

Capitalism as Extortion: 700,000,000,000 Ways

by Stephen Elliott-Buckley - Friday, October 03, 2008

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Over the last 7 days, I've been watching the repulsive song and dance in the USA to bail out some of the wealthiest corporations in the world. Congress finally passed bailout legislation today.

But instead of reforming the system that allowed the kind of greed and manipulation we've seen, we see capitalist extortion at work. The price is \$700,000,000,000 from US taxpayers, their children, their grandchildren and their great-grandchildren...most of whom aren't yet born so they have no political rights in this situation.

In this bailout, we see an arbitrarily derived number, \$700,000,000,000, borrowed from non-US banks and added to the US debt. The money is essentially a gift to maintain the solvency of the financial firms at risk of tanking. Despite all the free market competition rhetoric from the neoliberal, neo-conservative Democratic and Republican White Houses for the last 3 decades, the government has chosen to intervene in the market to avoid the socio-economic ramifications of the collapse of so many firms. Surely, their collapse would be devastating to the US economy and the rest of the world, but the nature of this bailout says a great deal about options not embraced.

The Cause

This is perhaps debatable, but the sub-prime mortgage collapse last year is the likely trigger of this mass insolvency.

The US economy has been in trouble for a long time. Right after 9/11 Bush's initial advice to Americans was to go shopping. Their economy is so dependent on consumer purchasing that if it were to stall, their trade imbalances and currency stability would crash, leading to a domestic and likely global depression. Canada is not much better. Such is the desperation of those running the US economy that they have supported a massive culture of consumer debt to underwrite increasing spending. This cannot go on forever.

Part of this consumer debt cycle is the sub-prime mortgage. Financial institutions lured desperate people who are reasonably unable to buy homes or expensive homes, to purchase them beyond their means with interest rates temporarily below the prime rate. Just like pyramid schemes, the system was profitable...for a while. Then it becomes untenable. Last summer, the sub-prime mortgage market crashed.

A humorous and accurate portrayal of this crisis is this short cartoon, well worth watching and spreading around: <http://www.businesspundit.com/sub-prime/>

The sub-prime crisis was a warning that went unheeded. It indicated that consumers were overextended and financial institutions were overextended in their lending. That left both citizens and institutions vulnerable to slight problems that could push them over the edge.

Options

There are several options available to the US government in recent weeks. They include the following:

1. Let the corporations collapse
2. Pay off their debts
3. Nationalize them

1. Let the corporations collapse

Capitalism is all about risk and reward. Even though Canada and the USA do not allow people to drop their student loan debt when declaring bankruptcy, corporations can drop all their debt if they orchestrate their collapse effectively enough. Bankruptcy is designed to stimulate entrepreneurship. The problem comes when corporations get so large and powerful that their collapse has devastating ripples throughout society: job loss, pension fund collapse, currency devaluation, increased trade imbalances, recession, depression, increased working class and middle class bankruptcy and homelessness.

Governments that espouse free market principles, deregulate and undermine their own ability to intervene in markets are faced with a painful choice: live up to their free market ideals and let insolvent corporations collapse and allow their society to suffer, or pretend it's OK to intervene sometimes and dodge criticisms of pulling a socialist tactic to save the economy.

Clearly, letting corporations collapse is painful medicine. CEOs have gambled that the government will not let them crash. Thus they have a get out of jail free card allowing them to behave irresponsibly knowing that the taxpayers will bail them out. Sounds like extortion to me. Ah, if only the taxpayers had bailed out Enron and Worldcom there wouldn't be such hardship! Maybe.

2. Pay off their debts

Any kind of bailout package that shores up the insolvency of these financial institutions will allow them to survive another day, minimize some or most of the negative ripples they've instigated and keep the economy from tipping too far over the cliff overlooking depression. The US government today has guaranteed that these firms will survive another day, at least until the next crisis. But the US citizen has no true accountability from the financial sector or the government. While a future White House is required to prepare and monitor a payback plan, there is nothing actually requiring the \$700,000,000,000 to be repaid to the consumers/taxpayers who have been lured into over-consumption in the first place.

3. Nationalize them

As the UK has done, instead of taking citizens' and future citizens' wealth to give to the irresponsible extortionists in their troubled financial firms, the government has nationalized some of the firms. This means the government, on behalf of current and future citizens, has taken actual ownership of the firms. Sure, they intend to sell them off again, but at least Joe and Margaret Citizen get an asset for their forced investment of wealth.

Fear-Mongering and Inducing Panic

So how is the USA coping with this crisis? The other night on Anderson Cooper's show on CNN, queen of hysteria Suze Orman shared her thoughts. Her personal opinion is that the current crisis will not recover until the middle of the next decade. She continued by advising people who expect to retire in the next 10 years to get their money out of the market.

This is a fascinating and dangerous piece of advice. The first of the baby boomers are in their early 60s right now. In 10 years, most of the boomers will be in retirement age. Orman, has thus advised the largest portion of the biggest demographic blip of the last century to extract their wealth from the market.

Granted, the market is over-inflated. The bubble needs a correction. This explains some or most of the trillions of dollars of air leaking out of global markets in recent weeks. But when Orman says you can recover what you're losing now after 10 years, boomers who can't wait a decade to retire will be pulling out their cash, risking a run on the market.

Hysteria and fear-based withdrawal of wealth from a market tends to accelerate into a run as the desire to sell outpaces the desire to buy, causing stock prices to fall, potentially even below book value of companies themselves. At the same time, there is predatory buying, as we're seeing now as behemoth corporations are buying up simply gigantic companies leading to less competition and more oligopolistic collusion.

The 1994 Mexican Peso Crisis

This kind of bailout is not completely new. In 1994, the Mexican peso crisis led to the USA orchestrating a \$50 billion loan guarantee. Canada coughed up a hefty \$1 billion, significant for a population of less than 30 million people then. The crisis came from the convergence of a number of incidents including the new Mexican government devaluing their currency, an act that was aggravated by a run by investors to dump the peso, thus compounding the tailspin.

US motivations for bailing out the weakening peso orbited around protecting US banks from bad loans. Does that sound familiar? So using taxpayer dollars to extend loans to support a foreign currency to keep domestic banks from suffering is a transfer of wealth from the mostly unborn future generations of Americans [and Canadians] indirectly to US banks that were greedy and stupid enough to extend such loans in the first place. But then, is it greed and stupidity when you behave like an extortionist and the system lets and encourages you?

The 1979 Chrysler Bailout

Another example of this capitalist extortion-based bailout involved Chrysler 30 years ago. In 1979 the US government spent \$1.5 billion on loan guarantees for the virtually bankrupt Chrysler corporation. As one of the big 3 car makers in the USA, a bankrupt Chrysler would have meant a significant blow to the USA's industrial capacity. The free market dictates that entrepreneurialism has rewards and risks. The fact that capitalist societies shelter capitalist activity with benefits like limited shareholder liability and bankruptcy protection seems to not be enough. When Chrysler was in dire need of assistance, the government intervened with taxpayer dollars to interfere with the hallowed free market of capitalists to protect the national economy from a body blow.

With these bailouts, what incentive do CEOs and entrepreneurs have to avoid running their corporations into the ground. If you owe the bank \$300,000 for your mortgage, you work for the bank. If you owe the bank \$300,000,000, the bank works for you because if you default on your loan, it goes out of business. This is the extortionist principle that has worked the last several weeks. Not so surprisingly, the threat of a massive foreign debt default by developing countries has never materialized despite its potential to reform the global trade and currency regime. So not everyone can pull off that kind of threat.

What the Bailout Doesn't Do for Suffering People

By the time the House eventually voted for the amended bailout package today, some "[members of the Congressional Black Caucus...said they changed course after securing commitments from presidential candidate Barack Obama that he would back legislation to help struggling consumers and homeowners facing foreclosures if he wins the White House.](#)"

This is a nice sentiment, but when the bailout package is initially designed to help obscenely rich corporations instead of actual human beings suffering in this crisis, we see the clear priorities of the bailout's supporters. We heard it too on CNN last weekend as announcers kept referring to the importance of helping "the financial firms that are suffering."

Naomi Klein's Shock Doctrine

The themes of Naomi Klein's latest book on disaster capitalism fit well with the last few weeks. Extortionist capitalists have overextended their institutions past solvency. Since their existence is parasitically symbiotic with the bone marrow of the US society, letting them die would threaten the existence of the host. When the public purse comes to the rescue, we see a massive transfer of wealth from humans to the corporations (and their rich investors) that have contributed to their insolvency. The neoliberal agenda is advanced and the tens of millions of dollars the finance executives have been making in recent years looks like a good investment to shareholders since they can run the corporate profits up with unsustainable business practices and then get the people of the land to reimburse them for their irresponsibility.

Any time we see a fiscally conservative government cut taxes to the rich while increasing them to lower income groups, it is a wealth transfer from the poor and middle income groups to the rich. This is pure theft. What we've seen in recent weeks is the same pattern, all through the lens of a dire financial crisis.

Solutions

So what would really work to improve the situation we are in?

Firstly, the rapacious, over-consumptive social norm is unsustainable in any economic, social or ecological sense. Watch [The Story of Stuff](#) now if you haven't yet!

Secondly, deregulated neoliberal capitalism allows a psychotic parasite to imprison us all. Society has the right to regulate its market activities. We need to enhance our regulatory capacity in many ways, including invoking our right to revoke the state-bestowed charters of corporations that are destructive in their behaviour.

Thirdly, we need to seriously re-think the notion of limited liability for shareholders. Allowing most of us in society to indirectly and ignorantly own stakes in dozens of corporations without having to worry about their destructive activities creates a culture of irresponsibility. Enacting investor liability will force us all to pay some attention to what our investments reap. It may throw a wet blanket on rampant, "innovative" entrepreneurialism, but I think we've seen enough of the horrible consequences of such innovation in recent generations that a little responsibility is necessary now. And in the end, the profit-maximizing corporate model is inherently unsustainable in a world of finite resources. Removing limited liability for investors will encourage most of us to explore more sustainable market models like co-operatives.

Fourth, we need to pull out the sledgehammers and destroy the crumbling vestiges of the economically imperialistic global trade and finance regime: the WTO, IMF and World Bank. That triumvirate of exploitation is being undermined monthly by countries and movements that reject the free trade cult in favour of trade and development plans that put people, social and physical infrastructure and the environment first.

Fifth, read what progressives are saying about the bailout, what problems will still exist, and alternative ways of addressing these toxic problems. Alternet.org is a good start. So is [spending a minute and a half](#) watching Dennis Kucinich explain a better focus than the bailout.

Some Common Sense

In the end, this crisis was inevitable. The overinflated market needed a correction. Housing bubbles in Vancouver and many other cities need to be corrected. Markets respond to positive and negative hysteria to create and deflate bubbles. And along the way regular people lose their life savings, homes and economic freedom. The collateral damage is simply intolerable. That is why the US House of Representatives initially voted down the bailout: they have to get re-elected every 2 years. The bailout saves Wall Street, not the citizens.

Without a fundamental rejection of market-based greed and over-consumption, this crisis will be far from the last one. As long as we neglect systemic changes, we will continue to suffer. If insanity is doing the same thing over and over again, expecting a different result, our continental and global economic system is insane and so are we if we think it will fix itself while we ignore its systemic flaws. Shame on us if we let that happen.