Save the Banks and Kill the Economy

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> "The problems we face today cannot be solved by the minds that created them."Albert Einstein (1879-1955), Physicist and Professor, Nobel Prize 1921
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> "I don't see (subprime mortgage market troubles) imposing a serious problem. I think it's going to be largely contained."U.S. Treasury Secretary Henry Paulson, April 20 2007
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> "Providing assistance to banks and their borrowers can be counterproductive, resulting in increased losses to banks, which often … take unproductive risks at government expense. The typical result … is a deeper hole in the net worth of banks, crippling tax burdens to finance bank bailouts, and even more severe credit supply contraction and economic decline." The International Monetary Fund (IMF), (Study of financial crises from 1970 to 2007)
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> "The dirty little secret … is that every Republican in this country wants Obama to fail, but none of them have the guts to say so; I am willing to say it." Rush Limbaugh, radio activist, February 27, 2009

It has become a truism to say that the Democrats and the Obama administration now "own" the crucial issue of the economy. Justly or unjustly, voters are bound to hold them accountable for the poor state of the U.S. economy. This is not an enviable political position to be in just before an election, at a time when disgusted voters are most angry and very anxious about the economy and their economic future. Recent **polls** indicate that nearly two-thirds of Americans think their nation is in a state of decline and that the economy will remain in the same recessionary state or get worse next year.

Contrary to what President Franklin D. Roosevelt did in the 1930s, President Barack Obama did not confront the banking industry head-on after fraudulent practices caused one of the worst financial crises in U.S. history. In particular, he did not reverse the blanket financial deregulation that the Clinton and Bush administrations engineered in **1999**, in 2000, in 2004, in 2005 and in **2007** that allowed for creating mortgage-linked synthetic subprime securities and for betting against them. Instead, his economic operatives (Geithner, Summers, Bernanke, Orszag, Emanuel, (L.A.) Sachs, Romer, Bair, …etc.) threw trillions of public dollars to the largest banks, allowing top bankers to keep enjoying hundreds of million of dollars in yearly bonuses, at a time when some 300,000 Americans are losing their homes through **foreclosures every month**. Such a persistent epidemic of home foreclosures is creating a tremendous **drag** on the economy, besides being a social disaster. —The system that is responsible for so many home foreclosures has not been fixed, although valiant **attempts** have been made to mitigate the process.

Meanwhile, also with the intention of saving the largest banks, regulators began pressing the banks to raise capital asset ratios and to shrink their risk assets. The Bernanke Fed went so far as to lend money to the largest banks at zero interest rate, while paying interest on the excess reserves the banks kept at the Fed, a practice that resulted in an outright gift to the banks.

All these policies have resulted in tightening credit availability and in provoking the largest plunge in the M3 **money supply** since the Great Depression. As long as this condition endures, there won't be any substantial economic recovery in the United States.

Just as Obama did for the wars, when he kept in position and even promoted Bush operatives Gates and Petraeus, Obama kept or brought back as his economic team some of the very Wall Street-connected people who were responsible for creating the conditions that led to the financial crisis in the first place.

Now, at mid-term, President Barack Obama is saddled with the devastating image of a defender and promoter of Bush's wars in Afghanistan and Iraq and is viewed by many as having sided with Wall Street bankers against Main Street folks, just as George W. Bush did with his Goldman Sachs-connected Treasury Secretary **Henry Paulson** and his banking bailouts. To many Americans, indeed, the Obama administration looks more and more like a third-term Bush II administration. For many Americans, it's a nightmare.

The biggest mistake that President Barack Obama seems to have made, at the beginning of his mandate, was to not disassociate himself more clearly from the previous Bush administration. Now, it's too late, and unfortunately for him and the divided Democrats, they are poised to suffer the wrath of an enraged and disillusioned electorate.

Indeed, with U.S. real unemployment rate hovering around 17 percent, with 3 out of 4 workers telling pollsters that they doubt that their wages will increase next year, with many American households' financial situation deteriorating, with home foreclosures approaching **10 million**, with huge fiscal deficits and future tax hikes likely, with the Bernanke Fed adopting third-world monetary policies in **monetizing the public debt**, and with an overall anemic economic growth, the Obama administration and the Democratic Congress are going into the November 2 midterm elections with many monkeys on their backs and very little public confidence.

The only thing that runs in their favor is the poor quality and vision of their Republican opponents who have followed an obstructionist strategy and have sided time and again with lobbyists, thus blocking most attempts to straighten things up. Only a credible campaign to persuade the electorate *in extremis* that Democrat incumbents are "less worse" than their Republican opponents, coupled with a high turnout at the polls could prevent a Democratic bloodbath in the U.S. Congress, especially in the House of Representatives, next November. —If not, President Barack Obama will officially become a lame-duck president after November 2, and Congress will be paralyzed at a very crucial time when strong leadership is required to get out of the economic mess. This is a most unappealing perspective.

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