

The Destructive World of “Troubled Assets”: Paulson shoots another arrow into the heart of the Economy

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The announcement in the last few days of a deal reached between the U.S. Treasury and the moribund insurance giant, A.I.G. provides a very lucid insight in to the nefarious and destructive world of the Troubled Asset Relief Program, otherwise known as T.A.R.P..Not only have A.I.G. received \$152 billion to date and subsequently reported a third quarter loss of \$25 billion, now they are to be cleared of their obligation on \$53 billion worth of toxic credit default swaps. U.S. taxpayers are now on the hook for \$205 billion courtesy of an institution which played in the Wall St. casino that passes for a “Financial Sector” and lost. Under the “Free market” system, so expounded upon by Government and Wall St. alike, A.I.G should be in chapter 11. Bailing out A.I.G and other failing institutions does absolutely nothing to address the fundamental issues at hand.

The economy is in crisis because unemployment and overarching debt levels pushed thousands of families in to the untenable situation where they did not earn enough to cover their debts. This burst the real estate bubble inflated by Alan Greenspan, crashed real estate prices, consumer spending and manufacturing. What we are seeing now is the inevitable result of lack of Financial regulation, lax monetary policy and a symbiosis between Government and the Financial industry. The mortgages taken out by buyers had been bundled into complex financial instruments; Mortgage backed securities. The latter along with Credit default swaps and derivatives set the stage for a global financial meltdown. The Glass-Steagal act of 1933 had been conceived to prevent the Banking sector from indulging in high risk investments to protect the depositors of these institutions. This was repealed at the end of the Clinton Administration through the Gramm-Leach-Bliley Act of 1999 which opened the gates to financial destruction. With the stroke of a pen, the financial services sector was given the power to literally bring down an economy

The most urgent matter for Treasury to address is the toxic derivatives market. The notional amount of outstanding derivatives, as noted by the Bank of International settlements, comes close to \$512 trillion. This represents a figure that is impossible to settle and is the real Armageddon which Banks are preparing for by hoarding the cash that they have received through the T.A.R.P..Unless this time bomb is defused by bringing the undeclared positions on the table, the duration and gravity of this crisis can only increase. As the underlying assets of these instruments crumble the Banks’ exposure to counterparty risk increases and will lead to the inevitable collapse of even more banks and reduce the availability of investment credit even more. The underlying assets include interest rates, mortgages, foreign exchange rates, credit ratings on companies and even creditworthiness

of entire countries. This is the level of insanity that has passed for “Leveraged Investment”

With over \$3 trillion of taxpayer money injected in to Banks, insurance companies, commercial paper, Fannie and Freddie what has come back to benefit the dying economy ? A reduction in lending, increased interest rates on credit card payments and further losses for these same institutions. No big surprise as the real economy has never stopped it's nosedive. Does the Treasury really not realise that there is no point in investing in companies that have no chance of redemption ? By handing over Americans' hard earned tax dollars and indebting future generations, the Treasury has been engaging in the biggest transfer of wealth in Human history. The U.S. is now the biggest debtor on the planet and the rest of the world has noticed. China, Japan and the Oil kingdoms that buy U.S. debt are losing faith and it's only a matter of time until they turn off the tap.

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