EIR Economics

Bailouts and Corporativism, Or Franklin D. Roosevelt

by John Hoefle

"If we choose to enjoy the advantages of a system of leveraged financial intermediaries, the burden of managing the risk in the financial system will not lie with the private sector alone. Leveraging always carries with it the remote possibility of a chain reaction, a cascading sequence of defaults that will culminate in financial implosion if it proceeds unchecked. Only a central bank, with its unlimited power to create money, can with a high probability thwart such a process before it becomes destructive. Hence, central banks have, of necessity, been drawn into becoming lenders of last resort. But implicit in such a role is the assumption that the burden of risk arising from extreme outcomes will in some way be allocated between the public and private sectors. Thus, central banks are led to provide what essentially amounts to catastrophic financial insurance coverage."

That statement was made by Alan Greenspan, then the chairman of the Federal Reserve, to a meeting of the Council on Foreign Relations on Nov. 19, 2002. Even through his turgid prose, Greenspan's message was clear: Trouble is coming, and when it arrives, the public is going to foot the bill.

Two days later, in an address to the National Economists Club in Washington, Ben Bernanke, then a governor of the Fed, gave a speech on preventing "violent financial crises which lead to 'fire sales' of assets and falling asset prices," in which he touted that, "the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost."

These two speeches signalled the intent of the Federal Reserve, acting on behalf of the international financier oligarchy, to bail out the banking system when the global financial system collapsed, as they had to know it would. What they feared then, has now come to pass, and Bernanke and Treasury Secretary Henry Paulson are carrying out the plan.

Bailout Schemes

Paulson and Bernanke, and the bankers behind them, would have you believe that their actions are aimed at protecting the American people, because that is the only way they can sell their bailout plan to the public. Instead of calling it a banking crisis, they call it a housing crisis; rather than admitting they are trying to save the value of their mortgage debt—and the piles of leveraged bets related to those mortgages—they claim they are trying to protect the homeowners from foreclosure. They are, to put it politely, lying through their teeth.

Indicative is the so-called "stimulus plan" passed by the House and the Senate. Most of the publicity around the stimulus centers on the tax rebates of $600 per person, but the bill also contains measures that would raise the maximum size of a mortgage that Fannie Mae and Freddie Mac can purchase, from the current $417,000 to $729,750, a move which will effectively allow significant numbers of mortgages—and the securities they nominally back—to qualify for Fannie's and Freddie's implicit government guarantee. The real beneficiaries here are the financial institutions and investors holding these mortgages and their mortgage-related securities—it is the value of the paper, and the solvency of the institutions which hold it, which is being protected.

As a further example, take the scheme outlined by New York banker and real estate magnate Howard P. Milstein in an op-ed in the Feb. 6 *New York Times,* in which he calls for the Federal government to "guarantee" all subprime mortgages. "As these mortgages would be guaranteed by Treasury," Mil-

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stein writes, "they would suddenly be assessed, on bank balance sheets, at their original value—and a significant amount of the banks' lost capital would be restored." That, in turn, would allow the banks to "buy back the subprime debt now being held by foreign banks and other financial institutions." Milstein offers this plan, he says, "out of concern for the health of the global financial system."

What both of these schemes have in common is that they would transfer huge costs to the public, which is precisely what Greenspan said some five years ago would be done. The idea that these moves are a response to a "subprime housing" crisis is merely a marketing gimmick, a way to sell a bailout of the big banks and other major players to a credulous public, a claim with no more substance than a toothpaste commercial.

Underlying all the bailout talk is the idea that the valuations of financial assets must be protected, and that it is in the interests of the public to do so. That, too, is a lie.

The U.S. economy is drowning in debt, and the measures being proposed by the bankers all involve, in one way or another, the creation of yet more debt. That, in itself, is nothing new, but these plans would add a dangerous new element, by turning trillions of dollars of financial market debt into obligations guaranteed by the United States government, and the population. The essence of all these plans is to dump a significant portion of the losses in the financial markets onto the public, all in the name of helping the "little guys."

These plans are lunacy, and any attempt to use the government to bail out a significant portion of the worthless financial paper will backfire spectacularly, setting off a hyperinflationary storm. That the bankers would consider such schemes, shows them to be bankrupt both financially and intellectually. They would actually be better off admitting that they are bankrupt, and seeking government protection under the principles outlined in LaRouche's Homeowners and Bank Protection Act. Being sane is always better than the alternative.

Privateers

Sanity, however, appears in short supply among financier circles, which is why we find the growing push to "help" the public by charging them for the use of taxpayer-funded infrastructure. This scam, which is marketed under the name of public-private partnerships, or PPPs, involves selling or leasing public property to corporations, and then charging the public an arm and a leg to use it.

The rationale for this is the claim that the private sector can manage such projects more efficiently than can the government, thus providing the public better service at a cheaper cost. It is a variation on the argument Enron made to the State of California to push energy deregulation, but what California got instead was outrageous electricity prices and blackouts. Just, we should add, as Lyndon LaRouche and *EIR* warned.

The premise for these claims has repeatedly been proven false, with private projects generally costing far more than government projects. This should be a rather obvious point, particularly when the project is financed by private equity companies which are in the business of making money, not building infrastructure.

For comparison, take the state-built and state-run Dulles Toll Road and the private Dulles Greenway in Northern Virginia. The 12-mile Dulles Toll Road has had one rate hike since it opened in 1984, raising the toll at its main plaza from 50 cents to 75 cents in 2005, with the increase slated to help cover the cost of a planned commuter-rail project along its route. In contrast, the 14-mile Dulles Greenway, built by private firms as an extension of the Dulles Toll Road, has seen a steady series of rate increases, with the basic fare now standing at $3.50.

'Lexus Lanes'

There are also many projects underway to create special fee-based lanes ("Lexus lanes") on public highways under the guise of dealing with congestion, and even discussions of tracking all cars, and charging drivers by the mile driven on all "public" roads. Add to this, the growing number of schemes to privatize water and sewer systems, bridges, tunnels, airports, and other infrastructure projects, turning them into profit centers.

The pressure for governments to agree to such deals is rising, as the effects of the economic collapse are felt. Falling real estate values, for example, are beginning to devastate county tax receipts, and the breakdown of the securities markets is making it increasingly difficult for state and local governments to raise money for infrastructure projects through the sales of bonds. Under such circumstances, the lure of money from private equity funds to buy or lease government assets is increasingly powerful. But governments which accept such bids are basically selling their populations down the river.

The treating of infrastructure as a profit center to be judged in its effectiveness by the amount of revenue it produces, is a sign of a society gone insane. The purpose of infrastructure is to raise the productive power of the people in the area it serves, as a way of making the economy more productive. Selling it off to the highest bidder, who will charge as much as possible to maximize income, is actually counterproductive to economic growth.

Rather than attempt to bail out our banks by shifting their losses to the population, and allow corporativist privatization of what should be free public services, we should return to the policies associated with Franklin Delano Roosevelt. FDR put those he termed "the economic royalists" in their place, and defended the general welfare of the population, and in doing so, defended the nation. That is a policy which worked, and a policy to which we must return if we are to survive as a nation.