MAYBE WE'VE GOT EACH OTHER BY THE NUTS…

I asked yesterday whether or not the "private investors" whom Geithner expects to pony up billions if not trillions to bail out our biggest banks were Sovereign Wealth Funds.

The WSJ and Robert Reich suggested they might be. But, Reich wondered, what incentive would other countries have to keep investing in our shitpile?

> Some additional financing is thought to come from China, Japan, and the Middle East. (It seems likely that some hedge fund financing is now coming from rich Arabs.) But why exactly would Asia or the Middle East be willing to commit even more money to the United States when they're already nervous about their US loans and investments, and when their own economies are under more and more stress?

Meanwhile, Atrios points to what might be one source of leverage we have to persuade Asia and the Middle East to ante up again.

> **WHEEEEEEEEEEEE**
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> The Fed has decided it can do whatever it wants. Just in case you didn't know.
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>> *WASHINGTON — The White House plan to rescue the nation's financial system, announced on Tuesday by Timothy F. Geithner, the Treasury secretary, is far bigger than anyone predicted and envisions a far greater*

> > *government role in markets and banks than at any time since the 1930s.*
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> Administration officials committed to flood the financial system with as much as $2.5 trillion — $350 billion of that coming from the bailout fund and the rest from private investors and the Federal Reserve, making use of its ability to print money.
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> Yes, it can do that.
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> WHEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEE

It seems the "public-private partnership" gimmick presents the world with an either/or proposition. Either "private investors" (of which foreign countries have some of the most ready cash) ante up, or the Fed will just print money and print money and print money until it comes up with the cash.

I'm beginning to see why foreign investors—and SWFs more specifically—might have an incentive to invest.

Countries have SWFs, after all, as a way to do something with their giant surplus of dollars. The manufacturing exporters (Asia) and oil exporters (Middle East) created them as a means to invest their dollar reserves, hopefully getting a higher return on all those dollars just sitting and collecting dust. Now, as I suggested, a lot of those SWFs may be willing to invest further because it's the only thing staving off nationalization of companies they own up to 5% of.

But even the threat to print money in huge amounts might get their attention. After all, **by definition**, most countries with SWFs have huge numbers of dollars. That means these countries want to make sure their pile of dollars collecting dust retains as much of its value as possible. If the Fed prints and prints and prints new dollars, those dusty dollars will be worth less and less. Geithner is suggesting he’ll devalue not just the $10 to $50 billion these SWRs have invested in our banks, but the trillion dollar stash they’re faced with.

Aside from the apparent fact that this is all a gimmick atttempt to avoid nationalizing the banks, which may well be necessary anyway, I’ve got a gut feel that threatening Asian and Middle Eastern countries with inflation and dollar devaluation isn’t going to work out as planned.