The Question that should be at the Heart of the Bailout Debate: Will The Paulson Plan Work Or Potentially Make Things Worse?

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Global Research, October 03, 2008
3 October 2008
Region: USA
Theme: Global Economy

Most of the people who oppose the bailout do so for ideological reasons. Conservative Republicans fear the advance of socialism in the form of government intervention. They picture themselves as saving the Republic from collectivist marauders out to destroy the free market. And that includes Henry Paulson the former head of Goldman Sachs who came to government from Wall Street and still embodies its values.

Democrats are divided too. Some say the voting for the bill while holding their noses. Others say they have to "do something" or else, and have no alternative plan. Still others see it as rewarding the people who created the crisis.

What the media often misses are the people who argue that the measure is unlikely to restore confidence or get credit flowing again. These people are actually pragmatists and work in the financial industry. In large part because politics is polarized along partisan lines, their non-partisan assessments are not taken seriously

Others don't really analyze what's in the bill and present it in symbolic terms as a needed solution without noting that in just a week it went from just three pages to over 451.

Actually, since everyone agrees that the crisis is unlikely to go away anytime soon, we have to look at more than one bill.

As for the insiders, there's David Tice, a respected Denver investment advisor who told Investment News: "We don't believe these bailout packages will fix the Wall Street credit mechanism," he said. "Credit will be restrictive no matter what happens with the bailout package."

Tice is projecting pain, doom and gloom for the next five years. The business outlet reported, "Mr. Tice provided a litany of reasons why he believes the U.S. economy is headed toward recession, if not a full-blown depression."

The bill the Treasury Department insisted had to be simple and "clean" and could not allow the adding of provisions for bankruptcy reform ended up getting vast tax breaks tacked on as Bloomberg reported, "The U.S. Senate approved tax cuts valued at more than $100 billion, including a host of alternative energy credits and dozens of breaks for businesses and individuals, as part of its $700 billion bank rescue bill."

Websites like Naked Capitalism were filled with contributions by economists and traders pointing to technical flaws in the plan that will undermine its effectiveness.

Example: “I think it’s very telling that in two days of hearings and two weeks of discussion we have yet to see *any* detailed mechanism for how Paulson’s plan will increase the supply of, say, inventory loans. It’s not that every economist in the world is an idiot, it’s just not going to help. I think people have fallen into the fallacy that if it costs a lot it must be valuable. Paulson’s plan falls into the category of very expensive way to hurt ourselves. (As for its cost, A treasury official was pressed on why they sought $700 billion: “where did that number come from, a study or data point?” No, he replied, we just wanted it to be big!”)

Hmmmm..

As for the bill itself, listen to Ralph Nader’s dissection, even if you think he’s a hasbeen.

“The revised bailout legislation is the same $700 billion piece of burnt toast, with some window dressing, sugar coating, and $150 billion of pork tax cuts covering everything from casinos to coal.

But this isn’t even the main course that Senate is serving up for Congress on Friday. The main course is on page 92 of the 451 page document:

BORROWING LIMITS TEMPORARILY LIFTED. – During the period beginning on the date of enactment of this Act and ending on December 31, 2009, the Board of Directors of the Corporation may request from the Secretary, and the Secretary shall approve, a loan or loans in an amount or amounts necessary to carry out this subsection, without regard to the limitations on such borrowing under section 14(a) and 15(c) of the Federal Deposit Insurance Act (12 U.S.C. 1824(a), 1825(c)).

Translation: Bush, McCain, and Obama want Congress to co-sign off on the mother of all blank checks, paving the way for a sinking dollar and higher interest rates.”

So before you turn the bailout into an argument between the sensible and responsible versus the emotional and angry, look at the details, consider the costs and ask why you are persuaded it will have the effect its proponents claim. TED spread is at a new record. Bad news

On Friday morning, the economist Paul Krugman sounded like a desperado:

“Double plus ungood news on multiple fronts this morning. The credit crunch is getting worse: LIBOR jumped again, the on employment: payrolls down 159,000, average work week down, official unemployment rate flat at 6.1 percent but broad measure (U6) up from 10.7 to 11.

We are going over the edge.”

China’s Premier Wen Jiabao told China Daily on Friday, “I’m very concerned.” He didn’t seem to buy into all the fear mongering, asking: “What is the actual degree of the problem? How will develop? What will be the effect on the US and the world.” His advice: “Pluck up one’s courage and be confident as these are more important than gold or currency.,

Ok, I am “plucked,” even as they plunder on, but we still don’t know with any certainty if the ever expanding bailout will straighten a system out of wack, create jobs, restore capitalism and make it all ok again? Remember the NY Times first described the bailout as a "hail Mary play" in which you throw the football and pray. Has it come to that?

What if all of this "debate" is just more sound and fury, signifying less than meets the eye? Markets are still deeply "stressed" and its unlikely that the solution our Congress is backing will solve anything.

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