

## US Government stuck between a rock and a hard place

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When reading the following article you should note that it is not just RIO that feels that this is the status quo. The rating agencies Standard & Poor's and Moody's, as well as the International Monetary Fund (IMF), have all issued warnings that they believe the day the US Government's credit gets shut off is fast approaching.

In response to the Great Recession of 2008, the US Government used its "credit" to borrow even more money to pay for all the stimulus and bailout programs that members have heard about in the news. Effectively placing the US even DEEPER in debt!

**US Bank failures? No problem. Government bailout!**

**US Automakers going under? No problem. Government bailout!**

**Extended unemployment benefits in the US? No problem. Government bailout!**

I am sure that all members are fully aware that the US Government's financial DEBT has been growing by trillions of dollars every year since 2008.

Let's look at one specific item that the US Government has been charging on credit: US mortgage loans.

I am sure you know this, but in the past few years, the US Federal Government has used its credit to buy up 90% of all US mortgage loans. The US Government's goal is to keep mortgage interest rates well below free market rates as they believe this stimulates the housing market. The danger here is what would happen to mortgage loans and home prices when the Government can no longer buy mortgages with its own credit?

To make the above clear i have compared the mortgage rates from the following contries;

- 30% higher in Canada.
- 42% higher in the U.K.
- 147% higher in Australia.
- 344% higher in India.
- 404% higher in Brazil.

Once the US Government's credit is cut off they would be unable to fund the entire US mortgage industry, what then? I would predict that should that be the case mortgage rates will skyrocket.

The policy makers must be nervous; imagine what would happen to the price of a US residential if mortgage rates doubled?

This would bring about yet another collapse in the US housing market!

All that is required to make this become reality is for foreign lenders to say enough is enough and cut their credit line. The result; lack of funding and ultimately another crash in the US housing market.

At this point I would highlight the fact that the US Government's outstanding "credit" bill is now more than the entire economic output of China, Japan and Germany three of largest economies in the world combined!

To me the borrow, borrow, borrow will take its toll and the very financial system (the US Dollar trading standard) which the world depends on, may be questioned, the US are, in my opinion, beyond being able to pay back the money borrowed from foreign sovereign lenders.

**Consider this fact** (source the National Inflation Association)

America's greatest business success story of the past decade has been Apple Inc.

The US would need to see the creation of 700 companies like Apple in the next year just to generate enough tax revenue to balance their budget deficit, I am sure that members will agree when I say "it would be impossible to do so".

Think about that, I am sure I don't need to point out that it took Steve Jobs, the founder of Apple, a lifetime to create the wealth he built in that company. It's not likely that with the greatest will in the world, that even the mighty USA can create 700 more companies like that overnight.

Should the multitude of foreign nations (US creditors) lose confidence in getting any of their money back? Or even getting a portion of it back, what do you think would change? I think lending would stop! After they've finish kicking up a storm, they'll stop lending to US. Simply put they'll cut off the money supply.

For this to unfold is US creditors saying we're not lending you any more money.

The fact is that they have far better places around the world to park their own money, China are not alone in publicly stating that they are very unhappy with current status of US borrowing.

You may think this will never happen, but the reality is that the cut-off process is already under way. Should one look closely this becomes clear cut and worse still the consequences are easy to spot.

Throughout the property boom of the early 2000s, US state and local governments bet big that housing prices would continue going up. Why? It was simple for them, higher home prices meant increased revenue from property taxes.

Based on those increased revenue projections, state and local governments expanded and they spent beyond their means this is also clear (especially since they were wrong and the US property market went in to melt down as we all know).

Members may recall that I was among the first in the investment industry to predict the previous US mortgage market crisis and the painful US property market crash.

History shows that US home prices crashed and foreclosures skyrocketed as I had correctly forecasted, now I am simply highlighting that the property tax revenue the US Government so desperately needed to come in never materialised.

Do I need to point out that they couldn't "un-spend" the money they had spent?

This is one major reason why many US states are now in deep financial trouble.

It's also why the Federal Government used its credit to send "stimulus" money directly to the State Governments. The hope was to use Uncle Sam's credit to bail out the states and local governments.

With "stimulus" money, the states could continue to pay for more teachers, law enforcement officers, firemen and other workers.

**A little known fact is that in total, 80% of the total stimulus money the feds borrowed went directly to the state governments.**

But now that "stimulus" money has running out. Surely no one wants to lend these states money because they know local governments can't pay the money back.

And just this month, in a very similar "denial of credit," the United States Treasury itself cut off funding for state and city governments entirely, commenting that the FED can't afford to extend any more money. As we've shown you, their credit is already in danger!

## **What would life be like in the USA without its credit?**

Well Camden in New Jersey used to be the home to the entire Campbell's Soup factory. With almost full employment, innovation and massive manufacturing output, the mayor once proclaimed the place "the city of contented industries."

What changed was the city's workers demanded more. They began to produce less. The politicians in Camden spent and promised too much and now lenders have shut off their credit giving them no choice but to cut services.

City leaders have been forced to lay off a quarter of the city workers including nearly half of the police force and one-third of the fire-fighters.

[http://www.nj.com/news/index.ssf/2011/01/mass\\_police\\_layoffs\\_being\\_in\\_c.html](http://www.nj.com/news/index.ssf/2011/01/mass_police_layoffs_being_in_c.html)

The result is citizens living there are afraid of being out after dark.

New Jersey are not alone in what's happening as it is also happening in California.

Oakland's police chief was forced to lay off his staff and he informed citizens that the police could no longer respond to various crime calls. Here are just a few things the police won't show up for anymore

- **Burglary...**
- **Theft...**
- **Passing fake checks**
- **Embezzlement**
- **Extortion**

The land of the free and the home of the brave? My comment would be that you'd need to be brave to live there and if free to it is very possible that you'd want to leave!

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