Bush tries to 'just say no' to financial cataclysm

by John Hoefle

The perilous state of the U.S. financial system was again demonstrated April 10, when the Resolution Funding Corporation (Refcorp) returned to the market a second time to try to sell 40-year bonds in order to raise money for the Resolution Trust Corporation (RTC). Refcorp, set up by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) to raise "off-budget" funds for the RTC, put $5 billion of the so-called "bailout bonds" on the market Jan. 23. The auction was a fiasco, with the dealers who bought the Refcorp bonds taking a beating. "It was a disastrously bad auction," S.G. Warburg analyst Joseph Liro told the *Wall Street Journal*.

Refcorp surprised many observers when it announced that it would offer a second bond issue, but, as several analysts noted, if Refcorp didn't return to the market, it would be widely seen as an admission that the first auction was indeed a flop—something the government has steadfastly denied. The primary securities dealers reportedly urged Refcorp to reduce the amount of bonds offered on the second issue, which Refcorp did, marketing only $3.5 billion the second round. Once again, the entire issue was sold to dealers, and once again, the dealers were stuck, and "forced to cut prices in an attempt to attract buyers," in the words of the *Journal*.

"It was a rerun of the last auction. It was pretty bad," said Shearson Lehman Government Securities senior vice president James Capra.

While the analysts and financial press debated the reasons why the Refcorp bond met with such a resounding lack of success, the reason is simple: No one wants to be stuck holding 40-year government junk bonds.

The thrift "bailout" is proving to be a bottomless pit, just as *EIR* has forecast. The Bush administration's original $166 billion estimated cost was a fantasy, a number pulled from some bureaucrat's hat for public consumption. The RTC has repeatedly demanded more money in the form of working capital—funds above and beyond the original allocation. The latest manifestation of that process is the $43.5 billion the RTC has been authorized to borrow from the Treasury for the second quarter. Theoretically, the principal will be paid back from the sale of assets from the 141 thrifts the RTC plans to sell or liquidate in this quarter, with only the interest being paid by the taxpayer—some $28 billion over 30 years, according to government estimates.

The figures on the ultimate cost of the "bailout" keep rising. The latest figures released by the Government Accounting Office project that the program will cost $350 billion over 30 years, compared to the administration's claimed $166 billion and previous GAO estimates of $257 billion. But that cost could rise even higher. "If we ever get the economy working against us, such as a recession, then the estimate that some have made that it will cost half a trillion dollars is possible, unfortunately," said Comptroller General Charles Bowsher, head of the GAO.

Since the nation is in the midst of a worsening depression, that $500 billion figure is, if anything, on the low side. Even RTC Chairman L. William Seidman, who also heads the Federal Deposit Insurance Corp., refused to rule out the possibility that the cost might exceed Bowsher's $500 billion estimate.

For comparison, Bowsher noted that even at $325 billion, the thrift package would exceed last year's defense budget of $303 billion.

The administration's response to this, aside from conceding that the thrift package might cost a bit more than planned, is to move to strengthen its political control over the thrift system. Immediately following the release of the GAO study, Attorney General Richard Thornburgh met with Timothy Ryan, the new head of the Office of Thrift Supervision, to plan the crackdown. The government's response was enunciated by Justice Department spokesman David Runkel, who announced that the government will begin seizing the assets of institutions and individuals accused of thrift fraud before they are ever brought to court, "to prevent the assets from being dissipated." Concepts such as due process and "innocent until proven guilty" are apparently considered unnecessary expenses in Bush's administrative fascist regime.

In lockstep, the Federal Bureau of Investigation has requested that Congress give it the power to seize office documents, bank files, and related records of individuals and businesses without a subpoena. The process, known as "administrative summons," would allow the FBI to seize records on its own initiative, without authorization from a judge. The power, if granted, would give the FBI much freer rein to conduct its notorious politically motivated witchhunts against opponents of Establishment policy.

LaRouche's analyzes the situation

The Bush administration continues to insist that there is no crisis, even as it runs covert warfare against those who dare to reveal the truth. As political prisoner Lyndon LaRouche—himself a victim of the Bush police-state apparatus—stated April 12, "The Establishment in the United States is faking the news; virtually nobody is carrying the truth, either because they don't know it, or because they're outright lying, or because they're simply hysterical to go along with the Bush consensus, say, in the case of the United States.

"We're at a crisis," LaRouche said. "The economy is collapsing, the financial system is being held together by sheer force of political will and the authority of governments; nobody dares bring forth publicly what was discussed at the G-7 meeting, just these reverberations, in the midst of the greatest financial crisis of the 20th century; we're in an economic collapse, bankruptcies piling up day by day in the United States at rates we've not seen since 1931-32, and on a larger scale: absolute catastrophe. The government of the United States is in a state of decay like nothing we've seen since the founding of our federal republic and similar cases in Europe.

"The important thing is we have to get into reality. I think my campaign slogan, with all its ironical implications—the campaign slogan more or less forced upon me by circumstances, and George Bush—is the most appropriate thing to sum up the situation: 'Eat It, George!' "

As an indicator of the U.S. economy's downward spiral into oblivion, the *EIR* Bank Stock Index, which includes 60 money center and regional banks, dropped 12.5% between March 6 and April 6—a 150% annual rate—with the worst performing banks all located along the East Coast, reflecting the mounting real estate crisis in the region.

Meanwhile, rumors abound nationally and internationally that Chemical Bank, the sixth-largest bank in the nation, is near collapse. Chemical was the first big bank to move into Texas, with its purchase of Texas Commerce Bancshares. The combination of Texas Commerce's well-known real estate problems and Chemical's growing problems with its own real estate loans, leveraged buy-out debt, and developing sector loans is proving too much for the bank to overcome. According to *EIR* sources, the Federal Reserve is desperately seeking to find a buyer for Chemical.

The failure of Chemical would be especially embarrassing to the Bush administration, given the intimate relationship between the bank and two members of the Bush cabinet. Secretary of State James Baker's family has historically played a key role at Texas Commerce, and Baker was forced to sell his stock in Chemical—acquired when Chemical bought Texas Commerce—under a cloud of conflict of interest allegations. Commerce Secretary Robert Mosbacher was a director of Texas Commerce; his brother Emil Mosbacher is a director of Chemical. Were Chemical a thrift, these men would be logical targets for the FBI's fraud squad.

Bailout bill, or looting permit?

The FIRREA thrift bailout bill is not, and never was intended to rescue the savings and loan system. The purpose of FIRREA is just the opposite: It is a vehicle for looting the assets of the thrifts in order to prop up the commercial banking system. Under FIRREA, the Resolution Trust Corporation is well on its way to becoming the largest bank in the world, as well as the nation's largest real estate company and the nation's largest junk bond owner—and, some would say, the world's largest boondoggle as well.

This financial Frankenstein's monster now wields enormous financial power, capable of terrorizing the financial system. When the RTC hinted that it did not have to continue to pay interest on mortgage-backed securities it obtained from seized thrifts, it sent shock waves through the financial system, prompting Moody's Investors Services to consider downgrading all $26 billion of mortgage-backed securities issued by the nation's thrifts. While the RTC has since stated that it will generally continue to honor such obligations, the point is clear: The RTC is the administration's—and thus the financial elite's—pet monster, to be used to keep the players in line during the unadmitted collapse.

The RTC is also in a position to manipulate the market on a large scale. By holding its billions of dollars of junk bonds off the market, it props up the entire junk bond market, thereby protecting the big commercial banks which hold billions of junk bonds and junk bond-related bridge loans.

By keeping billions of dollars or worthless paper and nearly worthless real estate and related assets off the market, while deploying the FBI to destroy all those who would object, the Bush men think they can hold the system together. Such delusions are the hallmark of great tragedy.