The Fed's Bailout: Whose Money Is It?

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On its own initiative the Federal Reserve has been making decisions to bail out the U.S. financial industry from exposure triggered by the collapse of the housing bubble. The bailouts, which are now extending beyond the traditional regulated banking system to investment banks such as Bear Stearns, involve hundreds of billions of dollars.

The banks inflated the housing bubble, as they do every bubble, by loaning money to borrowers who used it to purchase things they could not buy otherwise.

Credit means, by definition, buy now and pay later. The money used for these loans is largely what the banks are allowed to create "out of thin air" under their fractional reserve privileges. Of course every borrower hopes either to be able to repay its loans from future earnings or to unload the object of the purchase onto someone else. More savvy borrowers hope to keep going by refinancing at lower interest rates at a future date.

A bubble—indeed any type of risky borrowing—is a gamble or a bet. The housing bubble is proving to be probably the worst "bet" ever made by any nation in history. The bet was made by Federal Reserve Chairman Alan Greenspan in cahoots with the Bush administration, because the economy had run out of income derived from legitimate sources like jobs and manufacturing.

You see, the capitalists, who've also been borrowing from the banks, sent these jobs overseas aided by free trade agreements like NAFTA. Lacking income from employment, people then used the temporary proceeds of their mortgage and home equity loans as a source of cash (the proverbial family-home-as-ATM) in order to pay credit card debt or college expenses, buy cars, or defray medical expenses.

But the Fed's current bailouts are not for the ordinary people who can no longer earn enough money to pay for the necessities of life. There are no bailouts—at least not yet—for homeowners facing foreclosure or bankruptcy. Moreover the housing crisis is triggering problems with overextended lending of other types, including leveraging of acquisitions by equity funds such as Carlyle Capital, which is about to be gobbled up by J.P. Morgan Chase.

With all this going on, no one in any official position has addressed the key question, which is: Whose money is the Federal Reserve using for the bailouts?

Let's make one thing clear. Many commentators are saying the Fed is "printing money." ***Wrong!*** The Fed is not doing this at all. In fact the Fed ***should*** print money, because the economy, while debt-ridden, is cash-starved. The Fed or else the Treasury Department should print and distribute money to the populace by the thousands of dollars in fulfillment of a National Dividend this writer has been advocating repeatedly (see "An Emergency Program of Monetary Reform for the United States," Global Research, April 26, 2007). They should do this instead of the piddling $600 "stimulus" rebate now in the works.

Rather the Fed is ***lending*** money, and there's a world of difference.

Suppose you are broke and have huge debts. Someone gives you a hundred thousand dollars. How would you feel? Pretty darned good I'd say.

Then suppose that person says, no, it's a loan, which you have to start paying back in thirty days with interest. How would you feel then? Well, pretty darned awful, especially if you just heard your job is moving to China .

The Fed is lending huge amounts of money, money that has to be paid back and for which interest is charged. And here's the key to the whole situation. The ***only*** way this money can be paid back in the long run is by work that is done within the producing economy. This is work done by people with real jobs—by you and me, if in fact we still have jobs.

The Fed does not own a printing press. ***It owns a great big shiny plastic credit card***. What the Fed is doing is charging the bailout loans on this credit card, with the men and women within the producing economy ultimately responsible. And if we don't pay for these loans directly, we pay them through inflation or higher taxes, because they can also end up as add-ons to the national debt.

In case you are having trouble following this, Mr. and Mrs. Working America, let me be a little more blunt. ***IT IS YOUR MONEY THE FED IS USING TO BAIL OUT THE FINANCIERS!*** Excuse me for shouting, but can I be any more clear than that?

So where does the Fed get the authority to do all this?

Well, everyone knows by now that Congress gave it to them through the Federal Reserve Act of 1913. But it is now time for Congress and the new activist president that we should elect this November to take that authority back—if in fact either of the two competing Democratic presidential candidates Barack Obama or Hillary Clinton is the activist he or she claims to be.

Unfortunately, neither of them is yet saying anything that could be considered a challenge to the Fed or its outrageous and arbitrary rigging of the system to support its fat cat clientele at the expense of "We the People."

Richard C. Cook is a former U.S. federal government analyst, whose career included service with the U.S. Civil Service Commission, the Food and Drug Administration, the Carter White House, NASA, and the U.S. Treasury Department. His articles on economics, politics, and space policy have appeared on numerous websites. His book on monetary reform entitled We Hold These Truths: The Promise of Monetary Reform is in preparation. He is also the *author of Challenger Revealed: An Insider's Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age, called by one reviewer, "the most important spaceflight book of the last twenty years." His website is at www.richardccook.com.*

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