Bill Would Prohibit Federal Reserve Bailouts for States, Cities

Amid the fiscal meltdown in Puerto Rico, a coalition of Republican lawmakers introduced a bill in Congress that would prohibit any federal or Federal Reserve "funny-money" funding to bail out state, county, local, or territorial governments across the United States. If the legislation is approved, the prohibition would apply to bailouts by both the Obama administration's Treasury and the "independent" Federal Reserve System, which in recent years has conjured trillions of dollars into existence out of thin air to bail out mega-banks and other cronies in America and worldwide. Some analysts, though, are skeptical of the motives.

The anti-bailout measure comes amid Puerto Rico's ongoing financial woes, problems so serious that the island, a territory of the United States, is said to be in a "death spiral" after defaulting on its debts. At the same time, America is also facing a widely anticipated wave of looming state, county, and municipal bankruptcies in the face of outlandish pension obligations and wild debts run up by Big Labor-controlled politicians. Some city governments, including Detroit (shown) and Stockton, have already declared bankruptcy in recent years. More will follow in the months and years ahead.

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The legislation, entitled No Bailouts for State, Territory, and Local Governments Act (HR 5276), is only four pages long. The purpose, according to the summary, is simple: "To prohibit the provision of Federal funds to State, territory, and local governments for payment of obligations, to prohibit the Board of Governors of the Federal Reserve System from financially assisting State and local governments, and for other purposes."

Opponents of bailing out fiscally irresponsible state and local politicians and bureaucrats celebrated the legislation. Some analysts, though, suspect the bill is really aimed at saving all of the potential Federal Reserve bailouts for the federal government itself, which currently has more debt and unfunded liabilities than any entity has ever accumulated in all of human history. Among other liabilities, Washington, D.C., has a national debt close to $20 trillion, owing much of it to the Fed and Communist China. That figure does not include unfunded liabilities, which experts estimate at between $100 trillion and $200 trillion.

More than a few states are also in trouble. Among state governments, the Big Government-dominated states of Illinois, California, New Jersey, and New York are said to be in the most dire financial straits — and that is despite imposing some of the highest tax burdens in the nation. Conservative states such as Alaska, Wyoming, the Dakotas, and Florida are in the best shape, and also have among the lowest tax rates. Numerous Democrat-controlled cities are also facing impossible-to-pay pension obligations and debt loads. Several have already gone under, stiffing bond holders.

HR 5276, which has gathered some two dozen cosponsors in the House of Representatives since it was introduced last week, is short, specific, and to the point. It states: "Notwithstanding any other provision of law, no Federal funds may be used to purchase or guarantee obligations of, issue lines of credit to, or provide direct or indirect grants-in-aid to any State government, municipal government, local government, or county government which, on or after January 1, 2013, has filed for bankruptcy, has defaulted on its obligations, is at risk of defaulting, or is likely to default, absent such assistance from the United States Government, if such purchase, guarantee, extension of credit, or grant is made for the purpose of assisting the government in avoiding defaulting on the payment of principal or interest due on an obligation of the government; or curing such a default."

The bill then explains, more specifically, that both the U.S. Treasury and the Federal Reserve System are subject to the prohibition. Of course, it is not clear that either institution possesses the authority to bail out anyone or anything absent the bill. In fact, the state governments that ratified the U.S. Constitution did not delegate any bailout authority to their agent, the federal government, in the contract that brought it into existence. Therefore, the language of the Constitution strongly suggests that neither Washington, D.C., nor the privately owned central bank it created with the Federal Reserve Act has the power to offer bailouts. However, considering the Fed's actions amid the 2008 financial crisis, the lack of constitutional authority appears to mean little to those in power.

Specifically, lawmakers said the disaster in Puerto Rico was what prompted the legislation. "Puerto Rico's recent default on a $422 million debt payment has reinforced concerns about other state and local governments that have overextended themselves and made promises too big to keep," said Congressman Andy Barr, the Republican from Kentucky who introduced the House anti-bailout bill on May 19. "This legislation makes clear that federal taxpayers will not be on the hook for their fiscal mismanagement. As we continue to debate legislation to address Puerto Rico's debt crisis, it is important that we send a strong signal to other cash-strapped states and cities that they must reform their broken finances because there will be no bailout from Washington."

The bill has also been introduced in the U.S. Senate as S. 2939, or "the State, Territory, and Local Government Bailout Prevention Act," by Republican Senator David Vitter of Louisiana. "American taxpayers are under no obligation to bail out states, territories, and local governments that recklessly mismanage their budget. Folks in Washington are still trying to find a way that gives Puerto Rico an easy out that would only set a dangerous precedent of placing the economic burden on the taxpayers," said Vitter in a statement. "My bill will make sure that taxpayer-funded bailouts are not an option when states, territories, and local governments fail to manage their money."

The more cynical financial commentators, who believe that lawmakers might be trying to save all the fiat currency-funded Fed bailouts for the federal government, which is drowning taxpayers in unprecedented levels of debt, were vocal in their suspicions. "Uncle Sam has the worst finances of the bunch — $19 trillion in debt, $40+ trillion in long-term pension liabilities, and decades worth of budget deficits," explained Simon Black, founder of SovereignMan.com, which among other activities publishes financial commentary. "But unlike state governments, the U.S. federal government has an ace in the hole: the Federal Reserve. Right now the Fed is one of the largest holders of U.S. debt; whenever the U.S. government goes into debt, the Fed essentially bails them out by printing money and buying Treasury bonds."

Calling the situation “pure insanity,” Black argued that Congress was hoping to rig the system in its favor by essentially ordering the Fed to save all the funny money it prints for the federal government. “As the most insolvent government of them all, Congress needs all the bailouts it can get, and they can’t afford to have any competition from cities and states,” he added. “This pretty much tells you everything you need to know about the financial system: There is so much debt in the system, and these governments are all so absurdly bankrupt, that Congress proposed a special law to make sure they get to steal 100 percent of the money that the Federal Reserve is conjuring out of thin air all for themselves.”

So far, despite an avalanche of reports on Puerto Rico’s insolvency, the media has largely ignored the legislation to ban any federal bailouts to distressed state and local governments. That might be because journalists, who typically lack any economic understanding, do not even comprehend it. However, it could also be because the bill shines a bright light on an important problem that has afflicted the United States for generations: The fact that a banking cartel styling itself the “Federal Reserve” actually has the ability to conjure currency into existence out of thin air, then loan it out to governments, banks, foreign powers, and crony capitalists.

And the Fed has not hesitated in the past to bring trillions of new debt-backed fiat dollars into existence to reward its irresponsible cronies. Less than a decade ago, the outfit was showering trillions in new currency on cronies all over the world, including foreign central banks, foreign state-owned banks, multinational companies, Wall Street mega-banks, and more. The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) estimated the potential total cost of the combined 2008 financial crisis bailouts at $23.7 trillion, with a T — or more than $75,000 per person in the United States. All of that was done with essentially no oversight from Congress. And when media outlets tried to find out more, the Federal Reserve Bank of New York, which led the scheming, responded in court that, as a privately owned institution, it had no obligation to comply with Freedom of Information Act requests. Seriously.

Punishing savers and taxpayers in fiscally responsible states for the out-of-control spending and borrowing of politicians in Democrat-controlled cities and states would be an outrage of monumental proportions. That holds true whether the funds are borrowed from Communist China by Obama’s Treasury Department, or conjured into existence (and looted from all holders of existing currency) by the banking cartel behind the Federal Reserve. It should not even be contemplated. However, the anti-bailout legislation, while the intent appears admirable, would not even be needed if Congress, the courts, and the executive branch obeyed the Constitution they all swore an oath to uphold.

Lawmakers in both parties should take this opportunity to audit and eventually end the Fed, and rein in the Obama administration’s lawless bureaucracies that acknowledge practically no limits on their power. It would also be wise to allow big-spending politicians (and the voters who recklessly put them in power) to face the consequences of their irresponsibility. That might hurt, but so would the alternatives, and at least it would teach the nation some sorely needed lessons. Plus, anything less would make a mockery of justice and common sense, setting the stage for future tragedy.

Photo of Detroit: Haljackey

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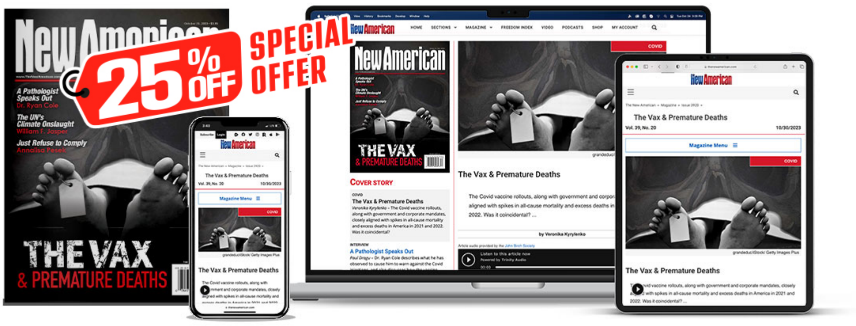

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