



## **Calum MacKenzie's View From The Shore:**

### **The Big Buy-In**

Whether we call it a bail-out, a buy-in, or simply a rescue package for the Wall Street banks and financial institutions, is neither here nor there. In the end, the US taxpayer is left with at least 850 Billion smackers to add to a smothering ocean of debt. Complicating this troubling situation are the intricacies of an election campaign rife with falsehoods, half truths, shaved factual information, all delivered with the straight face of noble sincerity. Accusations of mendacity have been leveled against each of the four principals still left in the election race. What are we to think?

Those of us fortunate enough to stand back and view proceedings from afar have a smug awareness of events which those in the melting pot may have missed, they being too close to the action. Adages such as "the chickens are coming home to roost", "you reap what you sow", "we told you so", and a plethora of Presbyterian saws do not really help the present situation although we would do well to keep them in mind for future adventures. Arabs and Presbyterians share the common wisdom in that we should "neither a lender nor a borrower be". That commonality is not shared by those who are taught to seek instant gratification. Thus do usurers thrive and multiply out of control.

The financial unease in US financial markets is causing queasiness in Asian, European and Australian markets too. Although through the 1980s, the Japanese learned the hard way that over-leveraging and over-extension of financial vehicles causes extreme distress down the road, the lessons of that history have not really hit home as they should. Another adage would have it that those who fail to learn the lessons of history are doomed to repeat them to their deep regret. The toxic loans which deregulation of financial markets ushered in are in lock-step with pseudo corruption as rules governing financial instruments become less responsible and less accountable relative to previously stable practices.

**The big buy-in need not have come to pass for the writing was on the wall, in plain sight, for all to see.** Some 10 years ago Joseph Stiglitz, former head of the World Bank, made those warnings public in a widely read and oft quoted book. Other authors, such as Naomi Klein, have added to the drum beat of warnings, although those warnings were pooh-poohed as conspiracy theory, pinko economics, or worse.

In days past when financial institutions were regulated so that investor and depositor accounts were protected by rules, there were formulae in place which spelled out conditions for financial transactions of all kinds. The folly of relaxing such rules *ala* Glas-Steagal is now evident. Under those conditions there was no such dog as a sub-prime loan, deposit free mortgages, bait and sell tactics, unexplained small print, bundling of mortgages, exotic derivatives and the plethora of financial instruments which take risk, gambling, and

leveraging to undreamed of heights. The mathematical formulae which may have worked well in academia with Dr. Milton Friedman had no success in practice. We now find that putting lipstick on those pigs doesn't clean up the act. Wrapping a dead fish in fancy paper does not prevent it eventually from stinking to high heaven .

**Given a truly free market those who sold such toxic products would have met their come-uppance.** By running their companies into the ground through over leveraging (as at Lehman Bros.) and greed (as with CEO remuneration) they have proved that Stiglitz, Klein, and even those who still hold on to Keynesian principles had it right. Free markets have shown that freedom must be a two way street by extending the freedom to all parties and not just to those in the ivory towers. The big buy-in will now try to shut the barn door after the horse has gone. Those who master-minded this orgy of greed bought insurance through donations to their political yes men. So the markers were called in.

All this was possible because the master-minds had a seat at the table when NAFTA<sup>1</sup> was nursed into existence behind closed doors and attempted to extend their influence through the WTO in secrecy, and more recently the non-transparent Doha negotiations. The Chicago school under the mesmerizing tutelage of Milton Friedman was so seductive in offering such elegant theories couched in utopian, beautifully perfect reasoning that even smart people came under its spell. What worked so well in theory was an abject failure in practice world wide, no matter where it was put into practice.

As regulations were relaxed and eroded, the Mexican peso fell followed by the South Asian currencies such as the Baht. Rescue efforts by the tax-payer worked to some extent but the lesson remained unlearned as the rules were not tightened and governments cowed to the wishes of the financial institutions. Nations whose checks and balances prevented chaos and disaster, blindly went along with the flow and the monetary world became a wild west casino in open season.

As Donald Rumsfeld remarked at Milton Friedman's 90th birthday party, " Ideas have consequences". Unregulated ideas often have disastrous consequences. Such was the case with Yeltzin's USSR bringing about the collapse of the Berlin Wall, the break-up of the Union, and plunging ordinary folk into poverty. Good ideas in economic theory have great difficulty maintaining goodness in practice. Similar disasters occurred in Mao's China, in Pol Pot's regime, in Pinochet's Chile, in Mulroney's Canada, and in Thatcher's UK.

**The wholesale acceptance of the gospel according to Friedman, with it's hallowing of free market tenets, has now brought consequences to the US that were unthinkable at the turn of the 21st century.** The widening gap between the very rich and the impoverished has grown in every year since Reagan first pronounced that "debt doesn't matter" and the graduating MBA class at UCLA were told that "greed is good".

**Although debt may not matter to some, the servicing of debt matters to all including our children and grandchildren.** Although the cheering MBA wallahs felt at one with

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<sup>1</sup> - See *NAFTA on Steroids*,  
<http://www.hungrypeasant.com/pdfdownload.cfm?thisone=articles/Calum/CalumMacKenzieViewFromTheShoreNAFTAonSteroids.pdf>

their mentor Ivan Boesky<sup>2</sup>, some would opine that greed is a character flaw and excessive greed is despicable. The consequences abound and the question arises whether or not the lessons of this history will be part of future curricula.

**The hypocritical west which held the Left accountable for irresponsible policies in the USSR and elsewhere will balk at holding their own neo-liberal fat cats to the same standards.** Capitalism as practiced in the US is every bit as loathsome as Stalin's communism. Stalin brought about the demise of some 20 million of his fellow countrymen. What price will the neo-liberal capitalism of the right exact? Truly democratic and socialistic nations are leading the way to benefit their people and yet we trash their efforts as pinko economics.

As the class warfare continues unabated, as the ownership society becomes a homeless society, as the wealth to poverty gap widens exponentially, as more and more of the world's wealth accumulates in fewer and fewer hands, as the everyday existence of ordinary folk becomes more and more difficult, each strand of the so-called American dream becomes shredded. Those who control the purse strings control our lives. The neo-liberals have done this by defunding the Left.

The current US administration has taken this activity to impossible lengths leaving a legacy of such massive debt and so many deficit budgets, that future governments will be hard pressed to service the debt. By raiding the national treasury and leaving the cupboard bare they ensure that the changes promised in election campaigns will be nigh impossible. The call of "Yes we Can" will become a sorry "No we can't". 'Change we can believe in' will come up hard against disbelief!

By defunding the Left, the improvements needed in health care, education, housing, policing, emergency services, the armed forces, and the 101 services which people need, will wither on the vine. In their place expect more privatization with its unregulated profit margins. Privatize everything. The neo-liberals will jump for joy as Grover Norquist's wish comes true and socialism finally drowns in its own bathwater.

Milton Friedman's legacy, designed to produce profits at each turn, will continue to make its mark and do so with such remarkable frequency that it will justify its continuation and expansion. So much will it do so that the millions left behind will be glossed over as losers by the compliant media. The maxim that government should just get out of the way and let the market work will rule until the corporate world needs socialism and demands corporate welfare. Forgetting that they themselves, the so-called experts, wrote the rules for their demise, they come begging cap-in-hand for some government bailout, a rescue package, spun to be a tax-payer buy-in with no tax-payer input, choice, or discussion. And that's where we came in.

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<sup>2</sup> - [http://en.wikipedia.org/wiki/Ivan\\_Boesky](http://en.wikipedia.org/wiki/Ivan_Boesky)

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