



## *Bailout or Heist of the Century? What Will Be the Consequences?*

*Companion Article* (from the author)

*By Dene McGriff*

Let's add up the bailouts so far: \$29 Billion for Bear Stearns, \$200 Billion at least for Fannie Mae and Freddie Mac (it could go much higher), \$85 Billion for AIG (that could go higher too) and now \$700 Billion to bail out banking. That comes to a cool \$ Trillion and change. That is on top of a \$421 Billion (reported) Federal Deficit, another

Trillion or so in unfunded liabilities (Social Security, Medicare, etc.) and who knows how many hundreds of Billions for the wars in Iraq and Afghanistan. Is this Bush's goodbye gift to Wall Street?



Unfortunately, the rhetoric we hear now as Congress debates the bailout sounds very similar to the lead up of the Iraq war. The fear mongering is reminiscent of *Orwell's 1984* where "big brother" comes on the TV every day to stir up fear so the good citizens will continue to support the government. It is astounding that three quarters of the American people believed that there were weapons of mass destruction and that Saddam Hussein was in league with Al Qaeda. In the same way, we see fear mongering over the bank bailout.

*"Today, another government official is trying to "scare the hell out of the American people...Although certain financial institutions are undeniably in deep trouble — difficulties of their own making, we might add — the problems in particular financial circles should be kept in perspective."* (***Financial Fear Mongering***) We are warned that Congress must act by Friday, September 26,

2008, or we will suffer dire consequences. Congress is being hurried and pressured to give unprecedented powers to the Treasury and the Federal Reserve just as they were rushed into passing the Patriot Act and the War in Iraq.

The mode of operation of the Bush administration is to create a crisis in order to grab more power and reward friends (or at least it certainly appears to be so). Before coming back to the economy, let's look briefly at the Iraq war and who has benefited. The Nobel Prize winning economist Joseph Stiglitz estimates *the cost of the wars* (Iraq and Afghanistan) to be grossly underestimated and to be at least \$3 Trillion.

### **Price tag for Iraq, Afghan wars**

*A new book by Nobel laureate Joseph Stiglitz makes conservative and moderate estimates for the wars' costs, in billions:*

- Conservative estimate totals \$2 trillion
- Moderate estimate totals \$3.1 trillion

**Social costs** (Statistical value of death, injury, medical costs)

■ **\$295**

Add the cost of veterans' healthcare and counseling and it is more like \$5 to \$7 Trillion. Even Bush's own *intelligence agencies* tell us that the world is not safer as a result of the Middle East wars.

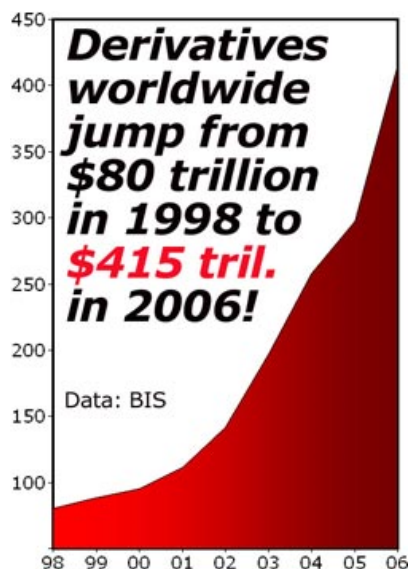
So who benefited the most from this? How about all the contractors such as *Halliburton* as their stock soars? There are as many civilians in Iraq as there are military (*180,000 vs. 160,000*), not to mention tens of thousands of *mercenaries* such as the infamous *Blackwater* who are paid many times more than our soldiers.

Who benefited from Iraq? The thousands killed and wounded? The thousands who return only to fight the *Veterans Administration* for their benefits? Or has Iraq benefited from the destruction of their country and the loss of a million *civilians*? Or is that just the price of freedom? Or maybe Bush's friends in the military industrial complex have profited? Who are the *The 25 Most Vicious Iraq War Profiteers*?

So who is to blame for the financial mess we are in today?

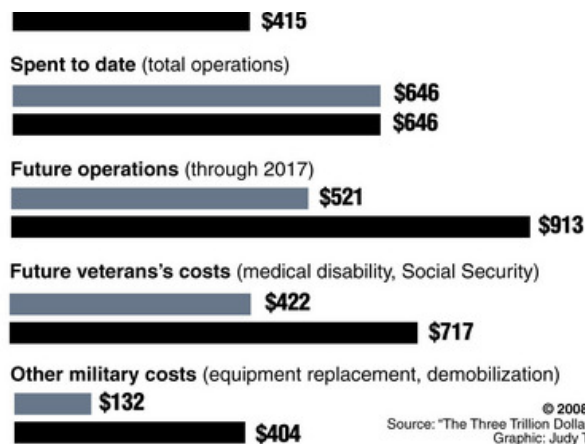
**Ironically, the Bush administration has been one of the most activist, reckless administrations in the history of the United States. This administration has grabbed more power and spent more money than any in the history of the country.**

When Bush came into office, the Federal Deficit was about \$5 Trillion and Clinton presented him with a surplus, at least superficially. In his two terms, he will have more than doubled the deficit to \$11.3 Trillion. The House Budget Committee recently published a report titled "*Why Deficits Matter.*" Deficits have to be financed and they are currently being paid for with foreign capital. They hurt economic growth and will encumber our children and grandchildren for years to come. A deficit of \$10 Trillion at 6 percent interest, for example, results in an interest payment of \$600 Billion! This is no small change and an increasingly significant part of the budget.



The fault clearly lies upon the reckless policies of the Federal Reserve (both administered by Alan Greenspan and now Ben Bernanke) which led to the tech, housing and commodities bubbles. We have all been reading about this for many years. It should be no surprise that lowering interest rates to below inflation levels (thus, essentially free money) and increasing the money supply by huge amounts will lead to too much liquidity – too much money sloshing around in the world. Debt creates more and more money (for a simple explanation as to how this works please see my article on *Modern Alchemy*).

The financial wizards got even more creative and thought up *derivatives* (again, for a simple explanation, please see my article on *Derivatives, Fascism and the Almighty Dollar*). *Derivatives* are a way of hedging or leveraging investments. Although not in existence until recently, they have doubled in the last two years to \$800 Trillion. Warren Buffett called them financial “weapons of mass destruction.” You may have heard of CDOs (*collateralized debt obligations*) which are basically debt (mortgages, credit, car or student loans, etc.) bundled and sold and resold each time leveraged with less and less money up front. If the debt goes bad, the obligations become due along that daisy chain. That is why they saved Bear Stearns. Although the bailout was only \$29 Billion, \$13.4 Trillion in derivatives could have unraveled the entire financial situation of the world! The same with Fannie Mae and Freddie Mac although the number is much bigger. This is a totally unregulated part of the economy and certainly cause for concern although all you hear about is the subprime mortgage mess which certainly started it all. What's happening here are the world bankers playing with other people's money in a CASINO-style game that continues to spiral out of control and, like the fox counting the eggs in the hen house – well, sooner rather than later there will be no eggs to count.



If you are an economist and understand all this, you can read the hundreds of reports and analysis published by the Federal Reserve and the Treasury. They have known the danger their policies presented and the consequences. It is galling to hear them sound professorial, confident that they have the answers and yet a little clueless – gee, how could this have happened? Now that they have caused the problem, they know what to do?

## *MOUSING HOME SALES*

For the past several years I worked part time in new home sales. As I met customers in the model homes, a representative of Countrywide or Wells Fargo met with customers in the back room. I cringed as I heard them get creative trying to figure out any way they could to get the person qualified – “stated income” (liar loans), no down, interest only, etc. I remember one day when a little Mexican lady came in and wanted to know what her payment was. She could barely speak English so I switched to Spanish. I pulled her file and will never forget the look of shock on her face as I told her the payment (taxes and insurance included) – a few cents shy of \$4,000 a month!

I remember the first place I worked in North Stockton – 4500 square foot McMansions in the \$600,000 range. I met some of the owners such as one nice couple with one adorable ten year old daughter. The parents were both military but commuted to the Bay Area. I wondered what people with only one child were doing with such a big house!!! These same houses are now being sold in the \$260k to \$280k range today.



A local real estate company interviewed me. They got the seller to give 20 percent of the price to a foundation (which became the buyer’s down payment) and the price went up accordingly. Appraisers also played the game. I said “no thanks.” Everyone knew what they were doing from the top of the company (which paid bonuses for more loan origination) to the bottom. I don’t fault most of the people buying the houses. It is a very complicated process and no one reads the fine print. Most trusted their realtor and loan broker. I remember making an offer on a house four or five years ago. A person I knew for nearly 40 years tried to talk me into one of these loans and I just about threw him out on his ear, I was so mad. I knew the cost. We have become a society where the little guy loses his house but the company that knew he couldn’t make the payments (because he lied about his income or the rate would adjust way high) and now we bail out the company?

## *Why Bailouts?*

I have listened all day to the rhetoric on CNBC and Bloomberg. There is a lot of talk about “Main Street” and helping people keep their homes, but that seems to be all there is – talk. What is the biggest concern? Do they care about “Main Street”? No. Do they care about “Wall Street”? Not really. So who do they care about? They took over Fannie Mae and Freddie Mac at a hundred billion each and the stock holders were wiped out, but the bond holders were saved. Why? Most of the bonds are held by governments like China, Japan, Germany and Russia. If we didn’t stand behind the bonds, the central banks around the world would lose confidence and stop buying our debt! Plain and simple!

Where is the \$700 Billion going to come from? Countries such as China are going to buy the bonds (even though we the people/taxpayers pay them off eventually) and give us the cash we desperately need. Why bail out AIG? AIG held



most of the credit default swaps (CDS). And what on earth is that, you may ask? A credit default swap is basically an insurance policy written by companies guaranteeing the holders of debt instruments against default. In other words Banks bought insurance to

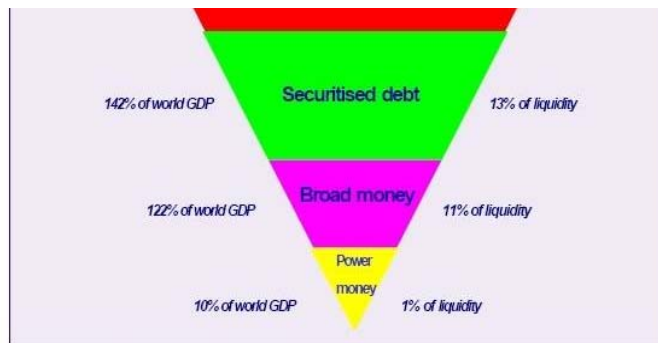


Figure 9. Source: BIS, *Independent Strategy*

protect themselves from loss so if you remove the backstop, they are left holding the bag. And guess who else owns these CDSs? You guessed it. Foreign governments. If AIG was allowed to fail, foreign investors would have been burned badly; and the U.S. financial system depends on the continued inflow of capital from these overseas investors.

Any other reasons for bailouts? There is a problem with liquidity. Banks are losing money as these packaged loans default and begin to unravel (what they call

**“counter party agreements” or derivatives**) Banks don’t want to loan out money to customers or one another.

They have been going to the Fed the past several months and exchanging junk paper for loans – amounting to about a Trillion dollars so far. Why do they need another \$700 Billion of your money? They are broke. The banks can’t pay them back.

So where is all this going? The United States is caught in a debt spiral and is completely dependent on selling bonds to other countries for cash to cover the deficit, bailouts and the trade deficit. Let’s add this all up. Let’s see. There’s probably \$1 Trillion in budget deficits (including military and other off the books expenses), \$1 Trillion (at least) in various bailouts and nearly \$1 Trillion in trade deficits! That’s pretty close to \$3 Trillion in deficits in just one short year (and I’m sure there is a lot more hidden and not counted here). And who keeps us going? Other countries. It’s like the drug dealer down on the corner loaning the junkies money so they can keep buying from him.

## *Unintended Consequences*

If foreign central banks were to lose confidence in the American economy and stopped buying our debt, we would really crash and burn. What would cause them to lose confidence? The continued erosion in the value of the dollar! If I loaned you a hundred dollars and was able to keep printing money so that the value dropped in half and ten or so years later I gave you back the hundred dollars plus interest but the currency had lost half its value and was worth only fifty dollars, you wouldn’t be very happy. That has been our strategy and so far in just the last few years we have seen the dollar lose half its value against major currencies. Now, there is an incentive for them to keep playing the game because **they make stuff that we buy with the money they loan us**. If we stopped buying, their industry would take a nose dive. We are the importer/consumer economy of the world! So for now, the game continues. Other countries are beginning to shed dollars. *OPEC* producing nations are switching from dollars to Euros.

And what is the consequence of all the debt? There are two very simply. First, it has to be paid back and second, the holders of debt (other countries) are using their dollars to buy American land, business and industry. The growing debt levels are what the experts would say UNSUSTAINABLE. We cannot continue to depend on others to pay our bills and we won’t be able to afford to continue to pay them.

The problem with smart people like Bernanke and Paulson is that they think the financial system can be manipulated indefinitely. That is a fool’s position because eventually balance must be reestablished. We are so afraid of the adjustment – a recession if mild or a depression if allowed to get far out of balance (which it has) or the total destruction of the current monetary system. In history, the time can also come when a Germany, Mexico, Argentina or Italy default on their debts and start all over again. Getting stiffed for gazillions of dollars hurts but they get over it.

The other consequences to the unsuspecting public is the most gigantic dollar heist in the history of the world as the government increases the tax burden on its people to epic proportions, wipes out their investments and controls every financial breath they breathe. It will give the Treasury and Federal Reserve (a private corporation) unprecedented power and access.



What Paulson *proposed* in June, he has *today*.  
“He's asking for a huge amount of power,” said *Nouriel Roubini, an economist at New York University*. “He's saying, ‘Trust me, I'm going to do it right if you give me absolute control.’ This is not a monarchy.” The Federal Reserve already has the power to nationalize banks, freeze accounts and pay us our FDIC insured money over time, say \$50 a day with a maximum of \$500 a month, to be settled a few years down the road.



This could be a power grab equivalent to the *Patriot Act* which gutted the Constitution and attacked privacy. In this case, it gives total control to a government that supposedly believes in the private sector, capitalism and all that. It prevents the natural adjustment only delaying the inevitable consequences which will be much worse. The harder they try and prevent an adjustment, the greater they fall. The more they try and control, the more debt they assume, the more money they print, the more likely the world's central banks will stop the borrowing frenzy resulting in the final destruction of the dollar. And did I mention that Japan tried all this over the past 18 years and it didn't work. They bailed out banks, lowered the prime rate to zero, did public works and to this day their stock and housing markets are still down 75 percent.

China suggests we move toward a “world currency” – how far are we from it or are we *de facto* there right now in the form of the ever elusive dollar? I think we are. The *amounts of dollars* being talked about in these bailouts staggers the mind – controlling all of this on “our behalf” has always been the goal of the Fed – now they're almost there – it's only a matter of time.

“There is no secret that can be hidden from you! With your wisdom and your understanding you have gained riches for yourself, and gathered gold and silver into your treasuries; by your great wisdom in trade you have increased your riches, and your heart is lifted up because of your riches” (Ezekiel 28:3-5).

Dene McGriff, Sacramento

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