The Hightower LOWDOWN

Edited by Jim Hightower and Phillip Frazer ◆ Vol. 11 No. 4 ◆ April 2009

"A man convicted of stealing $20 from a toddler's piggy bank has been sentenced to six years in prison"

—*ASSOCIATED PRESS*, Sheboygan, WI September 19, 2008,

From the frontlines of the global financial meltdown:

Q: What made Wall Street implode? *A:* They were making too much money to stop

DID YOU HAVE A PIGGY BANK when you were a child? Mine was a cheery, round pig—made of brown pottery, as I recall. For parents of that time, having their children feed pennies, nickels, and the occasional dime into these toy banks was a sweet lesson in frugality—a Kodak moment for many families.

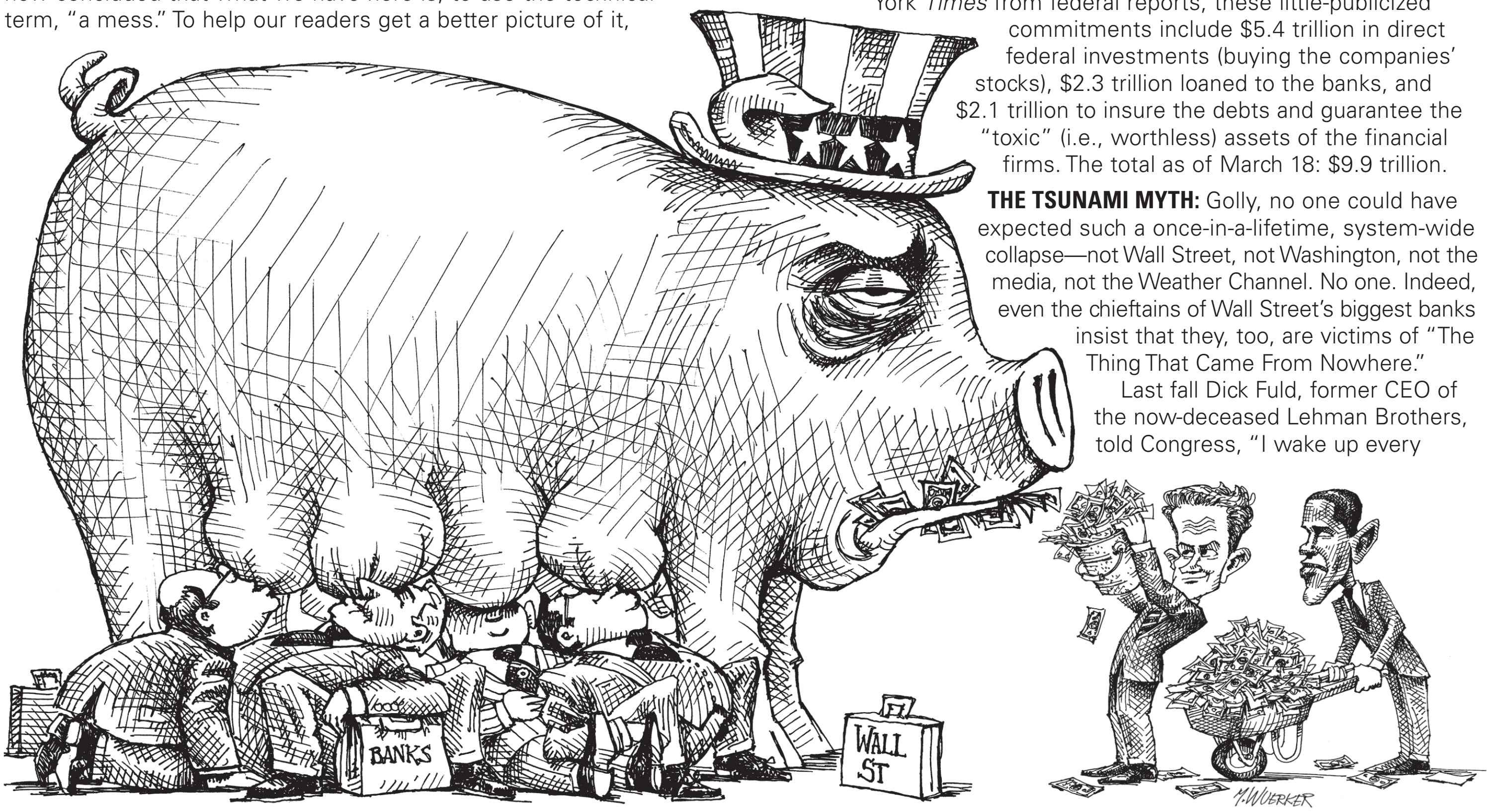
Today, though, the term "piggy bank" has a wholly different connotation. America's leaders are stuffing trillions of our tax dollars into such voracious Wall Street piggies as Bank of America, Citigroup, and Goldman Sachs, and there's nothing sweet about it. Each day's news seems to bring ever more horrific stories of greed, incompetence, arrogance, excess, deceit, numbskullduggery, and inconceivable nincompoopery about this ongoing taxpayer bailout and exploding financial crisis.

After studying various theoretical models and applying careful mathematical analyses, the world's finest economic thinkers have now concluded that what we have here is, to use the technical term, "a mess." To help our readers get a better picture of it, this issue of the *Lowdown* offers some facts and tidbits, sets forth some Q & As, exposes a myth or two, explores a couple of reasons the stuff has hit the fan, calls out some culprits, and suggests a few steps towards financial sanity. Let's get started!

BIG FACT #1: Most people think the Wall Street bailout now totals almost $1.5 trillion because, as widely reported, Congress put in $700 billion last year and Obama is seeking to add another $750 billion this year. That's a lot of money, but many, many more of our tax dollars have been committed to Wall Street through the backdoors of the Federal Reserve system and the Treasury Department. As tallied by the New York *Times* from federal reports, these little-publicized commitments include $5.4 trillion in direct federal investments (buying the companies' stocks), $2.3 trillion loaned to the banks, and $2.1 trillion to insure the debts and guarantee the "toxic" (i.e., worthless) assets of the financial firms. The total as of March 18: $9.9 trillion.

THE TSUNAMI MYTH: Golly, no one could have expected such a once-in-a-lifetime, system-wide collapse—not Wall Street, not Washington, not the media, not the Weather Channel. No one. Indeed, even the chieftains of Wall Street's biggest banks insist that they, too, are victims of "The Thing That Came From Nowhere."

Last fall Dick Fuld, former CEO of the now-deceased Lehman Brothers, told Congress, "I wake up every



PUT THE "PUBLIC" BACK IN PUBLIC SAFETY

In March 2008, the official inspector's report unequivocally concluded, "The overall food safety level of this facility was considered to be: SUPERIOR."

The facility in question was the Peanut Corporation of America's processing plant in Georgia —the very one that then shipped salmonella-contaminated products all across America last year, killing nine people and sickening more than 22,000.

How could the inspector not see that a factory was alive with deadly salmonella? The inspection system is grossly flawed, and in this case, there were several disastrous shortcomings. Corporate officials were given advance notice that the inspector would be coming, he was allowed only one day to check a plant that handles millions of pounds of peanuts a month, and this inspector's expertise is in fresh produce, not goobers —he didn't even know that salmonella can thrive in peanuts. Besides, he was not required to test for salmonella.

Sheesh! Is this the best we can expect from our government's food-safety system? Uh…well, that's another problem. You see, the inspector doesn't work for the public. Instead, he works for a private food-safety audit firm. He gets his inspection gigs by soliciting food processors directly, and the processors pay his salary. Cozy, no?

More than 200 companies are in business doing safety audits for food processors. Because Washington has privatized government work and slashed federal inspection budgets, these for-profit companies now perform the bulk of America's food-safety inspections—

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single night thinking, 'What could I have done differently?'" His answer: Nothing. Likewise, the former honcho of the former Bear Stearns, Alan Schwartz, says that he often asks himself, "If I'd have known exactly the forces that were coming, what actions could we have taken beforehand to have avoided this situation?" His answer: "I just simply have not been able to come up with anything."

Bovine excrement! These guys and their peers, who once were dubbed "masters of the universe" by the fawning business media, were paid to know—Fuld, for example, averaged annual paychecks of $70 million during the five years before Lehman imploded.

Not only did they know, they invented the scam that caused the tsunami by reducing most of the world's business investments to computerized trading in bets, irredeemable promises, commoditized debts, puffs of air, and other figments of financial imagination. Furthermore, they are the ones who dispatched lobbyists and authorized disbursements of campaign cash to persuade Washington to create the "dark market" that allowed them to play their lucrative casino games without public scrutiny, much less regulation.

As William Cohan, author of *House of Cards*, wrote in a March 12 New York *Times* op-ed, "Enough already with the charade of Wall Street executives pretending not to know what really happened and why. They know precisely." The details of their scandalous money scheme are complex, but its origin is simple: greed. They were making too much money to stop.

TIDBIT: In 1993, Nobel-winning economist George Akerlof co-authored an academic paper that was given an unusually straightforward title: "Looting." The authors analyzed some of the financial disasters of the 1980s, concluding that capitalist profiteers had taken ridiculous risks because they knew that when their overreaching finally created a bust, the government would step in to socialize the losses. Akerlof predicted that the next source of huge financial looting would come from an obscure Wall Street scheme that was just getting started: credit derivatives. Sure enough, these are the pieces of digital junk that once-staid Wall Street banks have so aggressively hustled in subsequent years, drawing tens of trillions of dollars from global speculators seeking quick and easy pots of gold. Ultimately based on nothing but a fiction (in particular, the assertion that housing values only go up), the derivatives bubble burst…and so has our economy.

ZOMBIES: Unlike the stiffs in old horror movies, these "walking dead" are real. They include Citigroup, Bank of America, and other once-vigorous entities that continue to function but are financially kaput. Their debts far surpass the real value of their assets, and they are "alive" only because they are embalmed with your and my money.

Consider Citigroup, the laissez-fairyland financial conglomerate literally created by the permissive deregulation policies of the past decade. Two years ago, it was the world's largest banking empire, and its stock was selling for nearly $56 a share. Now, it is a shell of its former self, and you can buy a share of its stock for less than the fee charged to use one of the bank's ATMs.

Last month, Citi's CEO excitedly announced that the corporation operated at a profit in January and February. Wow—it just shows what an enterprising Wall Street financier can achieve through hard work, ingenuity, perseverance…and about $345 billion in taxpayer bailout funds!

MORE BIG FACTS: Wall Street investment barons put $17 million into Obama's 2008 campaign. His largest corporate contributor ($980,945) was Goldman Sachs, which so far has received $22.9 billion in federal bailout funds. Of Obama's 20 largest campaign donors, five were Wall Street firms.

More than half of John McCain's top 20 money backers were Wall Streeters (including all of his five largest donors—Merrill Lynch, Citigroup, Morgan Stanley, Goldman Sachs, and JPMorgan Chase—each of which got huge bailouts).

QUESTION: What is the proper term for the $182 billion bailout of global insurance behemoth AIG

ANSWER: "Money laundering." Tens of billions of these dollars were actually backdoor bailouts for AIG-insured losers in the wacky game of derivatives trading.

The whole Wall Street-Washington establishment tried to keep this a secret for months, but leaks happen, and public anger finally forced AIG to reveal the names of some of the financial giants that were the real recipients of more than half of the money in the first phase of the insurer's bailout. Goldman Sachs, Merrill Lynch, Wachovia, Bank of America, JPMorgan Chase, and Morgan Stanley were on the list, but the big surprise was that this pass-through of our tax dollars went mostly to foreign banks. Thirteen of the 20 largest recipients were from abroad, including the biggest winner, Sociètè Gènèral of France, which was paid $11 billion.

Whether foreign or domestic, these were not innocent victims of a financial collapse, but reckless speculators whose game playing caused the collapse. Having lost, they then demanded that their friends in Washington make them whole through AIG's secretive bailout.

MYTH OF CONTRACTUAL SANCTITY: In their efforts to restrict the insane levels of Wall Street pay and bonuses, the Obamacans keep transforming into Obama-can'ts. These pay levels are "outrageous," wailed top economic advisor Larry Summers, and Treasury honcho Timothy Geithner decried them as "out of whack"—but, alas, they shrugged, the exorbitant pay is stipulated in the executives' existing employment contracts, and, of course, those are inviolate, so our hands are tied.

Huh? Corporate executives routinely abrogate employment contracts they sign with workers. It was only last December, for example, that Congress demanded that chieftains of America's car companies simply tear up the wage, health-care, and pension contracts they had with United Auto Workers. Yet, suddenly, we're to believe that executive contracts are so sacrosanct that even the president of the United States must stand impotently by while our public treasury is robbed? Come on, there are amoebas with more backbone than that!

SAVE-THE-BONUSES CAMPAIGN: In the face of today's public rage over Wall Street avarice and arrogance, surely no politician is defending

Do Something!

For more information, check out the following websites:

- ***Bailoutwatch.net:*** A collaborative project by Center for Economic Policy Research (*cepr.net*), Economic Policy Institute (*epi.org*), OMB Watch (*ombwatch.org*), Project on Government Oversight (*pogo.org*), and Taxpayers for Common Sense (*taxpayers.org*) that will launch during the month of April.
- ***Wallstreetwatch.org***
- ***Peopleslobby.us.com***

such executive excess. Wrong! Rudy Giuliani is standing tall for banker bonuses, declaring that eliminating these multimillion-dollar paydays for Wall Street elites "really will create unemployment."

It's all about the little people, explained the former New York mayor. Rudy almost teared up as he talked about how those elites generously spend money that trickles down to waiters and dishwashers in swank restaurants, to clerks at Tiffany's and Gucci, and even to gardeners and garbage collectors out in the Hamptons.

Hizzoner is propounding classic "horse-and-sparrow economics:" Let horses gorge on all the oats, and some of the grain will pass through to be deposited on the street for the sparrows to peck out.

QUESTION: Why not just nationalize these failed financial firms?

ANSWER: We have.

Taxpayers are by far the biggest shareholders of Citigroup, Bank of America, and other outfits that have plunged into insolvency. We the People, for example, own nearly 80% of AIG. The problem is that Obama and Team are so scared of being hit with the "S-Bomb" (socialism!) that they refuse to exercise the basic rights of ownership on our behalf.

Start with the right to run the place. It's absurd that Obama keeps sticking with the same Wall Streeters who made the mess, not only letting them keep their jobs, but even subjecting himself to the embarrassing spectacle of paying "retention bonuses" to these management failures.

Not only is it morally wrong for the incompetents, creeps, and crooks to be in charge, but it also doesn't work, for they continue their bad habits. How ridiculous, for example, that chuckleheaded AIG exectives (of whom 73 got million-dollar bonuses to stay on the job) refused to release the names of banks getting pass-through bailouts from the insurer because that list was "proprietary information." As Rep. Carolyn Maloney fairly shouted in frustration at AIG's honcho, "We are the proprietors now. Taxpayers own the store, and we should be able to see the books."

Obama's first move should have been to demand the resignations of every bailed-out executive involved in the credit-derivatives scam that brought the system down, cleaning house to keep them from doing more harm. America has an abundance of banking expertise—what we need are banking ethics. The twin goals of our bailout should be straightforward: **(1)** save the banks, not the bankers; and **(2)** protect the public good, not the private greed of shareholders who knowingly rolled the dice on high-risk bets but now want us to socialize their losses.

We own these banks, and we should take them over. That would allow for an honest, public accounting, followed by a thorough restructuring so banks operate as banks (i.e., lenders), not as casinos for wealthy speculators. Then, as the system regains a solid footing, the government can start selling its stock to new investors and recoup at least part of what the public laid out to clean up the system.

COZY CONNECTIONS: Robert Rubin was CEO of Goldman Sachs in the early 1990s, when the credit-derivatives monster was just a pup. He then became Bill Clinton's treasury secretary and an ardent advocate for totally exempting this puppy from any regulation. Congress went along, and Clinton signed the legislation that Rubin championed.

In 1999, Rubin returned to Wall Street as a senior executive of Citigroup, where he tied the conglomerate's future tightly to the fast-growing derivatives market. Bad decision. That house of cards collapsed, leading Citigroup to lose practically all of its stock value, fire 73,000 employees, begin dismembering its conglomerate parts, and cry for a taxpayer rescue.

With the advent of the Obama presidency last November, Rubin had highly placed shoulders to cry on. For one thing, he had been a fundraiser and advisor for Obama. For another, Larry Summers (Rubin's former deputy secretary in Clinton's Treasury Department) was about to become head of the White House's National Economic Council. In addition, Tim Geithner, Rubin's protégé in the world of high finance, was shifting from the top spot at the Federal Reserve Bank of New York (where he had orchestrated some of the rescues) to become the nation's bailout czar.

Name those greedheads!

LAST MONTH, I asked my radio listeners to come up with new words to describe the abominable sense of self-entitlement that presently afflicts Wall Street bankers. I noted that terms like "greedy," "shameful," and "narcissistic" were way too mild to do the job. Here are a few of their creations (excluding numerous four-letter offerings):

- ***Banksters***
- ***Snout-n-troughers***
- ***Greasels***
- ***Megalomoneyacs***
- ***Mammonists***
- ***SocioMBApaths***
- ***Gruppies***
- ***Leechengrubbers***
- ***Avaricetocrats***
- ***Conivoraceous***
- ***Amoral rapacious financial terrorists***
- ***Sons of syphilitic goats*** (apparently a severe insult in the Middle East)
- Then there's the fellow who proposed an existing term—"***psychotic***."

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essentially letting the processors buy a phony seal of approval.

Come on, Congress, come on Obama—let's put the "public" back in public safety. Pronto.

THE MILKMAN DELIVERS

The most amazing thing to me about Robert Holding, a milkman in Lancashire, England, is not that he was delivering little packets of marijuana to a few of his elderly customers along his milk route—but that the Brits can actually still get home delivery of milk!

Our national postal service says it can't even keep delivering our mail to us six days a week, and here's a 72-year-old milkman still going door to door each day. His little side business was to drop off small bits of cannabis to 17 of his clients who'd left little notes on their stoops alongside their empty bottles, asking, "Can I have an ounce?" "They were old," Holding said, "and had aches and pains," so he kept his profit margin low, feeling he was doing a public service. "They enjoyed it," he says, "They saved a lot of money..."

But after six months as a dealer, our Lancashire milkman was ratted out by someone. British bobbies raided Holding's home, found six ounces of the dreaded weed, and arrested him. Alas, while England's marijuana laws aren't quite as insane as ours, he was sentenced to 36 weeks in prison and given a lecture about the "harm" he'd been doing.

However, after the scolding, the judge noted that Holding's wife has Alzheimer's disease and that he visits her every day in the nursing home, thus the jail time was suspended —provided, of course, that he delivers nothing

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but milk.

Imagine the disappointment of his customers.

CORPORATE CONTROL OF RESEARCH

Little rebellions can achieve big results, and who would've expected one from corn-insect researchers at land-grant universities. These crop-science specialists usually focus on things like rootworms, but 26 of them recently risked their own careers by daring to stand up to such powerhouse genetic seed manipulators as DuPont and Monsanto.

The researchers wrote the EPA charging that biotechnology giants are preventing them from studying and reporting on the effectiveness and environmental impact of the industry's genetically altered seeds. On many crucial questions about the safety of these lab-created crops, wrote the scientists, "No truly independent research can be legally conducted."

Why? Because the corporations' lobbyists and lawyers have rigged the rules so no studies can be done on their altered seeds without their permission, and even then no findings can be published without their okay. In short, those who profit from the spread of these unproven and dangerous seeds have a chokehold on all research to evaluate their impact on our health and environment. The profiteers even have the potential, as one of the rebellious scientists put it, "to launder the data" that EPA relies on to authorize the use of the seeds.

Since these same corporations are now the major funders of university research on biotech crops, it is no small thing for scientists to speak out. As one bluntly says, "People are afraid of being blacklisted."

For information, contact: *organicconsumers.org.*

Sure enough, as Obama swept to victory, Citi was awarded $45 billion in bailout funds and given $300 billion in a federal loan package. After this achievement, Rubin stepped down from his Wall Street position in January, having pocketed $115 million in personal pay.

THE TOO-BIG-TO-FAIL MYTH: In February, eight CEOs from the biggest Wall Street banks were asked at a congressional hearing if they had become too big for their own good—and for the country's good. Silence. They would neither concede the point nor deny it.

The question goes to the core of the bailout...and the problem. We can't let AIG fail, said Wall Street and Washington, because all of the world's financial giants are linked into it. Likewise, said these spouters of conventional wisdom, other global banks are so big that our only choice is to stuff them with tax dollars, too.

Point Number One: The "too big to fail" argument ignores the stark reality that they have failed.

Point Number Two: They didn't get too big because of natural market forces, but because they lobbied Congress to rig the rules so they could literally bloat…and float out of control.

BONUS TIDBIT: A new report by *wallstreetwatch.org* reveals that from 1998 to 2008, the finance industry made $1.7 billion in contributions to Washington politicians (55% to Repubs, 45% to Dems), spent $3.4 billion on lobbyists (3,000 of them were on the industry's payrolls in 2007 alone), and won a dozen key deregulatory victories that led directly to today's financial meltdown.

Inherent in the industry's push for unbridled expansion was the unstated goal of guaranteeing that they would get taxpayer bailouts if things went badly. So many investors, businesses, employees, and others would be hooked into these multi-tentacled blobs that government would be compelled to rescue the banks from their own excesses. Knowing that they could privatize all of the profits from quick-buck schemes and socialize the losses, bankers were unleashed to do their damnedest. Which they did.

What to do now? Federal Reserve Chairman Ben Bernanke is calling on Congress to create a "superregulator" to control the risks that the too-big boys take. Immodestly, Bernanke suggests that the Fed be this overseer. Bad idea, all around.

First, the Fed already has far-reaching watchdog authority that it refused to use as today's crisis built up. We heard no bark and got no bite. Why? Although the Fed has enormous public authority to regulate America's money supply, interest rates, and banks, it is governed by—guess who?—bankers. It operates essentially as a private banking cartel.

Second, and most important, too-big-to-fail is too-big-to-regulate. And too-big-to-regulate means these giants are too big to tolerate. Period. The answer is to split their investment, banking, and insurance functions into separate companies and to revisit America's anti-trust laws to restore competition in each of the three sectors of finance. As *Newsweek* columnist Michael Hirsh put it in an online column in February, "We can't have a free-market economy dominated by institutions so huge that they don't have to play by free-market rules."

WHO'S IN CHARGE HERE? Obama, who said he wasn't elected "to do small things," is in fact playing small ball with this bailout, albeit with very, very big money. He doesn't yet seem to grasp that this is not merely a financial crisis, but fundamentally an explosive political one.

Wall Street and its Washington compatriots have produced a nationwide collapse in public trust. The system—both economic and political—has been stripped of any pretension of fairness. This is not a complex storyline, and people get it: **(1)** Extremely rich, megalomaniacal elites grabbed greedily for one too many buckets of treasure, and they brought the whole financial structure down, crashing it on workers, small businesses, consumers, and everyone else below; **(2)** Millions of real people are hurt; **(3)** Yet the essence of the government's response—under both Bush-Paulson and Obama-Geithner—is to appease and make whole those bankers and wealthy investors who did this to us!

Obama is said to be admirably calm, even cool, when making decisions, and he is known to want reasoned, expert advisors around him. Fine, as far as it goes. What he's facing now, however, is an unreasonable disaster that enrages people way beyond their usual level of distaste for business-as-usual politics. This requires a deeper, extra dimension of leadership: empathy and populist passion.

Obama needs to get mad and show it. He needs to lock Geithner and his group of Wall Street softies in the White House basement. He needs to fire a couple of dozen financial CEOs. He needs to grab this crisis by the horns and take charge.

This is a defining moment for his presidency. Does he have the stuff to stand up to Wall Street elites, to reject the conventional wisdom of the insiders, to overrule his corporate-coddling advisors? So far, no.

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***Q:* WHAT MADE WALL STREET IMPLODE?**
***A:* THEY WERE MAKING TOO MUCH MONEY TO STOP**