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Video: The 2008-2009 US Treasury Fraud and the Wall Street Banker Bailouts

Michel Chossudovsky on Economics 101

By Prof Michel Chossudovsky
Theme: Global Economy
Global Research, May 19, 2018
corbettreport 14 September 2009

Published in September 2009

Michel Chossudovsky, the director of the Centre for Research on Globalization, sits down with The Corbett Report to discuss the real meaning of the banker bailouts.

The banks lend money to the government and with the money they lend to the government, the Treasury finances the bailout.

In turn, the banks impose conditionalities on the management of the US public debt. They dictate how the money should be spent.

The recipient banks are the beneficiaries as well as the creditors. As creditors, they will oblige the government a) to slash expenditures b) to run up the public debt through the issuing of treasury bills and government bonds.

This public debt crisis is all the more serious because the US federal government does not control monetary policy. All public debt operations go through the Federal reserve, which is in charge of monetary policy, acting on behalf of private financial interests. The government as such has no authority over money creation. This means that public debt operations essentially serve the interests of the banks."

The stated objective of the bank bailout programs is to alleviate the banks' burden of bad debts and non-performing loans. In actuality what is happening is that these massive amounts of money are being used by a handful of institutions to consolidate their position in global banking.

The exposure of the banks, largely the result of derivative trade, is estimated in the tens of trillions of dollars, to the extent that the amounts and guarantees granted by the Treasury and the Fed will not resolve the crisis. Nor are they intended to resolve the crisis.

The mainstream media suggests that the banks are being nationalized as a result of TARP, In fact, it is exactly the opposite: the State is being taken over by the banks, the State is being privatized. The establishment of a Worldwide unipolar financial system is part of the broader project of the Wall Street financial elites to establish the contours of a world government.

In a bitter irony, the recipients of the bailout under TARP and Obama's proposed $750 billion aid to financial institutions are the creditors of the federal government. The Wall Street banks are the brokers and underwriters of the US public debt, although they hold only a portion of the debt, they transact and trade in US dollar denominated public debt instruments Worldwide.

They act as creditors of the US State. They evaluate the creditworthiness of the US government, they rank the public debt through Moody's and Standard and Poor. They control the US Treasury, the Federal Reserve Board and the US Congress. They oversee and dictate fiscal and monetary policy, ensuring that the State acts in their interest.

Since the Reagan era, Wall Street dominates most areas of economic and social policy. It sets the budgetary agenda, ensuring the curtailment of social expenditures. Wall Street preaches balanced budgets but the practice has been lobbying for the elimination of corporate taxes, the granting of handouts to corporations, tax write-offs in mergers and acquisitions etc, all of which lead to a spiralling public debt.

The Federal Reserve System: Circular and Contradictory Relationship

The Federal Reserve system is a privately owned central bank. While the Federal Reserve Board is a government body, the process of money creation is controlled by the 12 Federal Reserve Banks, which are privately owned.

The shareholders of the Federal Reserve banks (with the New York Federal Reserve Bank playing a dominant role) are among America's most powerful financial institutions.

While the Federal Reserve can create money "out of thin air", the multibillion outlays of the Treasury (including the Bush and Obama bank bailouts) will require the emission of public debt in the form of Treasury Bills and government bonds. Part of these T-Bills will of course also be held by the Fed.

US financial institutions oversee the US public debt. They are involved in the sale of treasury bills and government bonds on financial markets in the US and around the World. But they also hold part of the public debt. In this regard, they are the creditors of the US government. Part of this increased public debt required to rescue the banks will be financed or brokered by the same financial institutions which are the object of the bank rescue plan.

We are dealing with a pernicious circular relationship. When the banks pressured the Treasury to assist them in the form of a major bank rescue operation, it was understood from the outset that the banks would in turn assist the Treasury in financing the handouts of which they are the recipients.

To finance the bank bailout, the Treasury needs to run a massive budget deficit, which in turn requires a staggering increase of the US public debt.

Public opinion has been misled. The US government is in a sense financing its own indebtedness: the money granted to the banks is in part financed by borrowing from the banks.

The banks lend money to the government and with the money they lend to the government, the Treasury finances the bailout. In turn, the banks impose conditionalities on the management of the US public debt. They dictate how the money should be spent. They impose "fiscal responsibility"; they dictate massive cuts in social expenditures which result in the collapse and/or privatization of public services. They impose the privatization of urban infrastructure, roads, sewer and water systems, public recreational areas, everything is up for privatization.

The recipient banks are the beneficiaries as well as the creditors. As creditors, they will oblige the government a) to slash expenditures b) to run up the public debt through the issuing of treasury bills and government bonds.

This public debt crisis is all the more serious because the US federal government does not control monetary policy. All public debt operations go through the Federal reserve, which is in charge of monetary policy, acting on behalf of private financial interests. The government as such has no authority over money creation. This means that public debt operations essentially serve the interests of the banks."

Michel Chossudovsky, Global Research, Montreal, September 17, 2009

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Articles by: Prof Michel Chossudovsky

About the author:

Michel Chossudovsky is an award-winning author, Professor of Economics (emeritus) at the University of Ottawa, Founder and Director of the Centre for Research on Globalization (CRG), Montreal, Editor of Global Research. He has taught as visiting professor in Western Europe, Southeast Asia, the Pacific and Latin America. He has served as economic adviser to governments of developing countries and has acted as a consultant for several international organizations. He is the author of 13 books. He is a contributor to the Encyclopaedia Britannica. His writings have been published in more than twenty languages. In 2014, he was awarded the Gold Medal for Merit of the Republic of Serbia for his writings on NATO's war of aggression against Yugoslavia. He can be reached at crgeditor@yahoo.com