

Mathematics FAIL Paulson / Bernanke Bailout Plan

Known Facts

United States non-financial private debt is \$32.4 trillion dollars and household debt is \$10.0 trillion as of 2Q 2008.¹ This encompasses mortgages, auto loans, credit cards, HELOCs, commercial and industrial loans, LBO monies outstanding and all other forms of non-financial (e.g. not including margin loans and similar) debt.

Henry Paulson and Ben Bernanke have asked for a \$700 billion “revolving credit line” with which to buy “troubled” assets. Congress is strongly considering giving it to Mr. Paulson with some set of conditions.

The assertion has been made by both Mr. Paulson and Mr. Bernanke that absent this credit line and absorption of these “troubled” assets, the financial markets will imminently seize and fail.

The assertion has been made that the taxpayer will **not** recognize large losses and might make a profit.

House prices are projected to fall by another 15-30% nationally (depending on who you ask); therefore, whatever level of stress exists in the system today far more will exist over the next few years.

Mathematics

\$700 billion dollars is 2.16% of all non-financial private debt and 7% of all household debt.

Provision of this credit line therefore would allow removal of a maximum of just over 2% of the current non-financial private debt from the banking system, assuming **only US domiciled debt is included**.

If the imminent failure of the United States financial system is going to be averted by 2.16% (maximum) of the outstanding private non-financial debt being removed from the banks’ hands and transferred to the taxpayer as the “responsible party”, then **the system is under leverage of 46.29:1**.

If, as many have projected, the actual losses to be sustained are \$2.5-3 trillion in residential housing and a like amount among commercial real estate, credit cards and LBO loans, then the aggregate requirement is not \$700 billion – it is in the neighborhood of **five to nine times what has been requested**. If this is the case the aggregate requirement is **double** the US Federal Budget. The government cannot raise that amount.

Conclusions

Either (1) the system is not about to fail imminently **OR** (2) it will fail **irrespective of whether this bill passes**, as the actual amount required to “resolve” the problem exceeds the government’s ability to finance it.

If no failure is imminent then we are giving \$700 billion to the people who caused the mess for no purpose other than enriching them.

If the latter then we need the \$700 billion for social programs and other spending that will become **necessary** as we work through a financial collapse and crisis worse than anything since the 1930s.

EITHER WAY THIS BILL IS UNSUPPORTABLE IN ANY FORM; THE MATH DOES NOT LIE. ARE YOU PREPARED FOR A FULL PAGE AD IN USA TODAY AND/OR THE WALL STREET JOURNAL LISTING THOSE WHO CAN’T DO BASIC MATH?

¹ <http://www.federalreserve.gov/releases/z1/Current/z1r-1.pdf>