

- [BIG NEWS:](#)
- [Bank Of America](#)
- |
- [Auto Bailout](#)
- |
- [Google](#)
- |
- [Apple](#)
- |

More...

[Log In](#) | [Sign Up](#)

April 8, 2009

- [Home](#)
- [Politics](#)
- [Media](#)
- [Business](#)
- [Entertainment](#)
- [Living](#)
- [Style](#)
- [Green](#)
- [World](#)
- [Chicago](#)
- [Comedy 23/6](#)
- [Video](#)
- [Blogger Index](#)
- [Archive](#)
- [Make HuffPost Your HomePage](#)
- [Get Email Alerts](#)
- [Twitter: Follow Us](#)



[Jeffrey Sachs](#)

Director of the Earth Institute, Economics Professor, Columbia University

Posted April 8, 2009 | 03:33 PM (EST)

The Geithner-Summers Plan is Even Worse Than We Thought

Read More: [Bailout](#), [Bank Bailout](#), [Citibank](#), [Geithner](#), [Geithner Plan](#), [Geithner Summers](#), [Geithner Summers Bank Plan](#), [Geithner Summers Obama](#), [Geithner Summers Task Force](#), [Jeffrey Sachs](#), [Larry Summers](#), [Larry Summers Geithner](#), [Obama Stimulus Plan](#), [Tim Geithner](#), [Timothy Geithner](#), [Toxic Assets](#), [Wall Street Bailout](#), [Business News](#)

digg [stumble](#) [reddit](#) [del.icio.us](#) [ShareThis](#)

	<p>Show your support. Digg this article.</p>
--	--



Get Breaking News Alerts

never spam

- Share



Print



Comments

Two weeks ago, I posted an article showing how the Geithner-Summers banking plan could potentially and unnecessarily transfer hundreds of billions of dollars of wealth from taxpayers to banks. The same basic arithmetic was later described by [Joseph Stiglitz in the *New York Times*](#) (April 1) and by [Peyton Young in the *Financial Times*](#) (April 1). In fact, the situation is even potentially more disastrous than we wrote. Insiders can easily game the system created by Geithner and Summers to cost up to a trillion dollars or more to the taxpayers.

Here's how. Consider a toxic asset held by Citibank with a face value of \$1 million, but with zero probability of any payout and therefore with a zero market value. An outside bidder would not pay anything for such an asset. All of the previous articles consider the case of true outside bidders.

Suppose, however, that Citibank itself sets up a Citibank Public-Private Investment Fund (CPPIF) under the Geithner-Summers plan. The CPPIF will bid the full face value of \$1 million for the worthless asset, because it can borrow \$850K from the FDIC, and get \$75K from the Treasury, to make the purchase! Citibank will only have to put in \$75K of the total.

Citibank thereby receives \$1 million for the worthless asset, while the CPPIF ends up with an utterly worthless asset against \$850K in debt to the FDIC. The CPPIF therefore quietly declares bankruptcy, while Citibank walks away with a cool \$1 million. Citibank's net profit on the transaction is \$925K (remember that the bank invested \$75K in the CPPIF) and the taxpayers lose \$925K. Since the total of toxic assets in the banking system exceeds \$1 trillion, and perhaps reaches \$2-3 trillion, the amount of potential rip-off in the Geithner-Summers plan is unconscionably large.

The earlier criticisms of the Geithner-Summers plan showed that even outside bidders generally have the incentive to bid far too much for the toxic assets, since they too get a free ride from the government loans. But once we acknowledge the insider-bidding route, the potential to game the plan at the cost of the taxpayers becomes extraordinary. And the gaming of the system doesn't have to be as crude as Citibank setting up its own CPPIF. There are lots of ways that it can do this indirectly, for example, buying assets of other banks which in turn buy Citi's assets. Or other stakeholders in Citi, such as groups of bondholders and shareholders, could do the same.

Several news stories suggest some grounding for these fears. Both *Business Week* and the *Financial Times* report that the banks themselves might be invited to bid for the toxic assets, which would seem to set up just the scam outline above. What is incredible is that lack of the most minimal transparency so far about the rules, risks, and procedures of this trillion-dollar plan. Also incredible is the apparent lack of any oversight by Congress, reinforcing the sense that the fix is in or that at best we are all sitting ducks.

The sad part of all this is that there are now several much better ideas circulating among experts, but none of these seems to get the time of day from the Treasury. The best ideas are forms of corporate reorganization, in which a bank weighed down with toxic assets is divided into two banks -- a "good bank" and a "bad bank" -- with the bad bank left holding the toxic assets and the long-term debts, while owning the equity of the good bank. If the bad assets pay off better than is now feared, the bondholders get repaid and the current bank shares keep their value. If the bad assets in fact default heavily as is now expected, the bondholders and shareholders lose their investments. The key point of the good bank -- bad bank plans is an orderly process to restore healthy banking functions (in the good bank) while divvying up the losses in a fair way among the banks' existing claimants. The taxpayer is not needed for that, except to cover the insured part of the banks' existing liabilities, specifically the banks' deposits and perhaps other short-term liabilities that are key to financial market liquidity.

Cynics believe that the Geithner-Summers Plan is exactly what it seems: a naked grab of taxpayer money for Wall Street interests. Geithner and Summers argue that it's the least bad approach to a messy situation, in which we need to restore banking functions but don't have any perfect ways to do that. If they are serious about their justification, let them come forward to confront their critics and to explain to the American people why the other proposals are not being pursued.

Let them explain the hidden and not-so-hidden risks to the American taxpayer of the plan that they have put forward. Let them explain why they are so intent on saving the banks' bondholders, even the long-term unsecured creditors who clearly knew they were taking market risks in buying Citibank bonds. Let them work with their critics to fashion a less risky and less costly plan. So far Geithner and Summers tell us that their plan is the only option, but without a word of further explanation as to why.

Related News On Huffington Post:



[Geithner Bank Plan Faces New Wave Of Criticism](#)

Two weeks after being introduced, Timothy Geithner's bank rescue plan is facing a new round of withering criticism from economists who say the proposal is...



[INVESTIGATION: Are Obama Officials Helping Execs Avoid Pay Caps?](#)

A congressional oversight committee opened an investigation yesterday into whether the Obama administration is circumventing a law that limits lavish pay for executives at firms...



[Treasury Extends Deadline For Geithner Plan Participation](#)

The Treasury Department announced Monday that it's extending the deadline for investment firms to apply to participate in the Geithner Plan -- the Public-Private Investment...



[Larry Summers' Speaking Fees Targeted By Watchdogs](#)

Good government groups took swings this weekend at Larry Summers, along with the White House in general, after it was revealed that the economic adviser...

More News Posts: [« First](#) [Prev](#) [1](#) [2](#) [Next](#) [Last »](#)

Related Blogs On Huffington Post:



[Elizabeth Warren: Finally Someone With a Clue How to Handle the Financial Crisis](#)

Elizabeth Warren's the chief watchdog for the 700 billion TARP fund. Unfortunately, she has no real power.



[The Obama Economic Team's Flawed Cosmology: Still Believing the Universe Revolves Around the Banks](#)

Discussing the financial crisis with Obama's economic team is like beaming back to the 2nd century and discussing astronomy with Ptolemy.



A Trillion Dollars for the Banks: How About a Second Opinion?
Given how much money Tim Geithner wants to spend -- putting it in the hands of the folks that brought on this economic crisis -- it would seem appropriate to first examine all the alternatives.



Will Geithner Fire Corporate America?
Geithner's new tough line is mostly designed to reassure a public that's lost all faith in the wisdom of bailing out Wall Street.

More Blog Posts: [« First](#) [Prev](#) [1](#) [2](#) [Next](#) [Last »](#)

More in Business...



[TARP Watchdog: Fire Managers, Liquidate Banks To...](#)



[Bank of America Needs More Money: Analyst](#)

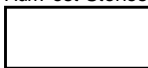


[Living Large and in Charge](#)



[Bilking The Summers-Geithner Plan: How Wall Street...](#)

HuffPost Stories Surging Right Now



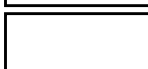
[Neal Rodriguez: 10 of the Hottest Girls @Twitter](#)



[Keli Goff: A Scandal More Shameful than AIG and Just as Costly for Taxpayers](#)



[How Much Does Smoking Cost Society?](#)



[Turkish Anchor Reports On Obama In Blackface \(VIDEO\)](#)

Comments

Pending Comments

[FAQ: Comments and Moderation](#)[FAQ: HuffPost Accounts](#)
[Post Comment](#)

722

3

Want to reply to a comment? Hint: Click "Reply" at the bottom of the comment; after being approved your comment will appear directly underneath the comment you replied to

View Comments: [Newest First](#) [Expand All](#)

Page: [1](#) [2](#) [3](#) [4](#) [5](#) [6](#) [7](#) [8](#) [Next »](#) [Last »](#) (18 pages total)

- steelwheels [See Profile](#) [I'm a Fan of steelwheels](#) [permalink](#)

A interesting read written in laymans terms that we little people, (see stupid) can understand is Matt Tabbi's article in the current issue of Rolling Stone. I just wish it was longer...

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 01:58 PM on 04/08/2009
- lwaxanatroi [See Profile](#) [I'm a Fan of lwaxanatroi](#) [permalink](#)

who can stop this and how can we help?

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 12:59 PM on 04/08/2009
- climatebabes [See Profile](#) [I'm a Fan of climatebabes](#) [permalink](#)

Then consider this option <http://www.youtube.com/watch?v=AkF3vrmtCoQ>

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 10:21 AM on 04/08/2009
- farrelle [See Profile](#) [I'm a Fan of farrelle](#) [permalink](#)

If this is the "change" we've all been anxiously anticipating ... sign me up for the status quo, please.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 09:43 AM on 04/08/2009
- AContrario [See Profile](#) [I'm a Fan of AContrario](#) [permalink](#)

America is angry and you are being reckless in your handling of this financial crisis Mr.President.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 09:25 AM on 04/08/2009
- DaveVDave [See Profile](#) [I'm a Fan of DaveVDave](#) [permalink](#)

I think he is doing better than the last president did. Bush would just smile and say "It'll be alright Y'all" At least Obama is trying to do something.

<http://www.TheCommentDepot.com>

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 12:20 PM on 04/08/2009
- CitizenFarmer [See Profile I'm a Fan of CitizenFarmer](#) [permalink](#)

In publishing such plans, the authors must have their plans vetted by Rahm.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 07:23 AM on 04/08/2009
- xIntcat [See Profile I'm a Fan of xIntcat](#) [permalink](#)

If you had spent a lot and I do mean a lot of time watching the congressional hearing over the past two months, you would know that Geithner has explained why various other strategies including good bank/bad bank could not be applied to this situation. He was opposed to changing mark-to-market; however, in the midst of this crisis and I am afraid that from what I understood doing so undermines the premise of this plan. I'm not so cynical that I believe that the government is conspiring with the financial institutions because in this environment the rest of the economy will just continue to plummet. Don't get me wrong! When multiple members of congress have accepted large campaign contributions from the banks who received TARP funds both before and subsequent to the bailout, it is apparent that the corruption is pervasive and exacerbates suspicion that the public is being scammed.

I guess I continue to believe that no one has a flawless plan and to hope that this plan contains flexibility to pull back before we are in too deep. Supposedly, there are protections in place that would prevent the purchasing of assets at a high price. I have worried that Goldman Sacks and J. P. Morgan became overly eager to pay back TARP funds after they heard the details of the plan. I still believe that doing something is better than whining and doing nothing.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 06:02 AM on 04/08/2009
- parrotista [See Profile I'm a Fan of parrotista](#) [permalink](#)



HuffPost's Pick

Since few of us can spend a lot (and "I do mean a lot!") of time rewatching the hearings, anyone want to explain the objections to good bank / bad bank? I admit I can't even grasp what it is.

I will say, this idea of "gaming" the toxic assets plan bothers me a lot.

On the other hand, I'm getting upset by the anti-Geithner crowd. A couple weeks ago, we were all talking about Krugman and "nationalization" and "Swedish Solution." That was the great miracle answer that Geithner wouldn't go for just because he's too much a creature of Wall Street. No serious substantive discussions of its merit - I've had to come up on my own with objections (or possible objections - they're questions I'd like answered)

Now it's good bank / bad bank. In two weeks is it going to be something else? This is the difference between governing and arm-chair quarterbacking. The Administration doesn't have the luxury of spending all this time kicking around all these ideas month after month only to kick around some more.

- Craig

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 01:34 PM on 04/08/2009
- mattyd123 [See Profile I'm a Fan of mattyd123](#) [permalink](#)

I have a flawless plan. Stop letting the banks control the money supply.

If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks...will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered.... The issuing power should be taken from the banks and restored to the people, to whom it properly belongs. - Thomas Jefferson in the debate over the Re-charter of the Bank Bill (1809)

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 08:04 AM on 04/08/2009
- parrotista [See Profile I'm a Fan of parrotista](#) [permalink](#)

The Fed's role in controlling the money supply doesn't seem to me to be at the heart of the crisis - the uncontrolled derivatives market is much more relevant.

The Fed has done a reasonably good job of controlling the money supply. The Fed's Board of Governors is appointed by the President and confirmed by the Senate. If the Fed should really become corrupted and act solely in the interests of an oligarchy, Congress has the power to step in with legislation. In the meantime, the Fed (like the FDIC and many other quasi-government agencies) should be "quasi-independent."

There's some serious conspiracy theory stuff about the Fed floating around here at HuffPo which I don't get.

- Craig

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 01:23 PM on 04/08/2009

[There are More Comments on this Thread. Click Here To See them All](#)

- ghostoftompaine [See Profile I'm a Fan of ghostoftompaine](#) [permalink](#)

That is right, it has all been set up by the Federal Reserve System and we will not fix the problem until that system and its owners are addressed. Google Wilson, Federal Reserve Act 1913, Many books on the subject, one very basic one is called 'The Truth in Money Book', this is on the fix, TAXATION WITHOUT REPRESENTATION

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 08:21 AM on 04/08/2009
- tomas0808 [See Profile I'm a Fan of tomas0808](#) [permalink](#)

You nailed it with the line 'if it fails the bondholders and shareholders eat it' This entire, extremely risky and probably doomed to fail hail mary plan is being advanced simply so those two groups of people (rich people already, by the way) won't lose more money than they already have. But it will.

What happened to our leaders? Have they all been bought off? We need a new amendment: separation of business and state.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 03:47 AM on 04/08/2009
- PhDiva [See Profile I'm a Fan of PhDiva](#) [permalink](#)

Obama needs to stop trusting these people. He can't fire them because then he'll look stupid, but he needs to bring in some more voices that aren't so in bed with the banks.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 02:28 AM on 04/08/2009
[- TrueSense](#) [See Profile](#) [I'm a Fan of TrueSense](#) [permalink](#)

Wow, is our great hope, Obama, through his worship of financiers via Geithner and Summers and his attack on the 4th Amendment going to lead the country to disaster.

I am becoming confused and disappointed ! Worse, many of the critics on the right and the left during the campaign said Obama would not go to the mat on much, had very few core values, and was a bit of a corporatist.

I hoped for and still hope for better. Over all, he is and has been good, but the the things he is messing up on are huge !

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 01:08 AM on 04/08/2009
[- wengel](#) [See Profile](#) [I'm a Fan of wengel](#) [permalink](#)

The issue Sachs raises is a serious issue. It's a major flaw with the Geithner plan that will allow banks and hedge funds to totally game the system from the inside, and why wouldn't they? It's almost impossible to legislate against so it could be a totally legal way to get these toxic assets off the bank's balance sheets and onto the taxpayers! This video does a great job of explaining just how this fraud would go down: http://www.youtube.com/watch?v=n-arbFLTctI&feature=player_embedded

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 12:41 AM on 04/08/2009
[- stevededalus3](#) [See Profile](#) [I'm a Fan of stevededalus3](#) [permalink](#)

I'm more concerned over just what is a toxic asset and the degree of its negative value. No one ever says what the hell they are. They should be listed and identified. We've been told this mess is due to subprime mortgages. I don't believe it, what with all the revisions made be by Fan/Fred Macs and FDIC. I think these transnational banks have been engaged in Ponzi schemes, dubious Wall street trading, especially with hedge funds, not to mention horrendous loans to other nations far worse than Citibank's Mexican blunder years ago.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 10:56 PM on 04/07/2009
[- hollybork](#) [See Profile](#) [I'm a Fan of hollybork](#) [permalink](#)

NEW

I think most of us would agree with you, Steve. The various shennanigans were made worse by the lose standards of reserves which were 32 to 1 (can you believe it?) Once the Glass Steigel Act was revoked, and the ban was lifted on derivatives and short sales, the financial guys were off to the races, just like they were in the late 1920's.

Geithner's plans to adres this look like just more "Ponzi Scheme" to me.

I wish Eric Holder would start prosecuting these guys. Their financial instruments sold like candy around the world, but they were illusory assets. You cannot tell me this is legal when it put billions of dollars into the pockets of the bankers and drained the lifeblood out of the world financial system to the point where it almost collapsed.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 03:15 PM on 04/08/2009
[- littledogs1](#) [See Profile](#) [I'm a Fan of littledogs1](#) [permalink](#)

1. I don't think the government is going to allow the banks to set the assets value, i would hope not, and I hope they don't allow the same people who were rating assets before to continue. 2. What's your idea? What's your plane that won't cost More people their jobs. I think the best thing the Gov could do is allow people to refinance their mort through a government run and owned public bank, they could refi at say 2 or 3 % for 5 years, then have it go to 4.5 or 5%, that way the banks get rid of the toxic assets, without paying the bank top dollar for junk, and people have the oppertunity to stay in their homes, the government makes more in intrest by loaning to the public than it gets loaning money to the banks, and that pays for the program administration costs and helps pay down the debt and stymulates the economy.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 10:07 PM on 04/07/2009
[- vagabondvet](#) [See Profile](#) [I'm a Fan of vagabondvet](#) [permalink](#)

The government WILL allow banks to set asset value; it has been pressuring FASB to relax mark-to-market accounting rules and finally got them to do so.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 11:38 PM on 04/07/2009
[- mozara](#) [See Profile](#) [I'm a Fan of mozara](#) [permalink](#)

Wall Street owns Summers and Geithner...

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 10:01 PM on 04/07/2009
[- nogimmicks](#) [See Profile](#) [I'm a Fan of nogimmicks](#) [permalink](#)

And Summers and Geithner (plus Rahm and Ben) own Obama.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 12:11 AM on 04/08/2009
[- hollybork](#) [See Profile](#) [I'm a Fan of hollybork](#) [permalink](#)

NEW

I don't think they own Obama. I think he defers to them because bankins is not his cup of tea. He has been so brilliant on foreign policy I am inclined to forgive him, and hope he gets smart about the gaming of the system really fast. Otherwise, his presidency will be ruined by what the financial guys will steal right from under his nose.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 03:17 PM on 04/08/2009
[- zull2](#) [See Profile](#) [I'm a Fan of zull2](#) [permalink](#)

My opinion is, if the only plan any economist can hatch involves firing the Treasury Secretary, you don't have a plan. You are planning a train wreck. Why? You replace Geithner with anyone to the left of him, and you better bet that the right wing radio talkers begin spreading rumors about raising taxes on working people. Those people call in to their Republican (and Democratic) politicians and complain. Those Republicans filibuster, put questionable holds on candidates, and otherwise do whatever they can to sandbag it because they see it as a way to score political points early for the 2010 election. By the time you can get another candidate in there, you better bet that it'll take months to hatch a complete plan and fill out the department. At that point, so many people will be unemployed that we will be in a much more severe depression than we already basically are in, and it'll take a whole lot longer to get out of it.

Think Congress will invoke the nuclear option? Wanna bet? Think Reid can just blow that by the blue dogs? Think again. The blue dogs come from districts where right wing radio drowns out everything else. That's why they're blue dogs.

[Reply](#) [Favorite](#) [Flag as abusive](#) Posted 09:18 PM on 04/07/2009
Page: [1](#) [2](#) [3](#) [4](#) [5](#) [6](#) [7](#) [8](#) [Next >](#) [Last »](#) (18 pages total)

You must be [logged in](#) to reply to this comment. [Log in](#) or 



[Ads by Google](#)

Bank Failures Not Over
Nowhere Near the End. 1,000s More Could Fail. Protect Yourself Today.
SovereignSociety.com/Market_Crisis

- [Copyright © 2009 HuffingtonPost.com, Inc.](#) |
- [Archive](#) |
- [User Agreement](#) |
- [Privacy](#) |
- [Comment Policy](#) |
- [About Us](#) |
- [Powered by Movable Type](#)