The Bankers 9/11

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The US - now world - financial crisis has given nations a golden opportunity, but will they seize it, asks Eric Walberg

This Wall Street bailout - yes, bailout, not "rescue" - is yet another boondoggle by the neocons, pulled out of bankers' back pockets, and being enacted in an atmosphere of panic orchestrated and spread around the world to make sure it got passed ASAP. A bankers' 9/11: implode a few bank towers to make sure the system as a whole survives.

As the dust settles, it is clear that nothing much about our casino capitalism is about to change at all. But what is to be expected from the likes of United States President George W Bush? Joseph Stiglitz comments, "This 'cure' is another one of these rearrangements: by stripping out the bad assets from the banks and paying fair market value for them, the value of the banks will soar." It is a ruse based on the "trickle-down economics" made famous by president Ronald Reagan. Throw enough money at Wall Street and a few drops are sure to hit Joe Public.

Legislation that shows a corner is being turned, a new leaf turned over, would require addressing issues such as the wars in Iraq and Afghanistan, the monstrous military budget, the even bigger trade deficit, the massive tax cuts to the rich over the past 28 years, the very debt-based system of money creation - none of which got the time of day as legislators prepare to end their final working session this year. But then even a Barack Obama would not be able to extricate himself from the spider's web that is the US political system today, as his hearty support for the bill and support of President George W Bush show. Funny how Federal Reserve Chairman Ben Bernanke, accompanied by Secretary of the Treasury Henry Paulson, seemed to pull the $700 billion 450-page Emergency Economic Stabilisation Act out of his hat like a magician.

Was this plan in the wings, just waiting for its chance in the spotlight? And does it make sense to let the fox work out a plan to save the chickens as they come home to roost? Isn't it more likely that he will ensure the long life of his progeny first, always keeping in mind that enough chickens must be kept alive to reproduce and feed the foxes? To use another metaphor, does it make sense to put the pilot who hit the iceberg in charge of the lifeboats?

Adam Smith writes in The Wealth of Nations: "The proposal of any new law or regulation of commerce which comes from this order [profit takers], ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it."

Instead, it was railroaded through Congress and the Senate in a mood of hysteria, irresponsibly orchestrated by the very foxes who created the problem. The plan is intended to infuse the financial system with cash to "thaw" frozen credit markets (as if it is a natural process) and prevent a deep recession. So where have the $600 billions in tax cuts over the past eight years gone? Isn't printing more dollars like pouring water through a sieve? And is yet another $150 billion in tax breaks over the next 10 years really the answer?

The programme will send the federal deficit through the roof, even as it approaches record levels. The Treasury will have to borrow the money, requiring a bill increasing the government's legal debt limit by - surprise - $700 billion, to $11.3 trillion.

In the early 1990s, Sweden fought off a similar meltdown, also brought on by deregulation, which involved giving the government good as well as bad assets, and it survived. There is also "the Buffett model": Warren Buffet put money into Goldman Sachs, getting preferred shares and warrants, i.e., both protection when prices slide and participation when they stabilise. This would have worked better as a way to save the banks and protect taxpayers, even if it didn't address the underlying problems.

Two bright spots: insurance for deposit accounts was increased from $100,000 to $250,000 and pay for senior executives at firms participating in the programme was capped. CEO salaries have skyrocketed in the past two decades; for instance, Lehman Brothers' Richard Fuld received $466 million from 1993-2008 and a whopping $62 million "golden parachute" exit pay on resigning last month, as his firm chalked up a $6 billion loss and declared bankruptcy. Executive "pay" does not include the de rigueur hefty stock options and perks. Treasury may now ban excessive salaries and bonuses, as well as these golden parachutes for executives at firms that receive direct infusions of federal cash. Companies that sell assets in government auctions will lose tax deductions if salaries for their top executives exceed $500,000 a year, and outgoing managers who take severance packages triple their annual salaries will be required to pay a 20 per cent excise tax.

There are still those who have the chutzpah to protest against attempts to cap these salaries. "The bailout is about saving the economy, while executive pay is a separate, and complex, issue," says corporate governance expert at the University of Delaware Charles Elson. "It is not appropriate for government to be setting the salaries of executives," said Scott Talbott, senior vice-president for government affairs at the Financial Services Roundtable, a trade lobbyist. But not even the foxes are listening to such whining anymore. Paul Hodgson of the Corporate Library cuts through this cant: "This financial crisis is a direct result of the compensation practices at these Wall Street firms."

That Hodgson is spot-on is revealed by the intrigues of Joseph Cassano, head of AIG's London Financial Production office from 1987-2007. He used this obscure operation as a base to amass a fortune, specialising in such suspect "plain vanilla" products as "interest rate swaps" and "collateral debt obligations" (CDOs), and even dreamed up "credit default swap insurance" for these CDOs. There was never any intention of paying out any "insurance" claims - it was simply an old fashion pyramid scheme which netted Cassano personally hundreds of millions. He resigned last year as AIG went into the red, in part dragged down by his operations, and refuses to speak to the media. Multiply this by a few tens of thousands and it begins to add up.

However, there were lots of the usual pork barrel treats added to sweeten the bill and ensure its passage, including a 39-cent tax break for an Oregon firm that makes children's wooden arrows, tax breaks for Alaska fishermen and Samoan businessmen, $128 million for race-car track manufacturers, tax breaks to small television and film producers and for the production - none of which has anything to do with the crisis.

Senator John McCain's attempts to tar Senator Barack Obama for merely consulting with the former chief executive of Fannie Mae - a contention hotly denied by the Obama campaign - backfired when it was revealed that Freddie Mac was paying McCain's campaign manager, Rick Davis, $15,000 a month until two months ago - a total of $2.5 million since 2000, betting on McCain to be the Republican nominee. McCain previously insisted that Davis had had no involvement with the mortgage company for the past several years.

The $700 billion boondoggle has been passed, with a virtual carte blanche for the Treasury secretary and the Federal Reserve chairman, the foxes, to pay their canid friends whatever they want - for their mistakes. The original proposal gave the secretary unlimited power to spend the $700 billion, not just on mortgages, but on any "financial instrument" he liked. This was tightened somewhat, with two boards, including an "independent" congressional panel, an "independent" inspector general (shades of Gogol) and an oversight board staffed by the treasury and housing secretaries and the Federal Reserve chairman. Yes, oversight by the foxes and a Congress beholden to lobbyists. This will be sure to do the trick.

Absolutely no mention was made of the more than $500 billion which the Iraq war has cost in the past five years, the $600 billion in tax cuts since Bush came to power, the $650 billion military budget, or the $850 billion trade deficit. Cumulative borrowing from abroad during the six years of the Bush administration amounts to $5 trillion. The $700 billion figure begins to pale in comparison to this profligacy and mismanagement.

In these final months of his presidency, Bush has pulled another weasel out of his hat, pushing through a policy that rewards his criminal friends and avoids any need to reverse his disastrous foreign and domestic policies. Yet commentators feel sorry for him, calling it a hollow victory. He is finally being forced to eat some crow, they say, made to preside over the biggest government intervention in decades, largely abandoned by his fellow Republicans in the House. His CEO friends will find their wings clipped and their golden parachutes taken away. And, if the plan has lost money after five years, his successor must submit a plan to Congress for recouping those losses from the financial industry, perhaps through new fees or a tax on securities transactions.

The ultimate irony here is that the Titanic took the lives of the rich as well as the poor. At least in those days, there was a sense of honour which allowed the innocent women and children to escape. Imagine the Titanic today: as the ship sinks, all are scrambling without any sense of shame for the lifeboats, abandoning any attempt to patch the huge holes - which could easily be done given the will - resulting in one and all being swallowed by the abyss.

A real rescue plan

The financial bailout is not a plan that fundamentally alters the relationship between government and business, as is being touted. It will not solve the underlying crisis that the US finds itself in. It will fundamentally alter the relationship between the US and the world, but more because of the panic it precipitated and the accumulated effects of the other disastrous policies of the Bush era - the wars, the deficits in trade and the budget. Therein lies the golden lining. The neocon con is over. The public outrage should be mobilised to push for a real solution. What would a sober plan look like?

- For starters, it would require the government to renationalise Freddie Mac and Fannie Mae, paying the current market value for the bad assets, not a penny more, and taking all loans, both good and bad. Why should the government only take over the culprits' bad loans? After all, the management of these once-upon-a-time government agencies - intended to help the poor purchase homes - having filled its pockets, has left behind a mess. But many of these bad debts are made up of such fraudulent "investments" as CDOs, and are now so convoluted, they could well be worth nothing. The foxes insist that when the market rebounds, the government will magically be able to sell the bad loans at a profit. This sounds suspiciously like the strategy in the early 1990s during the Savings & Loan scandal, which rewarded the culprits and cost the taxpayer $350 billion. Caveat emptor.

- The Glass-Steagall Act, passed in the wake of the stock market crash of 1929, and designed to separate banking from securities activities, should be immediately reinstated. It was repealed by Congress in 1999 (guess who lobbied for its repeal?), allowing banks to make fast money from risky investments in securities and derivatives, and led to the subprime scandal earlier this year. The entire swamp of "financial services" should be drained and strictly controlled in future.

- As part of a clean-up of the financial sector, the failed and failing banks should be put under direct government control, their records opened to independent investigators. Culprits should be prosecuted and lose their ill-gotten gains (in as much as they are accessible, considering the ubiquitous offshore banking system). Salaries of CEOs and management would be adjusted in line with government salaries.

- There should be a moratorium on housing foreclosures. Instead of handing $700 billion over to the banks, the government should use it to pay off all delinquent mortgages. This is the proposal of the Yale School of Management's Jonathan Koppell and William Goetzmann. Mortgage rates should be capped, and lenders should take part of the beating by agreeing to renegotiate mortgage values in light of the falling values.

- Taxes should be increased - returned to their pre-Reagan progressive rates - rather than decreased. The negative savings rate in the US is the elephant in the room, with few people producing real goods, and virtually everyone living on credit. US citizens must own up to their flight from reality.

- The deindustrialisation of America must be stopped. If the country produces only arms and dubious pieces of paper, there is no way it will be able to pull itself out of the hole it has dug.

- The poison that is euphemistically called the international financial system must be radically reformed. The G8 (sorry, G7) should be mobilised to enact legislation ending offshore banking - used to launder money and keep illegal earnings out of the hands of investigators. British Prime Minister Gordon Brown has called for a new global financial regulatory system and he should be given an immediate "yes".

- Speculation on "floating" currencies, which rakes in billions every day for speculators, must end. For 30 years, even mainstream economists such as James Tobin have been urging the taxation of earnings made from speculation on currency fluctuations, the so-called Tobin tax, with the goal of reducing this practice and the instability it causes. In effect, it allows speculators like George Soros to rob the broad citizenry of the world. Tobin's idea is to tax the Soroses and give the proceeds to third world development. Better yet, exchange rates could be fixed and adjusted in an orderly fashion to prevent such speculation and the undermining of economies it leads to.

- Most important, the US government must be forced to abandon its reckless policy of war and militarism, and reign in its profligate spending, issues which so far have been entirely absent from the debate.

To those that howl that all this amounts to socialism, so be it. Remember Northern Rock, the British building society that suffered a run on it last year and was nationalised? With more and British banks needing rescues these days, public confidence has become so fragile that Northern Rock is now seen as the best place for savings because its deposits are fully guaranteed by the government. Socialism works. There Is No Alternative - TINA - as former prime minister Margaret Thatcher loved to spout about capitalism. While private pension funds fold, Social Security plods on. By going too far in filling their pockets, banks have proved the bankruptcy of the entire system.

Some of this sense has "trickled down" into the revised plan. The FBI has opened 26 investigations into fraud by the failing giants, though as with the investigation of the Enron collapse in 2003 there is little likelihood that - leaving aside sudden mysterious death - any culprits will suffer more than a handslap. Finance Services Committee Chairman Barney Frank said he plans to rewrite housing finance laws, broaden executive pay limits to more corporations and pursue new regulations to rein in excessive risk-taking on Wall Street.

Such rearguard actions are mere crumbs. What is most shocking of all in this latest Bush-induced crisis is that the neocons created a worldwide panic to railroad through a bailout which leaves the criminals in control of the world's financial system and their rules of play intact.

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