

Subprimed to Lose Lots of Money

By [The Mogambo Guru](#)

12/10/07 Peering through his perpetually bloodshot eyes, the "angriest guy in economics" sees a giant wave of problems threatening to wash most of us away...and take the rest of us out with the tide. So why is he telling us to let our guard down? Read on to see the Existential Side Of The Mogambo (ESOTM)...

The Washington Post reports that "The widening credit crunch is making it harder for cities and school systems to get money for buildings, ballparks and other vital projects from the \$2.5 trillion market for municipal bonds, a sector of Wall Street that rarely sees trouble. That is leaving them with a tough choice: either put off the projects, or pay higher interest rates on their bonds."

It is already happening, as the article notes that, for example, "Faced with the prospect of paying higher interest rates this month, Chicago canceled a \$960 million bond. Miami-Dade pulled a \$540 million offering for its airport."

And let's not forget that Florida is seeing a run on a money-market fund used by municipalities, packed as it is with worthless subprime-related "higher yield" crap, and losses are in the billions.

Is this a "Black Swan" event? Well, a true "Black Swan" event would be both unexpected and profound in its effects, so it would seem so, as Bloomberg.com quotes Hal Wilson, the chief financial officer of the Jefferson County school district who has watched the money in the fund go bye-bye, as saying, "The unthinkable and the unimaginable have just happened here in Florida."

And it is not going to get better, according to a report by the U.S. Conference of Mayors, namely that, "The worst U.S. housing recession in 16 years will drive down property values by \$1.2 trillion next year and slash tax revenue by more than \$6.6 billion."

And for those familiar with multipliers, every dime of that \$6.6 billion of "lost tax revenue" is not going to be spent, meaning that vendors who cater to governments and their programs are not going to have \$6.6 billion in income next year, and they won't pay a little tax and spend/invest the rest, thus providing the money for someone else's income, who will pay a little tax and spend/invest the rest, thus providing the money for somebody else's income and yadda yadda yadda. So, after the last of the money is finally spent on taxes, that \$6.6 billion reduction in tax revenue actually means somewhere between five and eight times as much will be "lost income" and lost taxes!

Unless they borrow the money, of course, which is another whole subject about which you do NOT want to get me started, because I just never shut up and I end up crying.

So if you are, like me, one of those people who is terrified at the sheer scale of this whole subprime mess and you wake up in the middle of the night bathed in cold sweat and screaming in terror, often shooting off whole clips of expensive ammunition at the horror of it all, and all just because estimates of the direct financial losses are climbing towards a trillion dollars, or trillions of dollars, then let me tell you to relax. Be calm. Put the gun down. Or at least put some of them down. Keep the big one.

Instead, be comforted in an existential way, serene in the knowledge that these are relatively good times yet, and things will continue to get worse and worse and worse in the future, as the ultimate horror of the penalty for supreme economic stupidity of allowing the Federal Reserve and the banks to (again) act like greedy, half-witted, corrupt children is going to be several times worse than anyone suspects, and for a Long, Long, Long Time To Come (LLLTTC).

And I say this with all the Profound Mogambo Sincerity (PMS) that I can muster on so short a notice, so that when you gaze deep, deep, deep into the fiery blue pools of my Bloodshot Mogambo Eyes (BME), you cannot help but think to yourself, "Hey! This guy is sincere! You guys ought to come over here and look at this awesome sincerity!"

And the reason for my awesome sincerity? I thought you'd never ask! It's from looking at all of the rest of human history, peopled as it was by the same sort of lying, corrupt, stupid, ignorant, thieving scum that we have today, and we look at all the governments thus composed that wanted to spend, spend, spend money (all of them), and we look at all the schemes they cooked up to get the money to spend, spend, spend, and we look especially carefully at those times when the government decided, "Hey! This 'gold and silver as money' crap, holding our money supply constant, is for the birds! Let's use paper money, and we'll call it 'fiat money' which is a French word that nobody knows what it means, but it sounds like it is something good in the way of food or sex, and we can spend, spend, spend as much as we want, and cause as much inflation in prices which we will pay for by printing more money, all because we have a banking system that can create as much money and credit as we want! Whee! Free sex and food for everyone! This is going to be fun, and everyone will love us!"

Unfortunately, the record of success with such a scheme is (in a word) dismal, or in two words is "extremely dismal", or in 50 words or less is "Extremely dismal, as inflation in prices foments civil unrest, and there will be food shortages, riots in the streets, and the papers will be full of stories of hungry, angry mobs of suicidal people encountering withering gunfire trying to storm the Impregnable Mogambo Bunker Of Doom (IMBOD)." News and video at eleven!

Until next time,

The Mogambo Guru
for The Daily Reckoning
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Mogambo sez: There are many reasons why gold, silver and oil had a little downdraft in prices recently. I particularly like the one about how Someone Up There Likes You, and this mysterious someone is arranging things so that you can buy on a dip.

If you bought some, then you know it was you that is so adored, as is proved when their prices resume their inexorable climb to where you can say "I'm freaking rich! Let me pack a bag and I'm outta this dump for good!"