LaRouche Declares: Paulson Is 'F**king Incompetent'

by John Hoefle

Within the space of a week, the Federal Reserve announced the emission of $400 billion in cash to bail out the bankrupt U.S. banking system, and Treasury Secretary Henry Paulson released a report by the President's Working Group on Financial Markets (PWG) which maintained that the system was fundamentally sound, except for a few excesses which need to be curbed. These actions, taken together, reflect a case of axiomatic blindness so profound it boggles the mind. The bankers and their regulators are acting on impulse, not intellect, and their impulse is to try to save themselves and their power at all costs. It is stupidity on a world-historic, civilization-killing scale.

"Paulson is f**king incompetent!" exclaimed Lyndon LaRouche in response to the PWG report. "They all are. It must be said directly: They are f**king incompetent."

Strong words indeed, and entirely warranted, because what Paulson and Fed chairman "Helicopter" Ben Bernanke are doing, is attempting to have the Federal government bail out the U.S. banking system by transferring the losses to the government and, ultimately to the American people. Among the many problems with that approach is that the banks' losses are so large, that creating enough dollars to plug the hole would destroy the value of the already plunging dollar through hyperinflation.

As LaRouche observed in his March 12 webcast, "We now have obligations in the world, in the order of magnitude of *hundreds of quadrillions of dollars* of nominal claims. These claims *will never be repaid.* They *could* never be repaid."

Even Paulson and Bernanke have no illusions of bailing it all out—Paulson has made it clear that the banks and others will have to take painful losses. Saving the system, in their terms, does not mean saving everyone within it. There have already been failures of small banks and billion-dollar hedge funds, and those failures will escalate. Many of the biggest banks and securities firms have already taken tens of billions of dollars in losses, and those losses will continue. Some may even be forced into shotgun mergers, but the plan is to keep the biggest institutions from openly failing, and even consolidate their hold over the economy as the smaller institutions collapse. A major reorganization of the system is already in progress.

When it comes to finance, the bankers are quite clever. Unfortunately for them, there is much more to economics than just finance, and it is what they don't know, and refuse to understand, that will destroy them.

Helicopter Money

On Friday, March 7, the Fed announced two extraordinary measures, totalling $140 billion in additional money. One was a series of term repurchase agreements (RP)—effectively, 28-day loans—up to a cumulative total of $100 billion, to be made to primary dealers, a group of 20 securities dealers with whom the Fed deals directly. According to the New York Fed, it would accept as collateral for these repo agreements, "any of the types of securities—Treasury, agency debt, or agency mortgage-backed securities—that are eligible as collateral in conventional RP agreements."

The second move was the expansion of its Term Auction Facility (TAF) to $100 billion, from its previously announced $60 billion, with $50 billion to be provided on March 10, and the remaining $50 billion on March 24. For both the repo agreements and the TAF auctions, the Fed said it would increase the amounts offered, "if conditions warrant," and said

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that the TAF auctions would continue "for at least the next six months unless evolving market conditions clearly indicate that such auctions are no longer necessary."

Considering the way the markets are evolving—disintegrating, to be more accurate—it is a safe bet this was only the beginning of an escalating bailout operation. The proof of that fact came just two business days later.

On Tuesday, March 11, the Fed announced that it would lend an additional $200 billion of Treasury securities to its primary dealers through a new Term Securities Lending Facility (TSLF). These loans would be for a 28-day period, and would have looser collateral requirements. For the TSLF loans, the Fed said, it would accept "federal agency debt, federal agency residential-mortgage backed securities (MBS), and non agency AAA/Aaa rated private-label residential MBS." The TSLF, the Fed added, "is intended to promote liquidity in the financing markets for Treasury and other collateral and thus to foster the functioning of financial markets more generally." At the same time, the Fed announced the expansion of its currency swap agreement with the European Central Bank (ECB) to $30 billion, and of a similar agreement with the Swiss National Bank to $6 billion—increases of $10 billion and $2 billion, respectively.

The March 11 action was coordinated with other nations in the G-10, and corresponding announcements from several major central banks. That same day, the ECB said it would "offer U.S. dollar funding to European counterparties," as it also had in December and January, and would continue to do so for as long as "prevailing market conditions" require. The Swiss National Bank announced a similar action, while the Bank of Canada announced C$4 billion in 28-day repo agreements. The Bank of England said it would accept a wider range of collateral for its open market operations.

Roach Motel

Obviously, the central banks would not be providing hundreds of billions of dollars in funding to the banking system were it not necessary, and the 28-day time frame for the bulk of this money means that repayment will not be required until after the end of the first quarter, when the banks must certify their books. That, by itself, buys some badly needed time, but does nothing to solve the problem.

The suspicion grows that, given the increasingly wide range of collateral the central banks are willing to accept, the goal of these moves is not the injection of cash into the banking system, but the absorption of the paper being taken in as collateral—that once worthless paper is taken in by the Fed, it never leaves, the financial equivalent of the Roach Motel. ("They check in, but they don't check out!")

Such an operation would, in a limited sense, address the issue of the solvency of the banking system, by soaking up bad assets. The problem with the banks is not that they are short of cash, but that they are carrying lots of worthless loans and securities as assets on their balance sheets. Merely giving them money does nothing to solve their bad-paper problem, but "nationalizing" that bad paper by selling it to the Fed would.

Given the magnitude of the bad paper, however, the Fed cannot provide sufficient money to solve the problem without triggering a hyperinflationary blowout of the value of the dollar. Either way, the banking system is gone.

Paulson's Incompetence

It is from that "damned if you do, damned if you don't" context that the report by the President's Working Group is revealed to be a fraud. In this "Policy Statement on Financial Market Developments," and in Paulson's remarks introducing it, the picture is painted of a financial system which, though troubled, is fundamentally sound. There are excesses which need to be curbed, regulations which need to be tightened, procedures which need to be changed, and even new "infrastructure" to be developed, but all of it should be done from within the context of the private sector. Paulson makes this explicit, saying that, "the markets, not regulators, will ultimately sort this out." "Regulation needs to catch up with innovation ... but not go so far as to create new problems," he warned.

The PWG report is written to sound plausible, to pour oil on troubled waters, but these are the very same waters the Fed's extraordinary interventions are roiling. To the public, it paints a picture of a situation which is containable, but, at the same time, there are some signals to the insiders that significant changes are coming in the way securities will be created and valued, and in the way over-the-counter derivatives and other off-balance-sheet items will be handled. As we said before, the system is being reorganized before our very eyes.

What must be understood, is that this is a political, not a financial, solution. The financial system has already died, and the current rigor mortis-like problems, are the effects of that death. The newp system the bankers are trying to put into place is based upon pushing the costs of the failed system onto the public, through a combination of austerity and Enron/Halliburton-style privateering, imposed by fascism. The financial measures are aimed at keeping the public in the dark while the fascist apparatus is put into place.

The soaring price of oil, and the consequent price of gasoline, are effects of this bailout operation. The price of oil is set, not by OPEC, but by the financial markets, and so every time you fill up your car with $3-plus/gallon gasoline, you are paying a hidden tax to bail out the banking system. The same thing happens when you buy a loaf of bread, because of the speculation on wheat which has sent prices soaring. The hyperventilating you do when you fill up your car or buy groceries, is actually caused by the hyperinflationary collapse of the financial system, and these foolish attempts to save it.