

Our Financial 9/11: Can They Save the System?

The Bush Administration's Rescue Plan Will Not Work

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The world is holding its breath.

Many know and the rest of us are just finding out that in this turbulent month of September, the US is experiencing a financial 9/11, probably worse than the one in 2001, as a series of cataclysmic developments rock our economic system which is, in turn, entangled with others worldwide. Terms like "Armageddon" are now being used in polite company.

Imagine being a fly on the wall last Thursday night as the head of the Federal Reserve Bank, Ben Bernanke, and Treasury Secretary Henry Paulson, met behind closed doors in House Speaker Nancy Pelosi's office. The meeting was called urgent; it was also unprecedented.

It was a truth-telling moment as Michael Shedlock describes it on the Seeking Alpha Financial website:

"When you listened to him describe it you gulped," said Senator Charles E. Schumer, Democrat of New York.

As Senator Christopher J. Dodd, Democrat of Connecticut and chairman of the Banking, Housing and Urban Affairs Committee, put it Friday morning on the ABC program "Good Morning America," the congressional leaders were told "that we're literally maybe days away from a complete meltdown of our financial system, with all the implications here at home and globally."

Mr. Schumer added, "History was sort of hanging over it, like this was a moment."

When Mr. Schumer described the meeting as "somber," Mr. Dodd cut in. "Somber doesn't begin to justify the words," he said. "We have never heard language like this."

Until that moment the full extent of this disaster had been hidden from Congress and the American people with all kinds of upbeat blather and outright lies about how the "fundamentals of the economy" were sound.

Suddenly nothing was sound. The government then announced a rescue plan. On Saturday, The Bush Administration said they want \$700 billion to fund it, but that may just be the start.

The plan includes creating a new entity like the RTC that ended the S&L crisis in the 1980's to buy up and sell-off bad mortgages and other "illiquid assets," billions to back up money market funds, and new SEC edicts to stop short sellers from undermining stock prices—a measure backed by John McCain who has made "the shorts" his boogie man over the fierce

editorial objections of the Wall Street Journal editorial page and most anyone who knows anything about the way the market works.

Barack Obama has so far supported this major intervention into saving the markets that may cost taxpayers a trillion dollars or more although he wants to consult with other countries on what to do.

Much of our media has ignored international fears as this crisis ripples globally. China has already called the crisis a “financial tsunami” and called for a new non-US based currency system.

The stock markets were euphoric Friday and shot up as if the crisis had been solved. It was more “market psychology” which is not the same thing as common sense. Joe Nocera in the New York Times was less positive, likening these measures to a “hail mary pass” in football where a quarterback just flings the ball in the final minutes of the game and hopes someone catches it, noting that “most of the time they fail.”

Blogger Shedlock says, at best, these moves postponed Armageddon but did not end the danger:

“Government manipulation can never prevent financial Armageddon. In fact, government intervention and manipulation in the free markets eventually guarantees financial Armageddon. Armageddon was not prevented, only delayed, and at taxpayer expense.”

Nocera agrees, concluding with the kind of understatement you expect from the newspaper of record, “as much as we might hope that the government finally has the answer, it probably doesn’t.”

So much for all that “problem solved” optimism you have been seeing on TV.

Also troubling is the tendency in the media to blame the crisis on “mistakes” by irresponsible lenders and irresponsible borrowers as if their contributions to this crisis balanced each other out and, hence, since everyone was at fault, no one is at fault.

This “logic” compares the Jones family that took a subprime loan after being targeted by fraudulent brokers who assured them it was a great deal and that they couldn’t lose, with a powerful industry that knew they couldn’t afford to their home but went ahead anyway securitizing the mortgage, slicing and dicing it into financial instruments and then misrepresenting its value to buyers and investors worldwide.

Since when do you equate individuals with institutions?

The buyer was duped; the lender and the multi-million dollar Wall Street market machine behind these unscrupulous brokers were consciously exploiting people who had no idea they were victimized by a well-calculated and criminal ponzi scheme. The FBI is investigating some of these crimes, so far indicting 400 scammers, but our media continues to leave out the criminal cabal behind this crisis. They support the bailouts but have yet to call for a jail out as if they are unaware that Wall Street is not just a financial center but has been a crime scene.

No wonder that a reader to the New York Times called this measure a “No Banker Left

Behind Scheme.”

This crisis is hardly over.

Listen to economist Nouriel Roubini who has been on target in most of his forecasts,

He predicts, according to financial writer Felix Salmon, “Credit losses of \$2 trillion, half the US banking system nationalized, municipal defaults, house price declines accelerating, a sudden stop in consumer spending, global contagion, stagflation, you name it.”

Roubini concludes:

“At this point the perfect financial storm of the century cannot be contained. The only light at the end of the tunnel is the one of the coming financial and economic train wreck.”

If you think you can trust this Administration to solve this crisis when it has created so many others, think again. Unfortunately neither political party seems to have a clear take on what is happening or any plan to solve it.

So strap in, we are in for volatile rollercoaster ride.

Danny Schechter made the film IN DEBT WE TRUST (indebtwetrust.com) warning of the crisis and has written the just published PLUNDER: Investigating Our Economic Calamity (Cosimo) available at online book stores. Comments to Dissector@mediachannel.org

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