

# Betrayed by the Bailout: The Death of Democracy

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On this date, October 3, 2008, the American people were betrayed by those whom they had elected to represent them. The members of Congress who voted for the Wall Street “bailout” violated their oath of office to “support and defend the Constitution” ... “that I will bear true faith and allegiance to the same” ... “and that I will well and faithfully discharge the duties of the office on which I am about to enter: ...”

Without holding any meaningful hearings or public discussions and listening only to those most responsible for the economic disaster, Federal Reserve Board Chairman Ben Bernanke and Treasury Secretary Henry Paulson, Congress abdicated its responsibility to the American people.

Locking out most members from all discussions, the congressional “leadership” emerged from their backrooms with legislation that grants Secretary Paulson the ability to spend at least \$700 billion to “take such actions as [he] deems necessary” ... “to promote financial market stability.”

Entrusting tremendous political and financial power (and a ton of borrowed money that taxpayers will have to repay with interest) into Paulson’s sole discretion, members of Congress must have been aware that, prior to his cabinet appointment in 2006, Paulson worked for 32 years at Goldman Sachs, one of the Wall Street firms that stands to benefit greatly from his “actions.”

Paulson, who cashed out his Goldman stock valued at \$575 million to become the Secretary of Treasury (without having to pay *any* taxes on the sale), earned more than \$53 million in pocket change during just his last two years at Goldman Sachs for innovations such as a new line of “Mortgage Backed Securities.” Gambling more than a trillion dollars on risky subprime second mortgages, Paulson cleverly converted them into AAA-rated “secure” investments by purchasing guarantees from the American International Group.

AIG, coincidentally, was just “bailed out” two weeks ago by Secretary Paulson for \$85 billion (of borrowed money that taxpayers will have to repay with interest), averting a devastating loss by Goldman Sachs, who was holding more than \$20 billion in otherwise worthless second mortgages.

Is it surprising that Lloyd Blankfein, Goldman’s current CEO, was present with Paulson when the decision was made to bailout AIG?

The bailout’s \$700 billion price tag is only an arbitrary guess by Paulson and is most likely just the first installment of many more to come. Other economists, with more successful track records, believe the total will be much greater, perhaps \$5 trillion, as concealed losses

are uncovered and foreign companies dump their toxic investment waste into their American offices.

In passing the “Emergency Economic Stabilization Act of 2008,” Congress ignored the “great concern” expressed by almost two hundred of the nation’s leading economists who pleaded with Congress “not to rush, to hold appropriate hearings, and to carefully consider the right course of action...” In addition to its ambiguity and long-term effects, the economists believed the bailout plan to be “a subsidy to investors at taxpayers’ expense” and to be “desperately short-sighted.” Ultimately, more than 400 top economists, including two Nobel Prize winners, voiced opposition to the bailout.

The economists were not alone in being ignored by the politicians. It is widely reported that calls and emails to Congress from constituents were running as high as 300 to one against the bailout. Mike Whitney reports one analyst saying that “the calls to Congress are 50 percent ‘No’ and 50 percent ‘Hell, No’.” The percentages adjusted as the stock market tumbled, but public opposition to the bailout remains strong.

An AP poll only identified 30 percent of the public in favor of the bailout, and a CNN Money opinion poll found 77 percent of the people believing the bailout would benefit those most responsible for the economic downturn.

### Who Benefits?

The Latin adage, *Cui bono*, asks “to whose death are you going?” Law enforcement investigators quickly learn that the guilty party can usually be found among those who stand to gain from a murder or other crime.

There is no doubt the bailout will most benefit some of the richest and highest paid individuals in the American economy. But, why did the politicians betray the wishes of those who elected them in favor of the criminals who committed the fraud? Perhaps the answer can be found in another Latin phrase, *quid pro quo*, meaning “what for what; something for something.”

Individuals working for Wall Street finance, insurance and real estate companies and the companies’ political action committees have contributed more than \$47 million to the campaigns of Senator Obama (three of top five sources) and Senator McCain (top five sources), both of whom voted for the bailout.

More to the point, Wall Street has contributed more than \$1.1 billion dollars to congressional candidates since 2002. Nine of the top ten House recipients of Wall Street largesse, who each received an average of \$1.5 million, are on the financial oversight and taxation committees.

Even more telling, the bipartisan Congressional “leaders” most responsible for pushing the bailout through Congress, Senators Dodd and Gregg and Representatives Frank and Blunt have taken almost \$20 million from Wall Street sources during the last 20 years. Dodd recently received \$6 million in contributions during his presidential primary campaign, and Frank has collected \$720,000 this year.

Other key players also have been well compensated this year: Congressman Kanjorski received \$755,000 and Congressman Bachus banked \$704,000.

### Who Loses?

The ordinary, hard-working voters, who were opposed to the bailout, and their children and grandchildren, will be the ones who will ultimately have to repay, with compound interest, the money that will have to be borrowed to give away to Wall Street bankers.

The bailout was “sweetened” in the Senate by another \$110 billion in tax relief and renewable energy incentives to get enough House votes for passage; however, only the temporary one-year slowdown of the Alternative Minimum Tax offered any succor to the middle-class workers affected by it.

The bailout raises the debt ceiling to \$11.3 trillion, or about \$37,524 for each man, woman and child in the United States. How is this burden ever going to be repaid? Workers already know their wages are falling, their jobs are at risk, their health care, food and fuel costs are skyrocketing, and they are being kicked out of their apartments and homes because they can't pay the rents and mortgages.

Didn't each member of Congress have a sworn duty to rescue the millions of Americans suffering from the reckless gambling of Wall Street moguls, rather than to reward an obscene excess of greed?

### Foreclosure Rescue

At least six million homeowners will probably default on their mortgages this year and next, and millions more will have their equity wiped out by declining property values. More than 770,000 homes have been seized by lenders since 2007, and 91,000 families were just kicked out of their homes in August.

These American homeowners were betrayed by their elected representatives!

The only provision in the bailout legislation to remotely “benefit” homeowners whose homes are being foreclosed upon only “encourages” mortgage service companies to modify mortgages. Paulson is required to “maximize assistance for homeowners ... and minimize foreclosures”; however, he also has to ensure that the government doesn't incur any additional costs. Thus, there's little or no hope of any meaningful benefit to distressed homeowners resulting from the bailout.

The legislation could have required the government to directly purchase the defaulting mortgages and to adjust them to the reduced value of the property, as was done in the Great Depression. Instead, Paulson is authorized to purchase the complex derivatives (Wall Street's gambling debts) piled on top of the original mortgages. The difference is whether homeowners or Wall Street receives the benefit of the bailout.

### Bankruptcy Rescue

More than 4,476 Americans filed for bankruptcy every day during August, the highest number since changes in the law in 2005 made it much more difficult, and even impossible in many cases, to obtain debt relief. More than a million, increasingly elderly, people will petition for bankruptcy this year.

These destitute Americans were betrayed by their elected representatives!

Under the current law, bankruptcy judges do not have the power to modify mortgages of a petitioner's primary residence, irrespective of how the mortgages have been sliced, diced and repackaged. The bailout could have provided judges with the authority, in appropriate cases, to adjust the amount secured by the mortgage to the value of the property and to adjust the interest rate to a reasonable percentage.

### Unemployment Rescue

New claims for unemployment benefits rose to 493,000 last week, the highest level in seven years. The economy has already lost 605,000 jobs thus far this year, and it dumped 159,000 payroll jobs just during September, the greatest drop in five years.

These unemployed Americans were betrayed by their elected representatives!

Although the House of Representatives passed an economic stimulus bill that would fund job creation and extend jobless benefits for long-term unemployed workers on September 26th, the Senate failed to pass its own stimulus bill on the same day. President Bush has promised to veto the legislation if passed.

The bailout legislation could have provided for an extension of jobless benefits, but it didn't.

### Homeless Rescue

More than 750,000 and as many as a million Americans are homeless today, and the numbers are increasing dramatically. The National Coalition for the Homeless reports that homelessness is growing because of foreclosures, loss of jobs, and the rising price of fuel and food.

These homeless Americans were betrayed by their elected representatives!

Homeless sites are appearing all across the country as people with no place to stay are pitching tents and huddling together for support and protection. Their plight did not receive any consideration by the Congressional leadership that rammed the bailout through Congress.

### Hunger Rescue

The most recent report by the Department of Agriculture found that in 2006, 35.5 million Americans lived in households with insecure food supplies and the numbers were increasing. At risk children numbered more than 12.6 million, and African Americans and Hispanic Americans suffered at higher rates than the national average.

In 2006, 9.6 million Americans had to frequently skip meals or eat too little, and often had to go without food for a whole day. Today, as members of Congress voted to reward the richest and most greedy members of our society, they ignored those without the most basic necessity for survival. This morning, they rewarded the most powerful and best-fed members of our society, and gave no thought to the helpless children who will go to bed hungry tonight.

Food banks who serve as the last resort for the hungry are running out of food. They are having to reduce rations and to dip into emergency supplies of staple items. There are reports of a 40 percent increase in requests for food assistance and a 30 percent drop in supplies.

These hungry Americans were betrayed by their elected representatives!

The bailout could have increased the amount of federal assistance for food banks in the Emergency Food Assistance Program, but it didn't.

### The Consequences

The real estate bubble that has been driving the United States economy has now popped, and there is no replacement engine to transport America's consumer society down the highway to happiness. Americans are facing the mother of all depressions; it will be hard and it will last a long time. What are all of these homeless, hopeless, and hungry people going to do?

Many have already exercised their First Amendment right to petition their government for the redress of grievances. A majority of the members of Congress, the two presidential candidates, and the President paid no attention to the economic experts and the thousands and thousands of voters who protested the bailout and who begged them to rescue the people rather than the rich and powerful.

The people can always take to the streets in protest, and they probably will do so in growing numbers as the economic circumstances become more harsh.

The U.S. government is already planning for the eventuality - not with the helping hand of supplemental legislation to help with mortgages, jobs, shelter or food, but with the mailed fist of military suppression. The Army Times reports the current deployment within the United States "homeland" of an "on-call federal response force for natural or manmade emergencies or disasters, including terrorist attacks." The Army acknowledges that the Northern Command may call upon the 3rd Infantry Division's 1st Brigade Combat Team to help with "civil unrest and crowd control."

With almost a trillion dollars picked from their pockets to reimburse reckless Wall Street gamblers, many Americans righteously feel betrayed tonight. A majority will elect a new president one month from tomorrow, and most will wait to see who it will be, and what if anything he can or will do to alleviate their suffering.

There are others, undoubtedly, who agree with the Supreme Court's recent decision that the Second Amendment right to bear arms is individually held, and who believe that the use of their personal weapons is justified to overthrow a government that betrays them and which

destroys their very means of existence. The right of legitimate self defense is recognized by every criminal law in America.

Perhaps democracy in the United States is not dead; if not, it's on its deathbed. Resuscitation in the form of responsible representation is possible, but time is growing short.

William John Cox is a retired supervising prosecutor for the State Bar of California. As a police officer he wrote the Policy Manual of the Los Angeles Police Department and the Role of the Police in America for a national advisory commission. Acting as a public interest, pro bono lawyer, he filed a class action lawsuit in 1979 on behalf of every citizen of the United States petitioning the Supreme Court to order the other two branches of the federal government to conduct a National Policy Referendum; he investigated and successfully sued a group of radical right-wing organizations in 1981 that denied the Holocaust; and he arranged in 1991 for publication of the suppressed Dead Sea Scrolls.

His 2004 book, *You're Not Stupid! Get the Truth: A Brief on the Bush Presidency* is reviewed at <http://www.yourenotstupid.com>, and he is currently working on a fact-based fictional political philosophy. His writings are collected at <http://www.thevoters.org>, and he can be contacted at [u2cox@msn.com](mailto:u2cox@msn.com).

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