

Obama Bank Bailout: There is an Alternative

Open Letter to Dr. Joseph Stiglitz and Challenge to Debate

By [Richard C. Cook](#)

Global Research, February 05, 2009

5 February 2009

Region: [USA](#)

Theme: [Global Economy](#)

Dear Dr. Stiglitz:

I have just finished reading your article published on Alternet.org entitled, "Is the Entire Bailout Strategy Flawed? Let's Rethink This Before It's Too Late." <http://www.alternet.org/story/124166/>

With all due respect, I believe you have missed the point of what is going on within the U.S. economy, which causes your proposed solutions to be similarly flawed.

The purposes of this letter are to delineate my objections to what you have written, to bring our differences before the public, and to challenge you to a debate when I visit New York City on February 27-March 1, 2009.

You state that, " America 's recession is moving into its second year, with the situation only worsening." But you then say, "The hope that President Obama will be able to get us out of the mess is tempered by the reality that throwing hundreds of billions of dollars at the banks has failed to restore them to health, or even to resuscitate the flow of lending."

You thereby imply that the economic crisis is due to problems within the financial sector and that it would be a good thing to "resuscitate the flow of lending" without challenging why that lending became such a huge factor in our economy.

I say: The problem does not lie with the financial sector except that the debt-based monetary system acts as a parasite on the producing economy, resulting in the vast overhang of debt that can never be repaid. "Resuscitating the flow of lending" will do no good, because the collapse of consumer purchasing power due to job outsourcing and income stagnation has made it impossible for people to pay their debts. Most of this debt now needs to be written off and our producing economy restored as our chief source of wealth.

You say of the government's bailout actions late last year: "Then there was the hope that if the government stood ready to help the banks with enough money — and enough was a lot — confidence would be restored, and with the restoration of confidence, asset prices would increase and lending would be restored."

I say: In making this observation you may be correct, but you fail to challenge the policy whereby asset price inflation, in the absence of real economic growth, has become an ersatz economic driver. Throughout your writings you have ignored the fact that the

government and the banking system have deliberately created financial bubbles to shore up the economy, engender profits, and maintain tax revenues. This is what the Federal Reserve under Alan Greenspan did in collusion with the Bush administration to create a recovery when the Dot.com bubble was collapsing in 2000-2001. None of your proposals would revitalize the producing economy or restore consumer income. You seem to be mainly trying to re-inflate the asset-financial bubble in your own way.

You say: “The underlying problem is simple: Even in the heyday of finance, there was a huge gap between private rewards and social returns. The bank managers have taken home huge paychecks, even though, over the past five years, the net profits of many of the banks have (in total) been negative. And the social returns have even been less — the financial sector is supposed to allocate capital and manage risk, and it did neither well. Our economy is paying the price for these failures — to the tune of hundreds of billions of dollars.”

I say: It is true that bank manager salaries and bonuses are obscene, but the way you characterize “social returns” is shortsighted. You speak of bank profitability falling short even though, since the financial deregulation of the 1980s and 1990s, the banks have become the nation’s chief growth industry, with profits as late as 2006 of over \$500 billion. Further, the financial sector doesn’t really “allocate capital.” What it does is skim the cream off the top of the producing economy by financing consumption and facilitating the most irresponsible types of speculation in the real estate, equity, hedge fund, and derivative markets. For example, up to 97 percent of futures contracts comes from bank loans irrespective of whether such lending has any benefit for consumers or producers. The banks allocate capital primarily for their own benefit, which I believe you recognize, but we now need to find alternatives to a monetary system based on bank-created debt, not just try to get it running again while ignoring the disasters that have befallen working men and women and their families.

You say, in regard to the ongoing government actions: “But even were we to do all this — with uncertain risks to our future national debt — there is still no assurance of a resumption of lending. For the reality is we are in a recession, and risks are high in a recession. Having been burned once, many bankers are staying away from the fire.”

Again, you speak favorably of a “resumption of lending” as resolving the problem. I say: “What you are proposing is simply to shore up our debt-based monetary system without addressing the facts that our manufacturing jobs have been exported to China and other low-cost labor markets, our automobile industry is collapsing due to the failure of consumer demand, wages and salaries have stagnated for two decades, workers have not shared in productivity increases, and the total societal debt load on a GDP of \$14 trillion is now approaching \$70 trillion. These are the problems that must be addressed, not getting the banks to lend again when people can’t pay off the debts they already have.

You say: “What’s the alternative? Sweden (and several other countries) have shown that there is an alternative — the government takes over those banks that cannot assemble enough capital through private sources to survive without government assistance...Inevitably, American taxpayers are going to pick up much of the tab for the banks’ failures. The question facing us is, to what extent do we participate in the upside return?”

I say: *“Having the government run the banks instead of the private sector will not restore the economic fundamentals of a weak economy. Availability of bank credit does not by itself lead to greater production of goods and services. What it should do is make the liquidity available for the production-consumption cycle to work smoothly. The idea that a deregulated financial sector should be given precedence over all the other economic sectors is the essence of the supply-side, trickle-down philosophy that began during the Reagan years and has catastrophically failed.*

You say: *“Eventually, America ‘s economy will recover. Eventually, our financial sector will be functioning — and profitable — once again, though hopefully, it will focus its attention more on doing what it is supposed to do.”*

I say: *Please tell us exactly HOW America ‘s economy will recover. Will it recover after real unemployment, including “discouraged workers” hits 20 percent, which it is likely to do over the next few months? Will it recover after millions of more people have their homes foreclosed? Will it recover after the automobile industry dies? What exactly is your prescription? If you don’t have one, I would ask you to consider what I am proposing in my paper: “A Bailout for the People: Dividend Economics and the Basic Income Guarantee.” In that paper I put forth what I am calling the “Cook Plan.” This consists of a \$1,000 a month payment per capita made by the government through a system of vouchers for necessities that are then deposited in a new series of local community savings banks that would lend at one percent interest for small business, local manufacturing, and family farming. The vouchers would be a dividend, distributed as each citizens’ fair share of our amazing productive economy without recourse to government taxation or debt. The dividend would provide income security, eliminate poverty, and result in a renaissance of local and regional economic activity, and it would start to act immediately, not “eventually.”*

On Friday, February 27, 2009, I will be in your hometown of New York City presenting the “Cook Plan” at the 8th Congress of the U.S. Basic Income Guarantee Network and the Annual Convention of the Eastern Economic Association. That evening I will present the program at a Town Hall meeting in connection with President Obama’s series of citizens’ forums at Nola Studio B, 244 West 54th St. , 11th floor in Manhattan , at 8 p.m.

On the evening of Saturday, February 28, I am free, and would be glad to meet you to debate these ideas at a location of your choosing.

Respectfully,

Richard C. Cook

Richard C. Cook is a former U.S. federal government analyst. His book on monetary reform, *“We Hold These Truths: The Hope of Monetary Reform,”* is now available. He was an advisor to Congressman Dennis Kucinich in his 2004 and 2008 presidential runs. He is also the author of *“Challenger Revealed: An Insider’s Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age.”* He can be contacted through his new website at www.richardccook.com.

Note: Dr. Joseph Stiglitz is a professor at Columbia University, former chairman of President Clinton’s Council of Economic Advisors, former chief economist for the World Bank, and a recipient of the Nobel Memorial Prize in Economic Sciences.

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