

TABOO OPINIONS #61

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7-25-05 BE CAREFUL WHAT YOU WISH FOR...

The Chinese granted our politicians' and president's wish to revalue the yuan (their currency), because we've been buying too much of their stuff and our big shots think making the yuan more expensive will even out our humongous trade deficit with the Chinese..

Except it's a two-way street. The more valuable yuan now will buy more oil and stuff they need to make the net hundred billion \$\$ of stuff they sell us, allowing them to cut prices to maintain 'market share' and be as competitive as ever.

And the Chinese (who had pegged the yuan to the dollar for decades) now also cut loose from the dollar and will from now on value the yuan via a basket of other currencies (which they refuse to name).

This move (cunning, insidious, no doubt conceived by the evil Dr. Fu Manchu who lives forever) allows them to off-load and spend many, many more billions of \$\$ earned from trade with us, allowing them to not buy as many (if any) of our treasury bills, notes and bonds for their reserves.

Which means our interest rates will go up because we have to sell our debts to somebody! and the way to sell excessive debt paper is by offering higher interest rates. But nobody is left with that kind of cash except maybe the Japanese who already have over \$700B of our paper (and have shown signs of not buying as much of our paper as in years past).

When interest rates go up significantly the housing and personal/household debts bubbles will burst and we'll be in Depression City right quick.

There are those who think the government's response to this monster collapse of the debt structure will be to print money by the ton and somehow get it borrowed or given away to keep the monthly payments being made.

But my theory/belief is that the sudden death of trillions of dollars of debts will be too much to replace by any means politically and socially possible. It will be all congress can do to fund lower Social Security payments, greatly reduced Medicare and Medicaid, welfare, and food stamps for sudden new millions of unemployed.

They'll also guarantee enough \$\$ to pay off claims by banks to the Federal Deposit Insurance Corporation. And the Federal Reserve will swiftly lower interbank interest rates to zero, but the banks, heavily burned by defaults and bankruptcies (soured loans by the trillions), will find it nearly impossible to make qualified loans. And who will want to borrow in that kind of environment (no way to make a profit).

I know this is arcane stuff, but it is vital.

The key to full recovery from the collapse will be finding ways to allow people to spend again as they are now, and finding ways to guarantee all those debts owed to all those financial entities, as now.

I don't think it can be done.

Unless the government runs fifty to hundred trillion \$\$ deficits for years...and I don't think the people of this country (or the foreign debt holders) will allow that utter destruction of the value of the dollar. Who wants to carry a sackful of \$100 bills to the store to buy a loaf of bread? [Not me. I couldn't carry it, given my health. I'd have to have a billion-dollar credit line on my credit card. No, a billion wouldn't be enough, unless my automatic deposited Social Security amount was...what?...a trillion?]

Soon the question will be: How much deflation pain can the people endure, for how long?

As I've often said, the other side of the wonderful credit coin...is evil debt. And as the founding fathers said, "Neither a borrower nor a lender be." I can remember when being in debt was shameful!

I'm convinced the American people will soon learn to hate and renounce debt. For at least one or two generations we'll live as we did in the Thirties and Forties. Then, again, the allure of EASY CREDIT will sing its song...and the long-wave cycle will begin yet again.

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