Trouble at Treasury: Geithner gets the keys to the henhouse

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Global Research, February 19, 2009
Information Clearinghouse 18 February 2009

Region: USA
Theme: Global Economy

The Obama Team has a big problem on their hands; Timothy Geithner. Geithner was picked as Treasury Secretary because he is a trusted ally of the big banks and has a good grasp of the intricacies of the financial system. The problem is that Geithner can't handle the public relations part of his job. His big debut in prime-time last Tuesday turned out to be a complete dud. He was thoroughly unconvincing and looked like a nervous teenager at a speech contest. He fizzled on stage for 25 minutes while the little red box in the corner of the TV screen–which shows the current Dow Jones Industrials–plummeted nearly 400 points. It was a total disaster and one that is sure to be repeated over and over as long as Geithner is at Treasury. Not everyone can be a charismatic orator like Obama and nothing short of a personality transplant will fix Geithner. He lacks gravitas and doesn't inspire confidence. That's a problem since, the administration's main objective is to restore public confidence and get people spending again. They're just shooting themselves in the foot by using him as their pitchman. Eventually, Geithner will either have to be tossed overboard or strapped to Obama like a papoose so he can share in the president's popularity. Otherwise he will continue to be a millstone.

In truth, Geithner did us all a big favor on Tuesday by exposing himself as a stooge of the banking industry. Now everyone can see that the banks are working the deal from the inside. Geithner has assembled a phalanx of Wall Street flim-flam men to fill out the roster at Treasury. "His chief-of-staff is lobbyist from Goldman Sachs. The new deputy secretary of state is a former CEO of Citigroup. Another CFO from Citigroup is now assistant to the president, and deputy national security adviser for International Economic Affairs. And one of his deputies also came from Citigroup. One new member of the president's Economic Recovery Advisory Board comes from UBS, which is currently being investigated for helping rich clients evade taxes." The Obama White House is a beehive of big money guys and Wall Street speculators whose only goal is to nuzzle up to the public trough while strengthening their grip on political power.

The banking lobby has already set the agenda. All the hooplah about "financial rescue" is just a smokescreen to hide the fact that the same scofflaws who ripped off investors for zillions of dollars are back for their next big sting; a quick vacuuming of the public till to save themselves from bankruptcy. It's a joke. Obama floated into office on a wave of Wall Street campaign contributions and now it's payback time. Prepare to get fleeced. Geithner is fine-tuning a "public-private" partnership for his scotch-swilling buddies so they can keep their fiefdom in tack while shifting trillions of dollars of toxic assets onto the people's balance sheet. They've affixed themselves to Treasury like scabs on a leper and are now zeroing in for the kill. Geithner is "their guy", a Trojan Horse for the banking oligarchs. He's already admitted that his main goal is to, “keep the banks in private hands”. That says it all, doesn’t it?

Of course, the administration is not alone in their support for the banks and Wall Street. Congress has its fair share of bank-loyalists, too. That was evident last week at the hearings of the House Financial Services Committee. 8 CEOs of the nations biggest banks were marched off Capital Hill (ostensibly) for public rebuke. For a minute, it looked like Congress might do its job and actually grill the bastards who blew up the financial system. But, no, that’s not what happened. The 7 hours of testimony produced few fireworks and no mention of accountability. For the most part, the bankers were treated like honored guests instead of the chiselers they are. That’s because nearly every member of the committee rakes in contributions from the same banks that are being investigated. As Bill Moyers points out on Friday’s Bill Moyers Journal, “Last year, the securities and investment industry made $146 million in campaign contributions. Commercial banks, another $34 million.” The banks own congress just like they own the White House and anything else of value in the USA. They left the hearings unscathed.

Apart from the infrequent fulminations of congressmen clowning for the cameras, the hearings were tedious and unproductive. Same old, same old. The bankers remained stonefaced throughout, while the committee turned in their typical sub par performance. Congress doesn’t do oversight anymore, and even if they did, there’s no one with the cohones to apply the rules. Besides, no one in the House has the foggiest idea of how the financial system really works. If they did, they’d know that the banks HAVE actually been lending despite congress’s spurious accusations. Some of the banks even produced documented evidence to prove it. This has been a flashpoint for taxpayers who think that they were duped by financial institutions that took the $165 billion TARP money and used it for bonuses or to buy smaller banks. Not so. The truth is more complicated.

The banks have been hoarding; that much is certain. In fact, The St Louis Fed’s charts show that:

“Until September, excess reserves hovered at or below about US $2 billion, but have ballooned to over $600 billion as of November 19, 2008….The Fed has thrown money at the banking system, but the banks are hoarding the cash, they do not lend.” (Axel Merk, “Monetizing the Debt”) Excess reserves are reserves that are beyond the required capital limits. The steady buildup–which now exceeds $700 billion–suggests that the banks are hunkering down for long and deep recession. They are in survival mode. Still, that does not mean they are not lending. In fact, “Bank Credit expanded $459bn year-over-year, or 4.9%. Bank Credit jumped $356bn over the past 21 weeks.” (Doug Noland Credit Bubble Bulletin) It’s true; bank lending has actually increased even though standards have gotten tougher and consumers are saving for the first time in decades.

How can the banks be lending and hoarding at the same time; aren’t the two mutually exclusive? And why is credit draining from the system in trillions of dollars if the banks continue to lend?

This is big mystery of the financial crisis, but one that can be solved by reviewing the facts. J P MorganChase’s Jamie Dimon explained it like this:

“There’s a huge amount of non bank lending which has disappeared which is the same thing to the consumer (as the banks)…Finance companies, car finance companies, money funds, bond funds..that withdrew money from the system (when the credit crunch took hold) making it much harder on the system. That created the crisis we now have."

The Wall Street Journal summed it up even more succinctly:

"Chairman Barney Frank's hearing was intended to flay the CEOs for not lending enough. It fell flat as political theater because banks have actually increased their lending in recent months. The people who aren't lending more are investors in nonbank financing such as asset-backed securities.

In fact, the nonbank credit market is normally much bigger than bank lending. But new issues backed by auto loans, credit cards and the like have been rare this year, as markets wonder how the government's next move will change the value of such investments. Buyers and sellers of existing securities are "sitting on the sidelines," according to Asset-Backed Alert, waiting for still another Washington recalibration of risk and reward." ("Committee on Doubt and Uncertainty" Wall Street Journal)

This is how the financial system really works–something which seems to be completely beyond the grasp of congress. A shadow banking system has grown up around the process of securitization, which packages pools of debt (mortgages, commercial real estate, student loans, car loans and credit card debt) and sells them as securities to foreign banks, hedge funds, insurance companies etc. Wall Street has muscled into an area of finance that used to be the domain of the commercial banks. According to Treasury Secretary Timothy Geithner, "40 percent of consumer lending" depends on this shadow system for credit. That's why he is determined to resurrect securitization whatever the cost. The Fed has already expanded its balance sheet to $2.2 trillion while providing loan guarantees for over $9.3 trillion dollars. The entire financial system is now backstopped by loans from the Fed without which the global financial system would collapse. The present Fed funding of financial markets forces us to rethink our outdated ideas of the "free market" which now exists only in theory.

A 40 percent decline in consumer credit is more than sufficient to push the world into another Great Depression. The sharp decrease in foreign exports, shipping, auto sales, and other vital areas of commerce–all in the 30 to 40 percent range–suggest that the global economy depends on Wall Street's credit-generating mechanism more than anyone imagined. The breakdown in securitization has sent tremors across the planet triggering a decline in asset prices and an accelerating fall in personal consumption. Before the Fed and Treasury try to restore securitization to its former glory, politicians and pundits should decide whether it is a viable system for long-term growth. There's reason to believe that transforming of debt into securities creates incentives for fraudulent loans and mortgages since they can be dumped on Wall Street and sold to gullible investors. The reason the mortgage lenders and banks bundled off crappy loans to the the big brokerage houses, is because they thought there was no risk involved. (for themselves!) They were wrong and now the entire market for structured debt is in a deep freeze. Geithner and Bernanke should suspend all funding for securitized loans until they can show that the kinks have been worked out and we won't fall into the same trap again. One financial meltdown is more than enough.

The TARP funds should not be used to exhume the corpse of a dysfunctional financial system. The money should be used to create more jobs, extend unemployment benefits, provide food stamps, public works projects or cram downs for struggling homeowners trying to avoid foreclosure. People don't need more credit; they need debt relief. That means higher wages and better jobs. Obama should realize this, even if Geithner and Co. don't. The Geithner-Paulson policy of limitless credit expansion is the path to ruin. That's why Geithner is the wrong man for the job. His fundamental worldview leads to economic calamity.

Geithner's resume alone should have precluded him from consideration as Treasury Secretary. He started his career at Kissinger and Associates, which speaks for itself. From there, he went to International Affairs division of the Treasury Dept. where he served under Robert Rubin and Lawrence Summers both of who were major proponents of deregulation. He's presently a senior fellow at the Council on Foreign Relations and served as director of Policy Development and Review Department at the IMF. In 2003, he became president of the New York Fed and was Vice Chairman of the FOMC. He's also a member of the G-30, an international body of financiers and powerbrokers, and the former chairman of the Bank for International Settlements. If there's an internationalist organization Geithner doesn't belong to, we haven't found it yet. He's been thoroughly marinated in a globalist culture that wreaks of banking conspiracies and clandestine junkets to Jeckyll Island. Is it really that hard to find a good economist who just wants to serve his country?

There was a revealing incident in the Senate Finance Committee last week when Senator Bernie Sanders challenged Geithner. Here's the transcript:

SENATOR BERNARD SANDERS: "In 2006 and 2007, Lloyd Blankfein, the CEO of Goldman Sachs, was the highest paid executive on Wall Street, making over $125 million in total compensation. Due to its risky investments, Goldman Sachs now has over $168 billion in total outstanding debt. It's laid off over 10 percent of its workforce. Late last year, the financial situation at Goldman was so dire that the taxpayers of this country provided Goldman Sachs with a $10 billion bailout. Very simple question that I think the American people want to know. Yes or no, should Mr. Blankfein be fired from his job and new leadership be brought in?"

SECRETARY GEITHNER: "Senator, that's a judgment his board of directors have to make. I want to say one thing which is very important. Everything we do going forward has to be judged against the impact we're going to have on the American people and the prospects for recovery. And every dollar we spend will have to be measured against the benefits we bring in terms of—"

SENATOR SANDERS: "Mr. Secretary, you're not answering my question. You have a person who made hundreds of millions for himself as he led his institution that helped cause a great financial crisis. We have put, as taxpayers, $10 billion to bail him out and we have no say about whether or not he should stay on the job?"

SECRETARY GEITHNER: "No, I didn't say that. I think there will be circumstances, as there have been already, where the government intervention will have to come with very tough conditions, including changes in management and leadership of institutions. And where we believe that makes sense, we will do that."

Predictably evasive, Geithner refused to say whether or not Blanfein should be fired. That's because Geithner believes that the function of government is to serve the interests of the big banks not the public. The lip-service to democracy is just rhetorical claptrap. It's meaningless. The government's role is to facilitate the exploitation of its people to fatten the bottom line of the top-hat capitalists. This is why Geithner never made any reference to regulations during Tuesday's speech. There was no mention of Glass Steagal, or reducing the amount of leverage financial institutions can use, or forcing all derivatives contracts onto a regulated exchange, or suspending off-balances sheets operations, or reclassifying all Level 3 assets so shareholders know how much garbage the banks have on their books, or even rethinking the whole securitization model which collapsed the financial system and thrust the world towards a 1930s-type slump. He stayed away from regulation entirely, just as he defiantly withheld details about the impending multi-billion dollar bank bailout.

But don't think that the slippery Mr. Geithner doesn't have a solution for our present economic malaise. He does! He would like to see Congress appoint an Uber-regulator that has the authority to monitor market activity and decide whether individual players pose a threat to the overall system.

Sounds great. And to whom should these sweeping new powers be entrusted?

You guessed it; the Federal Reserve, the wealth-shifting, price-fixing, social-engineering scamsters who preside over the bankers cartel which just blew up the financial system. Is there any doubt where Geithner's loyalties really lie?

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