

Financial Crisis: A Short History of US Government Handouts

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Global Research, February 12, 2009

12 February 2009

Region: [USA](#)

Theme: [Global Economy](#)

Global economies are withering while Washington conceives “Financial Recovery Plan(s) from Hell,” according to economist Michael Hudson in his latest February 11 article. Bankers demand more trillions, “or (they’ll) plunge the economy into financial crisis.” What they want they’ll get, and here’s where things now stand.

On February 10, Bloomberg.com reported that Treasury Secretary Geithner “pledged government financing for as much as \$2 trillion....to spur new lending and address banks’ toxic assets, seeking to end the credit crunch hobbling the economy.” Hudson calls it “Stage One of a two-stage plan,” so far unannounced, to transfer trillions more to corrupt bankers who caused the problem in the first place, yet taxpayers will get little more back than the bill.

On February 11, The New York Times reported that “House and Senate leaders....struck a deal on a \$789 billion economic stimulus bill after little more than 24 hours of rapid-fire negotiations....clearing the way for final Congressional action later this week (so) Obama (can) sign the bill on” February 16 in a prime time TV spectacular.

In America today, they’re called bailouts, but throughout history they were handouts. Some quite generous (though nothing like today’s) and always for the privileged. Never for the public interest or greater good.

Last October, Howard Zinn wrote about them in his Nation magazine article titled “Bailout – A Great Opportunity:”

“Let’s face a historical truth: we have never had a ‘free market,’ we have always had government intervention in the economy, and indeed that intervention has been welcomed by the captains of finance and industry. These titans of wealth hypocritically warned against ‘big government’ but only when (it) threatened to regulate their activities, or when it contemplated passing some of the nation’s wealth on to the neediest people.”

“They had no quarrel with ‘big government’ when it served their needs, (and it) started way back” in 1787 when the Constitution was drafted. The year before farmers from Western Massachusetts and elsewhere rebelled to protect their properties from being seized for nonpayment of taxes. The Founders took note and “created ‘big government’ powerful enough” to deter them in future incidents. To return runaway slaves to their owners, and to massacre Indians to make way for new settlers.

They established the idea of handouts as well. The first one to pay full value for near-worthless bonds held by speculators – an earlier version of buying today’s toxic assets.

It was bad enough, then compounded by taxing the public to pay for them each time, and having a standing army ready in case of resistance. What precisely happened in 1794 when Pennsylvania farmers stood up against unfair tax laws.

“In the first sessions of the first Congress,” markets were manipulated with tariffs “to subsidize manufacturers.” Government also partnered with private banks to establish a national one. These practices were commonplace from that time to now. Only the amounts get bigger. The more concentrated business gets, the greater its appetite and more power it has to satisfy it. It’s now insatiable enough to demand trillions more in handouts before the current crisis ends, looted from the Treasury with taxpayers getting the bill.

Zinn notes how in the 19th century government subsidized canals, the merchant marine, and before and during the Civil War gave about 100 million free acres of land to the railroad barons “along with considerable loans to keep” them in business. It was the largest ever giveaway until Paulson’s-engineered Wall Street one, and as stated above, lots more is coming, and much of it still ahead.

Democrats back it more than Republicans. Another long-standing tradition from the republic’s beginning, as Zinn again noted. He cited Democrat Grover Cleveland vetoing “a bill to give (a mere) \$100,000 to Texas farmers to help them buy seed grain during a drought, saying (dismissively): ‘Federal aid in such cases encourages the expectation of paternal care on the part of the government and weakens the sturdiness of our national character.’ ” However, in the same year he gave wealthy bondholders \$5 million by pricing them \$28 above market value. “Rugged individualism” he called it to make it on our own with a little government intervention for assistance. Only for business. Never the public.

After WW II, military Keynesianism became dogma. Aircraft and other defense industries had to be saved and another Depression avoided. The oil industry got its depletion allowance. Chrysler was resurrected from the dead. Continental Illinois Bank was taken over until sold to Bank of America. Business was shored up overall by the 1971 Emergency Loan Guarantee Act. Post-9/11, the Air Transportation Safety and Stabilization Act was for the airlines. Today it’s rescuing Wall Street and major banks, Fannie, Freddie, AIG, the auto giants, and any other “too big to fail” company. Generous government handouts to revive America’s business, or at least that’s the hope behind them.

Historian Charles Beard’s Documented History of Handouts

In December 1931, noted historian Charles Beard wrote about them for Harper’s Monthly in an article titled: “The Myth of Rugged American Individualism.” He documented 15 examples of government handouts/subsidies to business when the country was sinking into Depression.

(1) Government Regulation of Railways from 1887

Beard asked: “How did the Government get into this business?” At the “insistence of business men, shippers, who were harassed and sometimes ruined by railway tactics.” Through rebates, pools, stock watering, bankruptcy-juggling, savage rate slashing, merciless competition, and much more by some of the most cutthroat of all robber barons. They caused disastrous railway bankruptcies involving bloodshed and arson during the Panic of 1873, the result of financier Jim Fisk and railroad baron Jay Gould trying to corner the gold market. Ulysses S. Grant deterred them. A panic ensued and depression followed - two

years after the great Chicago fire destroyed four square miles of the city, including close to where this writer lives.

(2) Waterways

Since the nation's founding, the government has spent hundreds of millions of dollars funding the development of rivers, harbors, canals, and other infrastructure, and continues to do it for business. "Who (was) back of all this," Beard asked? "Business men and farmers who want lower freight rates. There is not a chamber of commerce on any Buck Creek in America that will not cheer until tonsils are cracked for any proposal to make the said creek navigable." Dredging companies also backed it and companies making their machinery.

Beyond Beard's timeline, the Eisenhower administration began building the Interstate Highway System at the behest of the auto industry, but its origin way pre-dated him with the Federal-Aid Highway Act of 1938. Then another Federal-Aid Highway Act of 1944. Still another in 1952 and under Eisenhower one more plus the Highway Revenue Act of 1956 that created the Highway Trust Fund to pay for the proposed 41,000 miles of roads (up to almost 47,000 by 2004).

(3) The United States Barge Corporation

Again Beard asked: "Who got the Government into the job of running barges on some of its improved waterways?" Not socialists. Good Republicans and Democrats representing the country's business interests.

(4) The Shipping Business

WW I was the proximate cause. For over half a century government stayed out of subsidizing ship builders and allied industries. "Under the cover of war necessities," it went into the business with much joy from the industry. It backed huge merchant marine expenditures in the form of cheap or subsidized funding, and did it by spending money "like water educating politicians." What today we call lobbying.

Beard asked: "Who wants navy officers on half pay to serve on privately owned ships? Business men. Who wants the Government to keep on operating ships on 'pioneer' lines that do not pay? Business men. And when the United States Senate gets around to investigating this branch of business, it will find more entertainment than the Trade Commission has found in the utility inquest." In other words, if Congress ever has second thoughts, it'll be too late. Business will have pocketed their money and used it.

(5) Aviation

Government was already in this business by providing costly airway services free of charge and by subsidizing air mail. Once again, private enterprise was behind the whole scheme, or as Beard put it: "Gentlemen engaged in aviation and the manufacture of planes and dirigibles." Government merely helped out by buying planes "for national defense" or whatever other reason it chose.

(6) Canals

Consider the Panama Canal, for example. East and West coast shippers backed it because of

costly railroad rates. Others with a financial interest in the Cape Cod Canal found that one unprofitable. "They rejoiced to see (that) burden placed on the broad back of our dear Uncle Sam" to bail them out.

(7) Highway Building

Even in Beard's day, "business men engaged in the manufacture and sale of automobiles and trucks" wanted the government to spend hundreds of millions on roads and tax railroads to help pay for them. With a touch of humor, Beard asked: "Who proposes to cut off every cent of that outlay? Echoes do not answer."

(8) The Department of Commerce

Its very name defines its purpose. To promote what Calvin Coolidge called "the business of America." A process Beard described going on in its "magnificent mansion near the Treasury Department, and its army of hustlers scouting for business at the uttermost ends of the earth. Who is responsible for loading on the Government the job of big drummer at large for business? Why shouldn't these rugged individualists do their own drumming instead of asking taxpayers to do it for them?" Herbert Hoover headed the department at the time and outdid all his predecessors in dispensing public money. The same president Herbert Hoover we blame for his public stinginess after the country headed into Depression on his watch.

(9) The Big Pork Barrel

It's been around for ages and entered into the vocabulary after the Civil War. It was named after a container to store pig meat in brine, and in 1801 a farmer's almanac urged readers to "mind our pork and cider barrels." Its need went out with refrigeration but got new life in reference to political bills bringing home the bacon for constituents. For all sorts of things like post offices, rivers, harbors, buildings, and a whole array of boondoggle projects and giveaways. Beard cited public buildings, navy yards and army posts with business interests every time the beneficiaries.

(10) The Bureau of Standards (NBS)

It's now called the National Institute for Standards and Technology (NIST), and was originally established in 1901 as a measurement standards lab under the Department of Commerce to promote US innovation and industrial competitiveness. Given its purpose was to help business, Beard asked: "Why shouldn't they do their own (promoting) at their own expense, instead of turning to the Government?"

(11) The Federal Trade Commission

In 1914, it was established as an independent US government agency. While claiming its principle mission is to promote "consumer protection," it exists solely for business and in Beard's day for "business men who do not like to be outwitted or cheated by their competitors." Why so for "rugged individualists," he asked? Why not let them all do as they please "without invoking government intervention at public expense" and no public benefit.

(12) The Anti-trust Acts

Beard refers to the 1890 Sherman Antitrust Act and 1914 Clayton Antitrust Act - trustbusting legislation of their day to defuse anti-competitive practices. Today they're

mere artifacts at a time business oligopolies and de facto monopolies dominate all major industry groups and are practically omnipotent. It's why Chomsky calls them "private tyrannies."

Earlier, businesses complained that these laws constrained them and their ability to do large-scale planning without risking prosecution. Yet farmers and small business wanted them. The former for lower prices. The latter so as not to be undersold, "beaten by clever tricks, or crushed to the wall by competitors with immense capital."

Individualism inspired both acts, what Woodrow Wilson called "The New Freedom. Break up the trusts," he said, "and let each tub stand on its own bottom." That's how small businessmen felt. Lawyers representing them put it differently: "The natural person's personal liberty should not be destroyed by artificial persons known as corporations created under the auspices of the State."

(13) The Tariff

They go back to the 18th century and were the government's largest source of revenue from the 1790s until WW I. Once income taxes became law in 1913, that changed although taxing income was used during the Civil War and again in the 1890s.

Beard referred to tariffs as the kind of "interference" business men demanded to protect their interests while at the same time wanting "the right of capital to find its most lucrative course, industry and intelligence their natural reward, and commodities their fair price." The idea of "free trade" then was about the way it is now. One way with government protecting business against foreign competition, heavily by tariffs back then. More today by the WTO, NAFTA and the like. Beard's response: "If competition is good, why not stand up and take it?"

(14) The Federal Farm Board

It was created in 1929 so was quite new when Beard wrote about it. He called it a "collectivist institution" and a product of "agrarian agitation on the part of our most stalwart individualists, the free and independent farmers." Hoover sponsored it and signed it into law, but under him its measures were modest at best. It primarily and fundamentally stabilized prices and production through cooperative methods. It financed associations to limit production. The alternative was to let farmers produce what they wish, as much as they could, and sell it at whatever the market would bear. It's slogan was "Grow Less - Get More," cooperate under government leadership or hang separately.

(15) The Moratorium and Frozen Assets

It was a Herbert Hoover plan for a one-year moratorium on payments due the US from foreign powers at a time of growing economic duress as well as a "proposal to give public support to 'frozen assets.'" Its "inspiration" was the jam American investment bankers were in. They made easy money in the 1920s, were now in trouble, and wanted government bailout help.

In 1927, a distinguished German economist told Beard that "the great game in his country, as in other parts of Europe, was to borrow billions from private bankers in the US, so that it would ultimately be impossible to pay reparations, the debts due the Federal Government, and then the debts owed to private parties." As a result, they believed bankers would force

their government to forego its claims for the benefit of private operators. It worked, and according to Beard: “American taxpayers (were) to be soaked and American bankers (were) to collect – perhaps.”

What then is a “frozen asset?” A piece of paper representing a transaction expecting to yield a larger return than possible on a prudent investment. For example, a 7% Western farm mortgage at the time was frozen tight and its holder with it. But why should government have to intervene to save them from “their folly and greed? No reason, except that (investors) want the Government to bring home their cake so they can eat it.”

Beard stressed that “the Federal government does not operate in a vacuum, but under impulsion from without.” From “rugged individualists – business men or farmers or both....The Government operates continually in the midst of the most powerful assembly of lobbyists the world has ever seen.” Representing every business interest “above the level of a corner grocery. For forty years or more there has not been a President, Republican or Democrat, who has not talked against government interference and then supported measures adding more interference to the huge collection already accumulated.”

Woodrow Wilson, for example. He based his 1912 campaign on individualism. A new freedom against corporate wealth controlling government. As a Jeffersonian heir, “he decried paternalism of every kind.” But look at the laws enacted under him:

- the Federal Reserve Act subverting the Constitution by giving a private banking cartel the right to print money, control its supply and price, and charge government interest on what it would not have to pay if it printed its own;
- the Federal income tax to service the federal debt owed to bankers;
- the trainmen’s law virtually fixing wages on interstate railways for certain classes of employees;
- the shipping board law that put the government in the shipping business and let it regulate rates;
- the Farm Loan Act that established 12 regional Farm Loan Banks to serve members of Farm Loan Associations;
- federal aid for highway construction;
- the Alaskan railway;
- the Water Power Act that created a Federal Power Commission with extensive authority over waterways and the construction and use of water power projects; and
- various other acts belying the notion of “the less government the better” so increasingly more of it for business became the law of the land.

Republicans regained power in the early 1920s on a slogan of returning to normalcy and getting government out of business. In fact, they repealed none of Wilson’s laws. They and their ideological forebears “came honestly by subsidies, bounties, internal improvements, tariffs, and other aids to business.” It was their kind of normalcy. Individualism, with no interference, lots of handouts, and nothing changed under Republican and Democrat

administrations through today.

Handouts to Business: the American Way of Life

American business is defined by Socialized costs and privatized profits - more than ever today with trillions in handouts plus all sorts of other generous benefits:

- subsidies and other direct grants;

- tax breaks, reductions, deductions, exclusions, write-offs, exemptions, credits, loopholes, shelters, and rebates even for profitable companies; the bigger they are, the more they get;

- letting corporations be headquartered off-shore and pay no federal income taxes; allowed to repatriate foreign earnings on the same basis; export jobs and erode the nation's industrial base; financialize the economy; make it a casino, and loot the Treasury to cover their bad bets;

- large government contracts of every imaginable kind; some on a cost-plus basis with every incentive to cheat and get more;

- discounted user fees or subsidized use of public resources;

- free government-funded R & D;

- various other government direct payments; every cabinet department as a conduit for government funding to private business; every program from the Department of Commerce, Agriculture and others underwrites it; the FDA for Big Pharma; the FCC for media and telecommunications firms; the FAA for the airlines, the Treasury and Fed for Wall Street, and so forth; the most active "peoples" agency is the IRS;

- other subsidies like accelerated depreciation; the cost of advertising; direct aid for companies that advertise abroad; and much more with Democrats as pro-business as Republicans while at the same time curtailing essential social benefits;

- individual tax breaks for the rich; winking and nodding about billions offshored to tax havens; letting corporate fraud and abuse become the national pastime;

- privatizing more of what government should do and/or does best - schools, highways, bridges, airports, prisons, public lands, utilities, the running of elections, foreign policy, parts of the military, war through the use of mercenaries, outer space, and thus far a failed attempt to take away the most important poverty reduction program for seniors and the disabled - Social Security;

- privatizing wealth and socializing debt;

- abolishing welfare and other social benefits; rendering organized labor impotent in a "Walmartized" society; ruling by the doctrine of rewarding the privileged at the expense of beneficial social change; the greater good; government for the people; human need; and the democratic ideal that government should serve all its people, not just its preferential few.

Beard's "rugged individualism" is pure myth for them. But, rugged or otherwise, it's the

consigned fate for the rest of us – sink or swim at a time a lot of us are submerging.

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