

Thoughts on Coming Apart and the Coming Great Reset



**Turning and turning in the widening gyre
The falcon cannot hear the falconer**

**Kit Webster
June 21, 2024**

Green Energy is Incompatible With Democracy

The secret of life is to waste time in ways that you like. - Jerry Seinfeld

Never give the president any authority that you wouldn't trust in the hands of the person you vote against. - Noam Blum

> I have included an article on the Coming Supercycle Crisis by John Mauldin at the end of this post. Within this posting, there are also words of caution from Ben Hunt

and Niall Ferguson. As I say, below, everybody is getting in on the act. What I have been discussing for 30 years is now becoming obvious to the thoughtful. That means the, aw shit, moment of recognition by everyone is not that far away.

How far away, you ask.

Whenever inflation starts back up again. Timing depends on whether we get a recession next or not.

Markets

Updated Charts

> No change in outlook, except I am looking for a bottom in gold. Top of some kind in stock market still very close.

> Death by a thousand cuts

The Congressional Budget Office revised its estimate for the 2024 budget deficit from \$1.6 trillion to almost \$2 trillion—a 27 percent increase on its February estimate—while the total national debt is projected to reach \$50 trillion in the next decade. Much of this year’s increase seems to be driven by supplemental defense spending on Ukraine and Israel, President Joe Biden’s student debt “cancelation” initiatives, and increased Medicaid spending.

> Not to worry

Zero-down mortgages are making a comeback, per CNN. The United Wholesale Mortgage will allow buyers to pay for 97% of the home’s value with a first mortgage and then provide the remaining 3% (up to \$15,000) in the form of a second mortgage.

> Nah, we wouldn't do that -

Pippa Malmgren says that a peace deal in Ukraine is all but done, but the US is waiting until September to make a political statement.

Maybe a Trump landslide, then?

Joy Behar and Rachel Maddow warn that Donald Trump will "cancel The View" if he's elected.

> Green Energy is Incompatible With Democracy

(The following are my thoughts on Doomberg's point.)

Most of us think that fighting global warming simply means windmills and electric cars.

It actually means a drastic change in the way we do everything. Constraints on and a reduction of your standard of living.

We have had it all and have been wasteful.

We are going to miss the convenience and ease of waste.

And then we are going to miss everyday things that we took for granted.

It might be the right thing to do, but it will not be fun.

So, we won't do it.

Oh, we will recycle plastic (to little effect) and maybe do some composting. Some of us will actually buy heat pumps, but most will not.

So, we will be made to do it.

You will not be forced to buy an electric car. The regulators (already have) created internal combustion engine mileage standards which mean that ICEs simply cannot exist. In several years, there simply will not be internal combustion engines on the market, except, perhaps, for hybrids.

When you buy or sell a new home, it will have to be upgraded to meet new standards, say, heat pumps or no natural gas.

Until, or if, the nuclear revolution arrives, power grids will become increasingly unreliable.

Meat will become increasingly expensive.

The point is that neither you nor the market will be making decisions for you. The government will be making them through regulations that funnel you into a green world, whether you want to go there or not, in a death of a thousand cuts.

If this is a matter of life and death, then change is inevitable. Either we will do it or reality will assert itself. The problem is that, while global warming is "real," there is a great deal of uncertainty about how bad it will be or what to do about it.

As long as the Democrats are in charge, your life will change dramatically, whether you want it to or not. Executive orders on green things will continue to be ubiquitous. And, the Democrats could be, directionally, right. (As I have discussed many times, Biden is really screwing up the energy transition, even if you are a true believer.)

Two of today's major trends - bitcoin and AI - use huge amounts of energy. There is a fascinating confrontation coming between green and every single segment of our lives - every one, but the confrontations with bitcoin and AI will be particularly interesting.

Short Takes

> Last week, I sympathized with Biden's physical and mental decline.

This week, I want to be more explicit.

This is personal, not political.

It is disgusting that this man is having to embarrass himself on the world stage by mumbling, freezing and wandering. He is being propped up like *Weekend at*

Bernie's by a group that includes his wife and Obama. (It is also terrible for our country and for the world, but that is not my point.)

This is - and I don't like the term very much - elder abuse.

They feel they have to do this to stay in power.

Which does not mean it's less elder abuse.

It defines the price of power.

At some point, perhaps after the election, perhaps before, they will be forced to give up and replace him.

So, even though I think he is a terrible president, for reasons I have detailed in this space, I think the way he is being treated and manipulated is abhorrent.

> Ben Hunt shares many of my themes and thinks about them more deeply than I do. The following is from a recent communication from him:

Eight months ago I wrote about the Great Ravine that lies before us.

The Great Ravine is the end of an age. It is the end of the cheap money and cheap labor of easy globalization. It is the end of the unipolar moment of American dominance and its wars of choice and drone. It is the end of trust in our most crucial institutions – all of them! – charged with the core social functions of public health, public education, public finance and public safety. The Great Ravine is the return of our worst impulses. It is the return of man-abetted if not man-made pestilence, famine and drought. It is the return of inflation. It is the return of Total War. It is the return of the Strong Man. It is the return of the mob.

> Backlash on immigration is occurring around the globe - a gathering trend. Let's watch.

> The experts speak - an exercise in humility

"X-rays will prove to be a hoax."- Lord Kelvin, President of the Royal Society, 1883.

"A rocket will never be able to leave the Earth's atmosphere."- The New York Times, 1936.

"There is not the slightest indication that nuclear energy will ever be obtainable. It would mean that the atom would have to be shattered at will." -Albert Einstein, 1932.

"Rail travel at high speed is not possible, because passengers, unable to breathe, would die of asphyxia."-Dr. Dionysius Lardner, professor of Natural Philosophy and Astronomy, 1823

"There is no reason for any individual to have a computer in his home."-Ken Olson, president, chairman and founder of Digital Equipment Corporation

"If excessive smoking actually plays a role in the production of lung cancer, it seems to be a minor one."-W.C. Heuper, National Cancer Institute, 1954.

"It will be gone by June."-Variety, passing judgement on rock 'n roll in 1955.



A 'reparations panel' for Alameda County, whose largest city is Oakland, has demanded \$5 million to come up with a plan for reparations over racism, and say it will take them two years to do it.

> We held a Ukraine peace summit in Switzerland, and Russia was not invited.

Just in case you're feeling cocky

Aristotle said a bunch of stuff that was wrong. Galileo and Newton fixed things up. Then Einstein broke everything again. Now, we've basically got it all worked out, except for small stuff, big stuff, hot stuff, cold stuff, fast stuff, heavy stuff, dark stuff, turbulence, and the concept of time.

Fair



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...

'Inside Out 2' Introduces New Emotion 'White Guilt' buff.ly/3Vmf5xD



Why not?



The Babylon Bee 🐝 @TheBabylonBee · 3h

Father's Day Updated To 'Toxic Masculinity Awareness Day'

buff.ly/4b0uLMF



Probably just an overreaction - those hilarious Danes!

Denmark is asking citizens to stockpile supplies of water, food and medicine in case of an attack

> Tell me there is an election coming without saying there is an election coming - Biden will give legal protections to undocumented immigrants who are married to American citizens. They will be shielded from deportation and given work permits.

> Ukraine just received F-16s.
How do you say, escalation?

> Australian state of Victoria

Jacinta Allan announced this month that state MP Tim Richardson would serve as the inaugural Parliamentary Secretary for Men's Behavior Change – the first position of its kind in the country. The appointment was in response to Prime Minister Anthony Albanese calling gender-based violence a “national crisis” and promising greater government action.

> Everybody's getting in on the act - Niall Ferguson on X

I first pointed out that we're in Cold War II back in 2018. But it only recently struck me that in this new Cold War, we—and not the Chinese—might be the Soviets.

A chronic “soft budget constraint” in the public sector, which was a key weakness of the Soviet system? I see a version of that in the U.S. deficits forecast by the Congressional Budget Office to exceed 5% of GDP for the foreseeable future.

The insertion of the central government into the investment decision-making process? I see that too, despite the hype around the Biden administration's “industrial policy.”

We have a military that is simultaneously expensive and unequal to the tasks it confronts, as Senator Roger Wicker's newly published report makes clear.

The share of GDP going on interest payments on the federal debt will be double what we spend on national security by 2041, thanks partly to the fact that the rising cost of the debt will squeeze defense spending down from 3% of GDP this year to a projected 2.3% in 30 years' time.

Even more striking to me are the political, social, and cultural resemblances I detect between the U.S. and the USSR. Gerontocratic leadership was one of the hallmarks of late Soviet leadership.

Another notable feature of late Soviet life was total public cynicism about nearly all institutions. To reread Russians' complaints about their lives in the 1980s is to come across more than a few eerie foreshadowings of the American present.

The mass self-destruction of Americans captured in the phrase “deaths of despair” for years has been ringing a faint bell in my head. This week I remembered where I had seen it before: in late Soviet and post-Soviet Russia. Like the Soviet system as a whole, the U.S. healthcare system has evolved so that a whole bunch of vested interests can extract rents. The bloated, dysfunctional bureaucracy is great for the nomenklatura, lousy for the proles. As in the late Soviet Union, the hillbillies—actually the working class and a goodly slice of the middle class, too—drink and drug themselves to death even as the political and cultural elite double down on a bizarre ideology that no one really believes in.

A bogus ideology that hardly anyone really believes in, but everyone has to parrot? Check. A population that no longer regards patriotism, religion, having children, or community involvement as important? Check. How about a massive disaster that lays bare the utter incompetence

I still cling to the hope that we can avoid losing Cold War II—that the economic, demographic, and social pathologies that afflict all one-party communist regimes will ultimately doom Xi's “China Dream.”

But the higher the toll rises of deaths of despair—and the wider the gap grows between America's nomenklatura and everyone else—the less confident I feel that our own homegrown pathologies will be slower-acting.

> The law of unintended consequences -

It turns out that a primary source of microplastics is the recycling of plastics.

> Nah, we wouldn't do that -

Pippa Malmgren says that a peace deal in Ukraine is all but done, but the US is waiting until September to make a political statement.

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> Ukraine

You do know that the US has never played to win. This is either our usual conflict incompetence or 3D chess that I haven't figured out yet. We have allowed a country to be destroyed for some reason or another.

> There have been two primary inhibitors to the implementation of nuclear power in the US: public attitude and absurd regulation. Both are changing, including a bill passed by Congress to begin to reform regulation and encourage development. A first step, but a major step and good on Biden.

The Hill -

Senate Democrats have added language to the annual defense authorization bill to require women to register for the draft, prompting a backlash from Republicans and social conservatives and complicating the chances of moving the bill on the Senate floor before Election Day.

> Manhattan DA Drops Charges Against 30 Columbia Protesters Arrested Over Campus Building Occupation

> Singapore, Switzerland and Denmark have been named the world's most competitive economies in the [2024 World Competitiveness Ranking](#) published by the International Institute for Management Development (IMD) on Tuesday. While Denmark dropped two spots after topping the list in 2022 and 2023, Singapore leapt from 4th place to number 1 thanks to very high scores in government and business efficiency. ...

Social cohesion, adaptability and agility are qualities the U.S., with its increasingly polarized political landscape and its slow-moving legislative process, currently lacks, which partly explains the U.S. economy's gradual decline from the top of IMD's annual ranking.

It Ain't Easy Being Green

> The World Economic Forum (WEF) has called for a “controlled demolition” of the global food system as part of a major “reinvention” of how humans consume food. ... the WEF declared that the consumption of meat and traditional forms of farming needed to be banned in order to prevent so-called ‘global boiling’. In the article, titled “Feeding the future: why Renovation and Reinvention are key to saving our food system,” WEF New Frontiers of Nutrition Project Fellow Juliana Weltman Glezer sounds the alarm on the greenhouse gas emissions caused by food production and warns of a 60% increase in food demand when the worldwide population hits 10 billion. ... The article then compared an overhaul of the food system to the global transition to renewable energy, such as solar and wind power and electric vehicles.

> From *The Guardian*

Hawaii officials have announced a “groundbreaking” legal settlement with a group of young climate activists, which they said will force the state’s department of transportation to move more aggressively towards a zero-emission transportation system.

“You have a constitutional right to fight for life-sustaining climate policy and you have mobilized our people in this case,” Josh Green, the Hawaii governor, told the 13 young plaintiffs in the case, saying he hoped the settlement would inspire similar action across the country.

Under what legal experts called a “historic” settlement, announced on Thursday, Hawaii officials will release a roadmap “to fully decarbonize the state’s transportation systems, taking all actions necessary to achieve zero emissions no later than 2045 for ground transportation, sea and inter-island air transportation”, Andrea Rodgers, one of the attorneys representing the plaintiffs in the case, said at a press conference with the governor.

Miscellany



Correlation is not causation



Seems right - you probably need to divide Texas into several regions - it's mostly Sorta the South and the South part is the northeastern chunk and the part that borders Louisiana - but that is a little nitty

Is this an accurate breakdown of "The South"?



□

The Coming Supercyclical Crisis

By John Mauldin | June 15, 2024

[The Solution Created the Problem](#)

[Debt Inflection](#)

[No Way Out](#)

[British Columbia and NYC Inflation](#)

You know I'm highly concerned about government debt in the developed world, particularly the US. I've said for years a crisis is coming. We've blown right past all our chances to avoid it. Now all we can do is imagine what the crisis will look like... and how much it will hurt.

This is necessarily speculative, and even more so because the details matter. It's not just monetary policy that is "path dependent." The coming crisis is also path dependent with a million ways to reach the same ugly place. And the actual details of the crisis are also unclear. Each step forward changes the available choices.

Most of the country, investors, politicians, and the general public assume that the fabled bond vigilantes us old folks talk about are really and truly dead, if they think about it at all. When the people find out that they are indeed not dead, it will be the most startling resurrection in 2,000 years.

All that said, I'm feeling a little more clarity thanks to a new report by old friend and fishing buddy Martin Barnes, longtime chief economist of [The Bank Credit Analyst](#). Martin retired a few years ago but the new editors occasionally ask him to share his insights. His new special report, *Revisiting the Debt Supercycle*, describes with terrifying simplicity how this debt situation developed and where it's going.

I first began reading the BCA in the 1990s. My late partner Gary Halbert was a fan and we pored over each month's letter. It was my first exposure to high-quality economic analysis. They were just so continually spot on. Martin, first through the letter and then through our relationship, has been one of my main mentors in my understanding of economics in general and monetary policy specifically. BCA is still part of my monthly analysis, these 30 years later. I highly recommend it.

BCA is usually reluctant to let me share or even quote their work. This report, however, is so important Martin is allowing me to excerpt portions of it in today's letter. The full report is 17 pages so I'm still barely scratching the surface. But just this small part will give you a lot to chew on.

The Solution Created the Problem

Martin along with 1970s predecessors at BCA developed a theory they call the Debt Supercycle. The original idea was to describe how private sector debt soared in the post-World War II period. We now think of those years as a golden era, and in many ways, they were. But that time was also a key step toward our current predicament. I'll let Martin explain more.

“Before going forward, we must first go back, because it is important to understand how we landed in the current situation. Chart II-2 shows 150 years of US economic history with economic growth and inflation back to 1875. One thing stands out quite clearly: Economic life was a lot more volatile in the first half of the period than in the second half. The post-WWII period has been a lot calmer on both fronts. The severe economic and financial crisis of 2007–09 was the worst economic recession since the Great Depression of the 1930s yet it does not look like much of a downturn compared to some of the declines in the late 19th and early 20th centuries.

Source: BCA Research

“It truly was an unfettered laissez faire economic world back then. Booms and busts in the economy and the markets tended to be violent because there was not much in the way of government interference. Human nature being what it is, the booms were associated with all kinds of excesses just as they are in modern times. However, these excesses tended to get completely washed out in the downturns. Debtors went bust, banks failed, and balance sheets were cleansed.

“Things changed dramatically after the 1930s' Great Depression when the government decided that it could not let such a severe contraction happen again. It marked the start of government involvement to try and smooth out business cycles. Deposit insurance was created to try and prevent runs on banks, unemployment insurance provided a safety net to those who lost their jobs, and the government boosted spending on public projects. And the theories of John Maynard Keynes gave legitimacy to these policies by explaining how governments could and should use fiscal policy to counter the swings in the economy. This kind of thinking quickly became the new orthodoxy and established firm roots as the welfare state expanded.

“So far so good—it all worked very well, as highlighted by the more stable pattern of growth. After WWII, the economy no longer suffered frequent collapses—there were recessions of course, but not mini-depressions. However, there was a problem.

“As noted earlier, in the old days, the excesses built up during booms were washed out during the downturns. This meant that each new upturn began with relatively clean balance sheets. That no longer happened once governments intervened to smooth out business cycles. The excesses built up as usual but did not get fully cleansed in the recessions. Thus, each upturn began with debt and imbalances higher than in the previous cycle, and so began the steady rise in private sector indebtedness. Moreover, governments did not follow Keynes's recommendation to run budget

surpluses during good times in order to fund deficits during recessions. Instead, government deficits became the norm, regardless of the economy's condition." John here again. It's important not to sugarcoat the past as somehow ideal. Before modern central banks, the economy resolved imbalances with financial panics, bank runs, and depressions. The Fed and other institutions like the FDIC were founded to soften these wild swings, and they succeeded. But it's now clear this stability has a cost. In trying to smooth the cycle with ever easier monetary conditions, the "solutions" allowed enormously destabilizing debt to build. Now the bill is coming due.

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Debt Inflection

Macroeconomic charts typically separate debt into three categories: household debt, corporate debt, and government debt. Historically, problems usually began with excess household debt. The Great Financial Crisis of 2007–2009 marked an important yet under-noticed shift in this balance. Here's Martin again.

"Consumers took on an extraordinary amount of mortgage debt between 2000 and 2007 on the mistaken and naive assumption that house prices would keep rising. The inevitable bust in house prices was brutal for over-indebted homeowners and over-exposed lenders. As the collateral for debt evaporated, loan delinquencies and foreclosures soared.

"The Fed responded to the crisis by slashing interest rates and pumping massive amounts of liquidity into the financial system. Yet, extraordinarily low interest rates did not persuade consumers to take on more debt. The crisis fundamentally altered consumer attitudes toward debt, much as the 1930s' Great Depression caused a generation of householders to shun borrowing for the rest of their lives. At the same time, an inevitable tightening in lending standards constrained credit growth from the supply side.

Source: BCA Research

"The failure of extreme policy reflation to encourage consumers to take on more leverage marked a critical event in the life of the Debt Supercycle. In 2014, BCA effectively pronounced the end of the Debt Supercycle in its previous form on the assumption that policy stimulus could no longer be guaranteed to encourage the private sector to take on more leverage.

"Subsequent trends have supported that thesis. The Fed kept interest rates at close to zero between 2009 and 2017 yet the ratio of household debt to income continued to decline (Chart II-4). And it has not recovered since, even though the COVID pandemic led to massive new monetary and fiscal stimulus. Corporate sector borrowing has increased as a share of income, but much of that was to finance share

buybacks and mergers and acquisitions rather than to boost capital spending. The share of small businesses that borrow has continued to drop to new lows (Chart II-5). “In sum, the data show that the Debt Supercycle in its previous form reached a major turning point 15 years ago. However, it simply transitioned from the private sector to the government sector. If consumers would not borrow and spend, then the government would step in and do it for them.”

John here. Going deeper, it’s quite insidious how what would once have been private debt is now government debt. Mortgages are probably the best example. Federal loan programs (Fannie Mae, Freddie Mac, VA, etc.) either directly own or guarantee most mortgage debt. The credit risk ultimately falls on taxpayers, not the original lenders. But that’s not all. Think about the COVID relief programs. Small businesses were allowed to use some of their Paycheck Protection Program funds for debt payments, which were then forgiven. The debt was simply transferred from the businesses to the taxpayers. Ditto for student loan forgiveness and assorted other programs.

In all these cases, the private lenders got paid, the private borrowers no longer owed those amounts, and the government’s debt grew accordingly.

We saw it again just last year in the Silicon Valley Bank and Signature Bank failures. Remember bank “deposits” are actually loans from you to the bank. The decision to pay off depositors in full including big businesses who kept accounts far above the FDIC limits was really a kind of loan forgiveness. Everyone got bailed out of what should have been losses.

In all these cases and more, large amounts of previously private debt became government debt. You can spot the point in 2009 on Martin’s chart where households began shedding debt relative to income. Much of that debt still exists; it was recategorized, not repaid.

This is a key reason government debt ballooned so much in recent years. I’ll use an ugly word here but it’s accurate: We have socialized trillions in private debt, relieving households and businesses from liability and adding it to the Treasury.

Except the private sector isn’t fully off the hook. Many who got various kinds of loan forgiveness will end up paying in other ways.

No Way Out

Martin went on to explain how government debt is quite different from private debt. Governments have unique powers; they can raise taxes, force financial institutions to buy government bonds, and use central banks to absorb whatever is left. They can engineer inflation and manipulate currencies. They have a big toolbox—but they can’t do magic. Limits still exist.

Here’s Martin again.

“The limit to government debt is reached when investors will no longer purchase a country’s bonds at yields that the economy can tolerate or when debt servicing costs crowd out other critical spending. There are several examples of developed economies

that have hit such a debt wall such as New Zealand in the mid-1980s, Canada [and Sweden—JM] in the early 1990s and Greece in the years after 2009.

“The US clearly is not at that point yet. Long-term Treasury yields around 4% have not been high enough to significantly damage growth and interest costs, currently at 15% of federal revenues, have been manageable. However, CBO projections show that interest costs will absorb an unacceptable level of around a third of revenues by 2050...

“The bond vigilantes are well aware of US fiscal trends but have yet to take fright. Treasury yields have moved higher but that reflects tighter monetary policy, not a rise in the fiscal risk premium. This most likely will show up in a widening of spreads at the longer end of the yield curve and that has not yet happened.

“In the event of a bond-buyers strike, a crisis can be delayed by central bank bond purchases (quantitative easing), but that is not a sustainable strategy. Eventually, inflation would become a problem and it is doubtful that central bank purchases could offset a stampede out of bonds and out of the dollar if private investors completely lost confidence in government policy. There is a good chance that bond investors will lose patience if the next administration fails to restore some discipline to fiscal finances.”

That last sentence is why I am sure a crisis is coming. There is very little real chance the next administration will restore fiscal discipline, no matter how the election goes, because the American people don't want fiscal discipline. Sure, many say they do. But that changes as soon as specific tax or spending policies enter the conversation.

There's just no constituency for reform of the scale needed to solve this. Everybody wants the other guy to have to deal with the problems of austerity. “It's not my fault we've built up this debt. It's their fault and they should suffer the consequences.”

We've dug the hole too deep.

Could economic growth save the day? It would help, but Martin Barnes sees limits there, too. Many American consumers have decided we like our minimal-leverage lifestyles and have little interest in taking on more debt. It's Keynes's Paradox of Savings writ large.

“Consumers must be willing as well as able to take on more debt and that is going to be a problem. The economy and asset prices have done surprisingly well in the past year in the face of higher interest rates. Yet consumer confidence has remained muted. Inflation concerns are partly to blame but political uncertainty and geopolitical tensions may also have played a role. Public polling suggests a high percentage of Americans feel the economy is in a bad place, are concerned about government deficits and debt, and have little faith in politicians to make things better.

“Demographic trends also argue against a major new leverage cycle in the household sector. The population continues to age and younger generations do not appear to be overly interested in taking on a lot of debt. The Debt Supercycle in the private sector coincided with two important trends: the move of the Baby Boom generation into

their prime earning years and a superb environment for asset prices. While asset prices have been buoyant recently, recent trends are not sustainable. Equity prices are highly valued and real home prices are far above the levels reached during the 1990s' housing bubble.

“In sum, the conditions for the resumption of a major new leverage cycle in the household sector are not great. And it is hard to see why businesses should start to embrace more debt in an environment where future economic growth is likely to be mediocre and corporate tax rates are more likely to rise than fall.”

Martin concludes, as I do, the Debt Supercycle can only end in crisis. He thinks this crisis will bring “severe fiscal restraint.” Yet we know Americans aren't keen on austerity... to say the least.

I was doing an interview with a financial magazine this morning, and I made the point that there will be no resolution of the government debt and deficit problem without a crisis. And I think Martin is an optimist. Interest as a percentage of government revenues will likely reach 30% by 2034 or sooner. In a budding bond crisis, interest rates will rise faster than we can imagine.

I try to imagine what kind of crisis it would take to change this, and it's hard to see how that happens without truly massive disruptions—certainly massive protests and clashes at a minimum. Ray Dalio is now saying he sees a 40% chance of violence and civil war. None of us want that. But what are the alternatives?

Compromise on a Herculean scale is the best we can hope for. And we better hope that happens before it gets really ugly and forces a delayed compromise that will be even harder.

Anybody want to be president during that crisis?