New American
Written by [Charles Scaliger](#) on February 27, 2009

$750 Billion Bank Bailout in Obama Budget

Figuring prominently in President Barack Obama’s newly released budget proposal for fiscal 2010 is another massive bank bailout. The Bush administration’s gargantuan $700 billion bank boondoggle was bad enough, but President Obama, not to be outdone, is proposing a positively pantagruelian $750 billion in additional relief for America’s beleaguered money-center banks.

This sum amounts to around one fifth of the more than $3 trillion budget, exceeding the $634 billion earmarked for healthcare reform (read: socialization of the healthcare system, which the Clintons coveted but could never bring to pass) as well as the roughly $600 billion contemplated for military spending.

It’s unlikely there’s ever been a clearer statement of the Washington establishment’s real priorities. Healthcare, education, national defense, and a host of other concerns for which Candidate Obama affected demagogic solicitude on the campaign trail are now overshadowed by President Obama’s budgetary realpolitik.

Barack Obama is perfectly aware of the power of the Federal Reserve-centered banking system and the leverage it holds over American politics. It is our inflationary banking system that allows the government to fund unpopular projects — like foreign military adventures and bailouts on behalf of foundering foreign currencies — without resorting to direct taxation. Thanks to the magic of central banking, the government can run up debts and then, with the help of a cooperative Fed, monetize them. This process is inflationary, acting like a tax by eroding the value of the dollar, but it is not well understood by the general public and its full effects are often not apparent until long after the fact. Thus has the banking system been scratching Washington’s back for generations.

Now, President Obama’s Washington is only too happy to scratch back. Both bankers and politicos understand perfectly that the American taxpayer will be stuck with the tab, as usual. As Jim Kuhnhenn of the Associated Press explained, “Taxpayers would foot the entire $750 billion up front. Administration budget writers predict the value of the assets that the government purchases would result in a loss of 33 cents for every $1 spent, hence the $250 billion net expenditure.” In other words, the Obama Administration is expecting to lose big on the deal, but keeping their fingers crossed that they’ll be able to recoup $500 billion (two thirds) sometime in the future by unloading the assets they purchase from banks. No private investor (except a short-seller, perhaps) would purchase any asset in the expectation that it would lose a third of its value. But government can — after all, the money to be spent belongs to other people.

Lobbyists for the banking industry, unsurprisingly, are already praising the proposal. “When the full strength of these programs is felt and the economy turns around, then the value [of the bank assets purchased by the government] will rise," Scott Talbott of the Financial Services Roundtable predicted confidently. "I fully anticipate they [i.e., the government — not the American people!] will make a profit on their investment in the banks."

No doubt the bankers and their kept politicians will benefit from such a spectacularly extravagant bailout. And far from the glad-handing and the champagne corks, the American taxpayer — whose status is becoming more serf-like with each new bailout — will have the costs extracted from his hide.

Photo: AP Images