

The *HighTower* LOWDOWN

Edited by Jim Hightower and Phillip Frazer ♦ Vol.10 No.11 ♦ November 2008

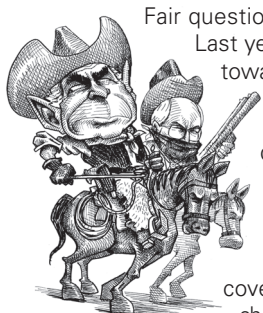
"Lehman Brothers came along it was—declared bankruptcy; then AIG came along it—the house of cards was much bigger...And so when one card started to go, we were worried about the whole deck going down."

—GEORGE W., in the Rose Garden, September 22, 2008

Our economy didn't melt down, it was taken down by ideological extremists

The five most wanted men from Wall Street and Washington

WHAT THE HELL'S HAPPENING HERE? Why is my bank in the tank? And my house and job? And my retirement money? Even my state's teetering on the brink of broke! Who did this to us?



Fair questions, but we're not getting honest answers.

Last year, at the first signs of the global financial slide toward the abyss, we were told that it's just a little hiccup caused by something called subprime mortgages. Not to worry, the Powers That Be declared confidently, for we have the damage contained. And rest assured that "the fundamentals of our economy are sound."

Then, this spring, Bear Stearns cratered, requiring an emergency federal subsidy to cover billions in bad loans. Okay, admitted those in charge, that subprime stuff actually is leveraged

on up the financial system, and maybe there's been a bit of greed amongna few of the big players, but we really do have the problem contained now, and, hey, "the fundamentals of our economy are sound."

But in September—Omigosh!—there went Lehman Brothers, Freddie Mac and Fannie Mae, AIG, Merrill Lynch, Goldman Sachs, Citigroup, WaMu, Wachovia, and others. Well, yes, conceded the now-frazzled financial establishment, but gollies, we're throwing hundreds of billions of your tax dollars into sandbags to contain the problem, and remember: "The fundamentals of our economy are sound."

In October, the contagion rolled through Britain, Canada, and Europe; it spread to Brazil and across to China and Japan; and—Holy Schmoly—suddenly all of Iceland was melting in bankruptcy! Stay calm, cried an openly panicked chorus of Washington officials, for we're holding some big summit meetings soon and consulting our Ouija boards, and...uh...ah...um...y'all just keep clinging to the thought that "the fundamentals of our economy are sound."

Laissez Fairies

You don't have to be in Who's Who to know What's What, do you? The fundamentals are NOT sound.

Wall Street and Washington (excuse the redundancy there) want us commoners to believe that this viral spread of economic grief was caused by those lower-income homeowners who couldn't pay their subprime loans—merely an unforeseeable glitch in a complex and otherwise healthy financial system. Hogwash. The source of today's pain is the same as it was in America's previous financial collapses: the unbridled greed of economic elites, enabled by their political courtesans in Washington.

This unbridling has been the long-sought goal of a cabal of deregulation ideologues who dwell in laissez-fairyland. During the past two

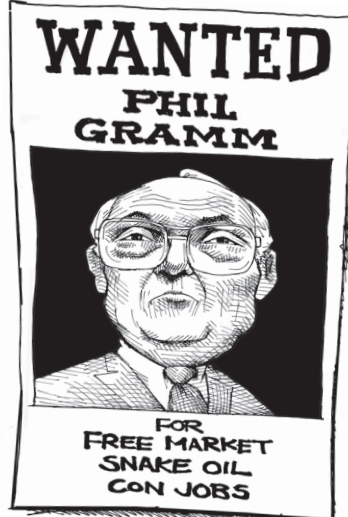
decades, they have relentlessly pushed their economic fantasies into law. Their theory was that (to use Ronald Reagan's simple construct) "the magic of the marketplace" would create an eternal rainbow of prosperity through financial "innovation"—if only the market was unshackled from any pesky public regulations. What the dereg theorists missed, however, is that magicians don't perform magic. They perform illusions.

Let's meet some of the illusionists who are directly responsible for hurling you, me, America, and most of the world into this dark and as-yet unplumbed economic hole.

SNIDE, SOUR, and sanctimonious, this former senator from Texas is now head lobbyist for the Swiss-based banking giant, UBS, as well as chief economic adviser for his old chum John McCain. A bathed-in-the-blood, footwashing, free-market absolutist, Gramm advocates a virulent brand of antigovernment, market-knows-best, Rambo capitalism.

In 1999, as chair of the Senate Banking Committee, he had the power to implement some of his cockamamie dogmas. First, he pushed through a bill to dissolve the 1933 Glass-Steagall Act, a New Deal reform that prohibited banks, investment houses, and insurance companies from combining into one corporation. By keeping these components of our financial system separate, Glass-Steagall made sure that the crash of one of them would not bring down the other two. But a number of Wall Street banks, led by what would become Citigroup, saw a profit windfall for themselves if only they could scuttle the old law and merge banking, investment, and insurance into huge financial conglomerates. The senator was their ideological soul mate, and he was delighted to rig the system for them.

On November 12, 1999, a gloating Gramm celebrated having sledgehammered the regulatory walls that separated the three financial functions:



MASS MEDIA IGNORE THE MASSES

The MBAs and corporate bean counters who run America's newspapers these days blame the internet, fickle advertisers, America's education system, unions, and even you and me—aka, the “stupid public”—for the ongoing decline in readership. There is, however, one group they steadfastly refuse to blame: themselves.

Thumb through the typical newspaper and chances are you won't find yourself in it. Not you personally, but working stiffs, regular folks, the hoi polloi. News corporations are in the business of mass media, yet they virtually ignore the masses, which just might be the big reason the masses increasingly ignore newspapers.

Last year, the *Washington Post* ran a front-page story asking why the public is “gloomier than the economy.” Not a single worker was interviewed! No mention of declining wages, lack of health-care coverage, busted pension plans, or other real reasons that real people might feel a bit gloomy.

Also last year, the *New York Times* printed a story about the strength of the job market. Corporate representatives were interviewed—but not a single worker. Likewise, the *Wall Street Journal* did a piece decrying the fact that the promotion of free-trade deals keeps meeting “stiff resistance from organized labor.” No workers or labor reps were asked for their views.

The real bias of the media is not to the left or right, but in favor of the thin strata of economic elites at the top of our society. So it's no wonder that the workaday majority is seeking other sources of news.

2

Hightower Lowdown

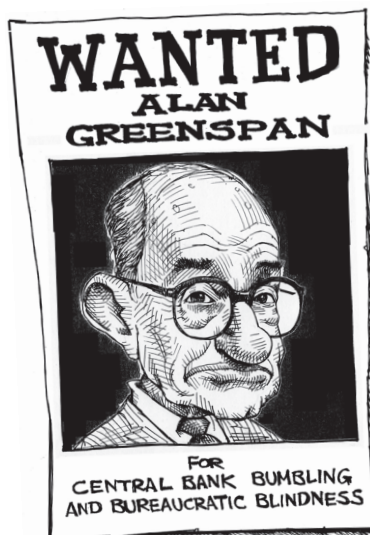
November 2008

“We are here today to repeal Glass-Steagall because we have learned that government is not the answer. We have learned that freedom and competition are the answers. We have learned that we promote economic growth and we promote stability by having competition and freedom. I am proud to be here because this is an important bill; it is a deregulatory bill. I believe that's the wave of the future, and I am awfully proud to have been a part of making it a reality.”

But repealing Glass-Steagall was only step one for this free-market holy roller. In literally the dead of night, just before Congress's Christmas break in 2000, Chairman Gramm snuck a short provision into an 11,000-page appropriations bill. The item, which only a few lobbyists and lawmakers knew had been inserted, became law when the larger bill was signed by then-President Bill Clinton. Gramm's little legislative sticky note decreed that a relatively new, exotic, and inherently risky form of investments called “derivatives” were not to be regulated—or even monitored—by the government.

It should be noted here that Democrats were also butt-deep in the dereg orthodoxy. Such Wall Street sycophants as Sen. Chuck Schumer (D-NY) had drunk deeply from the holy cup of derivatives deregulation, and Clinton's top economic advisors Robert Rubin (formerly with Goldman Sachs and now with Citigroup) and Lawrence Summers (also a veteran of Wall Street) were in harness with the Republicans on this effort.

By 2008, the freewheeling derivatives market, including derivatives based on those lowly subprime housing loans, bloated to a stunning \$531 trillion. That's 531 followed by 12 zeroes! These little-understood, essentially secret investment schemes came to dominate our entire financial system—and when thousands of regular folks began defaulting on their subprime loans, the derivatives based on them essentially became worthless. Investment houses, which were up to their corporate keisters in these funny-money subprime derivatives, began collapsing, and the now-interlocked banks and insurance companies began tumbling down with them. Gramm's deregulatory “wave of the future” had become a financial tsunami.



THIS GUY'S MUG should be on wanted posters in every post office in America. As Federal Reserve chairman from 1987 to 2006, he held the regulatory power to prevent the irrational inflation of the huge derivatives bubble that has now burst—yet he fought fiercely through four presidencies to prevent even the meekest oversight by the Fed or any other agency. Nicknamed “The Oracle,” Chairman Greenspan was inscrutable and arrogant, but he also possessed a detailed knowledge of financial minutiae and an air of superiority that simultaneously bedazzled and intimidated presidents, lawmakers, and other public officials.

However, not everyone was sanguine about the chairman's reliance on derivatives as the pillar of Wall Street's financial strength. Many wise heads viewed these financial

“products” as speculative mumbo-jumbo. Billionaire financier George Soros says his firm never invested in them “because we don't really understand how they work.” Investment banker Felix Rohatyn described them as “hydrogen bombs.” Back in 2003, investment guru Warren Buffett called them “financial weapons of mass destruction” that were “potentially lethal” for our economy.

But Greenspan's voice was the most powerful, and he was both a determined bureaucratic protector and an exuberant cheerleader for derivatives. Meanwhile, wealthy investors worldwide were making a killing from their investments in these bizarre pieces of paper, and few in Washington were willing even to question The Oracle.

“I always felt that the titans of our legislature didn't want to reveal their own inability to understand some of the concepts that Mr. Greenspan was setting forth,” said Arthur Levitt, a well-regarded Wall Street regulator under Clinton.

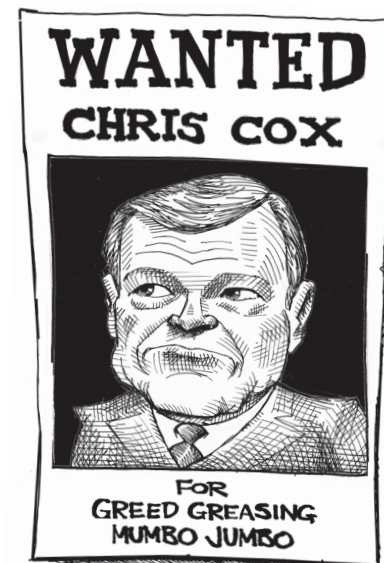
“I don't recall anyone ever saying, ‘What do you mean by that, Alan?’”

So the bubble kept expanding.

Why was Greenspan so insistent on no regulation? Because he is the hardest of hardcore laissez-faire ideologues, holding a blazing disdain for government. An avowed worshiper of libertarian novelist Ayn Rand, he views public oversight of business as an evil force that deters the creativity of smart elites. He is so psyched by his religious-like faith in the “free market” that he fervently believes in what he considers to be

AGOP MEMBER of Congress for 17 years, Cox was another deregulation diehard and a reliable advocate for Wall Street's pampered CEO class—a role he continued to play after Bush chose him in 2005 to succeed Donaldson as SEC chair. At the commission, he weakened the ability of the enforcement staff even to investigate securities violations by Wall Street firms, much less prosecute them. Also, in an act of pure ideological folly, he eliminated an office that had been set up specifically to watch out for future problems with such high-risk investments as derivatives.

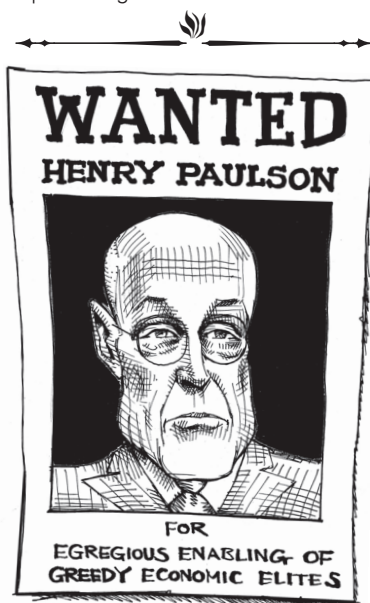
In essence, he took the cops off the beat at the very time more cops were needed. In October, when the stuff was hitting the fan, a chagrined Cox offered this brilliant insight:



“The last six months have made it abundantly clear that voluntary regulation does not work.” Thanks, Chris.

the innate good will and moral superiority of investors and bankers. He asserts that these self-interested individuals can simply be trusted to do the right thing, and that government should not second-guess their decisions.

Even the faith of snake handlers is not as devout as Greenspan's. Unfortunately, however, he was able to hitch our nation's economic well-being to his own absurdist ideological fancy. The guy who was lionized as the smartest, most-stable economic thinker in the land essentially turns out to have been a quasi-religious nut.



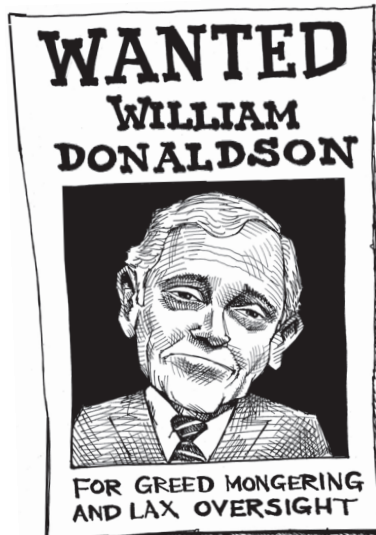
AS HONCHO of Goldman Sachs, Hank drew a \$37 million paycheck the year before Bush waved him into the Treasury Department to oversee the whole U.S. economy. At Goldman, he was considered one of Wall Street's "smart guys" who had figured out how to make billions in brokerage fees by packaging and selling these wondrous pieces of wizardry called derivatives, and he

THE SECURITIES and Exchange Commission supposedly regulates investment banks, and in 2004 it was headed by—guess who?—a Wall Street investment banker, Bill Donaldson. On April 28 of that year, he presided over a little-noticed SEC meeting held in the commission's basement to consider an obscure rule change urgently requested by the Big Five investment banks (including Goldman Sachs, then headed by Henry Paulson—yes, the same treasury secretary who just designed George W's Wall Street bailout). The bankers wanted an exemption from a sensible requirement that they keep a sizeable pool of money on hand to cover potential losses. Turn these reserve funds loose, pleaded the bankers, so we can put more of our investors' money into this opaque but lucrative area known as derivatives.

After less than an hour of discussion, Donaldson and his four SEC colleagues voted unanimously to do this favor for the bankers. As a bonus, the generous commissioners also decided to let the banks themselves monitor the level of risk they were putting on investors—and ultimately on the backs of taxpayers.

came into government as an unquestioning believer in deregulatory doctrine. Now that deregulated derivatives have turned out to be so much hokum, Hank's in charge of the bailout—and his former firm is in line to get at least \$10 billion from it.

The Paulson bailout plan is flawed in many awful ways, but start with this basic one: the money (some estimates now put the total taxpayer cost above \$2 trillion) is being handed to the same schemers and finaglers who caused the crash. The public gets to contribute the funds, but it gets no seat at the table to



In this one meeting, which was not covered by the media, the dereg geniuses had struck another major blow for banker recklessness, and the likes of Bear Stearns, Lehman Brothers, Merrill Lynch, and others were sent further down the giddy path to their—and our—ruin. "The problem with such voluntary [regulations]," said Roderick Hills, Gerald Ford's former SEC chairman, "is that, as we've seen throughout history, they often don't work." Duh!

decide how the system (and who in it) will be "rescued."

With typical antigovernment extremism, Paulson's plan makes the public passive investors in the banks we're saving, leaving all the say-so to the banks' current executives and directors. Our money is being given away by the Bush ideologues with no strings attached—not even a requirement that it go into new loans so credit can quickly flow into the American economy again! Excuse me? Unclogging that credit flow was Paulson's rationale for giving \$125 billion to nine giant

WHO'S WHO IN THE BAILOUT GAME

With bankruptcies, bailouts, and forced mergers roiling Wall Street's financial institutions, it's hard to tell the players without a scorecard. So here's today's lineup of some of the biggest players, measured by the only way that Wall Street keeps score: money.

Leading off is Richard Fuld, CEO of now-dissolved Lehman Brothers. In his eight years as honcho, he took home nearly \$500 million dollars, including \$70 million he got last year as his company was collapsing. He now says he feels "horrible" about the whole mess—but not about his millions, or the four luxury homes he continues to enjoy.

Next up is Goldman Sachs. This venerable investment bank had to restructure itself in September in order to gain access to federal funds. It needed the tax money, in part, because three of Goldman's executives scored big last year, drawing around \$56 million each.

Then there's AIG, the insurance behemoth whose debts cost us taxpayers \$85 billion in bailout funds. Even as the company was going down, the CEO got AIG's board to waive pay guidelines so top executives could grab an extra \$5 million in bonuses.

Finally, consider "Hammering Hank" Paulson, George W's treasury secretary, who designed the Wall Street bailout. Hank was CEO of Goldman Sachs for four years, during which he pocketed \$111 million in pay.

The White House and Congress say the bailout bill limits the pay of CEOs who get taxpayer funds. But the bill has a couple of supersized loopholes. First, the limit applies only

—continued on page 4

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—continued from page 3

to a few banks that the government will actually take over, not those it simply bails out. Worse, the CEO pay restriction does not affect existing pay arrangements. So top honchos who have been wallowing in obscenely high pay packages can continue getting those riches.

CREDIT CARDHOLDERS' RIGHTS

It's hard to feel much love for bankers, but they're sure not helping themselves right now. Even as they've been clamoring for us taxpayers to give them a massive bailout, they've been lobbying furiously in Washington to kill a bill that would make them give us a small break.

It's called the "Credit Cardholders' Bill of Rights," and it would put a halt to some of the nastiest tactics that these credit-card hucksters use against their own customers. For example, they now jack up the interest rate on our cards overnight whenever they feel like it and without advance notice. The Bill of Rights, however, would require them to tell us 45 days in advance.

Another gouge is those late fees. Many times, your monthly bill arrives only a few days before it's due. If you're ill, traveling, or otherwise unable to jump right on it, you're socked with a hefty late fee. Rather than mailing our bills only 14 days before the due date, as banks now do, the Bill of Rights requires that they mail bills to us 25 days before they're due.

Despite the banks' army of lobbyists, the Credit Cardholders Bill of Rights has passed the House and is pending in the Senate. For information, contact Consumer Federation of America: 202-387-6121.

4

banks (Bank of America, Citigroup, JPMorgan Chase, Wells Fargo, Goldman Sachs, Morgan Stanley, Bank of New York, and State Street). He now says he "hopes" the banks will use the money to make loans, but he refuses to require them to do so.

Meanwhile, bankers themselves say they are more likely simply to sit on the money for awhile or—get this—use it to buy up smaller competitors! Yes, that means that our tax dollars will go toward eliminating competition in America's banking market. Not only will this leave consumers and businesses with fewer choices, but this will also increase the size of poorly managed megabanks that have already been designated by the Bush-Paulson regime as "too big to fail."

Laissez-faire follies

One positive to come from this collapse is that it exposes the bankruptcy of several core ideas that have been pushed by free-market illusionists. For example, market infallibility—the notion that Wall Street investors, analysts, and bankers know more than anyone else, and the government (aka the public) should just get the hell out of the way and behold unfettered genius at work. So, behold. (And, by the way, these are the exact same people who only months ago were insisting that Americans would be so much better off if they would move their Social Security money from government hands to the more adventuresome wizards of Wall Street.)

Yet, those bankers and politicians who pushed this antigovernment ethos to today's disastrous conclusion remain delusional. They cry for trillions of our tax dollars, but they insist that the profiteers must control the bailout and remain free of

public supervision. George W himself still sticks with fantasy over reality, claiming that the fundamentals of the system are sound and that it is "essential" that any reforms not interfere with the "free market."

It's been a scream to hear these devout market ideologues explain how they've just become Wall Street socialists. Having big, bad government buy up the failed investments, then partially nationalize America's financial system, is an unwelcome choice for Bush. "I frankly don't want the government involved," he said. "It was necessary." Bailout chief Paulson (dubbed "King Henry" by *Newsweek*) said, "We regret having to take these actions"—but they're necessary.

Why necessary? Because laissez-faire ideology is a crock. It failed. Americans are not being told the blunt truth, which is that the financial mess we're in today is a direct result of the laissez-faire fraud that Wall Street and Washington willfully

What are these things?

DERIVATIVES AMOUNT TO A CASINO GAME. They are pieces of paper whose only real value is derived from the anticipated value of some other tangible asset—such as mortgages on people's homes. Wall Street banks buy up millions of these pieces of paper from local lenders, package them into inscrutable securities called derivatives, add a nice profit margin, and sell them to wealthy individuals, foreign governments, pension funds, etc.

The derivatives sold by Wall Street are actually bets that something will happen. Thus, in the case of mortgage-based derivatives, investors placed bets that the value of the homes underlying the pieces of paper they had bought would keep increasing and that homeowners would keep making their monthly mortgage payments. Millions weren't able to, and BLAMMO!—the bubble burst.

But the financial crash wasn't the fault of struggling, low-wage working folks who weren't able to meet their obligations. That's a cynical lie now being pushed by right-wing corporate apologists. Note also that the derivatives game created by Wall Street smarties is based not only on mortgages, but also—and much more—on the future value of everything from commodities like oil and pork bellies to shares of stock and the weather (yes, there are even derivatives based on which way the wind will blow).

imposed on our nation. CEOs and banking lobbyists, presidents and treasury secretaries, regulators and lawmakers (of both parties) failed to protect America from money-grubbing bankers, hedge-fund speculators, and other big players.

As we've learned in the past few weeks, there is no "free" market. Indeed, it's quite pricey when it trips and falls over the inevitable outcroppings of greed. That's why strong, vigilant, and aggressive public regulation is essential. Don't be fooled by claims that just throwing money at the hucksters will fix the problem. The only way to make America's financial system trustworthy is to return to the sound fundamentals of public oversight—starting with the bailout itself.

ELECTION LOWDOWN

This issue of the Lowdown went to press before the election. For Hightower's lowdown on this momentous event, go to:

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- 2 Mass media ignore the masses
- 3 Who's who in the bailout game
- 4 Credit cardholders' rights