'The Bailout State' Explains the U.S. Money Mess

By Kerry Pechter *Thu, Mar 20, 2025*

Over the past 50 years, the U.S. government has repeatedly used its deep financial resources to protect the interests of asset holders at the expense of wage earners, University of Sydney economist Martijn Konings argues in this insightful new book.

You've probably heard of the "Greenspan put." It's the Federal Reserve's implied policy of "bailing out" Wall Street during credit crises and stock market crashes. Fed chair Alan Greenspan (1987–2006) set the eponymous pattern. His successors have hewed to it.

In his enlightening new **book**, *The Bailout State* (Polity Press, 2025), University of Sydney economist Martijn Konings gives us the larger context of that pattern. The Fed puts a floor under asset prices, he explains, because stock ownership and real estate appreciation have replaced wage-and-benefit growth as the most common path to financial security in America.

Subtitled "Why Governments Rescue Banks, Not People," the book re-interprets U.S. monetary policy during the period—the baby-boomers' adulthood, more or less—when the U.S. replaced the high inflation, strong-union, low stock-market economy of the early 1970s with a low-inflation, weak-union, high stock-market economy. [In September 1981, 10-year Treasuries paid 15.84% and the S&P 500 was at ~420.]

With various back-stops, tax expenditures and ever-larger Wall Street bailouts, Konings says, the Fed and administrations of both political parties have consistently reached into Uncle Sam’s deep pockets to support financial asset prices instead of making public investments that would boost employment, demand and inflation.

“In the 1950s and 1960s, the idea that you could have robust economic growth without wage increases would have seemed weird,” Konings told *RIJ* in a recent Zoom meeting. By the 1970s, however, the Carter administration “recognized that wage increases were fueling inflation. Even progressives became invested in the idea that wage-growth is a problem… Inflation will start, scare the markets and hurt capital gains. Wage gains were only justified by productivity gains.” he said.

“From the 1980s onward, you start seeing moments where the government realizes it has no real choice but to step in and bail out [institutions] that are ‘too big to fail.’ Too many powerful constituencies are invested in them. But the need for bailouts shows that something was wrong with the formula.”

(Though not a U.S. citizen or resident, Konings wrote his dissertation in Toronto on the historical development of the American financial system, and has had academic fellowships in New York and Los Angeles.)

Looking at America’s retirement savings crisis through Konings’ lens suggests that, if average American workers don’t save enough, it’s not because they lack a sufficient “nudge” in that direction. It’s because they can’t. Their compensation and job security are low—and not by coincidence or accident. Low wages (and the low interest rates and low inflation that go with them) have helped support high asset values, he believes. That’s a key part of his argument.

“When government organizes so many functions around supporting asset values, it puts a floor under a certain part of the economy without pushing up others. Supporting asset values itself has an inflationary effect, which leads to demands for austerity and a focus on reducing entitlements,” he said. In a perfect world, rising investment, asset prices, employment, and wages might constitute a never-ending virtuous cycle. But markets require losers.

Konings favors a greater “democratization” of money. Though not a true believer in Modern Monetary Theory, he’s aligned with MMT’s view that a sovereign government’s vast financial resources should serve the general welfare—with health care, education and public

services—rather than the markets.

He raised the question that newspeople usually ask progressive policymakers: *How are you going to pay for that?*

"That question gets asked as a conversation stopper, not a conversation starter," he said. They only ask those questions if the proposed spending is for new entitlements, or has a social purpose. When you talk about things for people, suddenly it has to be budget neutral. That question never gets asked when you're talking about spending on military. They know there are always ways to pay for that."

Another progressive economist believes that for years U.S. policymakers *have* democratized money—and committed Congress to an upward death-spiral of social spending. In ***Dead Men Ruling*** (The Century Foundation Press, 2014), Gene Steurele argued that mandatory increases in entitlements like Social Security and Medicare saps the U.S. economy.

Given the creation of towering amounts of private and public credit in the U.S. since 1980, they may both be right. As for the future, "the bailouts will keep happening," Konings said. They keep the asset-escalator moving. He worries that "people don't realize how fully baked into the system the bailout regime is. Unfortunately, there's no way to easily disentangle that without messing with the whole system."

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