Bailouts Won't Save a Global Economy That's Breaking Apart

by John Hoefle

Dec. 12—The specter of bankruptcy is hovering over the U.S. economy, both in the fears of failing households and businesses, and in the need to put the entire system through a bankruptcy reorganization before it collapses completely. This financial system is going down, and the only real question is whether we will have the sense to reorganize it before it disintegrates completely.

That same warning applies to our society itself. As the banking system crumbles around us, as our Federal, state, and local governments slide deeper into the red, as our productive base continues its slide into oblivion, what are we doing about it? Is our very civilization itself not disintegrating before our very eyes?

Washington, at least for now, is committed to an insane bailout plan, printing money like mad and throwing it down the rathole. When that doesn't work, Treasury and the Federal Reserve open the spigots even further, reminiscent of a gambling addict on a losing streak, betting it all that his luck will change. We expect this sort of behavior from Wall Street, where a real banker hasn't been spotted for decades, but the Federal government is supposed to know better, to be more than an ATM for the degenerate speculative culture which dominates finance.

What about state governments? States are at a significant disadvantage with the Federal government in the gambling game, since they cannot print their own money, but we see failure in the states, too. A number of states have joined the bailout parade, lobbying for a share of the money flooding out of Washington. No doubt they need the money, but does anyone really believe that these bailouts are a solution?

Then we have the corporations, which are sending lobbyists to Washington in droves, hoping for their piece of the pie. The banks, obviously, are first in line, gobbling cash as if they were on the verge of death—which they are. Becoming a bank holding company to get a place on the bailout teat has become a booming business, with even the drops left over after the big boys drink attracting great interest. On top of that we have the insurance companies, the hedge and private equity funds, the finance companies—anyone with an arguable claim of being in finance—all vying for pieces of the bailout pie.

Everyone is screaming "Save me!" while damned few are examining the flaws in our thinking that got us into this mess in the first place. It is a shameless and embarrassing spectacle, a sign of a society gone insane.

Auto-Eroticism

The current flap over "saving" the domestic auto sector is a case in point. What is being discussed will be no more effective than the bank bailout, and is, in fact, an adjunct of the bank bailout.

The auto sector has, like most of American industry, been transformed into an appendage of the financial sector. From the bankers' perspective, Detroit's main product is the car or truck *loan*, with the manufacture of the vehicle more of a necessary by-product, similar to the way homes were built mainly to create mortgages.

Feeding the debt machine was job number one.

With its frequent styling changes and planned obsolescence, the U.S. auto industry was designed to maximize turnover, and thus the creation of debt. Through the auto companies' own bond sales, and through the sales of cars, the sector provided a steady stream of cash to Wall Street.

When the auto companies began to run into serious trouble in 2005, the financial parasites moved in to protect not the workers or the production, but the paper. Banker Felix Rohatyn and the Cerberus hedge fund and corporate raider/casino mogul Kirk Kerkorian were among those deployed into the auto sector to keep the debt flowing.

At the time, Lyndon LaRouche proposed to save the domestic auto sector by converting its machine-tool capacity and idle plants to building the machines and other components required to rebuild America's infrastructure and productive base. Rather than building cars they couldn't sell and the public did not need, the auto sector could use its capacity to build the nuclear power plants, steel mills, maglev trains, and other infrastructure so badly needed today.

The financiers, determined to prevent just such an outbreak of technological development, blocked LaRouche's plan, and thus sealed the fate of the auto sector. What is playing out today is the inevitable consequence of that decision.

The domestic auto sector is dead, and the major manufacturers bankrupt, killed by the high price of gas and the collapse of the financial system, and by their own stupidity. If they want to survive, they need to take LaRouche's advice, and quit being appendages of the bankers.

Breakdown

The consequences of allowing the parasites to take over our economy go far beyond Detroit, however. What we are witnessing is the breakdown of the global economy as a whole.

One of the early warning signs of breakdown can be seen in the transportation sector, where world shipping volume is in rapid decline. Ocean-going cargo ships are being mothballed and orders for new ships cancelled. Container cargo at the ports of Los Angeles and Long Beach—major ports for Asian-U.S. trade—was down some 10% in November over November 2007. The decline in shipping is also hurting the U.S. railroads, where car-load volume dropped 10% in October over the year before, and the delivery of new rail cars is projected to drop sharply in 2009.

The mining sector is declining sharply, with cutbacks in production due to falling demand and falling prices. The British Empire's Rio Tinto, one of the largest mining concerns in the world, has announced that it will cut its workforce by 13%, put many of its mines up for sale, and slash capital spending.

The combined effects of cutbacks in mining and cargo transportation reflect a breakdown in the global supply chain. If the mines do not produce and the ores do not ship, then the fertilizers necessary for agriculture and the metals necessary for manufacturing will not be produced, with devastating consequences.

These declines are accelerating as the effects of the financial collapse spread. We are losing the capability to produce and transport products upon which human life depends, and the consequences will be horrific. According to the UN Food ad Agriculture Organization, 14% of the world's population—some 963 million people—are malnourished, a increase of 40 million people in one year.

The financial crisis is also wreaking havoc on U.S. employment. The number of people filing for unemployment compensation for the first time hit a 26-year high last week, up a whopping 58,000 to 573,000. Corporate layoffs announced this year through October were already higher for the year than the full-year totals in 2006 and 2007. Some of the jobs being lost are in the productive sector, but the majority are in the service and financial sectors. Some 92,000 investment banking job cuts have been announced since October, and more can be expected as the banking system consolidates.

What is rapidly falling apart is the whole globalization model, and the post-industrial society. Having stripped its industrial might in favor of outsourcing production and relying on services, information, and finance to drive our economy, we now find ourselves in deep trouble on every front. At the same time, the nations to which we shifted our production, notably China, are in deep trouble, as shipping collapses and consumer demand in the U.S. and Europe drops. The whole world is breaking apart.

This can be reversed, but only if we abandon the foolish policies which brought us to this point. The financial system is finished, and the bailouts are only making matters worse. But there is no reason for the rest of us to go down with these fools.

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