How Much Longer Will We Tolerate These Parasites?

by John Hoefle

Nov. 14—The Anglo-Dutch Liberal financial system has failed, the corrupt attempts to save that system through taxpayer-funded bailouts have failed, and the global financial and economic collapse is accelerating. Virtually every sector of the economy, and every part of the world, is plunging into Hell, and the world's leaders, on the whole, are either paralyzed or rushing flight-forward into the abyss.

Here in the United States, the Bush Administration seems more intent on escaping than on solving the problem. President Bush, in the state of schizophrenic denial for which he is infamous, praises free trade and decries big government, all while presiding over the corporatization of large swaths of the economy. Treasury Secretary Henry Paulson, the hapless financial dictator, is now on his third bailout plan, as his master plans fall apart even before they can be implemented.

Then we have the spectacle of British Prime Minister Gordon Brown, the errand boy of the British Empire, doing all he can to use the crisis to implement a global bankers' dictatorship. The U.S. must ally with Britain, he says, to create a new "international order," a "truly global society"—in a world run by Brutish methods.

Instead of being given solutions, we are being looted, our economy and our people being sucked dry and thrown into the bottomless pit of a dead financial system, via policies that have no chance of working and, indeed, have failed at every turn. Our so-called leaders have abdicated their responsibilities. If we are to survive, new leaders must emerge, picking up the challenge laid down by Lyndon LaRouche.

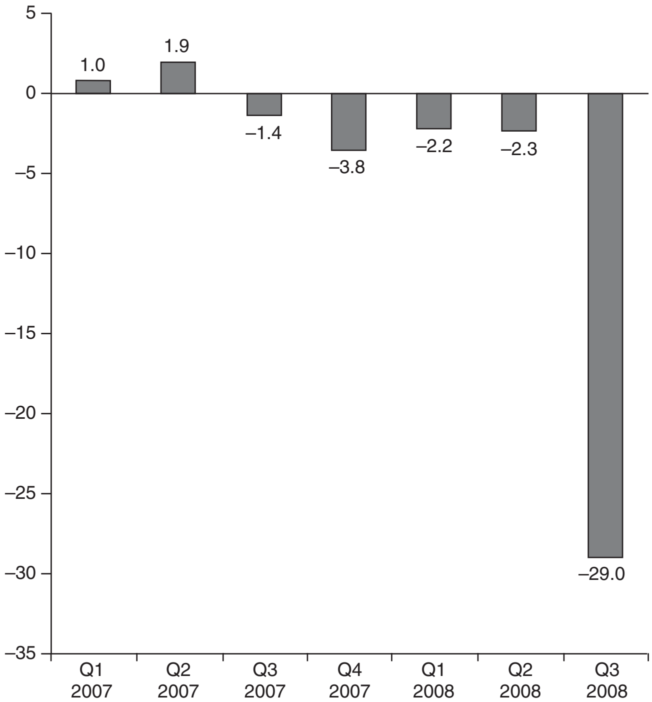
Failure Upon Failure

Paulson this week officially pronounced the troubled-asset portion of the Troubled Asset Relief Plan (TARP) dead, when he declared that the purchase of "illiquid mortgage-related assets ... is not the most effective way to use TARP funds." Instead, he declared that he would continue to inject capital into banks through the purchase of preferred shares, and would begin injecting funds into selected non-bank institutions as well. In addition, Paulson said he would use the TARP money to buy asset-backed securities, as a way of spurring consumer finance. The asset-backed securitization market, Paulson declared, "is critical to consumer finance."

What Paulson means by this was made clear in the expansion—for the second time—of the so-called bailout of the AIG insurance giant. The first intervention came in September when the Fed lent AIG $85 billion; the loan was "secured" by AIG's assets. It effectively made AIG a subsidiary of the Fed. Three weeks later, in early October, the Fed authorized an additional $38 billion for the company.

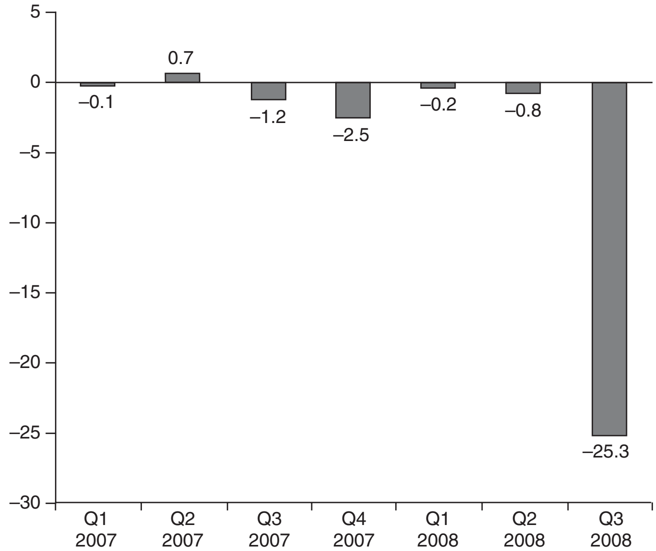
The next iteration of this ongoing bailout came Nov. 10, when the Treasury and the Fed announced that the

FIGURE 1
Fannie Mae Net Income
($ Billions, Net Quarterly Income/Loss)



Sources: company reports.

FIGURE 2
Freddie Mac Net Income
($ Billions, Net Quarterly Income/Loss)



Sources: company reports.

funds would be expanded to $150 billion, and the terms of the deal were being modified to give AIG a better deal. Most significantly, the New York Fed is to establish two new special-purpose vehicles, one to buy residential mortgage-backed securities from AIG, and the second to buy collateralized debt obligations (CDOs). The CDO facility will buy securities upon which AIG has written credit derivatives, as a way of reducing the insurer's losses. This program will also help the owners of these securities, who reportedly will wind up receiving full face value for their instruments.

This rescue is not really a bailout of AIG, but of the credit derivatives market, which in turn is a key component of the overall derivatives market. The supposed objective of all of these bailouts is to try to put out the fire raging in the multi-quadrillion-dollar global derivatives market, which is collapsing faster than the bailout packages can be promulgated.

Another glaring example of the futility of the bailout process was shown this week, with the huge losses reported for the third quarter by Fannie Mae and Freddie Mac (**Figures 1 and 2**). Fannie Mae lost $29 billion in the quarter, leaving it with a net worth of just $9 billion, while Freddie Mac's $25 billion loss left it with a net worth of negative $13.8 billion. Freddie said it would seek $13.8 billion from the government, which would still leave it with a zero net worth.

Under Paulson's schemes, Fannie and Freddie have been thrown to the wolves, using their balance sheets to absorb huge losses in the mortgage and mortgage-securities business as a way of protecting the banks and the values of mortgage-related paper.

Foxes in the Henhouse

While the Treasury and the Fed pour trillions of dollars of taxpayer funds into the banking system, non-bank institutions are rushing, like pigs to the feeding trough, to get a piece of the bailout, by becoming bank holding companies. Treasury and Congress are being besieged by lobbyists for banks, thrifts, insurance companies, finance companies, and their trade groups, as well as lobbyists for car companies, car dealers, and maritime interests, all seeking a piece of the pie.

Goldman Sachs and Morgan Stanley already made the conversion to bank holding companies in September, and now American Express, the giant credit card company, has joined the club. A host of other companies, including GMAC, the finance company owned by

General Motors and hedge-fund giant Cerberus, are seeking to become banks to tap into the bailout.

At this rate, every company in the nation will become a bank, and every taxpayer will have to become a bank to get the money to pay the tax bill this incredible boondoggle is creating. It is beyond insane.

In addition to the Fed/Treasury funds and the funds pumped in through Fannie and Freddie and the Federal Home Loan Bank, the FDIC has also been thrown into the breach. The FDIC, whose main job is to provide deposit insurance to protect the public, has been induced to guarantee debt issued by the banks. Indicative of the level of looting, the FDIC's Temporary Liquidity Guarantee Program will also guarantee up to $139 billion of debt issued by GE Capital, a unit of General Electric. By comparison, the FDIC only has some $40 billion in its bank insurance fund, and has already seen more banks fail this year than in any year since 1993.

Greed and Whining

One might think that the bankers would at least have the discretion to keep their mouths shut while receiving all this undeserved largesse, but that would be a mistake. A group of banks, including JP Morgan Chase, Bank of America, and Goldman Sachs, complained in a letter that the FDIC program to guarantee 90% of the face value of debts they issue is inadequate, demanding instead that the U.S. adopt the British model of unconditionally guaranteeing the payments of principal and interest when due. This limitation, the banks whined, puts them at a competitive disadvantage with British and European banks. They also complained the fees charged by the FDIC were too high.

This disgusting behavior is all too typical among the financial institutions of Wall Street, the City of London, and beyond, which view humanity as sheep to be sheared at their demand. Not only are they demanding that we save their worthless behinds, but they have the temerity to criticize us for not giving them more and more and more, faster and faster and faster.

Enough is enough. This bailout is destroying the nation, bankrupting our economy to allow a bunch of greedy parasites another few weeks of existence, before they, too, are destroyed by their criminal stupidity. We have precious little time to change this suicidal policy; join with us so we can save the world, and build a new Renaissance. It sure beats the collapse into a deadly new Dark Age, which is where we're headed otherwise.

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Proposed Act of 1993

Nationalize the Federal Reserve

This report, and the proposed legislation that follows, was first issued by Lyndon LaRouche's 1992 Presidential campaign, LaRouche for President: Independents for Economic Recovery.

The Presidential campaign organization of Democrat Lyndon H. LaRouche, Jr. announced on Feb. 25, 1992 the release of a draft "Federal Reserve Nationalization Act" to recreate the U.S. central bank on the model of the First National Bank of Alexander Hamilton. The act would nationalize the Federal Reserve System, creating new National Bank of the United States, under the Treasury Department, returning to the U.S. government the right to issue legal tender (currency) granted in the Constitution.

The legislation is based on LaRouche's proposal to return the United States to the method of national banking originally envisioned by Hamilton, rather than the current British system of central banking represented by the Federal Reserve.

Article I Section 8 of the Constitution states: "The Congress shall have power... to pay the debts of the United States... to borrow money on the credit of the United States... to coin Money, regulate the Value thereof, and of foreign Coin, ... and to make all laws which shall be necessary and proper for carrying into execution the foregoing powers..."

The current Federal Reserve System's method of monetary creation via Federal Funds "open-market operations" is "*unconstitutional*," LaRouche states, because it leaves "the power to create credit in the hands of a powerful cartel of private bankers" led by Goldman Sachs, Salomon Brothers, Citibank, and Chase Manhattan Bank. This encourages cash to flow to speculative, nonproductive activities.

LaRouche calls instead for a return to "the constitutional obligation of the federal government" to ensure that the nation's credit goes to productive manufacturers, agriculture, basic infrastructure, and other neces-