# LaRouche to Washington: Stop Bailing and Think!

by John Hoefle

A couple of months after the bankers and the banking regulators assured us that the worst was over, the global banking crisis is worse than ever, and the "temporary" bailout operations are being expanded yet again. The so-called housing bill has been signed into law, the stimulus checks have all been issued, the Fed's three emergency lending facilities have been up and running for months, and yet, despite it all, the securities markets range from moribund to dead, the banks continue to post huge losses, bank failures are on the rise, and there appear to be quiet runs on the banks, as nervous depositors take actions to defend themselves.

These bailout efforts clearly are not working, and yet the regulators continue down this unproductive—actually counterproductive—path, seemingly unable to help themselves. They are attempting to bail out a bottomless boat, which keeps sinking, no matter how fast they bail. Perhaps they should try a new tack, take that deep breath recommended by President Bush, and start to think for a change, instead of merely reacting. Sure, it will be embarrassing for a while for them to admit they have been on the wrong track, but it is better than the humiliation they face when the banking system completely disintegrates, and takes their trillions of dollars of bailout money with it.

Lyndon LaRouche recommends to Washington and Wall Street that they stop their knee-jerk reactions to the crisis, quit acting on their obviously ill-advised impulses, and use whatever power of reason they have left to adopt a real solution, based upon the American System of economics. They should stop and think for a change, instead of reacting like frightened rabbits. It worked for FDR, and it can work again, and LaRouche has already provided the roadmap.

White House/Shealah Craighead

*President Bush and Treasury Secretary Paulson should "take a deep breath," and start thinking instead of reacting to the blowout of the banking system. But will they listen? Shown: Bush and Paulson in the Rose Garden, May 2006.*

## A Little Reality

The whole bailout scheme rests on the assertion that we are in a cyclical downturn, and that if we can just hold on, the upswing will kick in, and prosperity will return. That's why the bankers, the regulators, the pundits, and the news poodles keep telling us that we're nearing the bottom; each plunge, they reassure us, only brings us closer to prosperity. Yet we keep falling, with no bottom in sight.

## Mr. Paulson's Consensual Folly

July 30, 2008

The purported remedy presented by a committee-in-fact headed by U.S. Treasury Secretary Paulson, is typical of the case in which a purported remedy has been chosen which is a more virulent expression of the same disease which has been the cause of our nation's frantically accelerating economic ruin up to this time.

The essence of Secretary Paulson's calamitous folly in this case, is that the frantic lusting for a consensus has resulted in the design of a proposed remedy designed to defend the disease.

In the case of a potentially terminal phase of a sickness such as that which grips Europe and North America at this instant, we are menaced by a man-made catastrophe caused by the very policy-shaping doctrines of practice which Secretary Paulson and his accomplices have rushed to defend. Thus, do fools, not God, create all those catastrophes which plunge entire civilizations into catastrophes comparable to that of Europe's Fourteenth-Century New Dark age.

The only remedy which would work is that which I have proposed. My proposal kicks against the pricks, admittedly. Admittedly, I rejoice in the opportunity to do just that. That, on principle, is the only kind of action which could actually work.

Therefore, if our nation goes to Hell, as it seems soon hell-bent under the designers of such false remedies as that just proposed by Paulson, et al., the blame lies entirely on their intellectually cowardly failure to choose the non-consensus option which I have presented.

All great tragedies of history were, by definition, created by a consensus, just as a tragically misguided Secretary Paulson et al., out of weakness of nerve, have chosen to prostitute themselves to a clearly fatal consensus of predatory financier interest looting of our nation and its people, rather than risk the displeasure of that predatory financier rabble, a financier interest only typified by such predators as Felix Rohatyn and George Soros, which has chiefly caused the already onrushing doom of our own and other nations at this time.

There is only one morally acceptable remedy in the eyes of all true patriots at this time. Proceed in the footsteps of President Franklin D. Roosevelt, or be destroyed as if by the Creator Himself for failing to do so. —*Lyndon H. LaRouche, Jr.*

That's because this is not a cyclical downturn, but the inevitable death of a financial, economic, political, and social system, four decades in the making, in which the greatest industrial engine the world has ever seen was *deliberately* destroyed and replaced with services, information processing, and financial speculation. Productivity was replaced by overhead, causing the economy to operate at an increasing deficit. To fund that deficit, we incurred ever greater amounts of debt, and then we began to treat that debt as an asset, to be capitalized, leveraged, and speculated upon, creating a bubble of leveraged financial bets and claims upon leveraged bets and claims, which rose into the quadrillions of dollars in gross aggregate. Michael Milken's junk bonds paved the way for mortgage-backed securities and derivatives, generating huge pools of fictitious capital, which were then plowed back into new bets, and leveraged again to the point that no one knows the true level of claims in the system, how those claims are interlocked, and what will happen when the process shifts into reverse and begins to disintegrate, as it has.

What can be said, is that this whole house of cards is doomed. It is doomed because the level of claims against the economy is now many, many times greater than the amount of claims that our productive sector can support. We can no longer pay the interest on all the debt, much less repay the principal. We are, as a nation and an economy, bankrupt.

Even at this late date, however, the problem can be solved, but the solution depends upon admitting the errors of the past, and being willing to deal with the consequences. For starters, that means we have to throw out the post-industrial—actually anti-industrial—ideology and commit our nation to rebuilding our productive base with the most modern technology at our disposal. We need to produce, as rapidly as possible, sufficient nuclear power plants to provide the electricity to drive a network of high-speed, magnetically levitated (maglev) trains to deal with our transportation bottlenecks, to power the new plants and factories which will be required to produce the material needed to rebuild our tattered infrastructure.

We must once again understand that economics is based not upon finance and the manipulation of money, but upon providing the physical basis for life—the food, shelter, clothing, education, health care, and similar products and services necessary for humanity to survive and thrive. People, not money, must come first. Money and banking are necessary, but they must serve the economy, not control it.

## The Bottomless Boat

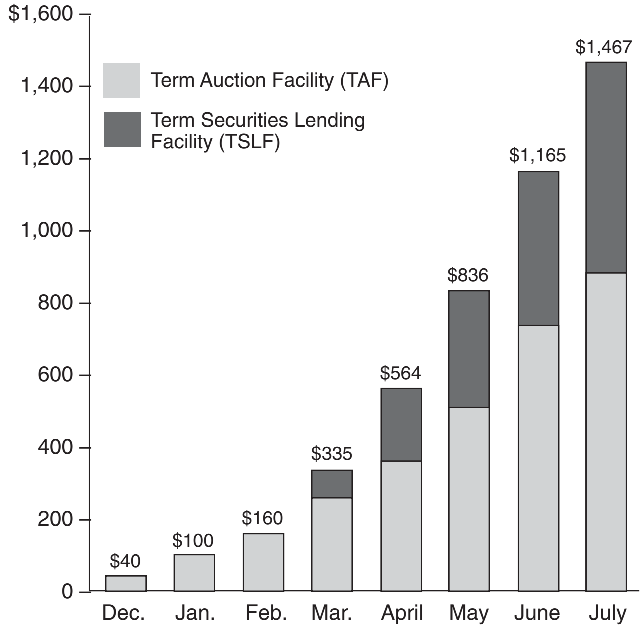
Perhaps Treasury Secretary Henry Paulson, Fed chairman Ben Bernanke, House banking committee chairman Barney Frank, and others really believed that the crisis was temporary, that a little cash (measured in the tens of billions!) would see the banks through the "credit crunch," or perhaps they just told themselves that because they didn't have the guts to face the truth. Either way, it should be obvious to them by now that their plan has failed, yet they continue blindly down the bailout path, either too stupid or too afraid to change.

The runaway nature of the bailout disaster can be seen in a number of actions taken in the last week of July.

President Bush on July 30 signed the so-called housing bill which contains provisions for a open-ended Federal bailout of the mortgage market, including unlimited credit for Fannie Mae and Freddie Mac, and a Credit Suisse-designed provision to have the Federal Housing Administration subsidize mortgage lenders. Paulson, knowing the time bomb hidden in the bill, had demanded that Congress exempt the money spent on Fannie Mae and Freddie Mac from being counted under the national debt ceiling—a move LaRouche called tantamount to high treason—but senior members of Congress rejected the demand as un-Constitutional.

On the same day Bush signed the "housing" bill, the Fed announced that it was extending the supposedly temporary emergency lending facilities through January 2009, and introducing an 84-day loan program in its Term Auction Facility (TAF). Previously, the bi-weekly TAF auctions were restricted to 28-day loans and a $40 billion limit on total loans under the program, but that limit has been repeatedly expanded and now stands at

FIGURE 1
**Federal Reserve Turns Up the Money Pump**
(Cumulative Loans, $ Billions, December 2007-July 2008)




Source: Federal Reserve.

$150 billion. The Fed also increased by $50 billion the amount available under its Term Securities Lending Facility (TSLF), one of two programs created in March of this year to lend to investment banks. To date, $885 billion has been lent through the TAF, and $607 billion through the TSLF. The extension of these bailout facilities was expected, since the Fed has repeatedly signaled an open-ended commitment to keeping the bankrupt banks afloat. (see **Figure 1**.)

Paulson also held a press conference July 28 to push "covered bonds" as a way to revive the private mortgage-securities market, but the plan is too little, and far too late, and was probably intended as protective coloration for the "housing" bailout scheme.

Finally, the Financial Accounting Standards Board (FASB) announced July 30, that it had reversed a decision made in June, and would postpone the planned implementation of accounting rules which would have forced some financial institutions, notably including Fannie Mae and Freddie Mac and some of the biggest banks, to move back onto their books certain types of off-balance-sheet vehicles. In doing so, FASB capitulated to great pressure from the banks and the regulators, who are determined to keep the extent of the losses hidden.