

# The New Kleptocracy: Biggest “Giveaway” in American History

Interview with Dr. Michael Hudson

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“Considering that there is an \$800 billion giveaway, to be followed by another trillion and another trillion after that, this is the biggest giveaway since the land giveaway to the railroads in the mid-nineteenth century and just as that giveaway created a power elite that would rule America for a century and a half, this is creating a new power elite that has changed America from a democracy into an oligarchy. And as Aristotle said, ‘what is democracy but the stage immediately preceding oligarchy?’”

*I’m Bonnie Faulkner (BF): Today on Guns and Butter, Dr. Michael Hudson. Today’s show: “The New Kleptocracy”.*

*Dr. Hudson is a Financial Economist and Historian. He is President of the Institute for the Study of Long-Term Economic Trend, a Wall Street Financial Analyst and Distinguished Research Professor of Economics at the University of Missouri, Kansas City. His 1972 book “Superimperialism: The Economic Strategy of American Empire” is a critique of how the United States exploited foreign economies through the IMF and World Bank. He is also author of “The Myth of Aid” and “Global Fracture: the New International Economic Order”.*

*Dr. Hudson has written several articles on the recent Wall Street meltdown and Secretary of the Treasury Hank Paulson’s Plan. These articles have included, Financial Bailout: America’s Own Kleptocracy—the Largest Transformation of America’s Financial System since the Great Depression. The Paulson/Bernanke Bailout: Will the Cure Be Worst than the Disease? Financial Fraud: Mr. Paulson and the New Yazoo Land Scandal. And Thinking the Unthinkable: a Debt Write Down and Jubilee Year Clean Slate.*

*BF: Dr. Michael Hudson, welcome again.*

*Michael Hudson (MH): Thank you very much, Bonnie.*

*BF: Secretary of the Treasury Hank Paulson’s \$700 billion so-called bailout, first called “The Plan”, was defeated in the House. Then a modified version called “Troubled Asset Rescue Plan or (TARP)” was passed by Congress in it’s “Emergency Economic Stabilization Act of 2008”. Still others refer to this legislation as “Cash for Trash”. What would you call it?*

*MH: Cash for trash is exactly what it was, and the emphasis should be placed on “Emergency “ for Emergency Plan. It was rushed through without giving any opportunity to debate. Dennis Kucinich protested, for instance, that this was the first time a major plan that*

was going to create the equivalent of 700 billionaires, people who are going to become the next power elite to govern America for the next century –that this act was done without any hearings, without specialists–despite hundreds and hundreds of major economists throughout the world saying that it was a disaster and a giveaway. It is cash for trash. It will not resolve the problems.

The dollar will plunge. The stock market already plunged.

It is purely a giveaway to Mr. Paulson's colleagues on Wall Street and a giveaway to Mr. Obama's and Mr. McCain's campaign contributors. The Democrats were the major supporters of Mr. Paulson while even the Republicans sought to dissociate themselves from the plan so they couldn't get blamed when the inevitable failure of the plan shows that all that was done was a giveaway of \$700 billion to Mr. Paulson's colleagues and pals on Wall Street.

*BF: Well, now what and who are being bailed out? People now are saying it's a \$700 to an \$850 billion revolving money fund.*

MH: The Secretary of the Treasury said that he really just picked the amount out of the air. There will be another \$700 billion next month, another \$700 billion after that. Trillion after trillion will go to create a financial elite of kleptocrats. What's happened here by Mr. Paulson of Goldman Sachs is almost a mirror image of what the other Goldman Sachs' Treasury Secretary Robert Rubin did in Russia: he's creating and endowing a class of kleptocrats by giving them liquid treasury securities in exchange for basically worthless junk. It's actually called the "Worthless Assets Recovery Program, (WARP)".

This is pretty much what was done in Russia to create Russian kleptocrats. In Russia's case they gave State ownership of raw materials and fuels, oil, other assets to individuals who then diversified their portfolios by selling as much as they could to the West and taking their money out and putting them into dollars and sterling and euros. What's happening here is that the Wall Street beneficiaries are going to take the money and run and put it in safe economies such as Russia, China and any other non-US economy they can find: the result will be a huge capital outflow, a capital flight that will put downward pressure on the dollar.

*BF: You know Dr. Hudson, I was just about to ask you what the difference is between the Russian Kleptocrats and the American Crony Capitalists? Is there any difference at all that you see?*

MF: Only that the Russian Kleptocrats were supported by Clinton's Democratic Administration and the American's Kleptocrats are supported nominally under a Bush Administration but primarily by Mr. Obama and the Democrats led by Barney Frank in the Congress, and Nancy Pelosi and by Reid. These are Democrats that must go and if there is any sign of Mr. Obama keeping them on then you know that the Democratic Party has been firmly captured by the Democratic Leadership Committee, i.e. Wall Street's lobbying group within the Democratic Party.

*BF: Well now, since you've brought up Barack Obama, he was the one that lobbied "for" the passage of this, isn't he?*

MF: That's correct and the amazing thing was that McCain did too. Last Friday I was attending the American Monetary Institute Conference in Chicago and we had some of the

smartest financial brains around at that. It was at Roosevelt University and we all went down to the Student Union to watch the debate. And let's take a look at what happened last Friday. The previous Thursday Mr. McCain had said there might not be a Friday debate because he was going to suspend the campaign until he could straighten out Washington regarding the bailout. So he went to the White House. There was reportedly not much very much that he said during the meeting but the Republican Congressional Leader Boehner made some very good suggestions. He suggested instead of the bailout the government use the money to set up a bank insurance fund of say anywhere from \$250 billion to the \$700 billion that was mentioned.

The insurance fund would lend money to banks in exchange for their preferred stock. This fund would be financed by levying an insurance charge on the entire US banking system, just like the Federal Deposit Insurance Corporation levies insurance rates on the banks. And the rates that would be levied, under the Republican proposal, would have reflected the actual risks involved. So that if the banks got together and lobbied politicians and supported the political campaigns of politicians who wanted to deregulate the industry that's fair enough but let them pay the risks. Let them pay 1% or 2% or even 3% of their deposits for this because that's what it would take the government to bail out policies that Alan Greenspan and others have supported. Instead of supporting this plan and instead of saying that he'd come to Washington to save American taxpayers from the giveaway, Mr. McCain did absolutely nothing. He was blamed by the media on Friday morning (Friday afternoon too) for saying, "Oh he's come to disrupt a done deal. Look what happened. He went to the White House. Now you have the Congressional Republicans opposing it."

Mr. McCain could have said, "Absolutely," that's just what he's done because he's a maverick and he's going to protect American taxpayers from the bipartisan attempt to both reflect the campaign contributions of their largest contributors-Wall Street. And he's not going to let it happen. He could have jumped in front of the parade. Jumped in front of the opposition to the Act, that reportedly 90% of voters were supposed to oppose, and this would have put Mr. Obama on the defensive. McCain could have said, "I'm opposed on the giveaway and supporting taxpayers."

Mr. Obama is the man who is giving it all way to Wall Street and his major campaign contributors. Look at what's happening with Mr. Rubin, there's no difference at all between his financial advisor Robert Rubin and the Treasury Secretary Hank Paulson." Instead Mr. McCain shifted gears, reversed himself, gave in and said, "now I'm supporting the plan too". So the result of the Friday debate, if you remember the first half hour, Mr. Lehrer kept trying to press both presidential candidates on 'how do you feel about the bailout, what do you think? '

And they talked about anything else. Mr. Lehrer tried to be more polite and finally he was laughing, and he said, "Aren't either of you guys going to answer my question?" And they both of them said, "No." Now when they refused to give their position to the bailout to the American people. When they refused to take a position on a plan that most voters "overwhelmingly" opposed and then they support the plan this shows they're just in the hands of their financial backers.

*BF: Could you just briefly explain again how this insurance proposal would have worked and why it would have been preferable?*

MF: The government would have set up a fund and the fund's money would have been

provided to banks on the term that Warren Buffet earlier that week had made—a \$5 billion investment in Goldman Sachs. It would have lent money to banks on the condition that number one, it wipes out the stockholders—if any bank would have borrowed from the insurance fund that meant it was doing so as a life or death matter and either it would have sacrificed its common stock or it would have made its common stock subordinate to repaying the government for the risk. The government would have charged a high rate of interest and a high fee for making the insurance payment (as any insurance company would have done).

And instead of printing new treasury bonds to give away in exchange for these bad mortgages it would have established simply a line of credit which at first would have been the same thing but the credit would have been repaid not only by the banks that borrowed but by all the banks in the country paying insurance—essentially bank insurance. Instead of being an insurance fund for depositors like the FDIC is, it would have been an insurance fund for the bank owners themselves. The banks have been acting almost as a financial gang in pressing not only to support the Federal Reserve chairman who is a deregulator (and the Federal Reserve is supposed to essentially represent the interests of the commercial banking system), but the banks also now have supplied the Treasury Secretary and the Treasury Secretary is not supposed to represent the banks.

The Treasury Secretary is supposed to represent the public interests. And instead, Mr. Paulson is representing the banking interests, Wall Street, not the public interest and so there is an inherent conflict of interest and the system of checks and balances that are supposed to prevent a giveaway like this have been broken.

*BF: That's right. And you mentioned Warren Buffett and I've noticed you've mentioned the \$5 billion he was putting into Goldman Sachs and other investments. He's set it up where he's got a good deal and he gets 10% back every year and other things.*

MH: Yes. And he says the government should have done the same thing. And the Republican congressmen actually voted according to their ideology not according to their campaign contributions because they realized that what's the point of getting a political campaign contribution if voting for the giveaway is going to result in their voters voting against them anyway and voting them out of office. Their corruption in changing their votes has been so egregious that no amount of television advertising can wipe away the fact that the voters now know that they're bought and paid for. They're trying to pretend that they did it in order to help the upper middle class by insuring bank deposits not only for \$100,000 but for \$250,000 so all your listeners up there that thought they were worried that had more than \$100,000 in the bank can now rest a little bit more secure. And there were a few other giveaways to the upper middle class. They had to have the pretense of doing something as an excuse for changing but really the giveaway remains in place and most American voters realize that this has been a giveaway with no quick pro quo.

*BF: One commentator noted after the modified plan passed the Senate, that most of the senators that voted against it were up for re-election in November.*

MH: That's right. If they want votes they have to represent the popular position and according to all the press reports and the statements out of Washington there has never been so much of a voter protest as there has been against this giveaway. The people seem to know very clearly when they're being given a line that just isn't true. And no amount of apology and pretense can cover up this obvious fact.

*BF: Now is the government buying real assets or just worthless toxic junk?*

MH: Well no real assets will be bought at all, although the government will end up foreclosing on them. Let's say what the real problem is: the real problem is that the volume of mortgage debt far exceeds the ability of debtors to pay and the willingness to pay. Mr. Paulson's pretense, which is an absolute lie and which should lead him to criminal prosecution because he knows it's a lie, is that the problem here is a liquidity problem. But it's not a liquidity problem, it's a bad debt problem. Suppose that people bought a house for \$125,000 and have a full mortgage on it for that price and suppose the house has fallen to \$80,000. I know a number of houses like that. I know a professor in western Illinois that had a house that she bought for \$125,000.

The highest bid she has it on: \$80,000, fully mortgaged. Dennis Kucinich tells me that the house next door to him in Cleveland, Ohio was bought for \$125,000 and now it's only worth \$80,000. So this is typical. Now imagine a bank responding to a borrower who wants to say, "Well gee, I want to be able to pay my mortgage can you lend me enough money to pay my mortgage?" What bank can be expected, when already the house is 50% over-mortgaged... who is going to lend more mortgage than a property is worth? That era is over! No bank any longer is going to lend more money than a house is worth. And already Mr. Paulson said that 5 million Americans are in arrears and facing foreclosure.

The figure was then corrected by other economists to 10 million Americans in the coming year are going to lose their homes! Now no amount of liquidity is going to provide them with the money to stay in if already they can't afford the mortgage. And in fact the government is now supposed to make money "quote" for taxpayers "unquote" by coming in and acting as debt collector. Now, in order to make money for taxpayers, the government now has to come in and say, "We're going to enforce the Adjustable Rate Mortgages that are exploding in interest rates. You are now going to have to pay much higher interest rates. Penalty rates. Back fees and penalties or we're going to throw you out of your house because we have to make money for the taxpayers. We are now the collecting agents not Countrywide Financial or Fannie Mae or Washington Mutual or the others.

So the debts of homeowners will remain in place. The debts of cities and municipalities will remain in the place and all that happens is that people who have the mortgages are supposed to be bailed out now because under Mr. Paulson's plan as he wrote it and the plan that the house originally rejected, the terms were that the government would buy the bad mortgages and bad debts from the banks and other investors and insurance companies for what they had paid for them. In other words insurance companies will not take a loss for their bad investments. Banks won't take a loss for their bad investments. Hedge funds won't take a loss for their bad investments. Now how many of your listeners would love to be able to say, "geez I made a bad stock investment. I'd like the government to buy back these stocks that I bought that have gone down."

That's not what the government is doing because these aren't the major campaign contributors. So this is the asymmetry. The inequity. And the irony is that the Democrats have supported this so strongly. A week ago last Thursday in the Wall Street Journal, Hillary Clinton of all people came out with a wonderful wonderful plan. She said that the government should insist on rewriting the bankruptcy laws. She said the government should rewrite the mortgages down to the current market price and the government should replace exploding interest rate mortgages with normal interest rates or the teaser rates that had

been signed. So she obviously knew what the right thing to do was.

And that's the plan that would have worked. And yet she went and voted for the plan as it came out of the Senate when they passed it on Thursday. So she met the criterion of evil that Milton described in Paradise Lost: somebody who knows the right thing and yet does the wrong thing knowingly. That is also the definition of a crime. A criminal has to knowingly and consciously be making a mistake. And Hillary, and the other democrats, Obama... just about all the democrats who supported the bill said, "We don't like it. We know its wrong but we're voting for it because it's an Emergency and if we don't vote for it the stock market will go down." Well as you saw on Friday the stock market did go down and it will continue to go down because foreign investors realize that this money that is being given away is going to flow out of the country very quickly and that's going to put downward pressure on the dollar. And even if housing prices only fall another 20% or so, if the dollar declines by more they're going to take a heavy loss that they basically can't afford to take.

*BF: Well you know Dr. Hudson I was going to ask you if the Plan (we'll refer to it that way) gives struggling homeowners the chance to refinance into long-term fixed-rate mortgages and it sounds like... I mean, there's some sort of subterfuge in the media, and some claims that, well, plans have been mitigated and we fixed it and we've put something in for homeowners, but that's not really true is it?*

MH: No. It's not true at all. They said, they will ask the banks, "will you please give homeowners a break?" Now this is absolutely ridiculous. And it's very funny that while many of the Republicans and Democrats claim to appeal to Christians, what they're doing is the exact opposite of what you found in the Bible. For instance in Matthew there's one of the passages where Peter asks Jesus about forgiveness. Jesus tells the story of a king whose official comes to him and owes him about 10,000 talents and he can't pay. He said, "I just don't have the money." And the king says, "Well, you have to pay the penalty. You will become my debt-bond servant and so will your family. You and your family are going to come into debt bondage to me. The official threw himself down at the king's knees and said, "I'm sorry. I'm a good man. Please have pity on me." So the king had pity on him and said, "Okay, I'm going to relieve you. I'm not going to throw you into debt bondage. Pay me when you can." Then the official went out and found somebody who owed him about 1,000 talents or a much smaller sum and he said, "Pay the money. I have to pay the king." And the debtor didn't have the money so the official said, "Okay, I'm throwing you and your family into debt bondage." Well, he went around trying to collect all this money and this frightened a lot of debtors and the debtors went to the king and said, "look this official is coming and throwing everybody in jail and throwing everyone into bondage in order to collect a debt to pay you.

This is bad. So the king called the official in and said, "Look I had pity on you but you don't have pity and forgiveness on your debtors so now I'm going to throw you into jail." And in this case now the king is like the US Treasury Department forgiving the debts of Wall Street saying Wall Street doesn't really have to pay. But now Wall Street and the banks are going and tightening the screws on the smaller debtors. So technically the government should say, "Well gee, in view of your bad behavior now that Countrywide and Bank of America and others are going to go around (and I'm already told that the thugs are going around to the black neighborhoods in Brooklyn to try to scare people out of their houses to take over) the government should say, "well, now that we see how it's working out, we're not going to lend you the money except on very extortionist terms that will reduce you guys to debt bondage." I'm amazed that in the South, the Bible belt, nobody is looking at this passage from Matthew in the Bible that describes it.

And in fact, let's get back to the point, where under the Emergency part of the Act, all of this is done as if it had to be in a hurry. There easily could have been enough time for the Democrats to put in a bill letting judges renegotiate the mortgages. Nothing was done. They could have repealed the awful bankruptcy bill that the credit card companies and other bankers lobbied for so carefully a few years ago. The government could have restored the favoritism to the debtors, 90% of the population rather than to the creditors, the upper 10%. But it didn't do this. There was no bailout for the debtors. No renegotiation or lightening of the credit terms for them. There was nothing at all that was done.

*BF: Well speaking of the vote in Congress, on Black Monday, September 29, the Dow drops by 777 points after the first vote in the House of Representatives on the plan is defeated. Do you think that this vote was staged in the sense that Congressional leaders know where the vote is before its taken?*

MH: No. I think obviously the leaders didn't know. The leaders had all begged the Congressmen to support the act because the leaders themselves had already arranged very heavy campaign contributions for themselves out of all of this. And they'd taken care of themselves but the fact is that the individual Congressmen knew not only that they weren't promised any cash on the table for themselves to sell out their voters to Wall Street but they thought that even if the Democratic National Committee or the Republican Congressional Committee contributed money to their campaigns, no amount of television or media advertising could persuade the voters that they were not crooks. So the Congressional leaders thought their subordinates would obey them. This was always a false hope. The leaders were surprised. But it was very clear from the very beginning on the part of the actual Congressmen that they weren't going to support it because they had already come out on the floor with such vehement opposition to the bill and pointing out exactly what was wrong with the bill, that it didn't have to be done in a hurry. That there was no attempt to solve the debt problem which was the core of the thing, that it misrepresented the debt problem as a liquidity problem and that it simply was to bail out Mr. Paulson's friends who are of course the same people who contribute to the Democratic campaigns.

*BF: Well then if the people who initially... in Congress, who initially voted 'No'... then [they] "did" understand the bailout bill. See I was going to ask you if politicians understood the problem in the bailout bill.*

MH: They seemed to have very well. They understand the problem is a debt problem. The real problem for them is what's more important: to get money in their pockets and to sell out to their backers? Or to represent what they think is right and what their voters think is right? The people who voted for the bill decided to sell out the public and vote against the public interest in their own interest and that of their backers.

*BF: So now what are you saying turned the No's around into Yes's? Were they paid off?*

MH: An enormous amount of lobbying took place in the intervening week. Not only in terms of money to the campaigns of just a few people (and they only had to turn over maybe 20 or 30 votes), but also the leadership went to the No voters and said, "Look what is your pet project? Is it ecology? Is it the environment? We're going to put in environmental things. Do you want more FDIC coverage for the upper middle class among your voters, the people who can afford to contribute to your campaign? We'll give you that." Politicians call this a Christmas Tree of something for everybody to persuade politicians that their pet hobbies or their pet concerns will be taken care of.

*BF: Well, in your opinion then, were the politicians bought off cheaply?*

MH: Considering that there is an \$800 billion giveaway, to be followed by another trillion and another trillion after that, this is the biggest giveaway since the land giveaway to the railroads in the mid-nineteenth century and just as that giveaway created a power elite that would rule America for a century and a half this is creating a new power elite that has changed America from a democracy into an oligarchy. And as Aristotle said, 'what is democracy but the stage immediately preceding oligarchy?'

*BF: Yes, that's becoming a very prescient quote. I even saw in there the cancellation of a rum tax in the Caribbean.*

MH: Yes. There was every special interest. In other words they negotiated special interests for constituents of particular representatives so that the representatives could then go to their contributors and say, "Look, now we want our payoff. We've given away more money to you." So now the giveaway has been to a lot of special interests and campaign contributors and bribers. Every campaign contributor got a huge gift for this—enough of a gift to convince the representatives that when they leave office they'll be taken care of for life.

*BF: Do you think fear played a part in it? I mean there was such a turnaround.*

MH: No fear at all. Pure greed.

*BF: Now in your opinion, why didn't Treasurer Secretary Hank Paulson want oversight in his plan?*

MH: Because now the government is going to be negotiating with Wall Street what price to pay for giving mortgages... for junk mortgages. If there was oversight, people could say, here's a mortgage that was fraudulent to begin with, that didn't have any market value and that no private investor in the world has been willing to buy, why are you willing to pay so much for something no private investor would have bought? And there are guaranteed to be charges of corruption about the people who are doing the buying and selling and Paulson didn't want any of those charges. He wanted the property and the money to be stolen fair and square.

*BF: Well, since you've brought up fraud in the mortgage-backed securities, everyone seems to agree that many of these securities are worthless but doesn't the fraud go much deeper? For instance, I've heard that the same worthless mortgage shows up in multiple bundled securities. Do you think this is true?*

MH: It's reported to be true. And the cure promises to be much worse... make the problem much worse. Mr. Paulson and the Democrats agree that there should be a regulator, a single regulator over the financial and real estate industry. Now at present Washington has actually brought a lawsuit to stop the Attorneys Generals for various States from prosecuting fraudulent mortgage loans. And they say that "only" the government can do this (under some obscure law from the 1840s) because "we're going to regulate, you're not allowed to do anything". Then the government has done nothing to enforce the law. Now suppose a super-regulator going to say we have the authority to regulate financial fraud, nobody else does. All they have to do is, put someone like Alan Greenspan in charge of this... All they have to do is put a deregulator in charge of it and do absolutely nothing and nobody else in the entire country; no Attorney General, no prosecutor, not private suits...



Nobody can stop the fraud. So centralizing the regulatory process in the hands of deregulators appointed by the industry to be regulated, by the major campaign contributors, institutionalizes systematic rip off of the Treasury.

*BF: I think I read in the newspapers about what you're referring to. Was part of this where the States themselves, the State governments, wanted to go after fraud and were stopped by the Federal government?*

MH: Yes, that's exactly right.

*BF: That's what I thought.*

MH: People like Mr. Mozillo should be in jail. Franklyn Roosevelt said, "Nothing in politics is accidental". Nothing that happens in politics really is an accident. So when you have a plan that's going to fail very shortly, like Mr. Paulson's plan, and he says, "Gee I guess I didn't understand Wall Street", you're talking about one of the smartest guys on Wall Street, from a firm that's considered to be the smartest financial firm on Wall Street. So when they claim, "Gee its just incompetence. I guess our giveaway didn't work," you can be pretty sure that this is not an accident. That it wasn't out of ignorance they did it. You can assume that they knew just exactly what would happen. That they knew it would be a failure but it would be a failure that gives their constituency \$700 billion, 700 billionaires, while tightening the screws on the rest of Americans.

*BF: Now can you tell me what are credit default swaps?*

MH: Credit default swaps are the easiest way to lose money. Suppose I would do this: Dennis Kucinich's other political advisor, Dave Kelly and I have said, "if you give us \$5,000, for every \$5,000 we'll insure a billion dollars worth of these bonds." Nobody is going to give us \$5,000 because on a teeny little base, suppose we got 10 people to say, "gee, this is great, we'll ensure 10 billion dollars worth of bonds," we'd end up with \$50,000, and then the bonds would go under and people would come to us for insurance. They'd say, "Okay now pay us, we've lost our money." And we'll say, "Gee, I'm sorry, the \$50,000 we put in the fund we've already spent it on salaries and bonuses for ourselves. We don't have any money to bail you out."

So companies were buying, pretending to buy, insurance from Monoline companies, i.e. companies who were set up exclusively to insure bad debts and the insurance premiums were laughably low compared to the actual risk. So the insurance companies used junk mathematics to create options to buy and sell junk bonds and junk mortgages. The whole thing was junk. Remember the people who developed the [Stowe?] mathematics for options trading and insurance were the people who set up the long-term capital management that went bust ten years ago and almost broke down the market. And then this year the same managers started all over again, started another fund and they've lost 40% this year.

So the fact is their models don't work. The Nobel Prize for these guys turned out to be pretty much of a Booby Prize because the models that were used have led to the biggest financial crisis in history. Its junk mathematics and the insurance companies were collecting premiums that didn't have any relationship whatsoever to the risk. What they did provide was a cover story for investors to say, "Well we've done due diligence. We've insured our small holders. We've insured our depositors. We've actually taken out credit insurance so that we can't lose. And now they express surprise, shedding crocodile tears, over the fact

that “Gee, I’m afraid the insurance didn’t work. Thank God we’ve already paid ourselves huge bonuses and paid ourselves [decent] salaries. Thank God we’ve taken care of ourselves. Sorry folks. I’m okay.”

*BF: Well now was the bailed out AIG involved in these credit-default swaps?*

MH: Yes. It was a major writer of the credit-default swaps. And in today’s paper today it is reported that of the \$85 billion that the government gave them, they’ve already run through \$61 billion. So its already used it, and now its already run through it and its been downgraded by the ratings agencies and its about to go bankrupt anyway. So the only effect that the \$85 billion that was given to it was to repay the pals of Paulson who sold out the quickest. They paid the smartest insiders and the people on the periphery, the foreign bankers, the people who have been gullible enough to have faith that this is actually going to help the system have been left holding an empty bag.

*BF: Well now, if this credit-default swap, this fake insurance... I would have thought this would have gone belly-up immediately. What would happen when people would try to collect?*

MH: They can’t collect because there’s no money there. The assumption is that only a few marginal companies will go bankrupt by accident—not that the problem was systemic. And the problem is systemic. The whole idea of banks originating loans and selling them to outsiders was a guaranteed failure from the very beginning because ... let’s contrast that with how one makes money by speculating on property. If you buy property the idea is to buy a house and to sell it to somebody else at a higher profit hoping for the proverbial greater fool to come along.

No fools come along now and the speculator is withdrawn from the market. Now this property is financed by a mortgage and the way that Wall Street has worked is, “Let’s package the mortgage and sell the mortgage at a profit to somebody else.” Well you have to find the proverbial greater fool for that. Now they expected the proverbial greater fool to be Sovereign Wealth Funds. They thought, “If everything goes wrong in this game of musical financial chairs, we can turn around and sell to the Arabs. We can sell to OPEC. We can sell to maybe China and Japan. We can leave them holding the bag just like we left the German banks holding the bag and we can escape cleanly. But they didn’t have enough time to do this so now the proverbial greater fool is the US government. And the US government is going to create about \$2 trillion of new Treasury Bonds and exchange these perfectly good Treasury Bonds that are as good as cash (because you know the government can always print the money), they’ll exchange these bonds—cash for trash.

*BF: Wow. Now also the trash that the cash is buying, are these mostly collateralized debt obligations and derivatives? I mean this is what they’re really buying isn’t it?*

MH: It’s all left up to the Treasury. And do you want to really leave it up to a Secretary Treasury that has been so deceptive as to misrepresent everything... the problems that are facing America? Do you want to leave it to the discretion of a Secretary Treasury that says, “We have a liquidity problem, perfectly good mortgages at some price, its just a little liquidity”; that will not tell the people what every American seems to know by now that it’s a debt problem? Every American knows that if there’s a higher mortgage than the value of the property nobody is going to lend money, because most Americans know they can’t get mortgage loans. They can’t get car loans. They can’t get personal loans. They can’t get new

credit card loans. They know there is no money available at all. And the reason is when they ask the bank, "Why not?" the bank said, "Well we've looked at your income and you're already loaned up. You're already paying 40% of your income for housing and debt. You're already paying another 20% just for student loans, health loans, personal loans, car loans, credit card arrears." There's no more slack left in the economy.

The debt overhead is absorbing now the entire economic surplus. There isn't anymore that people can do... so now is the time for foreclosures to come. Now is the time for the upper one percent to sharply increase its holdings, its degree of wealth and income. The Congressional Record Office has estimated that 10 years ago, the top wealthiest one percent of America's population owned 37% of all revenue from wealth-interest, dividends, capital gains. Five years ago they've increased this so that the upper one percent owns 57% of America's wealth. The estimate is today that the top one percent of the population now owns almost 70% of all the American wealth. Now just think of it.

This is like a Banana Republic. This is like a third world Kleptocracy-one percent of Americans owning almost 70% of all of the income from wealth.

The hypocrisy of the Treasury Secretary and of the Democrats who support the plan is that "Well, gee we have to bail out the stock market to help the little guy. We have to help the pension fund. We have to help the small investor." Now if they really wanted to help the pension funds what they would have done was say, "look, we're going to give this money to bailout the Pension Benefit Guarantee Benefit" which is now \$25 billion in arrears for what it needs to guarantee failing pension plans. They would have said, if they wanted to help depositors, "Gee, the Federal Deposit Insurance Corporation" which is now \$40 billion in deficit, they would have put \$40 billion, much less than \$700 billion, just \$40 billion to bail out the FDIC. They didn't do it. They would have said... remember when Mr. Bush said last year said there's no money at all for Social Security, that Social Security is running a trillion dollar deficit over the next 40 years.

"Let's put some of this money to refinance the Social Security Program." They didn't do that. They could have used a much smaller amount to guarantee Public Health. They didn't do that. So instead Mr. Obama and Hillary came out against Public Health and against Social Security; against bailing out the pensions, against bank security, in voting for this plan. And they should be held accountable.

*BF: So that when they say there is a liquidity crisis, there is no liquidity crisis, it's a debt crisis.*

MH: That's correct. It's a bad debt crisis and a bad investment crisis. And Wall Street says, "Gee, we thought that in the game of musical chairs, we'd have a chance to get out quick. Just like Goldman Sachs was able to get out quick from a lot of the junk mortgages. And they weren't able to get out quick enough so they said, "We want the government to take the loss. We don't want to take the loss. Will you please buy all our bad investments at the price we paid for them so that we won't take a loss? We'd much rather the taxpayers take a loss." And Mr. Obama said 'Yes'. Mrs. Clinton said 'Yes'. Most of the Democrats said 'Yes'. The Republicans tried to say 'No'. They said, "We don't want any part of this." Many of the Republicans obviously did vote for it but this is a Democratic plan for the incoming Democratic administration to impose with a vengeance. And it's the Democrats that have put the class war back in business.

*BF: Well, we here in the media declaim that, "Oh well, the Republicans were against it but for the wrong reasons."*

MH: (laughs) What can one say to that? The fact is that yes that's true. They were against it because if you look at what they said, they said that this is socialism. Well its nothing like socialism at all. When you give away money to the wealthiest class, this is old-fashioned Kleptocracy and it's a step back towards feudalism. It's not a step towards socialism at all. So in that sense, the rhetoric that the Republicans used was their usual silly rhetoric but the fact is they did oppose the act. And if you look at the statements that were made on the house floor and the senate floor, statements that do not appear in the New York Times, that do not appear in the Chicago Tribune, that do not appear in the Wall Street Journal, then you'll see that these Congressmen who voted against it were pretty smart and the media is refusing to say what they actually said. The media is refusing to cite the reasons that the Congressmen voted against it. You don't find any discussion at all of Dennis Kucinich's reasons for voting against it: the fact that there was no need to panic, the fact that there were no hearings. It's unbelievable that an act of this magnitude by government, never before has there been an act like this with no congressional hearings. No bank oversight committee hearings. No testimony by expert witnesses-absolutely no discussion at all-a total clamp down almost done under Martial Law. And that's why I said last Friday was the day that American democracy ended and the Oligarchy imposed its brute force.

*BF: Dr. Hudson, I was about to ask you about the role the media has played in this. There's been an awful lot of disinformation put out.*

MH: That's the role of the media these days. And what would you expect from a media that has been centralized in the hands of the wealthiest classes? The media has acted as cheerleaders for the Act, for Wall Street, for the Real Estate industry and they have indeed been promoting disinformation. You don't get any of what I've been saying, not only in the media but on educational TV, on MacNeil Lehrer or any of the other reports. You get a little bit more on PBS. You get much more on radio. And of course much much more on the Internet. The Internet is really the only place where you can get very open discussion of the problems. Almost every day in the last two weeks I've written the lead article for Counterpunch, for instance, and my Counterpunch articles on Internet have been picked up by many other major Internet information clearing houses... Michel Chossudovsky... all sorts of other people have been picking up my articles and these have been going around so that my website Michael-Hudson.com has 5,000 hits a day. So somebody is reading all of this. The media is not reporting it-in this country. Yesterday I was on Japan's largest Sunday talk show debate program talking about it. I've been on Canadian media. I've been on BBC's international service. I've been writing articles in Latvia. Nothing in the United States.

*BF: I've been reading your articles on GlobalResearch.ca, Michel Chossudovsky's website.*

MH: Yes.

*BF: I wanted to talk a bit about how Secretary Treasurer Hank Paulson's plan has changed. What do you think of the FDIC insurance increase for depositors?*

MH: The Wall Street Journal had a wonderful editorial on that yesterday. They said this can be almost as much of a giveaway as the \$700 billion itself, because its something open-ended. The banks are in trouble. How many Americans do you think have more than a \$100,000 in the bank? Remember if a couple has \$200,000 they're doubly insured. They're

insured for \$200,000. If they have four kids they can put them in accounts. Ever since I worked for the Savings Bank Trust Company in 1961 the savings banks would take money from wealthy bank depositors and they would spread them around, \$100,000 in each of the 127 New York Savings Banks. So the fact is you'd have to have more than about I'd say \$2 million to have difficulty finding insurance that you couldn't spread around among 20 banks. All of this was insuring the top 10% of the population. How many people have that much liquidity that it really matters? It was a giveaway. Again they solved the problem of the giveaway to the ultra-rich by giving even more away to the rich and that's what the Wall Street Journal itself pointed out in its editorial page on Friday and it was a great editorial.

Now so far, people have talked about the \$700 billion that is at stake and the government has said we're going to put securities in here, however what the media has not reported, although the British newspaper The Economist had a wonderful chart last week, showing that the Federal Reserve has already swapped \$500 billion worth of Treasury bonds for junk. The cash for trash has already begun since March by the Federal Reserve so \$500 billion is almost as much as the \$700 billion that the Treasury is talking about, this has already been given away by the Fed to Wall Street insiders and nothing has been said in the media about this at all. Although its been statistically reported by the Fed. The Fed reports its holdings and securities. It reports its holdings of Treasury Securities, which have gone down by \$ 500 trillion.

It reports its overall securities, which are now \$1.1 trillion compared to less than \$500 billion in Treasury Securities. And this leaves between \$500 billion and \$600 billion in essentially non-treasury securities, which are the junk they've taken on with these swaps that it's arranged. And the Fed has been swapping this not only with the banks that its supposed to represent but its been doing cash for trash with insurance companies, investment banks and people who have no relation at all under the Fed and this is being done under the Fed's special small print of the Fed's Articles of Incorporation saying it can do this to save the economy. Well its not saving the economy at all. It's wrecking the economy by doing this. It's wrecking the economy by buying trash from insiders and as I said, creating a new Kleptocracy.

*BF: Well I've never heard of this other, this previous \$500 billion. No, that wasn't reported. Well if they don't have to...Why are they...*

MH: Well the Fed says that it has reported it. Anybody can go online on the Federal Reserve and check the daily and weekly Federal Reserve Statistics. You can be sure that just everybody on Wall Street that has a stake in the financial system has done that. The media has blacked it out.

*BF: Well if they gave away \$500 billion previously with a media blackout why did they even bother to go public with the \$700 billion?*

MH: Because they need altogether about \$5 trillion to create... If they're going to create 500 billionaires to run the country for the next century and to create really a new feudal class they need \$5 trillion and they don't want the people to know what's occurring because if they did the voters would get so upset they'd create probably a new political party, an alternative. And they don't want the voters to have an alternative certainly before this election. They've got one candidate, McCain who is advised by Phil Gramm's who is in completely in [???'s pocket. They have another presidential candidate, Obama, whose financial advisor is Treasury Secretary Rubin. If you want to see what is likely to happen to

the United States you should look at what Mr. Rubin did when America had a completely free hand in redesigning the Russian economy. This was their ideal. You've seen since the 1996 giveaways in Russia, the Russian population has fallen more than it fell in World War Two. The financial devastation today is even more devastating than military destruction. The result is a shortened life expectancy, lower birth rate, depression. The effect is psychological and social, not merely economic.

*BF: Well why didn't they keep their subsequent \$700 billion a secret? Did they just feel they couldn't?*

MH: Because it's become so large, larger than the Federal Reserve has on its balance sheet. The Federal Reserve only had \$1.1 trillion and the Treasury can print an infinite amount of bonds to exchange for trash and what they needed was much more than just a trillion, they need really trillion after trillion to bail out the bad debts because that is how deep the hole is that Wall Street (and behind it, Free Market Economics of the Chicago School variety) has led the country into.

*BF: Well then would you say it's too big to bail out?*

MH: In essence yes. It can't really be bailed out. But what you can do is let the insiders get as much money as they can as quickly as they can under emergency conditions so that they can take their money and run. Of course it can't be bailed out. But you can have a lot of insiders take their money and run. And they're going to run-out of the dollar.

*BF: Dr. Hudson, as always, thank you for the good analysis.*

MH: Well thank you Bonnie. It's always good to be on your Guns and Butter show.

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