

Thank You, Mario Draghi

7-18-14

Thank you, Mario Draghi, the \$1.36 trillion in 3 year notes was a wonderful gift. To show our appreciation we used much of it to purchase sovereign debt from Spain, Greece, Italy and Portugal - Debt that most people in their right minds would never touch - but our greed is evenly mixed with patriotism. Once we saw that the police and military forces in those countries were strong enough to suppress working class revolts against being made to pay for the crimes of their masters, we knew it was a sound investment.

The TLTRP did so much to revitalize the Eurozone that we are pleased you decided it needed another one; this time for only \$950 billion to be used by 2018. More than a third of a trillion dollars less than the 2011 program. Concrete evidence of the vast improvement in the European economy. Of course, just to be on the safe side, you did institute unlimited short term credit until 2016, and a virtually zero interest rate. Your devotion to the well-being of all the peoples of Europe is surely without precedent.

We were a bit saddened that you thought it necessary to institute a negative interest rate on our European Central Bank deposits. In order to compete with the Americans we hoped you would consider the benefits their Federal Reserve Bank granted our fellow-finaglers; a 0.25% interest on unlimited deposits in their central bank. That means they can borrow at 0 to 0.15% and deposit it at 0.25%. There can be no better example of a refined economic policy than one that allows risk takers to make good money without ever getting out of bed.

All right, so you made us actually loan more of what we borrowed. At first we were a little hurt, but you immediately showed us your heart was still in the right place when you announced that the ECB will begin purchasing asset backed loans beginning in September. That way we can exchange all the junk that you forced us to buy for some real cash. Then when those countries take a cue from Argentina, those that thought they were smart investors will get it stuck to them. That is unless you decide to eat the losses, then everyone in the Eurozone will be equally shafted -- Except us.

And so, once again: Mario Draghi, we salute you! (and we don't mean that hand under the raised arm business).

This week we saw a good example of how cheap money benefits the economy. In April Microsoft jumped into the booming mergers and acquisitions phenomenon and bought Nokia. Initially the company estimated 6000 layoffs - they missed by a factor of 3. The final count is 18,000 - 12,500 Nokia employees. With their Windows operating system now used in only 14% of computing devices (includes smart phones), Microsoft must expand into other areas. Cheap money leads to the purchase of a well-known company, which leads to 18,000 layoffs, and a boost for MS in this economy.

But the boost in housing starts that was expected in June turned out to be a bust. Starts fell 9.3% in June - and the May start figures were lowered. The trend since the middle of 2013 has been downward. The nearer we come to the day when the Fed must raise interest rates, the more assured we can be that at least the next economic collapse won't be because of a housing boom.

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