EIR Economics

The Monkey Trap

by John Hoefle

For anyone who follows the financial media these days, it is clear that the situation with the global financial system continues to deteriorate. Giant financial institutions are writing off unprecedented amounts, and desperately seeking new sources of capital to plug the growing holes in their balance sheets. Central banks are injecting funds into the banking system in record amounts, consumer debt and personal bankruptcies are soaring, the whole system seems to be falling apart. Appearances, in this case, are not deceiving.

What we are witnessing are not events which could lead to a financial collapse, but events which represent the disintegration of a system which has already died. This point is crucial to understanding all the maneuvering taking place as various financial groupings fight for their survival as their world crashes down around them. Ultimately this is a political fight rather than a financial one, since the real battle is over the nature of the system which will be established to replace the one which has failed. It is not a money matter to be decided by financial technocrats, but a philosophical and political battle over whether the republic created by our Founding Fathers will survive, or be absorbed back into the imperial system from which it broke free more than two centuries ago.

Two Opposing Views of Man

Under the American System of Economics developed by Benjamin Franklin, Alexander Hamilton, Mathew and Henry Carey, and other wise men, the starting point of economic science is the power of reason of the human mind, with its ability to comprehend and develop the universe in which it lives. Each individual is thus a precious asset to be nurtured and educated, so that he or she may contribute to the welfare of humanity.

The oligarchic system, on the other hand, views wealth as coming from *things*—from nature, from money, from labor, from control over raw materials and trade, and control over people. To the oligarch, humanity is like cattle, a herd to be managed and, when deemed convenient, culled. To the oligarch it is power, not the power of reason, which is important.

This difference between two views of man was the issue when our nation was created; it was the issue faced by Abraham Lincoln; it was the issue faced by Franklin Roosevelt; and it is the issue facing us today.

With the financial system in ruins, the natural impulse of the bankers, the speculators, and the wealthy is to try to save as much of their wealth as possible. Rather than admit their losses, they will insist that the problems are temporary, and that their wealth should be protected for the "benefit" of the public. Self-serving rationalizations are their stock in trade, and some of them even believe their own lies.

Behind these fools who believed that the speculative bubble was real and that the present crisis is transitory, lie a much more evil bunch who intend to use the collapse of the bubble as a way to destroy the final remnants of the American System, and pave the way for a return to the days when empires ruled the world and the peasants knew their place. These old imperial ideas would be matched with modern technology and modern market-based controls, providing for levels of brainwashing, surveillance, and billing in ways that would make Big Brother proud.

The 'Trap' Is in the Mind

The irony is that the oligarchs are using the fools to help them finish the destruction of the nation. An analogy to this is the Malaysian monkey trap, a narrow-necked container into which the hunter puts a nut prized by monkeys. When the monkey reaches into the container and grabs the nut, his hand with the nut in his grasp is too big to be withdrawn from the narrow neck. All the monkey has to do to escape is release his grip and withdraw his empty hand, but he does not, preferring to hang on to his prize even when the hunter returns to collect him. The real trap is not the container, but the inability of the monkey to recognize the nature of his situation. The same can be said of the money fools who refuse to let go of their fictitious assets.

There is but one acceptable solution to this mess: We must use the power of government to put the financial system through bankruptcy, to separate the fictitious claims from the real, protecting the real assets of society—the people—while writing down the speculative paper in an orderly way. Since we are in the midst of a financial firestorm, emergency action is required to erect firewalls to protect the public and the necessary public and private functions. Home foreclosures must be stopped, to prevent people from being thrown out of their houses while we clean up the mess. Education, health care, sanitation, and all the other necessary services must be kept functioning, as well as the food and energy supplies and even the banking system, to handle the ordinary flow of money and to provide credit for the rebuilding process. All of this is possible, it is all workable; the obstacles are not procedural but mental. Like the monkey, we have but to let go of our delusion and we will be free.

Madness

Examine the actions of U.S. Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke, and their peers in this regard. Despite the claims of Paulson and President Bush that they are working to help homeowners avoid foreclosure, what they are really trying to do is prevent the vaporization of trillions of dollars' worth—so to speak—of financial paper, by maintaining the illusion that it still has value. The efforts supposedly aimed at helping homeowners are actually aimed at slowing the collapse of the real estate market in order to protect the values of the mountain of mortgage-related securities and the solvency of the institutions that own it. Far from helping people, they are perpetuating a system which has driven home prices (and rents) to unconscionable levels and ravaged the living standards of the lower 80% of the population, by family income.

The bankers are perpetrating a giant criminal fraud upon the nations and their populations. The securitization scheme of which the mortgage securities were but a part, was designed as a giant debt-recycling machine, converting loan exposures into securities which could be moved off the books of financial institutions and into hedge funds, money-market funds, pension funds, and others. Some of these buyers, like the hedge funds, used them as the basis for speculation of their own, while others, like the pension funds, were merely suckers, lured in by the promise of high yields. Others were little more than toxic waste dumps, where the worst of the securities were hidden from sight—with inflated book values, of course.

Now that this securitization machine has broken, the bankers have turned their attention to the governments of the world.

One of the most interesting aspects of the way in which the central banks have injected money into the banking system, is that they have loosened the restrictions on the types of collateral they will take. From all indications, they have accepted significant quantities of mortgage-related and other securities as collateral for loans, which raises a question as to the extent the loans might be cover for selected draining of some of the worthless paper out of the system. Since the problem of the banking system is *insolvency*, programs that exchanged worthless assets for cash would ease their problems slightly. This wouldn't be nearly enough to rescue them, but it could buy them a little of the time they so desperately need.

The financial system is dominated by mountains of debt which can never be paid, and must be continually rolled over. This debt-recycling process is based upon the idea of taking out new loans to pay off old ones; it allows the illusion that debts are current and avoids such unpleasantries as defaults and bankruptcies, even though the system becomes more bankrupt with each rollover. As long as the money could be found to handle the rollovers, the system could continue; but now, with the collapse of the system itself causing enormous losses, the players are more concerned with saving themselves than in saving others. The banks, knowing how bad their own conditions are, don't trust anyone else, forcing the central banks to pick up the slack in the inter-bank overnight markets. The asset-backed commercial paper markets have shrunk considerably, as have the markets for CDOs and other exotic (read: worthless) instruments. Everyone wants to sell, no one wants to buy, and that's big trouble for paper whose value is based upon what you can get when you sell it.

If the markets can't buy it, all that is left are the governments, which are being pressured by the bankers to intervene. The British press, ever willing to sell nations down the river, have been full of calls for the governments to step in and bail out the banks. Treasury Secretary Paulson stated in December, while on his three-city tour to push his "housing plan," that "the proper role of government is to work with the private sector to avoid a market failure."

We are rapidly approaching the point of open calls for a government bailout of the banking system, far beyond what the Fed, the Federal Home Loan Bank, and other U.S. agencies have already done. This will be presented as a move to help the "little people" as part of the sales pitch, but the way to help the people and the nation is to call a stop to this nonsense, and pass LaRouche's Homeowners and Bank Protection Act (see www.larouchepac.com), creating a firewall to defend the general welfare under conditions of collapse, while a New Bretton Woods-type system is put together.