

January 3, 2011

Today we have admonitions from [Peter Schiff](#) on housing and stamps. Unrelated topics, except for the continuing refusal of the political class to face reality. Then for comic relief, [Dave Barry's](#) End of the Year Review.

[Peter Schiff](#) believes that government interventions have merely postponed a full correction and recovery in the housing market.

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Where would prices go if these props were removed? Given the current conditions in the real-estate market, with bloated inventories, 9.8% unemployment, a dysfunctional mortgage industry and shattered illusions of real-estate riches, does it makes sense that prices should simply fall back to the trend line? I would argue that they should overshoot on the downside.

With a bleak economic prospect stretching far out into the future, I feel that a 10% dip below the 100-year trend line is a reasonable expectation within the next five years, particularly if mortgage rates rise to more typical levels of 6%. That would put the index at 114.02, or prices 28.3% below where we are now. Even a 5% dip would put us at 120.36, or 24.32% below current prices. If rates stay low, price dips may be less severe, but inflation will be higher. ...

[Peter Schiff](#) sees trouble behind a post office policy change.

The United States Postal Service announced this week that all future first class postage stamps sold will be the so-called "forever stamps" that have no face value but are guaranteed to cover the cost of mailing a first class letter, regardless of how high that cost may rise in the future. Currently these stamps are sold for 44 cents, but will increase in price if and when the Post Office hikes rates.

...But the real reason behind the permanent switch is that it allows the Post Office to hide its insolvency behind phony accounting numbers, setting itself up for a massive taxpayer financed bailout in the not too distant future.

Much the way Greece used phony accounting to qualify for euro zone inclusion, the USPS is using creative accounting to avoid making significant cuts in current wages and benefits. By offering forever stamps, the Post Office moves forward future revenues to pay current expenses. But every forever stamp sold today represents a stamp not sold in the future. The revenues booked now will not be put in escrow to deal with revenue shortfalls that are guaranteed to plague the Post Office in the years ahead. This simply kicks farther down the road any intractable fiscal problems that the USPS can't solve through more conventional means. ...

Finally, we locate [Dave Barry's End of the Year Review](#) in the [Quad Cities Dispatch](#). *Let's put things into perspective: 2010 was not the worst year ever. There have been MUCH worse years. For example, toward the end of the Cretaceous Period, the Earth was struck by an asteroid that wiped out 75 percent of all the species on the planet. Can we honestly say that we had a worse year than those species did? Yes we can, because they were not exposed to "Jersey Shore."*

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The leak was eventually plugged by non-policy people using machinery of some kind. But by then our faith in our leaders had been shaken, especially since they also seemed to have no idea what to do about this pesky recession. Congress tried every remedy it knows, ranging all the way from borrowing money from China and spending it on government programs, to borrowing MORE money from China and spending it on government programs. But in the end, all of this stimulus created few actual jobs, and most of those were in the field of tar-ball collecting.

Things were even worse abroad. North Korea continued to show why it is known as "the international equivalent of Charlie Sheen." The entire nation of Greece went into foreclosure and had to move out; it is now living with relatives in Bulgaria. Iran continued to develop nuclear weapons, all the while insisting that they would be used only for peaceful scientific research, such as -- to quote President Mahmoud Ahmadinejad -- "seeing what happens when you drop one on Israel." Closer to home, the already strained relationship between the U.S. and Mexico reached a new low following the theft, by a Juarez-based drug cartel, of the Grand Canyon.

This is not to say that 2010 was all bad. There were bright spots. Three, to be exact:

- 1. The Yankees did not even get into the World Series.*
- 2. There were several days during which Lindsay Lohan was neither going into, nor getting out of, rehab.*
- 3. Apple released the hugely anticipated iPad, giving iPhone people, at long last, something to fondle with their other hand.*

Other than that, 2010 was a disaster. To make absolutely sure that we do not repeat it, let's remind ourselves just how bad it was. Let's put this year into a full-body scanner and check out its junk, starting with

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The first indication that the health-care bill is not wildly popular comes when Republican Scott Brown, who opposes the bill, is elected to the U.S. Senate by Massachusetts voters, who in normal times would elect a crustacean before they would vote Republican. The vote shocks the Obama administration, which -- recognizing that it is perceived as having its priorities wrong -- decides that the president will make a series of high-profile speeches on the urgent need for: health-care reform.

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WSJ

Home Prices Are Still Too High

They would have to decline another 20% just to get back to the historical trend line.

by Peter D. Schiff

Most economists concede that a lasting general recovery is unlikely without a recovery in the housing market. A marked increase in defaults and foreclosures from today's already elevated levels could produce losses that overwhelm banks and trigger another, deeper financial crisis. Study after study has shown that defaults go up when falling prices put mortgage holders "underwater." As a result, the trajectory of home prices has tremendous economic significance.

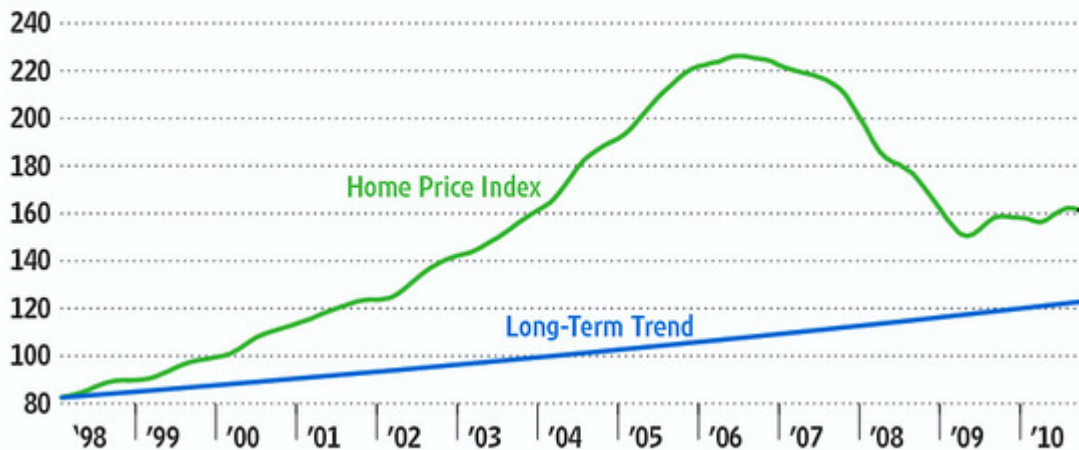
Earlier this year market observers breathed easier when national prices stabilized. But the "robot-signing"-induced slowdown in the foreclosure market, the recent upward spike in home mortgage rates, and third quarter 2010 declines in the Standard & Poor's Case-Shiller home-price index—including very bad October numbers reported this week—have sparked concerns that a "double dip" in home prices is probable. A longer-term view of home price trends should sharply magnify this fear.

Even those economists worried about renewed price dips would be unlikely to believe that the vicious contractions of 2007 and 2008 (where prices fell about 30% nationally in just two years) could return. But they underestimate how distorted the market had become and how little it has since normalized.

By all accounts, the home price boom that began in January 1998, when the previous 1989 peak was finally surpassed, and topped out in June 2006 was extraordinary. The 173% gain in the Case-Shiller 10-City Index (the only monthly data metric that predates the year 2000) in those nine years averaged an eye-popping 19.2% per year. As we know now, those gains had very little to do with market fundamentals, and everything to do with distortionary government policies that mandated loans to marginal borrowers, and set off a national mania for real-estate wealth and a torrent of temporarily easy credit.

The Worst Is Yet to Come

The Case-Shiller index of home prices remains well above the long-term trend



Source: Standard & Poor's Case-Shiller 10-City Home Price Index (top line). Data for the long-term trend extrapolated from Robert Shiller's 2005 book, "Irrational Exuberance."

If we assume the bubble was artificial, we can instead imagine that home prices should have followed a more traditional path during that time. In stock-market terms, prices should have followed a trend line. When you do these extrapolations (see lower line in the nearby chart), a sobering picture emerges. In his book "Irrational Exuberance," Yale economist Robert Shiller (co-creator of the Case-Shiller indices along with economists Karl Case and Allan Weiss), determined that in the 100 years between 1900 and 2000, home prices in the U.S. increased an average 3.35% per year, just a tad above the average rate of inflation. This period includes the Great Depression when home prices sank significantly, but it also includes the frothy postwar years of the 1950s and '60s, as well as the strong market of the early-to-mid 1980s, and the surge in the late '90s.

In January 1998 the 10-City Index was at 82.7. If home prices had followed the 3.35% annual 100 year trend line, then the index would have arrived at 126.7 in October 2010. This week, Case-Shiller announced that figure to be 159.0. This would suggest that the index would need to decline an additional 20.3% from current levels just to get back to the trend line.

How has the market found the strength to stop its descent? No one is making the case that fundamentals have improved. Instead, there is widespread agreement that government intervention stopped the free fall. The home buyer's tax credit, record low interest rates, government mortgage-assistance programs, and the increased presence of Fannie Mae, Freddie Mac and the Federal Housing Administration in the mortgage-buying business have, for now, put something of a floor under house prices. Without these artificial props, prices would have likely continued to fall.

Where would prices go if these props were removed? Given the current conditions in the real-estate market, with bloated inventories, 9.8% unemployment, a dysfunctional mortgage industry and shattered illusions of real-estate riches, does it make sense that prices should simply fall back to the trend line? I would argue that they should overshoot on the downside.

With a bleak economic prospect stretching far out into the future, I feel that a 10% dip below the 100-year trend line is a reasonable expectation within the next five years, particularly if mortgage rates rise to more typical levels of 6%. That would put the index at 114.02, or prices 28.3% below where we are now. Even a 5% dip would put us at 120.36, or 24.32% below current prices. If rates stay low, price dips may be less severe, but inflation will be higher.

From my perspective, homes are still overvalued not just because of these long-term price trends, but from a sober analysis of the current economy. The country is overly indebted, savings-depleted and underemployed. Without government guarantees no private lenders would be active in the mortgage market, and without ridiculously low interest rates from the Federal Reserve any available credit would cost home buyers much more. These are not conditions that inspire confidence for a recovery in prices.

In trying to maintain artificial prices, government policies are keeping new buyers from entering the market, exposing taxpayers to untold trillions in liabilities and delaying a real recovery. We should recognize this reality and not pin our hopes on a return to price normalcy that never was that normal to begin with.

Mr. Schiff is president of Euro Pacific Capital and author of "How an Economy Grows and Why it Crashes" (Wiley, 2010).

Euro Pacific Capital **Forever Stamps Tell Us Much**

by Peter Schiff

The United States Postal Service announced this week that all future first class postage stamps sold will be the so-called "forever stamps" that have no face value but are guaranteed to cover the cost of mailing a first class letter, regardless of how high that cost may rise in the future. Currently these stamps are sold for 44 cents, but will increase in price if and when the Post Office hikes rates.

Apart from sounding the death knell of the one cent stamp, the news is interesting on two fronts: it provides insight into remarkably irresponsible government accounting, and it provides investors with the most attractive Federally-guaranteed inflation protected asset available on the market today.

Over the past fifty years, the USPS has raised the rates on first class postage 20 times. During that time the stamp prices have gone up more than 1,100%. Given the increasing frequency of rate hikes (three in the last four years) the Post Office claims it made the move to forever stamps to save money on printing costs and to increase customer convenience. The public seems to appreciate the product and has snapped up a staggering 28 billion forever stamps since they became available in 2007.

But the real reason behind the permanent switch is that it allows the Post Office to hide its insolvency behind phony accounting numbers, setting itself up for a massive taxpayer financed bailout in the not too distant future.

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The Post Office also ignores that their ability to sell higher priced forever stamps in the future will be restricted. Those individuals and institutions who hoard the stamps now could offer them for sale in competition with the Post Office. Even though the Post Office will not redeem forever stamps for

cash, there is no law against reselling them for whatever price the market will bear. How many forever stamps will the Post Office be able to sell at full price if customers can buy them at a discount on Ebay?

On that note, forever stamps provide the most conservative investors with a much more attractive alternative to zero interest checking accounts, low yielding Treasury bonds, or even inflation protected government securities (known as TIPS).

Given these stamps will always be completely liquid, the only way an investor can lose money on forever stamps is if the price of postage goes down. There may not be a single human on the planet who thinks that this is a likely scenario. On the other hand, if postage rates rise with inflation then the stamps are a very, very safe bet.

And unlike Treasury bonds or TIPS, investors do not have to pay a premium above face value for the privilege of buying stamps. While it is true that stamps do not pay interest, the extremely low rate offered by government securities should not fundamentally alter the investment calculations comparing bonds with stamps. More significantly, stamps are backed by an actual tangible service, postal delivery, whereas U.S. Treasury debt is backed by nothing but a printing press.

Forever stamps are about as close to a sure thing as most people will ever get. Over the past 10 years stamps are up 29%, while the S&P 500 is up a measly .1%. With labor and other costs continuing to mount inside the Post Office, there can be little doubt that many price hikes are coming. Minimum investment in forever stamps is just 44 cents, with no brokerage fees. Plus as an added bonus, if you use the stamps yourself, you pay no income tax on your capital gains.

Sure, without a federal bailout there is a chance the Post Office will go under, and those forever stamps will end up lining bird cages. However, given the track record of government bailouts and the clout of unionized postal workers, chances are very high that the Post Office will always get the bailouts it needs. As a result, forever stamps are a better bet than Treasury debt. They also have prettier pictures.

Quad Cities Dispatch [End of the Year Review](#)

by David Barry

Let's put things into perspective: 2010 was not the worst year ever. There have been MUCH worse years. For example, toward the end of the Cretaceous Period, the Earth was struck by an asteroid that wiped out 75 percent of all the species on the planet. Can we honestly say that we had a worse year than those species did? Yes we can, because they were not exposed to "Jersey Shore."

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Things were even worse abroad. North Korea continued to show why it is known as "the international equivalent of Charlie Sheen." The entire nation of Greece went into foreclosure and had to move out; it is now living with relatives in Bulgaria. Iran continued to develop nuclear weapons, all the while insisting that they would be used only for peaceful scientific research, such as -- to quote President Mahmoud Ahmadinejad -- "seeing what happens when you drop one on Israel." Closer to home, the already strained relationship between the U.S. and Mexico reached a new low following the theft, by a Juarez-based drug cartel, of the Grand Canyon.

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The first indication that the health-care bill is not wildly popular comes when Republican Scott Brown, who opposes the bill, is elected to the U.S. Senate by Massachusetts voters, who in normal times would elect a crustacean before they would vote Republican. The vote shocks the Obama administration, which -- recognizing that it is perceived as having its priorities wrong -- decides that the president will make a series of high-profile speeches on the urgent need for: health-care reform.

In other economic news, Toyota announces a huge recall following reports that its popular Camry model is behaving unpredictably -- accelerating, decelerating, downloading Internet porn and traveling backward in time to unstable historical periods. This is expected to benefit Toyota's competitors, especially troubled GM, which is hoping to score big with the new "Volt," a revolutionary vehicle capable of traveling nearly six miles before its 19,500 triple-A batteries must be replaced.

But January's biggest story, watched with growing alarm by observers around the world and

threatening to force the United Nations to intervene, is the tense confrontation between Conan O'Brien and Jay Leno over who gets to be on NBC at 11:35 p.m. and tell jokes until the viewing audience falls asleep at 11:43. After a brutal struggle, Leno triumphs; O'Brien, vowing revenge, flees into the hills above Los Angeles with a small but loyal band of agents.

In other entertainment news, the runaway movie hit is "Avatar," a futuristic epic about humans who travel to an alien planet to mine a precious mineral that they believe will give them the power to emit believable dialogue. This being a James Cameron movie, they fail.

Speaking of alien planets, in...

February

...Iran triumphantly announces (we are not making this item up) that it has launched into sub-orbital space a rocket carrying a rodent, two turtles and several worms. Iranian state television reports that the nation's space program is "peaceful," and that the rodent (we are still not making this up) is named "Helmz 1."

In U.S. politics, President Obama, responding to the mounting public concern about jobs, invites Democratic and Republican congressional leaders to the White House for a historic daylong summit on: health-care reform. Despite their deep philosophical differences, the two sides are able, after hours of sometimes-heated debate, to hammer out an agreement on when to break for lunch.

They fail to make any progress on health care, although in his closing remarks President Obama notes that the historic summit produced "only minor furniture damage."

In business news, Toyota suffers yet another blow when a U.S. Department of Transportation study links the Camry to both diabetes and the JFK assassination. The CEO of Toyota appears before a congressional committee and offers a sincere and heartfelt apology for his company's problems. At least that's what his translator claims; it is later determined that what the CEO actually told the committee was, quote, "you have an eggplant in your bottom."

Speaking of apologies: Tiger Woods delivers a nationally televised speech in which he says he is very, very sorry and has sworn off having sex with as many as eight different hot women per day. His golf game immediately goes into the toilet.

In other sports news, the Vancouver Winter Olympics begin on an uncertain note when it is discovered that Vancouver -- apparently nobody realized this ahead of time -- is a seaside city with a mild climate, so there is no snow. This hampers some of the competition, as for example when the Latvian cross-country ski team gets bogged down in mud and is eaten by alligators.

Despite these setbacks, the games are deemed a big success, at least by the Canadians, because they won in hockey.

In Super Bowl XMLLMMXVIIIX, the underdog New Orleans Saints defeat the Indianapolis Colts, setting off a celebration so joyous that people on Bourbon Street are (*italics*) still (*end italics*) throwing up.

Speaking of celebrations, in...

March

...Democratic congressional leaders, responding to polls showing that the health-care bill is increasingly unpopular with the public, manage, with a frantic, last-minute effort, to pass the health-

care bill, or at least a giant mass of paper that is assumed to be the health-care bill. This leads to a triumphant White House signing ceremony, the highlight of which is Vice President Joe "Joe" Biden dropping the f-bomb moments before being hustled off by aides to have an important meeting with somebody important.

Everyone at the ceremony agrees that the new law is historic and will become hugely popular with the American people once they have the opportunity to hear a few dozen more high-profile speeches about it from President Obama.

But opposition is "brewing" in the form of the Tea Party movement, consisting of regular Americans who are fed up with costly big-government programs except for Social Security, Medicare and Medicaid. They are determined to elect a new breed of representatives who are not career politicians, or even necessarily sane.

In international news:

-- Greece asks the International Monetary Fund if it can borrow 17 billion euro for "cigarettes."

-- Somali pirates, becoming increasingly brazen, seize the Staten Island Ferry.

-- Iranian hero space rodent Helms 1 is captured attempting to scurry across the Lebanese border into Israel. Iran claims this is a peaceful mission, but the Israelis note that Helms 1 is wearing a tiny backpack filled with enough explosives to -- in the words of one military analyst -- "put somebody's eye out."

On a more hopeful note, on March 27 people in more than 4,000 cities around the world turn off their lights in observance of Earth Hour, saving an estimated 45 million megawatts of electricity -- enough to power one of Al Gore's houses for nearly three days.

But the environment suffers a big setback in...

April

...when the Deepwater Horizon rig explodes in the Gulf of Mexico after being struck by a runaway Toyota Camry. BP initially downplays the magnitude of the problem, claiming that the resulting oil leak is smallish and might go away on its own or even prove to be, quote, "nutritious for oysters." Soon, however, large patches of crude oil are drifting toward land, and it becomes clear that this is a major disaster -- a challenge that we, as a nation, will have to meet, as we have met other challenges, with a combination of photo opportunities, lawsuits and tweeting.

Elsewhere on the disaster scene, Iceland's Eyjafjallajökull (literally, "many syllables") volcano erupts, sending huge clouds of ash into the atmosphere and forcing airlines throughout northern Europe to ground all flights. Greece, although not directly affected, announces that it will take six months off, just in case; France, as an added precaution, surrenders.

In more domestic news, Arizona passes a controversial new law designed to crack down on illegal immigrants; this draws a sharp rebuke from the Mexican government, currently headquartered in Tucson.

President Obama outlines his bold vision for the U.S. space program, calling for a manned mission to establish comprehensive health-care reform on Mars by 2030. The president also signs a historic arms-reduction treaty with Russian President Dmitry Medvedev under which both countries will destroy one-third of their older nuclear missiles by upgrading them to Windows Vista. In a related

development, Iran purchases \$78 million worth of used nuclear-missile parts on Craigslist.

Speaking of growing menaces, in...

May

...the pesky Deepwater Horizon oil spill dominates the news as BP tries a series of increasingly desperate measures to plug the leak, including, at one point, a 167,000-pound wad of pre-chewed Juicy Fruit. President Obama, eager to show that he is on top of the situation, develops severe forehead cramps from standing on the shore and frowning with concern at the water.

Meanwhile Congress holds televised hearings that establish, beyond any reasonable doubt, that Congress is very upset about, and totally opposed to, large oil spills. Despite these heroic efforts, the leak continues to grow, and by the end of the month is threatening suburban Des Moines.

On the terror front, New York City police, alerted by Times Square street vendors, discover a smoking SUV packed with explosives -- a violation of many city ordinances, including the ban on smoking. Fortunately the car bomb is disarmed, and a suspect is later captured at Kennedy Airport by sharp-eyed TSA officers trained to spot suspicious behavior.

Ha ha! Just kidding, of course. The suspect is captured by U.S. Customs agents at the last minute after boarding a Dubai-bound plane filled with passengers who, like the suspect, had all been carefully screened by the TSA to make sure they were not carrying more than three ounces of shampoo.

In other air-travel news, the boards of directors of United and Continental approve a merger that will create one of the world's largest airlines, with a combined total of 700 planes, 88,000 employees, and nearly two dozen packets of peanuts.

But the big financial news is the May 6 stock market "Flash Crash." The Dow at one point is down nearly 1,000 points, including a drop of 600 points in *five minutes*, resulting in what financial analysts say is the largest mass purchase of emergency replacement underwear in Wall Street history.

The SEC investigates the crash and later issues a 350-page report concluding: "You know that eTrade baby? In the commercials? With the grown man's voice? That baby is REAL."

Abroad, thousands of people riot in the streets of Athens to protest a report by the International Monetary Fund concluding that Greece should "think about maybe getting a part-time job."

In sports, yet another major-league pitcher pitches yet another perfect game, and the baseball world wets its collective pants, because there is nothing more exciting to a true baseball fan than a game in which one of the teams can't even manage to get on base.

The excitement mounts in...

June

...as the Deepwater Horizon oil leak continues to gush, with each day bringing alarming new media reports claiming that it is an even worse environmental disaster than had been reported the previous day. The furor culminates in a New York Times story stating that eventually all the oil in the world will leak out through the hole in Gulf floor and cover the entire planet with a layer of oil 27 feet deep, which according to the Times would be "potentially devastating for polar bears." BP attempts to stop the leak using a high-tech robot submarine, only to see the effort fail when the sub is seized by

Somali pirates. In Washington, the CEO of BP appears before an angry House Subcommittee on Oversight and Investigations, which votes unanimously, after seven and a half hours of testimony, to give him a noogie. Still, somehow, the oil keeps leaking.

Rolling Stone magazine publishes a controversial article in which Gen. Stanley A. McChrystal, the top U.S. commander in Afghanistan, is quoted as saying that the Beatles' version of "Twist and Shout" is better than the Isley Brothers'. President Obama has no choice but to relieve the general of his command.

Abroad, U.S. intelligence intercepts a top-secret cable from Iran to North Korea, apparently written in code, stating: "Thanks for selling us the nuclear weapons." In response, the U.S. threatens to impose harsh new sanctions that, in the words of Secretary of State Hillary Clinton, "will make the previous harsh sanctions that we threatened to impose seem like only moderate threatened sanctions, and this time we are not kidding around."

On the world economic front, thousands of rock-throwing rioters take to the streets of both Athens and Rome to protest punishing new austerity measures under which they would no longer be provided by the government with free rocks.

In consumer news, Apple finally releases the long-awaited iPhone 4, which incorporates many subtle improvements, the cumulative result of which is that it can neither make nor receive telephone calls. It is of course a huge hit.

In sports, the World Cup gets underway in South Africa; despite fears of violence, the massive event is totally peaceful, except for the estimated 13,000 people who leap to their deaths from the tops of stadiums to escape the sound of the vuvuzelas. The early tournament highlight (which we are not making up) is provided by the French team, which, after getting off to a bad start, goes on strike.

Speaking of bad, in...

July

...the Deepwater Horizon oil spill officially becomes, according to the news media, the worst thing that has ever happened, with environmental experts reporting that tar balls have been sighted on the surface of the moon. Just when all appears to be lost, BP announces that it has stopped the leak, using a 75-ton cap and what a company spokesperson describes as "a truly heroic manatee named Wendell." Although oil is no longer leaking, much damage has been done, so this important story remains the focus of the nation's attention for nearly 45 minutes, after which the nation's attention shifts to Lindsay Lohan.

In other national news, Congress passes and President Obama signs into law a financial-reform act designed to curb Wall Street excesses by mandating the death penalty for anybody caught wearing a watch costing more than a house. Having guaranteed that the financial community will behave in a responsible manner, Washington returns to the important work of running up the deficit.

On the foreign economic front, anger builds over plans by the governments of both Greece and France to raise the retirement age, which means workers would have to continue striking for several years longer before they could start collecting pensions. In protest, everybody in both nations goes on strike.

In the World Cup final, Spain defeats Holland, only to have the trophy snatched away by the North Korean team, which, despite a U.S. threat of "really, really harsh sanctions," turns it over to the Iranian team, which was not even in the tournament. Eerily, all of this was predicted by a psychic

octopus named Paul, who is immediately hired by Goldman Sachs.

But the big sports story is the decision by LeBron James, announced in a one-hour television special watched by a worldwide audience estimated at 127 billion, to take his talents to South Beach and play for the Miami Heat, where he will join Dwyane Wade, Chris Bosh, Michael Jordan, the late Wilt Chamberlain and Jesus to form a dream basketball team so supremely excellent that it cannot possibly lose, not even one single game, EVER, in theory. Miami erupts in a joyous weeks-long victory celebration.

During the excitement Fidel Castro dies, an event that goes unreported in The Miami Herald, which has devoted all its staff resources to a 9-part series speculating on whom LeBron will select as his dentist.

The month ends on a troubling note as the United Nations Security Council votes unanimously to send a peacekeeping force to quell Mel Gibson.

Speaking of troubling, in...

August

...concern over the direction of the U.S. economy deepens when Federal Reserve Chairman Ben Bernanke, in what some economists see as a sign of pessimism, applies for Canadian citizenship.

In other economic news, the first family, seeking to boost Gulf tourism, vacations in Panama City, where President Obama, demonstrating that the water is perfectly safe despite the oil spill, plunges in for swim. Quick action by the Secret Service rescues him from the jaws of a mutant 500-pound shrimp sprouting what appear to be primitive wings. The first family hastily departs for Martha's Vineyard to demonstrate that the water is also perfectly safe there.

Speaking of getaways: JetBlue flight attendant Steven Slater becomes a national sensation when he curses out a passenger, deploys the evacuation chute, grabs two beers and slides out of the plane. He is immediately hired as director of customer relations by the TSA.

In the month's most dramatic story, 33 copper miners in Chile are trapped 2,300 feet underground following a cave-in caused by a runaway Toyota Camry. The good news is that the men are still alive; the bad news is that the only drilling equipment capable of reaching them quickly belongs to BP. Informed of this, the men elect to stay down there for the time being.

In legal news, Elena Kagan is sworn in as the newest Supreme Court justice, having established, in three days of testimony before the Senate Judiciary Committee, that she went to either Harvard or Yale. Elsewhere, a federal jury deadlocks on 22 of 24 charges against former Illinois Gov. Rod Blagojevich, convicting him only of, quote, "being some kind of enormous rodent." Outside the courtroom, Blagojevich tearfully thanks his supporters, then robs a convenience store.

In New York City, the big issue is a proposal to build, two blocks from Ground Zero, a Muslim community center, which proponents claim will promote dialogue. Even in the purely conceptual phase it promotes a huge amount of dialogue, to the point where National Guard troops may need to be called in.

Another heartwarming interfaith story erupts in...

September

...when Terry Jones, pastor of a tiny church in Florida, declares that he will proceed with plans to burn

a Koran on 9/11. The media, recognizing that this is not really news, ignore him, and the matter is quickly forgotten.

But seriously: Jones becomes a major international story, comparable in magnitude to all of the Kardashians combined. President Obama speaks out against Jones' plan, as do members of Congress, the military and virtually every American religious leader; abroad, there are fatal riots. Finally, after a great deal of soul-searching TV exposure, Jones decides not to burn the Koran, explaining, "I finally figured out that I'm just an attention-seeking jerkwater idiot."

The news media vow never again to encourage this kind of mindless hysteria. Abroad, the rioters agree to stop taking everything so darned seriously.

Getting back to reality: The 2010 election season enters its final days with polls showing that Congress enjoys the same overall level of voter popularity as hemorrhoids. Incumbents swarm out of Washington and head for their home districts to campaign on the theme of how much they hate Washington, in the desperate hope that the voters will return them to Washington.

President Obama, basking in the glow of the health-care reform act, offers to campaign for Democratic candidates, only to find that many of them have important dental appointments and are unable to join him on whatever day he is planning to visit.

Adding zest to the Republican stew is the presence of many "Tea Party" candidates, including Delaware Senate hopeful Christine O'Donnell, who at one point in her campaign releases a TV commercial that begins with her stating, in a calm and reassuring tone, that she is not a witch.

Meanwhile in Chile, an attempt to deliver food to the 33 trapped copper miners ends in a tragic accident involving what mining officials describe as "an incredibly courageous Domino's driver."

Speaking of tragic, in...

October

...the U.S. economy suffers another blow as the Federal Bureau of Never Expecting Unemployment To Be As High As It Actually Is reports that, for the 37th consecutive month, unemployment is unexpectedly high. "Darned if we didn't get fooled again!" exclaims a bureau spokesperson, adding, "We expect it to be lower next month." Meanwhile Federal Reserve Chairman Ben Bernanke, speaking from his new office in Toronto, announces a plan to drastically increase the U.S. money supply by "quantitative easing," a controversial process involving what Bernanke describes as "a major job for Kinko's."

The economy remains the big theme as the congressional elections enter the home stretch, with incumbents from both parties declaring their eagerness to go back to Washington and knock some sense into whatever incompetent morons are in charge.

Polls show that the voters are in a very cranky mood, which tends to favor outsiders such as the Tea Party candidates, although Christine O'Donnell definitely hurts her chances in Delaware when, during a televised debate, she turns her opponent into a toad.

President Obama, continuing his quest to find candidates willing to accept his help, winds up campaigning in what White House spokesperson Robert Gibbs describes as "some very key student-council races." Meanwhile Sarah Palin, raising her stature as a potential 2012 GOP presidential contender, weighs in on the issues with a number of important tweets.

On the legal front, the Supreme Court, as it does every October, begins a new term, which is hastily adjourned when the justices discover that their robes have bedbugs.

In the month's most dramatic story, the 33 trapped Chilean miners are all brought safely to the surface, only to be sent right back down because they failed to bring up any copper -- which, as the mining company points out, "was the whole point of sending them down there in the first place." Meanwhile in France, millions of workers again take to the streets to demonstrate, in no uncertain terms, that they are French.

Elsewhere abroad, terrorists in Yemen attempt to send mail bombs to the U.S., confirming the long-held suspicions of U.S. intelligence that there really is a country named "Yemen." The plot, which involves explosives concealed inside printer cartridges, is foiled, but as a precaution the TSA decides to prohibit air travelers in the U.S. from carrying anything capable of printing, including pens, pencils, and children in grades 2 through 5.

In sports, the National Football League, seeking to reduce violence, imposes stiff fines for defensive beheading.

Speaking of gory, in...

November

...the elections turn out to be a bloodbath for the Democrats, who lose the House of Representatives, a bunch of Senate seats, some governorships, some state legislatures and all of the key student-council races. Also a number of long-term Democratic incumbents are urinated on by their own dogs. President Obama immediately departs for a 9-day trip to Asia to see if anybody over there wants to hear about the benefits of health-care reform.

Speaking of health: Some air travelers express concern about radiation from the TSA's new high-resolution scanners, especially after screeners at O'Hare are seen using one to make popcorn. TSA chief John Pistole insists that the scanners are completely safe "as long as you move through quickly." He also assures passengers that their body images "are not saved for any purpose whatsoever, such as entertainment at the TSA Christmas party."

Nevertheless some passengers refuse to be scanned; they are required to undergo a manual procedure that is known, within the agency, as "the full gerbil."

World tension mounts as North Korea, in what is widely seen as a deliberate act of provocation, fires artillery shells at Denver. Meanwhile, in another indication of the worsening global debt crisis, the directors of the International Monetary Fund vote to have Ireland's legs broken.

The U.S. economy also continues to struggle, as the unemployment rate, catching everybody by surprise, turns out to be higher than expected for yet another month. The lone bright spot is provided by the president's deficit-reduction commission, which, after months of work, releases a draft of a tough plan that, if Congress can muster the backbone to enact it, would reduce the deficit by trillions of dollars and put the nation on the path back to fiscal sanity. This is a welcome bit of comic relief in the stressed-out capital; everybody enjoys a hearty bipartisan laugh, then gets back to maneuvering for the 2012 elections.

In other entertainment news, Bristol Palin's bid to win "Dancing With The Stars" falls short when the judges throw out 147 million votes from Palm Beach County. She winds up finishing third, behind actress Jennifer Grey and Vice President Biden.

In sports, President Obama's upper lip is injured in a basketball game when he is hit in the mouth by an elbow believed to have been thrown by North Korea.

International tension continues to mount in...

December

...with the continued release by Wikileaks of classified cables leaked from the State Department, which apparently has the same level of data security as an Etch-a-Sketch. The cables reveal a number of embarrassing diplomatic secrets, such as:

-- The last three rounds of Middle East peace talks have consisted entirely of delegates playing Twister.

-- The Republic of Tajikistan and the Republic of Uzbekistan frequently, as a prank, exchange places in the United Nations, and nobody has ever noticed.

-- High-ranking officials of Scotland, speaking in private, admit that they don't understand what the hell they're saying either.

-- In 2007, Hungary paid \$170 million to Russia for pictures of Sweden naked.

In domestic politics, a partisan debate rages over what to do about the expiring Bush tax cuts. The Democrats, suddenly alarmed about the deficit, want to raise taxes on people making \$250,000 a year -- or, as the Democrats routinely refer to them, "billionaires." The Republicans want to extend tax cuts for everybody, but compensate by cutting federal spending at a later date using an amazing new spending-cutting device they have seen advertised on TV.

Finally, President Obama and the Republican leaders reach a compromise under which income-tax rates will stay the same for everybody, but the death tax will be expanded to include people who are merely hung over.

Also, in a concession to the Iowa congressional delegation, the federal government will continue to fund a "green energy" program under which corn is converted into ethanol, which is then converted back into corn, which is then planted to grow more corn. This will cost \$5 billion a year, but it is expected to create or save literally dozens of Iowa jobs.

President Obama, trying to sell the compromise, appears ambivalent, saying that "it is less than ideal," but also pointing out that "it totally sucks," adding, "I hate it." Despite this smooth sales pitch, many Democrats are unhappy. There is even talk of a primary challenge to Obama in 2012, a notion dismissed as "nonsense" by Hillary Clinton, who speaks to reporters while traveling on what aides describe as routine State Department business in New Hampshire.

In another potential setback for the president, a federal judge in Virginia rules that the health-care reform act violates the constitution's tonnage clause.

On the environmental front, delegates from 193 countries at the UN Climate Change Conference in Cancun, Mexico, pass a resolution stating that they should not have had those last four rounds of margaritas.

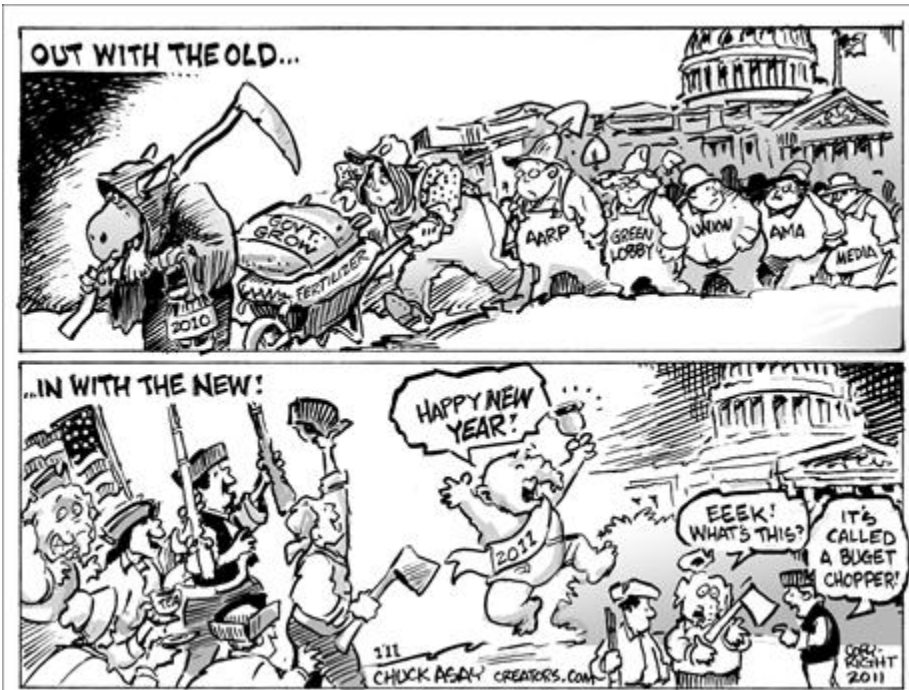
Time Magazine, in a controversial decision, names, as its Person of the Year, Iranian space pioneer Helms 1. In television news, Fidel Castro makes a surprise guest appearance on "The Walking Dead."

Speaking of entertainment: As the year finally draws to a close, all eyes are on Times Square, where

MTV plans to ring in the new year by dropping a ball containing Nicole "Snooki" Polizzi, one of the leading bimbos of "Jersey Shore." Millions eagerly tune in, only to find that the ball has been attached to something that makes it drop slowly. A bitterly disappointing end to a bitterly disappointing year.

But at least it's over, right? And we can take comfort in the fact that 2011 cannot possibly be worse. Unless, of course, this newly discovered asteroid -- maybe you read about it -- continues on a trajectory that...

Try not to think about it. Have another margarita. Happy New Year.



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WORD TO THE WISE:
BE CAREFUL ALONG
THE **GULF COAST!**





