

The Economic Merger of Corporate Capital and the Capitalist State

[This is a letter I sent to friends on Sept. 8, 2008, along with a newspaper article (appended below) about the nationalization of Fannie Mae and Freddie Mac. –S.H.]

Hi everybody,

The article below, from the *Guardian* newspaper in Britain, brings out a bit of the irony involved in the capitalist government in the U.S. re-nationalizing the mortgage giants [Fannie Mae](#) and Freddie Mac. Fannie Mae was set up as a government agency in 1938 during the New Deal, but in 1968 it was transformed into what was supposed to be a private corporation. Freddie Mac was set up by the government in 1970 as a “private corporation” to be in “competition” to Fannie Mae (since supposedly the capitalists are opposed to monopolies). Since they were both set up by the government, but were in theory private corporations like any other, they were designated as GSEs (Government Sponsored Entities) and their actual status was ambiguous. In particular it was always assumed by most big investors, American and international, that if these two GSEs ever got into trouble the Federal government would bail them out. And they were right.

No doubt the government hopes to “re-privatize” both Fannie and Freddie at some point. But this nationalization—even if “temporary”—of corporations that “are too big to fail” (whether they are GSEs or not) actually has a much deeper significance. What we have in the monopoly capitalist (or capitalist-imperialist) era is more and more of a *merger* between corporate capitalism and national governments. This comes in various forms, such as massive tax breaks and even handouts to corporations (especially financial corporations) when they are in danger of failing, or nationalizing them for a time if necessary, and so forth. The government even goes to *war* for their benefit, as it has done in Iraq.

But a fundamental economic fact of modern capitalism is that corporations are not truly independent of the capitalist government. That is, the capitalist class, acting as a whole through their government, finds it necessary to help or bail out individual “private” corporations, and these corporations always turn to the government for help or handouts when they get into trouble. Thus, in reality, there is no longer truly any such thing as “private business” when it comes to large corporations.

The fact that the government serves corporations is why recessions can (usually!) be controlled, and (most!) economic crises can be resolved. The corporate world (at least the big guys) are no longer left to sink or swim on their own. Massive expansion of government debt is used to bail out corporate capitalism, in one way or another.

But the downside to all this is that the government can only resolve things by more and more putting *itself* at ever greater risk. When the final denouement comes (and we are getting pretty close to that already),

and the government can no longer get away with borrowing or simply printing up more trillions of dollars, then there will be a crisis that sinks not only corporate capitalism, but the economic stability of the capitalist government as well. It is only a matter of time.

Scott

Fannie Mae and Freddie Mac: The world's biggest bailout

**Even the boundless capitalists of the Republican party can nationalize—
though they call it by a different name**

It's a funny old business when a Republican administration espousing small government and unfettered capital markets has to nationalise the country's two biggest mortgage companies to the tune of at least \$200bn (€113bn). The US treasury secretary preferred the more legalese term of "conservatorship".

Even the red-in-tooth-and-claw Wall Street Journal had to concede that with Fannie Mae and Freddie Mac it had no choice. But you can hear the grinding of teeth when it reports the US mortgage crisis entering a new and uncharted phase, potentially saddling American taxpayers with billions of dollars in losses from home loans made by the private sector.

You could hear the pain in John McCain's voice as he spoke at a rally in Albuquerque: "We need to keep people in their homes, but we can't allow this to turn into a bailout of Wall Street speculators." Barack Obama, who received \$1.6m in contributions from the two companies in the current election cycle, according to the Centre for Responsive Politics, took a similar line. As the Journal blogged:

Neither wants to appear to be supporting a bailout for corporate interests at a time when job losses and foreclosures are mounting across the country

In the UK where, post-Northern Rock, bank bailouts are not such a surprising thing, the Fannie and Freddie rescue is still reported as "dramatic" news with the Financial Times and the Telegraph agreeing that it was the "world's biggest financial bailout".

The FT spelt out the uncomfortable truth that the two Fs had been taken under state control.

"British mortgage specialists welcomed the move, saying it should inject some confidence into the housing market, which is suffering its steepest price fall since the 1930s," the Telegraph reported, specifically pointing out that this was a nationalisation. A mortgage broker is quoted: "This is effectively the US doing a Northern Rock - nationalising part of its mortgage market. If the US government is

guaranteeing the bonds, it should allow companies, including UK investors, to feel more confident."

The Times agrees: "The US government's decision ... is good news for British banks and, in turn, British homeowners." It quotes McCain telling CBS that Fannie and Freddie had become "sprawling, massive bureaucracies, rife with corruption and cronyism".

But it takes Nelson D Schwartz in the New York Times to put all this into perspective:

Despite decades of free-market rhetoric from Republican and Democratic lawmakers, Washington has a long history of providing financial help to the private sector when the economic or political risk of a corporate collapse appeared too high. The effort to save Fannie Mae and Freddie Mac is only the latest in a series of financial manoeuvres by the government that stretch back to the rescue of the military contractor Lockheed Aircraft Corporation and the Penn Central Railroad under President Richard M Nixon, the shoring up of Chrysler in the waning days of the Carter administration and the salvage of the savings and loan system in the late 1980s.

About this article: Fannie Mae and Freddie Mac: The world's biggest bailout

This article was first published on guardian.co.uk on Monday September 08 2008. It was last updated at 12:35 on September 08 2008.

Posted by David Pallister Monday September 8 2008 11:53 am

guardian.co.uk © Guardian News and Media Limited 2008