Piling Bailouts Upon Bailouts

ITEM: *An editorial in the* New York Times *for November 1 advocated a federal bailout of state government budgets. Noted the* Times: "*The National Conference of State Legislatures has begun appealing for Congressional help with the 'precarious' financial status of many states.... If Congress and the White House can bail out bankers and insurance companies and possibly the auto industry, they should be able to help state and local governments, too.... In addition to extending unemployment benefits and food stamp programs, which provide the biggest immediate boosts to states' economies, one promising idea being pushed by governors is to put more federal money into projects like roads, subways, bridges, tunnels, schools and sewage plants.*"

ITEM: USA Today *reported on October 31:* "*Not long ago, the International Monetary Fund had a problem that bankers don't normally face: It had lots of money and no one to lend it to. That isn't a problem any more.*"

Now the problem is that the fund does not have enough money to lend. USA Today *continued:* "*Simon Johnson, who recently stepped down as the IMF's chief economist, says up to 20 countries eventually may require fund help. But the IMF only has about $250 billion available for all lending — not enough in a world of massive cross-border capital flows. 'It needs a lot more money.... Ten times more money than it has,' Johnson says.*"

CORRECTION: The best three-card Monte player that Washington might hire still can't change the fact that government cannot make us wealthy by spending more money. But big government and its promoters continue to try to push this con game — such as, as noted above, by giving incentives to people who have made unwise housing investments, bailing out profligate state governments to fund whatever Pharaoh-like schemes seem expedient, or even promoting a global redistribution of wealth with the United States acting as central banker to the world, as the International Monetary Fund and Federal Reserve seem inclined to do of late.

Invariably, it turns out that political intervention has led to the economic problems at hand, and the earlier intervention becomes a pretext for even more government intrusions.

In much the same fashion that liberals have long wrongly taught that the Great Depression was the result of a failure of laissez-faire in order to justify FDR's schemes — which of course didn't work (there were more unemployed Americans in 1938 than in 1932) — today's interventionists also blame the "free market" for producing the current financial crisis.

Indeed, French President Nicolas Sarkozy has declared: "The all powerful market that always knows best is finished." So what is proposed? Sarkozy has the virtue of being blunt. Claiming, "*Laissez-faire, c'est fini*," he has admitted: "We will intervene massively whenever a strategic enterprise needs our money."

Today's bailouts have no apparent end. British Prime Minister Gordon Brown wants to beef up the powers of the International Monetary Fund. The IMF already says it will offer a trillion dollars to the developing world and has grandiose notions of saving the international monetary system.

The IMF scheme at hand is to inflate its own importance by giving billions in loans to "healthy" nations, with $30 billion each being held out to Brazil, Mexico, South Korea, and Singapore so those nations will swap their currencies for dollars.

The IMF long made a practice of loaning to governments that had broken their economies. Economist Hans Sennholz noted in 1979 that the IMF represented the "spurious notion that the policy of inflation can be made to last indefinitely through cooperation of all member governments. It acts like a governmental cooperative with 146 members that tries to coordinate the inflationary policies of its members."

The marketplace doesn't work anymore, say the experts. We are supposed to trust these experts to know how to fix the problems, even though the creation of new money and credit by the Fed and Treasury, and the U.S. government's Community Reinvestment Act of 1977, led to the current financial problem in the first place. As usual, the big government backers are happy to use problems to increase their own powers.

But Frank Shostak, an adjunct scholar of the Mises Institute, sees through the gambit: "If central bankers and government bureaucrats can fix things in difficult times, why not in good times too? Why not have a fully controlled economy and all the problems will be fixed forever? The collapse of the Soviet Union's centralized system is the best testimony one can have that controls don't work. A better way to fix economic problems is to allow entrepreneurs the freedom to allocate resources in accordance with society's priorities."

The best rescue plan would be to allow market mechanisms to operate freely. However, as Shostak says,

> This is precisely what the government rescue package prevents from happening. The government package is not going to rescue the economy, but it will rescue activities that the economy cannot afford and that consumers do not want. It will sustain waste and promote inefficiency, draining resources from growth and efficiency. Remember: government is not a wealth generator; it can only take resources from A and give them to B.

There seems to be no end to the government's willingness to hand over tax monies outright or loan our assets to others as a form of political capital. Billions of dollars have already been promised to automakers, who are just part of the parade of industries on the corporate dole, and other various special-interest groups are anxious to rip off some goodies for themselves. As noted by Dr. Robert Higgs, a Senior Fellow in Political Economy for the Independent Institute:

> Hundreds of billions here, hundreds of billions there — pretty soon you're talking about real money. It will be highly depreciated money, however, because the government's bailout commitments to date, along with its already huge budget deficit, ensure that the Fed will be flooding the world with newly created dollars, and, other things being equal, each one's creation

> reduces the purchasing power of every existing one. So far we must contend with $700 billion authorized by the big bailout law enacted on October 3; $85 billion for the AIG loan; $100 billion each for Fannie and Freddie; an undetermined amount, but potentially as much as $1,300 billion for the Commercial Paper Funding Facility; $25 billion for the auto companies; and $540 billion for the money market mutual funds. Together, these giveaways, all ultimately taken out of the taxpayers' hide, amount to an astonishing $2,850 billion — a sum almost equal to total federal government spending in the fiscal year just completed.

Of course, most of these outlays nominally take the form of loans, and much of the money probably will be repaid eventually. Nevertheless, extension of the loans must be financed in any event, and in the present circumstances, such financing is inconceivable without gigantic expansions of central-bank credit, which require nothing but a snap of the Fed's electronic finger. If you are not expecting a surge in price inflation, then you need to review your economics notes.

The problem, whether at the local level or beyond, is that the U.S. government already spends the equivalent of about 40 percent of the national income. Our financial failings today are decidedly not from a free-market failure, but from big-government encroachments. Why do the automakers need a rescue? In large part, they have their hands out because statists used the government to foist expensive fuel-economy regulations on consumers who didn't want them and colluded with the United Auto Workers to resist changing benefit packages that were above their competitors' elsewhere. So now we are told the taxpayers should have to pay for these poor choices.

Marxist historian Eric Hobsbawm seems delighted to reprise the Depression days. He recently told the BBC: "It is certainly the greatest crisis of capitalism since the 1930s.... There'll be a much greater role for the state, one way or another. We've already got the state as lender of last resort, we might well return to the idea of the state as the employer of last resort, which is what it was under FDR. It'll be something which orients, and even directs, the private economy."

Old failed ideas keep resurfacing. Soon, it would appear, we can expect another "stimulus package" — again using government spending as if that were a magical amulet that could make us better.

Representative Ron Paul (R-Texas) takes heed of the fact that much of this spending is unconstitutional, not that such matters bother those doing the spending. Says Paul:

> The next stimulus package is likely to include money for infrastructure. While these investments are, constitutionally speaking, supposed to be made by state and local governments, it is not likely that Congress will suddenly begin to pay heed to the document we are all sworn to uphold. Still, we need to acknowledge the fact that the current Congress and Administration are rushing the nation toward bankruptcy.

This being the case, we could hope they would at least come to their senses regarding our debt and foreign spending sprees. Our nation's foreign-held debt is at record highs and moving ever higher. Continuing to borrow money from Red China and others in order to pay "dues" to the United Nations and run "Plan Colombia" makes no sense at all.

Our whole carrot-and-stick approach to foreign policy makes no sense. The U.S. government simultaneously gives money to Israel, and to Egypt. We send AIDS money to Africa while AIDS clinics in America shut down. "Millennium challenge" funding goes to countries which enact "market-based reforms" as we push our own country further and further into a centrally planned economy.

All in all, much of this should seem familiar to students of history. Social engineers just love to allocate what they think is the right mix of resources, as they redistribute wealth and ration goods and services. Yet, as counterproductive as all of these schemes are, there is a real goal in mind. It was once propounded by Karl Marx, who called for the "centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly."

Old Karl was just aiming a bit low for today's social and fiscal engineers.

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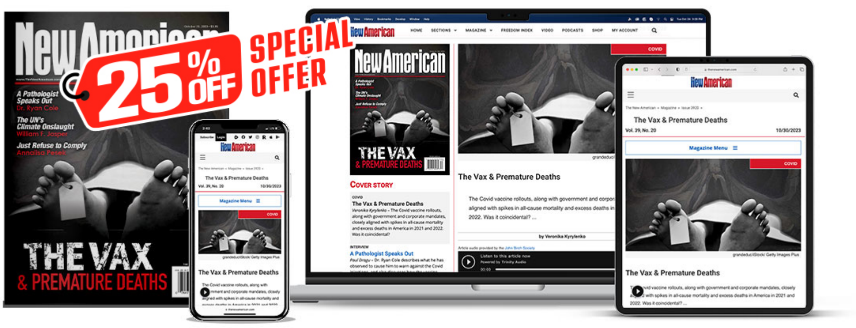

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