



# The United States of France

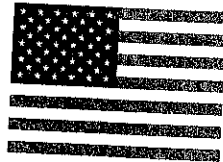
We've nationalized the banks; the auto industry is next.  
We now resemble the very country we love to mock

THIS IS THE STATE OF OUR GREAT REPUBLIC: we've nationalized the financial system, taking control from Wall Street bankers we no longer trust. We're about to quasi-nationalize the Detroit auto companies via huge loans because they're a source of U.S. pride, and too many jobs (and votes) are at stake. Our Social Security system is going broke as we head for a future in which too many retirees will be supported by too few workers. How long before we have national health care? Put it together, and the America that emerges is a cartoonish version of the country most despised by red-meat, red-state patriots: France. Only with worse food.

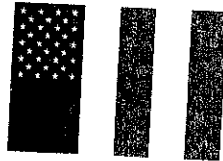
Admit it, *mes amis*, the cutthroat capitalism that made America the land of opportunity has been shrink-wrapped by half a dozen short sellers in Greenwich, Conn., and FedExed to Washington to be spoon-fed back to life. We're now no different from any of those West European semisocialist welfare states we love to deride. Italy? Sure, it's had four governments since last Thursday, but none of them would have allowed this. The Italians know how to rig an economy.

You just know the French have only increased their disdain for us, if that is indeed possible. And why shouldn't they? The average American works 2½ jobs, gets two weeks off and has all the employment security of a one-armed trapeze artist. The Bush Administration has preached the "ownership society" to America: own your house; own your retirement account; you don't need the government in your way. So Americans mortgaged themselves to the hilt to buy

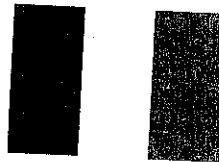
**Our laissez-faire, regulation-averse Administration has made France's famed Socialist President François Mitterrand look like Adam Smith**



Step 1



Step 2



Step 3

overpriced houses they can no longer afford and signed up for 401(k) programs that put money—where else?—in the stock market!

We've always dismissed the French as exquisitely fed wards of their welfare state. They work, what, 27 hours in a good week, have 19 holidays a month, go on strike for two days and enjoy a glass of wine every day with lunch. For this, they pay a tax rate of about 103%, and their labor laws are so restrictive that they haven't had net job gains since Napoleon.

Now our laissez-faire (hey, a French phrase), regulation-averse Administration has made France's famed Socialist President François Mitterrand look like Adam Smith by comparison. All Mitterrand did was nationalize huge swaths of the economy in 1982, including big banks and insurance companies; he didn't have to deal with bankers who didn't want to lend money, as Treasury Secretary Henry Paulson does. When the state runs the banks, they are cows to be milked in the service of *la patrie*. France doesn't have the mortgage crisis that we do, either. In

bailing out mortgage lenders Fannie Mae and Freddie Mac, the Feds have turned America into the world's largest subsidized housing project.

Mitterrand tried to create job growth and wage growth by nationalizing some big industries—as France had done with automaker Renault earlier. The successful automaker became a private company again in 1996, although the government retains about 15% of its shares. Now the U.S. is faced with the same prospect in the auto industry because GM and Ford don't have the money to develop greener cars that can compete with Toyota and Honda.

Even in agriculture, a U.S. strength, there's no getting away from the French model. Nothing is more sacred to France than its farmers. They get whatever they demand, and they demand a lot. And if there are issues about price supports, or feed costs being too high, French farmers simply shut down the country by marching their livestock up the Champs Elysées. U.S. farmers would never resort to such behavior. They don't have to; they're the most coddled special-interest group ever, lavished with \$180 billion in subsidies. One consequence: U.S. consumers pay twice what the French do for sugar, because of price guarantees. We are more French than France.

It's so dire that French President Nicolas Sarkozy is now giving Wall Street lectures about its failings. "Let us rebuild together a regulated capitalism," he told the U.N. That is, a French capitalism. We could do worse. We have.

So no longer look contemptuously at the land of 246 cheeses. Kraft Foods has replaced AIG in the Dow Jones industrial average, the insurance company having been added to Paulson's nationalized portfolio. Mac and cheese have supplanted credit-default swaps at the fulcrum of capitalism. Why not? Even the food-snob French love McDonald's, which does a fantastic business there. They know a good freedom fry when they taste one.

FOR TIME BY D.W. FINE

# The Panic Spiral And how the Government hopes to break it

**1** The housing bubble bursts and mortgage defaults rise, meaning fewer monthly payments from homeowners

**2** Wall Street institutions can't pay off the mortgage-backed securities they used as collateral to leverage increased debt

**6** Investors flee stocks, and banks are trapped in a cycle of declining value

**5** Faced with mounting debt and shrinking assets, banks tighten or freeze credit, bringing the system nearly to a halt

**7** A financial-sector collapse threatens to plunge the U.S. and perhaps much of the world into a deep recession

**3** Stuck with securities of dubious worth, these institutions must raise cash or sell the securities, and this depresses their value even more

Companies like AIG that issued credit-default swaps—insurance policies on debt—are overwhelmed

**4**

## The Rescue Plan

The Treasury hopes to break this spiral by buying deflated assets from banks. The government would spend up to \$700 billion to buy the bad debt, then hold it until the system stabilizes

With the pressure off, banks could raise money and free up credit. One hitch: the Treasury would have to buy the debt at a price high enough to keep banks from sliding further

The hope for the government is that some assets would regain their value. But if the housing market continues to tank, taxpayers could be stuck with paying a lot more — \$700 billion

