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## THEY SAID IT

To understand this [the Freddie/Fannie bailout] one need only consider the cesspool of sleaze artists that are as much as a part of the Washington scene today as the Capitol building itself, political hacks like James A. Johnson and Franklin Raines, come to mind, along with ethically challenged Congressional and Executive Branch elites like Treasury Secretary Henry Paulson, Rep. Barney Frank, and Senators Chris Dodd, and Chuck Schumer, and their “best friends” from the upper floors of the big Wall Street firms like Goldman-Sachs and Lehman Brothers, whose “suits” suck around Washington like ticks on a deer.

Mark L. Melcher and Stephen R. Soukup, “We Have Met The Enemy And He Is Us,” *Politics Et Cetera*, July 21, 2008.

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## THE LEAD PARACHUTE. PART I.

Enough already about the legendary “golden parachutes” employed by the fat cats in corporate America when their great flying machines crash and burn. This week we will concentrate our attention on the lead parachute that Congress is crafting for the American public as the plane-of-state soars insanely into a Bermuda Triangle of fiscal corruption and irresponsibility.

The issue will be divided into three articles, one each by yours truly, Mark and Steve, and one – this one – by F.A. Hayek, a man whose wisdom on the origins and nature of the subject at hand far exceeds anything that has been written or said since he penned the following paragraphs 64 years ago in his classic book *The Road to Serfdom*, which won a Nobel Prize for Economics in 1974.

It may be the unanimously expressed will of the people that its parliament should prepare a comprehensive economic plan, yet neither the people nor its representatives need therefore be able to agree on any particular plan. The inability of democratic assemblies to carry out what seems to be a clear mandate of the people will inevitably cause dissatisfaction with democratic institutions. Parliaments come to be regarded as ineffective “talking shops,” unable or incompetent to carry out the tasks for which they have been chosen. The conviction grows that if efficient planning is to be done, the direction must be “taken out of politics” and placed in the hands of experts – permanent officials or independent autonomous bodies.

It is not difficult to see what must be the consequences when democracy embarks upon a course of planning which in its execution requires more agreement than in fact exists. The people may have agreed on adopting a system of directed economy because they have been convinced that it will produce great prosperity. In the discussions leading to the decision, the goal of planning will have been described by some such term as “common welfare,” which only conceals the absence of real agreement on the ends of planning. Agreement will in fact exist only on the mechanism to be used.

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But it is a mechanism which can be used only for a common end; and the question of the precise goal toward which all activity is to be directed will arise as soon as the executive power has to translate the demand for a single plan into a particular plan. Then it will appear that the agreement on the desirability of planning is not supported by agreement on the ends the plan is to serve. The effect of the people's agreeing that there must be central planning, without agreeing on the ends, will be rather as if a group of people were to commit themselves to take a journey together without agreeing where they want to go: with the result that they may all have to make a journey which most of them do not want at all.

## THE LEAD PARACHUTE. PART II.

Last week, we wrote an article around the theme “I told you so.” This week, we are going to set the stage for another “I told you so” article – by us, five or so years from now.

Our central thesis is that the deal that Congress is cooking up to “bail out the economy” with some \$700 billion in federal funds will eventually become what Frank Sinatra, as Danny Ocean in the 1960 film “Ocean’s 11,” famously described as “the biggest heist in history.” Quite literally, if Henry Paulson, his friends on Wall Street, and their stooges on Capitol Hill can pull this one off, they will have set the stage for the theft of upwards of hundreds of billions of dollars, far above any robbery that anyone else has perpetrated on the American taxpayer in the history of the nation.

How will they do it? Well, the simplest way to understand this can be found in the opening chapter of Kurt Vonnegut’s great novel, *God Bless You Mr. Rosewater*. The antagonist in this book is a man named Norman Mushari, a nerdy, short, fat, friendless fellow, who graduated at the head of his class from Cornell Law School, works for a Washington, D.C. law firm, and whose colleagues whistle “Pop goes the weasel” when he walks by. The first thing Mushari learns upon joining the law firm is that its richest client is

the Rosewater Foundation, and this reminds him of something that his favorite professor in law school, one Leonard Leech, had once told him was the key to getting ahead in his chosen profession. To wit:

“In every big transaction,” said Leech, “there is a magic moment during which a man has surrendered a treasure, and during which the man who is due to receive it has not yet done so. An alert lawyer will make that moment his own, possessing the treasure for a magic microsecond, taking a little of it, passing it on. If the man who is to receive the treasure is unused to wealth, has an inferiority complex and shapeless feelings of guilt, as most people do, the lawyer can often take as much as half the bundle, and still receive the recipient’s blubbing thanks.”

The plot thickens when Mushari sets out to see that the Rosewater treasure is transferred from one individual to another, and that when this happens he is in control of the cash for that “magic moment” about which Professor Leech had spoken. “And so it goes,” to borrow one of Vonnegut’s favorite expressions.

As so it will go when the U.S. government buys billions of dollars worth of debt “that cannot be valued” from the nation’s banks, and later sells it back to the “private sector,” “possibly even making a profit,” we are told by Henry Paulson, who is going Norman Mushari one better by arranging for two “magic moments” during which a huge amount of money will be transferred. And, in this case, there won’t be just one individual taking a cut, but a cast of thousands, ranging from the wizards of Wall Street to the captains of Capitol Hill all the way down to scores of penny ante shysters and con artists in large cities and small towns across the nation.

You see, there won’t be anyone around with a personal stake in the interests of the buyer (you and I gentle reader) in the first transaction or those of the seller (you and I gentle reader) in the second.

Indeed, it is already extremely clear to anyone who is paying attention that no one who is advocating this deal gives a tinker’s damn how much the government

is paying for these “hard to value” assets. Five hundred billion? Six hundred billion? Whatever. It to them is equal, as the French would say. And when the historians someday examine this great heist they will most certainly learn that there was no one around who gave a tinker’s damn what the sales price was when the time came to sell these assets.

Listen. A local man in our little town recently went to jail for dealing drugs. He had accumulated a great deal of real estate during his career as a criminal and was fined \$5 million by a federal judge, who also gave him 10 years in jail. This man paid the \$5 million fine by giving the U.S. government property that was supposedly worth that much. This property will soon be auctioned off, most likely at considerably less than \$5 million. The question that begs an answer is, “does anyone in the federal chain of responsibility care about the public’s interest in either end of this transaction.” To which the answer is, “No.” And this will be the case when the same government sells the mortgages and empty houses it is about to buy.

In fact, our guess is that at some future date, some liberal lawmakers will suggest that the best way to dispose of many of the houses that the government owns will be to simply sell them to the “disadvantaged” for a \$1 a house. The deal will, of course, be brokered by various civil rights and immigrant-defense groups, which will be reimbursed handsomely by the government for their brokerage services. And, no doubt, these groups will show their appreciation to the members of Congress and the Party who made it all possible.

As Vonnegut would say, “And so it goes.”

### **THE LEAD PARACHUTE, PART III.**

Two cheers for the House Republicans, we say. They saw something they didn’t like. They understood that there was tremendous risk for manipulation and abuse. They forwarded their own proposal steeped in the political and economic values they preach and purport to uphold. And they held their ground. Even when they were threatened, bullied, and publicly humiliated, they did not budge. And because of their efforts, the bailout agreement reached Saturday evening is a

far, far better bill than it might otherwise have been. Hurray! Hurray!

Why not three cheers, you ask? Well, that’s easy. Despite all of the self congratulations and mutual back-patting, the compromise for which the House Republicans – the only conservatives left anywhere near Washington – fought and won differs only marginally from the plan originally introduced by the Bush administration last week. For all their work, their determination, and their much-ballyhooed steadfastness under pressure, the House Republicans managed to do little more than turn the nation’s financial system over to the “professionals” at Treasury almost exactly as said professionals had demanded – oh, but with the addition of an “insurance” clause. Big deal.

Okay. Perhaps we aren’t giving them enough credit. If nothing else, the House Republicans were able to keep the bill from being larded up with giveaways, perks, and slush fund money for the Democratic Congress’s pet causes. And this is no small accomplishment.

Recall that two weeks ago, we noted that the troubled and troubling government sponsored (and now government owned) mortgage giants “Fannie and Freddie maintain ‘foundations,’ which are, essentially, stockholder funded slush funds designed to meet the every wish and need of their purported Congressional masters,” and quoted a *Wall Street Journal* editorial on the subject thusly:

The biggest payoff for Mr. [Congressman Barney] Frank is the “affordable housing” trust fund he managed to push through as one political price for the recent Fannie reform bill. This fund siphons off a portion of Fannie and Freddie profits – as much as \$500 million a year each – to a fund that politicians can then disburse to their favorite special interests. This is also why Mr. Frank won’t tolerate cutting the companies’ MBS portfolios. He knows those portfolios (bought with

debt borrowed at taxpayer-subsidized rates) were a main source of Fannie's profits before the housing crash, and he figures that once this crisis passes they can do it again. And this time, his fund will get part of the loot.

Given this, it should come as no surprise that immediately upon release of the original Bush administration plan, Frank and his Senate counterpart Chris Dodd began the process of trying to lard the bill up with goodies. Almost instantaneously, the two began proposing provisions for trust funds, for profits to be diverted to slush funds, and for ACORN, perhaps the most notorious of all community service/mortgage scam artist/vote-fraud perpetrators in recent memory, to get a significant chunk of the action. As Glenn, "Instapundit" Reynolds replied, the Dodd-Frank follies not only contributed to the sense that the bailout was unnecessary, but also merely another government boondoggle designed to facilitate even more of the corruption that caused the problem in the first place. To wit: "You know, it would be easier for me to believe this was a crisis, if the people in charge were acting like it was a crisis, instead of just an opportunity for graft. Then again, to some of these people, everything is just an opportunity for graft."

Northwestern University law professor and legal blogger Jim Lindgren took a closer look at Dodd's proposed additions to the Paulson/Bush Treasury plan and wrote the following:

I have read Dodd's proposed statute and in some respects, it is far worse than has been reported. Senator Dodd has placed a loophole in the bill that is explicitly designed to siphon off tens or hundreds of billions of dollars to the Housing Trust Fund and the Capital Magnet Fund even if there are no net profits in the \$700 billion venture . . .

I was mildly in favor of the bailout until I read Dodd's proposed statute. The way that the statute is drafted is so tricky and its definition of profit is so

unsophisticated and nonsensical that the statute smells more of graft than of an honest attempt to solve the financial crisis. We are moving from failed "crony capitalism" to failed "crony community organizing."

All things considered, then, the simple fact that the Republicans were able to keep the usual suspects from getting their hands on the tens of billions of dollars – immediately and without strings – should be considered a minor victory.

However, for at least a couple of reasons, it should not be considered a major victory. For starters, Frank and Dodd will still be chairmen of their committees (House Financial Services and Senate Banking, respectively), which means that any Congressional "oversight" or legislative "discretion" will be exercised initially, if not principally by these two slush-fund junkies.

More troubling, if Barack Obama happens to become president next January, you can rest assured that "community organizations" like ACORN will be treated quite well and undoubtedly quite generously. Obama and his team brag constantly about his "community organizer" background, yet fail to mention that what he did, among other things, was train volunteers for the monumentally corrupt and corrupting ACORN. And as an editorial in this morning's *New York Post* notes, Obama remains an ACORN guy to this day, with all that that entails.

ACORN is especially noteworthy, not only because of its prominence in the drive to relax mortgage requirements, but also because of its shady tactics.

And its links to Obama.

Various ACORN chapters across the country, led by folks like Chicago's Madeline Talbott, staged in-your-face protests in bank lobbies and filed complaints meant to hold up mergers sought by targeted banking firms.

Unless the banks agreed to ACORN's terms - which many (understandably) did.

Talbott & Co. generally wanted them to ease down-payment requirements and ignore weak credit histories. And their intimidating tactics often necessitated police action, as at a '97 protest at Pulaski Bank & Trust in Arkansas, where activists blocked drive-through lanes.

The movement's biggest victory, of course, came when Fannie Mae and Freddie Mac began buying up the riskier loans - providing fresh incentive for banks to make even more of them.

No need to recount where all that led.

Meanwhile, Obama was right there by ACORN's side all along.

"I've been fighting alongside ACORN on issues you care about my entire career," he told the group last November.

Indeed, in the early '90s, Obama was recruited by Talbott herself to run training sessions for ACORN activists.

ACORN also got funding from two charities, the Woods Fund and the Joyce Foundation, when Obama served on their boards, and from the Chicago Annenberg Challenge - the radical "education reform" outfit Obama ran from '95 to '99.

Of course, the most notable reason to give House Republicans only two cheers is the fact that, in the end, all they did was agree to turn over nearly a trillion dollars and near-complete control of the nation's capital markets to the Hank Paulson and the professionals at the Treasury Department. Under the agreed-upon plan, Paulson, the former COO and CEO of Goldman Sachs, will get a quarter of a trillion

dollars immediately. And he can do whatever he feels is necessary with that money. Another \$100 billion is ready and waiting, just as soon as this first bundle has been blown.

Now, we've been around Washington a long time, and we've seen some serious raiding of the coffers, but even we think that \$350 billion is real money. And, moreover, we know full well that the oversight placed upon Paulson and Treasury will amount to nothing more than a few hearings here and a few hearings there. The oversight component of the proposed legislation is weaker than was the Congressional oversight of Fannie and Freddie. And we all know how that turned out.

It would appear that the members of Congress have come to the conclusion that they have no idea what to think, much less what to do about the impending financial meltdown, and thus have given up on both tasks. When the debate began last week, Congressional Democratic leaders were forced to have a "glossary of financial terms" compiled and delivered to their members' offices, so that everyone would have at least a rudimentary knowledge of the subject at hand.

Over the weekend, various media reports noted that some members of Congress were a little leery of taking such drastic action simply because one, big-shot investment guru (Paulson) said it had to be done, and that if it were not done the entire financial system could collapse. So to get an additional and "distinct" perspective on the matter, they called another big-shot investment guru (Warren Buffett), who told them that inaction might mean that the entire financial system could collapse. Kathryn Lopez, the editor of *National Review Online*, reported this morning that she asked former Congressman (and former Speaker-elect) Bob Livingston what he would do about this bailout were he still in Congress, and his answer was telling, "I would have wanted to test the sources who say the economy will blow up if some fix isn't passed. If I believed them, I'd likely vote for an amended version. If I didn't, I'd vote 'no.'" In other words, he would do what the experts told him to do.

Even former Speaker of the House Newt Gingrich, who last week rallied the conservative troops, going even so far as calling for Paulson to resign or be fired, admitted over the weekend that were he still in Congress, he would, very reluctantly, vote for the amended bailout plan. What choice would he have, after all? The experts tell him something and he is in no position to contradict them or to suggest that the sky is really not falling. And that, dear reader, is the theme of the week, and likely to be the theme of the immediate and long-term future. The experts know. The legislators don't. So who ya gonna' trust?

As we noted last week, none of this should come as a surprise to anyone. This is just one more mile marker on the highway of modern day governance. And bailout or no bailout, bank crash or no bank crash, eventually, the "experts" will gain more and more control over greater and greater portions of the government, and thus over greater and greater portions of society as a whole.

We'll close today with one more thought, one that we made over a year ago.

If there is a qualitative element in the public's growing distaste for their representatives in Congress, it probably relates to the fact that as the job itself has declined in importance and esteem over the years, the eminence and character of the people filling it has naturally tended to decline also.

An example of this process at work can be seen in the history of the social position of railroad firemen in the days when trains ran on coal. The job required strength, stamina, courage, intelligence, and considerable skill. As such, firemen were highly respected

members of the community ("With tireless hands he feeds the coal in the thundering monster's maw, And hour by hour he trusts his soul to the God whom he never saw.") Then, with the advent of the diesel engine, firemen were no longer needed on trains. But the railroad unions insisted that the job be retained, so for almost 40 years railroad firemen road along, doing little more than keeping the engineer company. In fact, in some instances where the fireman's job actually was eliminated, engineers received "lonesome pay." Needless to say, the character and skill levels of the men who were hired as firemen declined over the years, as did the community's respect for those who held the position.

A highly simplified way of looking at all of this is that technological innovation was the driving force behind the obsolescence of both monarchy and the fireman's job on the nation's railroads. The positions of Senator and Representative in the United States Congress are threatened by a more primitive force, one described by Nietzsche as the "will to power." In this case this will is being wielded by several institutions that have, slowly over the years, gained political clout at the expense of Congress and are likely to continue to do so until the latter becomes "a venerable but useless monument of antiquity," as the Roman senate did during the days of the Empire.

All hail Emperor Paulson, in other words. What else are you going to do?

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