Paulson's Three-Point Plan: Panic, Change Pants, Rinse and Repeat

by John Hoefle

"Take a deep breath," President George Bush advised us this week, and for once, on that one point, he was right. Bush was trying to head off the latest episode of financial panic by rallying us to hang tough, to have confidence. "We're going through a tough time," he said, but "we can have confidence in the long-term foundation of our economy." One of the proofs he offered of this is that "consumers are spending." No kidding! With prices for gasoline and food and virtually everything else in the consumer market-basket soaring, consumers will keep spending. Apparently, in Bush's limited worldview, price-gouging and hyperinflation are indications of strength.

Still, everybody knows that Bush knows nothing about the economy, or virtually anything else, but what about his vaunted experts, like Treasury Secretary Henry Paulson and Federal Reserve chairman Ben Bernanke? Paulson, after all, is one of the Goldman Sachs "masters of the universe," while Bernanke is widely touted as an expert on the Great Depression.

LYM/Will Mederski

Treasury Secretary Henry Paulson on March 18, 2008. His credibility as the expert from Goldman Sachs has been considerably tarnished.

This dynamic duo may know a lot about the financial markets, but when it comes to economics, they are just as stupid as their glorious leader. Lyndon LaRouche has more than once denounced Paulson as incompetent, and good ol' Hank has done everything he can to prove LaRouche right. This is the gang that couldn't shoot straight.

The latest bit of insanity from these boobs is the so-called "bailout" of Fannie Mae and Freddie Mac, done, we are told, to protect the "housing market" and help the American people. Once again, the big money is riding to the rescue of the little guy! If you believe that, I have a bridge for sale you might want to take a look at.

Paulson interrupted his ongoing panic on Sunday, July 13, to announce a three-part plan to rescue Fannie and Freddie by throwing more taxpayer money at them. He was aided in this fool's mission by Bernanke, who announced that the Fed stood ready to lend the ailing companies whatever they needed, until Paulson's plan could kick in.

Faced with the worst economic disaster since the 14th Century, the one that spawned the Black Death, we have a dimwit President assuring us that all is well, while his experts pour our money down the bottomless rat-hole of a dead financial system. On top of that, we have legions of economists, analysts, pundits, and other prostitutes assuring us that all is well, if we just believe. The economy is fine, so grow a pair, and keep your chin up. When the going gets tough, . . . *ad nauseam*. They talk a good game, but they've been wrong about virtually everything so far, and seem incapable of getting it right.

Delusional

What Paulson, Bernanke, and the rest of the Ding-a-ling Brothers, Barney and Bailout Circus refuse to accept, is that the bubble has popped, and their speculative financial casino has failed, leaving the banks holding trillions of dollars of securities which are now virtually worthless, dependent upon a business model which no longer exists. The heady days of expansion are gone, replaced by a desperate fight for survival, in which once-powerful institutions have begun to disappear, with many more to follow. The game is over, but the players remain on the field, shell-shocked, refusing to admit they have lost.

For decades, the bankers have pushed deregulation and globalization, fighting to break free of the rules and regulations imposed upon them by nations. They have largely accomplished that goal, only to find that they have destroyed themselves in the process, and, much to their chagrin, must turn to governments to save themselves. Even so, they refuse to admit the errors of their ways, blaming everyone but themselves for their failures.

Last December, as the year came to a close and books needed to be balanced, the major western central banks delivered a series of liquidity injections designed to save the banks. The European Central Bank announced $500 billion in emergency loans, and followed that up in January with another $250 billion; the total is now well beyond $1 trillion. The Federal Reserve created a new lending window for depository institutions called the Term Auction Facility (TAF) in December, promising $100 billion for the month; the TAF began holding twice-monthly auctions, offering $20 billion at each, but the amount has increased steadily to the current $75 billion per auction. To date, the TAF has loaned $810 billion to the banks, out of $1.3 trillion requested.

In March, as the first quarter was ending, the Fed created two more of these emergency lending windows, the Term Securities Lending Facility (TSLF) and the Primary Dealers Credit Facility (PDCF) to lend to investment banks. This represented both a significant expansion of the Fed lending operations, and a leap in the Fed's power, as heretofore, its lending operations had been restricted to depository institutions. To date, the Fed has lent over $550 billion through the TSLF.

Now, just a few months later, Paulson is seeking yet another expansion of the bailout mechanism, this time, for Fannie Mae and Freddie Mac. The plan originally leaked to the press was to inject up to $15 billion into the companies to bolster their balance sheets, but that quickly turned into a three-point plan involving an expanded line of credit from the Treasury, the authority for the Treasury to buy equity in the companies, and giving the Fed a role in the regulation of the companies. In addition, the Fed announced that it would allow Fannie and Freddie to borrow from the Federal Reserve Bank of New York. Paulson declined to state how much money would be required, effectively asking for a blank check, while vowing to "protect the taxpayer." He also claimed the emergency funds and powers would be temporary.

Thus we have an ever-growing bailout operation, trying to cope with an accelerating banking collapse and failing miserably, all being managed by regulators who have yet to get anything right. Paulson's credibility as the expert from Goldman Sachs has been considerably tarnished. His M-LEC SuperSIV bailout plan announced last year never got off the ground; his plans to "modernize" the U.S. financial regulatory system would reduce oversight and give more power to the Federal Reserve—the same Fed which played a major role in getting us into this mess; and now he is moving to put the taxpayer on the hook for the losses in the mortgage bubble.

Thrown to the Wolves

This insane plan is being sold as a way to stabilize Fannie Mae and Freddie Mac and thus the U.S. housing market, in order to help homeowners, but what it really is, is a way to transfer losses from the bankers to the taxpayer by turning Fannie and Freddie into toxic waste dumps. Far from saving the already broke Fannie and Freddie, Paulson's plan will destroy them.

The banks are broke and cannot save themselves, so they turn to the only institution that can, the U.S. government. Paulson has already made clear, through his Hope Now Alliance and public statements, that Fannie and Freddie must play a crucial role in the refinancing of problem mortgages.

Protecting homeowners from foreclosures is an admirable goal, but the primary purpose of all of these bailout measures is to protect the banks, by protecting the valuations of the securities they hold by the trillions. What Paulson, Bernanke, and the Plunge Protection Team are trying to do is to put a floor under the real estate market, to slow or stop the decline in housing prices, as a way of slowing the vaporization of the trillions of dollars of mortgages, and the hundreds of trillions, perhaps quadrillions, of dollars of mortgage-related securities and speculation leveraged on top of those mortgages.

The loans to the banks and the investment banks from the Fed serve a similar purpose, since the Fed accepts a wide range of collateral, including mortgage securities, for loans, giving the banks the opportunity to dump their bad paper on the Fed in exchange for cash. The primary purpose of many of these loans appears to be taking the bad paper off the banks' books, addressing their insolvency crisis under the guise of dealing with a "credit crunch." It is the mountain of bad paper, not the lack of cash, which is killing the banks.

Overall, the various bailout schemes being pushed by Paulson and Bernanke amount to a giant debt-recycling scheme, in which losses are transferred from the banks to the taxpayers, giving the banks the profits and the public the losses. It is incredibly corrupt, and incredibly stupid.

This scheme cannot work. The bailouts may seem to be working, with obligations being transferred from the books of the banks to the books of government-backed institutions, but transferring bookkeeping entries is not the same as paying the debts, and this is where it all breaks down. The problem is that the U.S. economy no longer produces enough wealth to cover the debt. We have been operating below breakeven for some four decades, dismantling our manufacturing capability and cannibalizing our infrastructure to the point that we cannot support the existing debt load, much less the endless trillions of dollars of losses the bankers would dump on us. We are a net debtor nation; during the 2000s to date, we have incurred over $5 in debt for every $1 rise in GDP, and most of GDP is services and other overhead. We incur this debt because we no longer produce enough wealth to cover our expenses. The government can print money to try to cover these huge debts, but the resulting hyperinflation will destroy the dollar, and everything in its path. The only solution is LaRouche's: Write it off.