poster, by Henri Privat-Livemont, 1896.

PEOPLE READING ME AROUND THE WORLD (SHOCKING, YES, I KNOW):



TODAY'S QUOTE:

I've found that reality goes down a little better with psychotropics.



Squash players

remedy the situation is not to fix the problems, but to get a printer, and make more shares in the company.

As long as the suppliers are willing to own a larger and larger part of your company, you should be fine.

April 14, 2011 10:47 AM

Anonymous said...

My take is that the FED will end QE2 as they have said in order to give the tea party types in Congress (mad at the FED for printing money) a taste of what real interest rates for UST look like if 100% dependant on the free market. If the rates get high enough it will pull money from equities and crash the stock market making pension funds across the board even more insolvent (i.e. composed of stocks and low interest rate bonds).

So private+public pensions will be insolvent, 401K/IRA will be in the tank, and SS+Med is still the largest Ponzi scheme ever contrived. Be careful what you ask for.

Now obviously with the amount of new debt being added/rolled over into this free market bond market can't continue indefinitely because the cost of servicing the debt will just cut deeper and deeper into the US tax cash flow thereby increasing the fiscal deficit resulting in a fatal debt spiral. Clearly any nation has jumped the shark well before tax revenues won't even pay for the interest.

Anyway the next prediction is that after this little episode of end QE2 above even the Tea Party types will get the message to stop blaming the FED for the fiscal deficit you guys collectively are causing. Basically the FED will be able to make the point that we aren't the ones causing the problem, we are simply trying to buy you fools more time to get the fiscal deficit under control which is the source of this problem.

As a result QE3 in some form will start up and equities + commodities will resume their ride back up. Which gives us higher and higher inflation and eventually results in a complete collapse of the currency (i.e. hyper-inflation).

So in the end the 'only' solution is to drastically cut the fiscal deficit period.

With regards to that, Gonzalo is right on the money with both the political and human physiology dimensions of eliminating the fiscal deficit quickly (i.e. less than three years).

A challenge not helped by a generally clueless and/or complicit voter base as to the serious issues above. As a result this voter base is easily demagogue towards non-solutions that by definition require little sacrifice on their part. Even many self proclaimed tea party types don't understand their own dependency on Uncle Sugar or think that something other than their slice of his pie needs to be eliminated. After all "I paid into to Social Security so that shouldn't be cut".

Right now both extremes in their tug of war to force the other group's constituency to bear the brunt of the pain have effectively locked the steering wheel of car we are riding. A car with no brakes that is heading straight towards the cliff.

So my prediction is nothing serious will be done about the fiscal deficit until January 2013 at the earliest and then only assuming the Republicans have full control of Executive and Legislative branches. At which point the modest proposals along the line of Paul Ryan and the President's deficit commission will be 'gradually' rolled out. The problem is even with what is being demagogue as an "every grandma will die measures" (i.e. Paul Ryan's plan) even his plan is

decades too late and trillions of dollars short.

So in the end the only difference between the various plans/paths we may ultimately follow is how far we will fly through the air once we go over the cliff at this point. It could range from a slow roll down the hill or a Duke's of Hazard yee haw but gravity will place us at the same final elevation regardless.

So the possible 'near' term scenario above (i.e. stop + restart QE) is but a bump in the road along what appears to be a predestined path.

April 14, 2011 11:53 AM

Anonymous said...

Gonzalo ... your improvements on the Web page are good. But some of these advertisers are using servers that are WAY TOO SLOW. As a result, your Web page takes 1-2 mins to load. that's too long and a lot of people won't wait around for the final result.

My suggestion is to drop any advertisers who are not willing to guarantee you that their adds will load in a couple of seconds.

cheers,
PeteCA

April 14, 2011 11:57 AM

Anonymous said...

It goes like this ...

The Fed - being a bunch of idealistic idiots - decides to bail out the Wall St banks. Of course the banks claim "too big to fail" (which in reality means "too rich to jail"). So the Fed transfers the losses to the US taxpayers.

Meanwhile, the big banks follow the money trail and open offices in Hong Kong, Singapore, Shanghai, Mumbai, and anywhere else where the global economy still has some red blood. Then all the overpaid execs find new houses overseas - with foreign maids and chauffeurs.

Finally, all that's left on Wall Street are some fancy storefronts where the big banks used to be. With just a few clerks inside. The rich boys all departed town a long time ago.

And the American people are stuck with huge unemployment, with no viable banking system remaining, and a bunch of politicians in Washington DC proclaiming "victory in the midst of catastrophe".

PeteCA

April 14, 2011 12:04 PM



Redwine said...

Gonzalo,

You're right about the debt limit increase (duhhh). However, you're probably wrong concerning QE not ending.

It will end, causing the stock markets to sell off, causing money to flow into treasuries as safe haven (temporarily solving the demand problem).

After an appropriate waiting period the fed will announce QE3 as a solution to asset price problems.



Wash, rinse, repeat.

April 14, 2011 12:13 PM

d8e8f88a-66b3-11e0-b9c6-000bcdca4d7a said...

I keep envisioning that the FED will figure out some way to "give" the government money to pay its obligations rather than "loan" it money by buying treasury bonds. I know its never done that way and not legal, and it wouldn't change the hyperinflation scenario but it would kick the can down the road even farther if they do it. Think its possible?

April 14, 2011 12:26 PM

Anonymous said...

GL,

When you get a chance, can you check if this is correct:

QE expires = stocks crash - investors move to bonds - treasury rises - oil/gold down - pensions up - dollar up

QE extends = stocks up, bonds crash, interest rate rise - debt collapse - pensions crash dollar down

Seems like the FED gains either which way happens, right?

April 14, 2011 1:11 PM

JMac said...

The damage has already been done.

The bucket that holds our national wealth has had a million holes punched in it by special interests buying loopholes to enhance profit for multi-national corporations. All the money is leaking out. This problem can not be fixed because those favors were paid for and guaranteed.

There are two options. Option #1 is complete collapse and the reestablishing of a fair set of rules (taxes/regulation) for EVERYONE. Right now, the rich and powerful are exempted and the difference is made up on the backs of the middle class and the poor.

Option #2 is that those very same power players who run the system (merger of corporate and state power) keep patching over the problems, tryig to hold the system together until it collapses.

Clearly option #2 will be chosen and had been chosen. There's too much national wealth being syphoned off to let go of it just yet. The COMPLETELY corrupted system will hold together via trickery and slide of hand for another 7-10 years until the imbalnaces caused by the syphoning of the national wealth eventually craters the entire system.

Everything that is discussed right now is bloviating. Nothing will happen other than band-aids. The status quo will be maintained at any cost. Of course. There's too much money to be made to not hold this baby together as long as possible.

We're being scammed but the scam will eventually bring the entire system down in a massive crash. I'd say around 2020. Give or take a year.

April 14, 2011 1:15 PM

Anonymous said...

As has been mentioned many times before, by others older and wiser than many of us here, we are down to confidence.

Read: Con-fidence.

That is really all that holds this melange of debt (40+ years in the making) together.

Confidence of those who hold our debt - both domestic and foreign.

Confidence in the Political Leadership to either 'do something' or simply make the pain go away with bread & circuses.

Does it take much of a stretch to see that Confidence is waning, replaced by cynicism and mistrust - by both aforementioned groups of people?

If events seem to be accelerating (due in no small part to the advent of rapid information dissemination), then do you really think it will be 'years' in the future before our debt is settled...?

April 14, 2011 2:16 PM

Anonymous said...

Hey Anonymous above ...

I liked your story about the \$100 dollar bill. But it seems to me that the prostitute might have actually PRODUCED a real service. Everybody else did nothing.

Maybe that says something about the actual nature of our stimulus economy??

PeteCA

April 14, 2011 3:04 PM

Frank Lee said...

JMac, I agree that they'll kick the can just as long as it's kickable, i.e., until the USD can no longer be exchanged for goods. That the government is buying its own debt (Fed buying Treasuries) seems to me the beginning of the end (Mr. Shadowstats thinks so too). I figure hyperinflation will kick off in a year or two, then another two to four years for it to play out. So I agree with you, I just doubt the dollar will make it to the end of the decade.

April 14, 2011 3:20 PM

Michael said...

There won't be an immediate QE3 - period. Just as the Fed telegraphed months in advance that QE2 was on the horizon, it's now telegraphing that there's not going to be another immediate QE (obviously, QE3 will have to come eventually).

Recall that most Treasury auctions are well bid, even now. A typical bid-to-cover ratio is 3.0. What happens when the Fed stops purchasing 70% of Treasuries? Well, the bid-to-cover falls because the Fed drops off as a bidder, but when an auction is oversubscribed by 200% or more, there are still bidders available to take the issuance - albeit at a higher rate. And that is precisely what will happen. Interest rates will go up (perhaps substantially), but the issuance will still go out the door.



QE3 is much more likely to come after equities have lost 20-30% of their current nominal value, or if GDP tapers off sufficient to put us in recession territory.

I repeat, no QE3 now, despite what this author says.

April 14, 2011 4:00 PM

e JRigs said...

Love the graphic and its caption. Good post.

April 14, 2011 5:57 PM

e swiftcall said...

I think we should go back to 1950's rates of taxation. Remember when America was booming and the top tax bracket was 90%?

April 14, 2011 5:59 PM

Anonymous said...

If the U.S. raises its debt ceiling and extends QE, then that is a tacit admission of default in itself, if it doesn't raise the limits, technically the same thing occurs.

But there is another path, they could agree on 300 billion in cuts and get that monster under control. Just ending the wars would do it but no, the U.S. would rather spread itself all over the world fighting foreign wars than get its fiscal house in order. Its insanity squared.

April 14, 2011 6:30 PM

Kal Dani said...

Prince william was 5555 days old on his mothers funeral and more:

<http://kaldanis.blogspot.com/2010/03/prince-williams-occulted-numbers.html>

April 14, 2011 7:02 PM

Redwine said...

swiftcall said...

"I think we should go back to 1950's rates of taxation. Remember when America was booming and the top tax bracket was 90%?"

Just two points:

1) There were also tons of loop holes and only fools paid that much (marginally). As top rates were cut loop holes were eliminated.

2) Saying 90% top tax rates were responsible for a healthy economy is like saying that war is good for the economy. Both bullshit. The main reason the US had a healthy economy in the fifties, besides being the most free market economy in the world, was that it was the only industrialized economy left after WWII (no competition).

April 14, 2011 7:08 PM

Ebag said...

Dear Michael:

You said: "Interest rates will go up (perhaps substantially), but the issuance will

still go out the door"
If interest rates go up then the bond bubble bursts.
The panic sale of bonds will lead to the panic buying of commodities.
Then the demand for dollars vanishes and you have hyperinflation.
There is no way out for the dollar.

April 14, 2011 11:21 PM

Ebag said...

Dear de8e8 ...
You said: "I keep envisioning that the FED will figure out some way to "give" the government money to pay its obligations ..."
Well, here is how to do it:
Have the Federal Reserve "give" \$14 Trillion counterfeited dollars to the Federal Government right now.
Hey, they can then "pay" all Treasuries.
And then have the Federal Reserve "give" \$1.7 Trillion counterfeited dollars per year to the Government.
No deficit problem anymore!
All financial problems solved?
NO!!
You would then have \$15.7 Trillion (brand new counterfeited dollars) chasing labor and materials.
Immediate hyperinflation.

April 14, 2011 11:41 PM

Anonymous said...

I enjoyed your post. I know from reading your previous posts about your belief in eventual hyperinflation. However, is there anything that could derail your belief, i.e. a real budget deficit reduction package where Congress actually comes together and creates a real deficit reduction cuts in all programs coupled with some tax increases that changes the US current business model say a VAL coupled with a lower corporate tax rate and giving a VAL rebate to Corporations for goods exported, in fact any other business model than the current one where banks charging some lower middle class goofball 25% on his credit card balance.

April 14, 2011 11:47 PM

Anonymous said...

@anonymous (dukes of hazard guy) - good stuff, keep it up

@peteCA - you're right about elites fleeing the country, what will be left is a hollowed out carcass, or a "Detroitization" of America if you will. Corporations eventually won't need America anymore.

@anonymous (confidence guy) you are 100% correct, as the confidence wanes, cynicism grows, and when hard working, law abiding people (the backbone of the country) stop playing by the status quo rules (because those rules only empower the takers, not the givers), all bets are off. Most middle class Americans are extremely resilient, but they do have a breaking point. If they finally wake up and realize that they are knee deep in quicksand, they will not just stand there and wait to die. They will act.

@GL - The politicians voting to raise the debt ceiling is like a sailor raising the limit on his c.c. while drunk at a titty bar. Of course they will raise it, that's what politicians and drunken sailors do. (At least the drunken sailor has to be approved by a sober 3rd party to get the increase. Congress doesn't even have to pass that hurdle, but I digress.) And what gets me is that the limit is so arbitrary. Why not just make the debt ceiling \$178 quadrillion, and leave it alone for a few

years? If they have no plans of paying it back, who cares how much it is anyways? As long as the Fed can pull money from one pocket and stick in the other, life is good. But at some point, the house of tards will come crashing down. The real question is when?

TJ

April 15, 2011 12:06 AM

Jack in the Philippines said...

I agree with Michael's comment above. I would add that, as Jim Rickards has pointed out, the Fed's bid doesn't just fall to zero if they end QE2 in June, because just rolling over the debt that is already on the Fed's balance sheet as it matures ensures a continued bid of 60 or 70 billion a month going forward indefinitely.

Jack

April 15, 2011 12:12 AM

futurepolitical.com said...

How about the postmodern view on all this?

The Debt is not real!

That's right, it's not! Baudriillard once claimed debt would spiral out into orbit suggesting that it will build beyond earthly, reasonable limits. But it would not result in catastrophe because...well...it would not be allowed to become real. So if we consider US indebtedness to China, Greece to the EU/Germany or some other such scenario in this way, the only point at which such debt would really come crashing down on heads would be if the creditors called in their markers.

THEN reality would step in. Then the carefully contrived kabuki dance that we are witnessing with the Eurozone or the Tea party versus Obama would be over. Then anything could happen: currencies collapsing, trade halting, war, and so forth. But that would not serve the interests of the political classes which use/manufacture these various crises to their benefit in order to show that they still have control. And they do. But only so long as they can keep the debt from ever becoming real.

I guarantee you Merkel is not losing sleep over Greece or Ireland. The key is not ever to tip manageable crises into unmanageable in-your-face-reality, e.g. Ireland saying it will not pay. Witness the punishments that Iceland is receiving from the IMF, EU and the bond market for not playing nice, for trying to force the crisis to a head, instead of kicking the can down the road like everyone else. Keep it real? Higher taxes or lower spending to bring down the deficit? No way. Keep debt all unreal. Force it higher and farther into orbit! That is the secret.

p.s. all of you fiat currency enthusiasts you are inconsistent if you do not also believe in fiat debt!

p.s 2. Mr. Lira, I agree with your reading of the means but not the ends.

April 15, 2011 12:31 AM

Michael said...

Ebag said...

Dear Michael:

You said: "Interest rates will go up (perhaps substantially), but the issuance will still go out the door"

If interest rates go up then the bond bubble bursts.
The panic sale of bonds will lead to the panic buying of commodities.
Then the demand for dollars vanishes and you have hyperinflation.
There is no way out for the dollar.

Huh? It sounds like you're under the erroneous assumption that either the Fed's happily buying bonds or it's not (in which case we have instant hyperinflation). Sorry to disabuse you of such nonsense, but we're seeing something between those two extremes right now in profligate EU countries (think Greece and Portugal). Financing is still available, albeit on more onerous terms. Will that lead to hyperinflation? Quite possible, yes - but it won't lead to instant hyperinflation, which apparently was your point.

We'll have financing going forward, but at market rates - which are due to go up dramatically in the relatively near future.

April 15, 2011 12:38 AM

Anonymous said...

- 1) The debt ceiling will, indeed, be extended.

- 2) QE2 will NOT be extended. The prediction that it will be is yet another BS GL prediction which will go make company to his other BS predictions - like that the Irish won't pass their budget and this will lead to Europe falling apart. It is very likely that there will be QE3 - but not soon.

Regarding the \$100 bill anecdote - it's a nice story, but this method works only when the system is closed (all debts are owned only by the people in the town) and balanced (the various debts cancel each other). Since neither is true for the USA, the story is irrelevant.

April 15, 2011 1:08 AM

Post a Comment

Whether you agree with me or not, thank you for your comment.

I neither answer nor purge any comment, unless it is blatantly obscene, obvious spam, a commercial solicitation, or an obvious duplicate. I *never* purge a negative comment (as you can see by some of the discussions), so knock yourself out. But I won't take you seriously if you post anonymously—after all, I don't.

If you liked what I wrote—or if it at least made you think—don't be shy about making a payment. The PayPal button is there for your convenience.

If you have a question or a private comment, do feel free to e-mail me at my address expat229@gmail.com.

GL