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Solution to The Financial Crisis: "Liquidate the banks and fire the executives"

Recommendations of the Warren Report:

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On Tuesday, a congressional panel headed by ex-Harvard law professor Elizabeth Warren released a report on Treasury Secretary Timothy Geithner's handling of the Troubled Assets Relief Program (TARP). Warren was appointed to lead the five-member Congressional Oversight Panel (COP) in November by Senate majority leader Harry Reid. From the opening paragraph on, the Warren report makes clear that Congress is frustrated with Geithner's so-called "Financial Rescue Plan" and doesn't have the foggiest idea of what he is trying to do. Here are the first few lines of "Assessing Treasury's Strategy: Six Months of TARP":

> "With this report, the Congressional Oversight Panel examines Treasury's current strategy and evaluates the progress it has achieved thus far. This report returns the Panel's inquiry to a central question raised in its first report: What is Treasury's strategy?"

Six months and $1 trillion later, and Congress still cannot figure out what Geithner is up to. It's a wonder the Treasury Secretary hasn't been fired already.
From the report:

> "In addition to drawing on the $700 billion allocated to Treasury under the Emergency Economic Stabilization Act (EESA), economic stabilization efforts have depended heavily on the use of the Federal Reserve Board's balance sheet. This approach has permitted Treasury to leverage TARP funds well beyond the funds appropriated by Congress. Thus, while Treasury has spent or committed $590.4 billion of TARP funds, according to Panel estimates, the Federal Reserve Board has expanded its balance sheet by more than $1.5 trillion in loans and purchases of government-sponsored enterprise (GSE) securities. The total value of all direct spending, loans and guarantees provided to date in conjunction with the federal government's financial stability efforts (including those of the Federal Deposit Insurance Corporation (FDIC) as well as Treasury and the Federal Reserve Board) now exceeds $4 trillion."

So, while Congress approved a mere $700 billion in emergency funding for the TARP, Geithner and Bernanke deftly sidestepped the public opposition to more bailouts and shoveled another $3.3 trillion through the back door via loans and leverage for crappy mortgage paper that will never regain its value. Additionally, the Fed has made a deal with Treasury that when the financial crisis finally subsides, Treasury will assume the Fed's obligations vis a vis the "lending facilities", which means the taxpayer will then be responsible for unknown trillions in withering investments.

From the report:

> "To deal with a troubled financial system, three fundamentally different policy alternatives are possible: liquidation, receivership, or subsidization. To place these alternatives in context, the report evaluates historical and contemporary efforts to confront financial crises and their relative success. The Panel focused on six historical experiences: (1) the U.S. Depression of the 1930s; (2) the bank run on and subsequent government seizure of Continental Illinois in 1984; (3) the savings and loan crisis of the late 1980s and establishment of the Resolution Trust Corporation; (4) the recapitalization of the FDIC bank insurance fund in 1991; (5) Sweden's financial crisis of the early 1990s; and (6) what has become known as Japan's "Lost Decade" of the 1990s. The report also surveys the approaches currently employed by Iceland, Ireland, the United Kingdom, and other European countries."

This statement shows that the congressional committee understands that Geithner's lunatic plan has no historic precedent and no prospect of succeeding. Geithner's circuitous Public-Private Investment Program (PPIP)–which is designed to remove toxic assets from bank balance sheets–is an end-run around "tried-and-true" methods for fixing the banking system. In the most restrained and diplomatic language, Warren is telling Geithner that she knows that he's up to no good.
From the report:

> "Liquidation avoids the uncertainty and open-ended commitment that accompany subsidization. It can restore market confidence in the surviving banks, and it can potentially accelerate recovery by offering decisive and clear statements about the government's evaluation of financial conditions and institutions."
> The committee agrees with the vast majority of reputable economists who think the banks should be taken over (liquidated) and the bad assets put up for auction. This is the committee's number one recommendation.

The committee also explores the pros and cons of conservatorship (which entails a reorganization in which bad assets are removed, failed managers are replaced, and parts of the business are spun off) and government subsidization, which involves capital infusions or the purchasing of troubled assets. Subsidization, however, carries the risk of distorting the market (by keeping assets artificially high) and creating a constant drain on government resources. Subsidization tends to create hobbled banks that continue to languish as wards of the state.
Liquidation, conservatorship and government subsidization; these are the three ways to fix the banking system. There is no fourth way. Geithner's plan is not a plan at all; it's mumbo-jumbo dignified with an acronym; PPIP. The Treasury Secretary is being as opaque as possible to stall for time while he diverts trillions in public revenue to his scamster friends at the big banks through capital injections and nutty-sounding money laundering programs like the PPIP.
From the report:

> "Treasury's approach fails to acknowledge the depth of the current downturn and the degree to which the low valuation of troubled assets accurately reflects their worth. The actions undertaken by Treasury, the Federal Reserve Board and the FDIC are unprecedented. But if the economic crisis is deeper than anticipated, it is possible that Treasury will need to take very different

actions in order to restore financial stability."

This is a crucial point; the toxic assets are not going to regain their value because their current market price–30 cents on the dollar for AAA mortgage-backed securities–accurately reflects the amount of risk they bear. The market is right and Geithner is wrong; it's that simple. Many of these securities are comprised of loans that were issued to people without sufficient income to make the payments. These "liar's loans" were bundled together with good loans into mortgage-backed securities. No one can say with any certainty what they are really worth. Naturally, there is a premium for uncertainty, which is why the assets are fetching a mere 30 cents on the dollar. This won't change no matter how much Geithner tries to prop up the market. The well has been already poisoned.

Also, according to this month's Case-Schiller report, housing prices are falling at the fastest pace since their peak in 2006. That means that the market for mortgage-backed securities (MBS) will continue to plunge and the losses at the banks will continue to grow. The IMF recently increased its estimate of how much toxic mortgage-backed papaer the banks are holding to $4 trillion.

The banking system is underwater and needs to be resolved quickly before another Lehman-type crisis arises sending the economy into a protracted Depression. Geithner is clearly the wrong man for the job. His PPIP is nothing more than a stealth ripoff of public funds which uses confusing rules and guidelines to conceal the true objective, which is to shift toxic garbage onto the public's balance sheet while recapitalizing bankrupt financial institutions.
So, why is Geithner being kept on at Treasury when his plan has already been thoroughly discredited and his only goal is to bailout the banks through underhanded means?

That question was best answered by the former chief economist of the IMF, Simon Johnson, in an article which appeared in *The Atlantic Monthly:*

> "The crash has laid bare many unpleasant truths about the United States. One of the most alarming… is that the finance industry has effectively captured our government – a state of affairs that more typically describes emerging markets, and is at the center of many emerging-market crises. If the IMF's staff could speak freely about the U.S., it would tell us what it tells all countries in this situation; recovery will fail unless we break the financial oligarchy that is blocking essential reform. And if we are to prevent a true depression we're running out of time." (The Atlantic Monthly, May 2009, by Simon Johnson)

The banks have a stranglehold on the political process. Many of their foot soldiers now occupy the highest offices in government. It's up to people like Elizabeth Warren to draw attention to the silent coup that has taken place and do whatever needs to be done to purge the moneylenders from the seat of power and restore representative government. It's a tall order and time is running out.

http://cop.senate.gov/reports/library/report-040709-cop.cfm Elizabeth Warren's 8 minute video summary of the COP report.

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