Economic Crisis; How the Current Financial Rescue Schemes are Following the Failed Model of the Hoover Administration

Herbert Hoover Copycats

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Faced with the financial meltdown of the Great Depression, the Hoover administration created the Reconstruction Finance Corporation that poured taxpayers' money into the coffers of the influential Wall Street banks in an effort to save them from bankruptcy. Like today's Bush/Obama administrations, the Hoover administration used the "too-big-to-fail" scare tactic in order to justify the costly looting of the national treasury. All it did, however, was to simply postpone the day of reckoning: almost all of the banks failed after nearly three years of extremely costly bailouts schemes.

In a similar fashion, when in the mid- to late-1990s major banks in Japan faced huge losses following the bursting of the real estate and loan-pushing bubble in that country, the Japanese government embarked on a costly rescue plan of the troubled banks in the hope of "creating liquidity" and "revitalizing credit markets." The results of the bailout plan have likewise been disastrous, a disaster that has come to be known as "Japan's lost decade."

Despite these painful and costly experiences, the Bush/Obama administrations (along with the U.S. Congress) are following similarly ruinous solutions that are just as doomed to fail. This is not because these administrations' economic policy makers are unaware of the failed policies of the past. It is rather because they too function under the influence of the same powerful special interests that doomed the bailout policies of the Hoover and Japanese governments: the potent banking interests.

Despite its complexity, the fraudulently obfuscated and evaded solution to the currently crippled financial markets is not due to a lack of expertise or specialized technical know-how, as often claimed by economic policy makers of the Bush/Obama administrations. It is rather due to a shameful lack of political will—the solution is primarily political.

Specifically, it is due to government's unwillingness to do what needs to be done: to remove the smokescreen that is suffocating the financial markets, open the books of the insolvent mega banks, declare them bankrupt, as they actually are, auction off their assets, and bring them under public ownership—since taxpayers have already paid for their net assets many times over.

To put it even more bluntly, the deepening and protraction of the crisis is largely due to policy makers' subservience to the interests of Wall Street gamblers—shirking their responsibility to protect people's interests.

Saying that the solution to the current financial crisis is simpler than it appears is not meant to downplay or make light of the problem. It is, rather, to point out that Wall Street gamblers have made the solution relatively simple by digging their own grave, doomed themselves to bankruptcy, thereby leaving nationalization as the only logical or viable solution.

This is no longer simply a radical, leftist or socialist demand. It is now demanded by many economists and financial experts on purely pragmatic or expediency grounds. For example, Joseph Stiglitz, the 2001 recipient of Nobel Prize in economics and former Chief Economist of the World Bank, points out:

"The fact of the matter is, the banks are in very bad shape. The U.S. government has poured in hundreds of billions of dollars to very little effect. It is very clear that the banks have failed. American citizens have become majority owners in a very large number of the major banks. But they have no control. Any system where there is a separation of ownership and control is a recipe for disaster. Nationalization is the only answer. These banks are effectively bankrupt."

Likewise, Mike Whitney, a very incisive Wall Street observer, writes:

"Most people who've been following the financial crisis know what needs to be done. It's no secret. The insolvent banks have to be nationalized. They have to be taken over by the FDIC, the shareholders have to be wiped out, bondholders have to take a haircut, management has to be replaced and the bad assets have to be written down. There's no point in throwing public money down a rathole just to keep zombie banks on life support."

In Europe, which is similarly mired in a huge financial swamp, some policy makers are now openly calling for "Chapter 11" and/or nationalization solution. For example, in an article published in the 12 February 2009 edition of Corriere Della Sera, the Italian Economy Minister Giulio Tremonti calls for a bankruptcy reorganization of the insolvent financial institutions:

"If the crisis is not a liquidity but an insolvency crisis…, the medicine is not merging failed banks with other failed banks, it is not in the switch or swap between private and public debt, it is not in creating artificial, additional private demand. If you are doped, the remedy is not more dope. . . . Saving everything is a divine mission. If one thinks to save everything, through the last resort of governments, through public debts, you end up with saving nothing and at the end, you even lose public budgets."

As noted earlier, partisans of "bailout-the-banks-at-any-cost" use the "too-big-to-fail" scare tactic in order to justify trillions of giveaway bailout dollars. Disingenuously used for nearly 20 months since the financial bubble exploded in mid 2007, this rationale is now totally discredited, as the fraudulently shifting schemes of rescuing the insolvent banks have proven both ineffectual and dangerously costly—not only in terms of hollowing out our national treasury and condemning us to bankruptcy, but also in terms of further prolonging and deepening of the crisis.

Another bogus rationale for the shifting schemes of the bailout scam, according to its champions, is that "this is an altogether new and very complicated crisis." Accordingly, they claim that "while we are committed to finding a solution, it will take a long time before we see a market turnaround because it is an unprecedented problem and may, therefore, involve lots of learning by doing"!

It is hard to say which is worse: (1) this is a sincere argument, that is, they are genuinely committed to finding a solution based on national interests but have not yet come up with one; or (2) they are disingenuous, and are deliberately engaged in obfuscating issues and confusing the people in order to protect the interests of Wall Street financial gamblers at the expense of national interests.

If they are right in their claim that they are genuinely committed to finding a solution based on national interests but have not yet found one (after nearly 20 months), then it is safe to say that they are a bunch of incompetent knotheads who are totally ignorant of the theoretical foundations and empirical lessons of bank failures and/or bank nationalizations, and should, therefore, not be at the helm of our economic decision-making apparatus. But if their argument is disingenuous, then they are playing politics with our national interests in order to serve special interests—a case of crime and punishment.

There are good reasons, however, to believe that the confusion and uncertainty that the Bush/Obama team of economic experts has created in the financial markets is largely due to these experts' misplaced priorities and allegiance, not their "sincere but unsuccessful" efforts. It is a problem of having some huge elephants in our nation's financial policy-making room. Mike Whitney aptly calls Treasury Secretary Tim Geithner "a Trojan Horse for the banking oligarchs":

"The banking lobby has already set the agenda. All the hoopla about 'financial rescue' is just a smokescreen to hide the fact that the same scofflaws who ripped off investors for zillions of dollars are back for their next big sting; a quick vacuuming of the public till to save themselves from bankruptcy. It's a joke. Obama floated into office on a wave of Wall Street campaign contributions and now it's payback time. Prepare to get fleeced. Geithner is fine-tuning a 'public-private' partnership for his buddies so they can keep their fiefdom intact while shifting trillions of dollars of toxic assets onto the people's balance sheet. They've affixed themselves to Treasury like scabs on a leper. Geithner is 'their guy,' a Trojan horse for the banking oligarchs. He's already admitted that his main goal is to, 'keep the banks in private hands.' That says it all, doesn't it?"

Timothy Geithner, Henry Paulson, Ben Bernanke, Larry Summers, and their cohorts at the helm of the Bush/Obama financial decision making machine are very smart individuals. They are among top Wall Street masterminds. The problem is that, at the core, they are committed, first and foremost, to protecting the interests of Wall Street financial giants. Indeed, it is safe to say that they are disguised lobbyists of those financial firms. No matter how hard they try to camouflage their bailout schemes, or how many different names they use for those schemes, their starting point is always protection of the insolvent banks.

Just note the fact that while they have changed the name of their bailout scam a number of times, the primary objective has not changed. The initial bailout plan, which announced the giving away of $700 billion dollars of taxpayers' money, was called Troubled Assets Rescue Plan (TARP).

Half way through TARP, that is, when it became clear that Wall Street gamblers were simply grabbing TARP money and hoarding it, Bush's Treasury Secretary Henry Paulson repackaged the scheme and renamed it as taxpayers' investment or purchase of "preferred shares of troubled institutions." In plain language, this simply means paying "cash for trash," as Michael Hudson, former Wall Street economist and Distinguished Research Professor at University of Missouri (Kansas City), aptly puts it. Furthermore, owning "preferred shares" of

a bank means not having a say or an input in the control or management of the bank—that is, ownership without control.

As the American people have gradually become aware of and resistant to these fraudulent rescue plans, the schemers have become more cunning: they have now labeled the latest version of the bailout scam “private-public” investment partnership.

This “private-public” partnership scheme, as formally announced by the new Treasury Secretary Timothy Geithner on 10 February 2009, is designed to accomplish two things: first, to justify the giving away of the remainder of the TARP money; second, to pave the way for additional bailout giveaways—purportedly to the tune of $2.5 trillion.

Formally, the “private” component in this so-called partnership investment means that hedge funds, private equity funds, and investment banks would now join the government in purchasing the toxic assets of the troubled banks. While this is designed to show that “private participation” in the rescue scheme would diminish the need for public money and, accordingly, reduce taxpayers’ burden, in reality, it would not; because the projected private investment is conditioned upon public funding and/or guarantees of that investment. In other words, the so-called private participation in the bailout scam is essentially a roundabout way of public funding of the scam.

To camouflage this pile of dirt, as well as to underhandedly pave the way for asking additional $2.5 trillion of public money for Wall Street’s zombie banks, was bound to make the “private-public” partnership scheme vague and unpersuasive. Not surprisingly, the moment Geithner announced the plan the market stampeded, as investors clearly saw right through the gaping holes of the Machiavellian plan—by the time Geithner was done with his press conference, the Dow Jones stocks fell 382 points.

A government “of the people, by the people, for the people” would start from the goal of finding a solution to the financial crisis that is based on national interests, and then would look at the implications of such a solution for the insolvent banks. Instead, the Bush/Obama administrations start from the objective of saving the insolvent banks, and then look for a “solution” that would accommodate this objective!

When asked why he was selecting an economic team of neoliberal economists who played critical roles in bringing about the current financial meltdown, President Obama gave a most bogus, obfuscating and, uncharacteristically stupid, reason: “I have to choose from the pool of experts who know how financial markets work.”

Yes, Mr. President, they certainly know how Wall Street financial giants work. The problem is that they are disguised lobbyists of those financial giants.

There is strong evidence that not only does President Obama’s team of economic advisors owe their professional advancement to the Wall Street cartel of financial firms, but also the President himself is greatly indebted to the cartel for its behind-the-scene promotion of his presidential candidacy, and for their generous contributions to his campaign. Contrary to Barack Obama’s claim that his campaign was not funded by Washington lobbyists, Evidence shows that the campaign “received over $10 million in contributions from Wall Street, the largest contributors by far.”

According to Pam Martin, a Wall Street veteran of 21 years and now an investigative

reporter, the top seven donors to Obama's campaign were Wall Street financial giants. These seven (in order of money given) were:

"Goldman Sachs, UBS AG, Lehman Brothers, JP Morgan Chase, Citigroup, Morgan Stanley and Credit Suisse. There is also a large hedge fund, Citadel Investment Group, which is a major source of fee income to Wall Street. There are five large corporate law firms that are also registered lobbyists; and one is a corporate law firm that is no longer a registered lobbyist but does legal work for Wall Street. The cumulative total of these 14 contributors through February 1, 2008, was $2,872,128, and we're still in the primary season."

Political and/or policy implications for the American people are clear: Wake up before it is too late.

If this sounds conceited or condescending, I apologize. I have no doubts that the people will eventually wake up to the tremors of this brutal economic crisis—as many who have lost their jobs and their homes already have. The important thing, however, is to wake up now; to wake up before it is too late—before the rapidly gaping cracks in our economy turn it into a sinking Titanic.

It is time to wake up now before Wall Street Financial Giants and their government—yes, it is primarily their government—destroy our economy and bankrupt our nation in their reckless commitment to rescue financial zombie firms at any price.

There is, however, no reasonable price that can rescue the insolvent Wall Street gamblers; they have simply accumulated too much bad debt to be bailed out. The only price seems to be the further hollowing out of our treasury, the mortgaging of our (and our children's) future, the worsening and prolonging of the crisis and, ultimately, the complete breakdown of our economy—and very likely of the entire world.

So, once again, it is time to rise up before it is too late; to rise up and demand (not beg or appeal to politicians, which has been proven to be futile) people's rightful ownership of the insolvent banks, as we have already paid for their net assets many times over.

It is equally important to demand nationalization of the Federal Reserve Bank (just as central banks are publicly-owned in most countries of the world). There is absolutely no reason for a private entity (called the Federal Reserve Bank) to be in charge of the indisputably most important national economic decision-making: creation, control and management of the nation's money. It is utterly preposterous for the government to have granted a private bank the right to print our money, and then borrow it back from the bank at interest! (Interest payment on national debt is the third largest item, after military spending and Social Security outlays, in the Federal budget.)

Once the all-important task of money creation is brought under public control, and the insolvent Wall Street zombie banks are nationalized, the government can then use the publicly-owned banks and issue loans at reasonable rates, thereby unfreezing credit markets and rekindling investment and economic activity.

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