

Introduction:

A Call to Arms

by Harvey Rosenfield*

America's economy is in tatters, and the situation grows dire by the day. Nearly 600,000 Americans lost their jobs in January, for a total of 1.8 million over the last three months.

Millions more will lose their jobs over the next year no matter what happens.

Students can no

longer pursue a college education. Families cannot afford to see a doctor. Many Americans owe more on their homes than they are worth. Those lucky enough to have had pensions or retirement funds have watched helplessly as 25 percent of their value evaporated in 2008.

What caused this catastrophe? As this report chronicles in gruesome detail, over the last decade, Wall Street showered Washington with over \$1.7 billion in what are prettily described as "campaign contributions." This money went into the political coffers of everyone from the lowliest mem-

ber of Congress to the President of the United States. The Money Industry spent another \$3.4 billion on lobbyists whose job it was to press for deregulation — Wall Street's license to steal from every American.

In return for the investment of more than \$5.1 billion, the Money Industry was able to get rid of many of the reforms enacted after the Great Depression and to operate, for

most of the last ten years, without any effective rules or restraints whatsoever. The report, prepared by

Essential Information and the Consumer Education Foundation, details step-by-step many of the events that led to the financial debacle. Here are the "highlights" of our economic downfall:

- Beginning in 1983 with the Reagan Administration, the U.S. government acquiesced in accounting rules adopted by the financial industry that allowed banks and other corporations to take money-losing assets off their balance sheets in order to hide them from investors and the public.
- Between 1998 and 2000, Congress and the Clinton Administration repeatedly blocked efforts to regulate

Industry ¹	\$ to Politicians	\$ to Lobbyists
Securities	\$512 million	\$600 million
Commercial Banks	\$155 million	\$383 million
Insurance Cos.	\$221 million	\$1002 million
Accounting	\$81 million	\$122 million

* President, Consumer Education Foundation

¹ Source: Center for Responsive Politics, <www.opensecrets.org>.

- “financial derivatives” — including the mortgage-related credit default swaps that became the basis of trillions of dollars in speculation.
- In 1999, Congress repealed the Depression-era law that barred banks from offering investment and insurance services, and vice versa, enabling these firms to engage in speculation by investing money from checking and savings accounts into financial “derivatives” and other schemes understood by only a handful of individuals.
 - Taking advantage of historically low interest rates in the early part of this decade, shady mortgage brokers and bankers began offering mortgages on egregious terms to purchasers who were not qualified. When these predatory lending practices were brought to the attention of federal agencies, they refused to take serious action. Worse, when states stepped into the vacuum by passing laws requiring protections against dirty loans, the Bush Administration went to court to invalidate those reforms, on the ground that the inaction of federal agencies superseded state laws.
 - The financial industry’s friends in Congress made sure that those who speculate in mortgages would not be legally liable for fraud or other illegalities that occurred when the mortgage was made.
 - Egged on by Wall Street, two government-sponsored corporations, Fannie Mae and Freddie Mac, started buying large numbers of subprime loans from private banks as well as packages of mortgages known as “mortgage-backed securities.”
 - In 2004, the top cop on the Wall Street beat in Washington — the Securities and Exchange Commission — now operating under the radical deregulatory ideology of the Bush Administration, authorized investment banks to decide for themselves how much money they were required to set aside as rainy day reserves. Some firms then entered into \$40 worth of speculative trading for every \$1 they held.
 - With the compensation of CEOs increasingly tied to the value of the firm’s total assets, a tidal wave of mergers and acquisitions in the financial world — 11,500 between 1980 and 2005 — led to the predominance of just a relative handful of banks in the U.S. financial system. Successive administrations failed to enforce antitrust laws to block these mergers. The result: less competi-

- tion, higher fees and charges for consumers, and a financial system vulnerable to collapse if any single one of the banks ran into trouble.
- Investors and even government authorities relied on private “credit rating” firms to review corporate balance sheets and proposed investments and report to potential investors about their quality and safety. But the credit rating companies had a grave conflict of interest: they are paid by the financial firms to issue the ratings. Not surprisingly, they gave the highest ratings to the investments issued by the firms that paid them, even as it became clear that the ratings were inflated and the companies were in precarious condition. The financial lobby made sure that regulation of the credit ratings firms would not solve these problems.

None of these milestones on the road to economic ruin were kept secret. The dangers posed by unregulated, greed-driven financial speculation were readily apparent to any astute observer of the financial system. But few of those entrusted with the responsibility to police the marketplace were willing to do so. And as the report explains, those officials in government who dared to propose stronger protections for investors and consumers consistently met with hostility

and defeat. The power of the Money Industry overcame all opposition, on a bipartisan basis.

It’s not like our elected leaders in Washington had no warning: The California energy crisis in 2000, and the subsequent collapse of Enron — at the time unprecedented — was an early warning that the nation’s system of laws and regulations was inadequate to meet the conniving and trickery of the financial industry. The California crisis turned out to be a foreshock of the financial catastrophe that our country is in today. It began with the deregulation of electricity prices by the state legislature. Greased with millions in campaign contributions from Wall Street and the energy industry, the legislation was approved on a bipartisan basis without a dissenting vote.

Once deregulation took effect, Wall Street began trading electricity and the private energy companies boosted prices through the roof. Within a few weeks, the utility companies — unable because of a loophole in the law to pass through the higher prices to consumers — simply stopped paying for the power. Blackouts ensued. At the time, Californians were chastised for having caused the shortages through “over-consumption.” But the energy shortages were orchestrated by Wall Street rating firms, investment banks and energy companies, in order to force California’s taxpayers to bail out the utility companies.

California's political leadership and utility regulators largely succumbed to the blackmail, and \$11 billion in public money was used to pay for electricity at prices that proved to be artificially manipulated by ... Wall Street traders. The state of California was forced to increase utility rates and borrow over \$19 billion — through Wall Street firms — to cover these debts.

Its electricity trading activities under investigation, Enron's vast accounting shenanigans, including massive losses hidden in off-balance sheet corporate entities, came to light, and the company collapsed within a matter of days. It looked at the time as though the California deregulation disaster and the Enron scandal would lead to stronger regulation and corporate accountability.

But then 9/11 occurred. And for most of the last decade, the American people have been told that our greatest enemy lived in a cave. The subsequent focus on external threats, real and imagined, distracted attention from deepening problems at home. As Franklin Roosevelt observed seventy years ago, "our enemies of today are the forces of privilege and greed within our own borders." Today, the enemies of American consumers, taxpayers and small investors live in multimillion-dollar palaces and pull down seven-, eight- or even nine-figure annual paychecks. Their weapons of mass destruction, as Warren Buffett famously put

it, were derivatives: pieces of paper that were backed by other pieces of paper that were backed by packages of mortgages, student loans and credit card debt, the complexity and value of which only a few understood. Meanwhile, the lessons of Enron were cast aside after a few insignificant measures — the tougher reforms killed by the Money Industry — and Wall Street went back to business as usual.

Last fall, the house of cards finally collapsed. For those who might have heard the "blame the victim" propaganda emanating from the free marketers whose philosophy lies in a smoldering ruin alongside the economy, the report sets the record straight: consumers are not to blame for this debacle. Not those of us who used credit in an attempt to have a decent quality of life (as opposed to the tiny fraction of people in our country who truly got ahead over the last decade). Nor can we blame the Americans who were offered amazing terms for mortgages but forgot to bring a Ph.D. and a lawyer to their "closing," and later found out that they had been misled and could not afford the loan at the real interest rate buried in the fine print.

Rather, America's economic system is at or beyond the verge of depression today because gambling became the financial sector's principal preoccupation, and the pile of chips grew so big that the Money Industry displaced real businesses that provided real

goods, services and jobs. By that time, the amount of financial derivatives in circulation around the world — \$683 trillion by one estimate — was more than ten times the actual value of all the goods and services produced by the entire planet. When all the speculators tried to cash out, starting in 2007, there really wasn't enough money to cover all the bets.

If we Americans are to blame for anything, it's for allowing Wall Street to do what it calls a "leveraged buy out" of our political system by spending a relatively small amount of capital in the Capitol in order to seize control of our economy.

Of course, the moment the Money Industry realized that the casino had closed, it turned — as it always does — to Washington, this time for the mother of all favors: a \$700 billion bailout of the biggest financial speculators in the country. That's correct: the people who lost hundreds of billions of dollars of investors' money were given hundreds of billions of dollars more. The bailout was quickly extended to insurance companies, credit card companies, auto manufacturers and even car rental firms. In addition to cash infusions, the government has blown open the federal bank vaults to offer the Money Industry a feast of discount loans, loan guarantees and other taxpayer subsidies. The total tally so far? At least \$8 trillion.

Panicked by Wall Street's threat to pull

the plug on credit, Congress rebuffed efforts to include safeguards on how taxpayer money would be spent and accounted for. That's why many of the details of the bailout remain a secret, hiding the fact that no one really knows why certain companies were given our money, or how it has been spent. Bankers used it pay bonuses, to buy back their own bank stock, or to build their empires by purchasing other banks. But very little of the money has been used for the purpose it was ostensibly given: to make loans. One thing is certain: this last Washington giveaway — the Greatest Wall Street Giveaway of all time — has not fixed the economy.

Meanwhile, at this very moment of national threat, the banks, hedge funds and other parasite firms that crippled our economy are pouring money into Washington to preserve their privileges at the expense of the rest of us. *The only thing that has changed is that many of these firms are using taxpayer money — our money — to do so.*

That's why you won't hear anyone in the Washington establishment suggest that Americans be given a seat on the Board of Directors of every company that receives bailout money. Or that America's economic security is intolerably jeopardized when pushing paper around constitutes a quarter or more of our economy. Or that credit default swaps and other derivatives should

be prohibited, or limited just like slot machines, roulette wheels and other forms of gambling.

In most of the United States, you can go to jail for stealing a loaf of bread. But if you have paid off Washington, you can steal the life-savings, livelihoods, homes and dreams of an entire nation, and you will be allowed to live in the fancy homes you own, drive multiple cars, throw multi-million dollar birthday parties. Punishment? You might not be able to get your bonus this year or, worst come to worst, if you are one of the very unlucky few unable to take advantage of the loopholes in the plan announced by the Treasury Secretary Geithner, you may end up having to live off your past riches because you can only earn a measly \$500,000 while you are on the dole. (More good news for corporate thieves: this flea-bitten proposal is not retroactive — it does not apply to all the taxpayer money already handed out).

Like their predecessors, President-elected Obama's key appointments to the Treasury, the SEC and other agencies are veterans of the Money Industry. They are unlikely to challenge the narrow boundaries of the debate that has characterized Washington's response to the crisis. So long as the Money Industry remains in charge of the federal agencies and keeps our elected officials in its deep pockets, nothing will change.

Here are seven basic principles that Americans should insist upon.

Relief. It's been only five months since Congress authorized \$700 billion to bail out the speculators. Congress was told that the bailout would alleviate the "credit crunch" and encourage banks to lend money to consumers and small businesses. But the banks have hoarded the money, or misspent it. If the banks aren't going to keep their end of the bargain, the government should use its power of eminent domain to take control of the banks, or seize the money and let the banks go bankrupt. On top of the \$700 billion bailout, the Federal Reserve has been loaning public money to Wall Street firms money at as little as .25 percent. These companies are then turning around and charging Americans interest rates of 4 percent to 30 percent for mortgages and credit cards. There should be a cap on what banks and credit card companies can charge us when we borrow our own money back from them. Similarly, transfers of taxpayer money should be conditioned on acceptance of other terms that would help the public, such as an agreement to waive late fees, and an agreement not to lobby the government. And, Americans should be appointed to sit on the boards of directors of these firms in order to have a say on what these companies do with our money — to keep them from wasting it and to make sure they repay it.

Restitution. Companies that get taxpayer money must be required to repay it on terms that are fair to taxpayers. When Warren Buffett acquired preferred shares in Goldman Sachs, he demanded that Goldman Sachs pay 10 percent interest; taxpayers are only getting back 5 percent. The Congressional Oversight Panel estimates that taxpayers received preferred shares worth about two-thirds of what was given to the initial bailout recipients. Even worse are the taxpayer loan guarantees offered to Citigroup. For a \$20 billion cash injection plus taxpayer guarantees on \$306 billion in toxic assets — likely to impose massive liabilities on the public purse — the government received \$27 billion in preferred shares, paying 8 percent interest. Now the Obama administration has suggested that it might offer a dramatically expanded guarantee program for toxic assets, putting the taxpayer on the hook for hundreds of billions more.

Regulation. The grand experiment in letting Wall Street regulate itself under the assumption that free market forces will police the marketplace has failed catastrophically. Wall Street needs to operate under rules that will contain their excessive greed. Derivatives should be prohibited unless it can be shown that they serve a useful purpose in our economy; those that are authorized should be traded on exchanges subject to

full disclosure. Further mergers of financial industry titans should be barred under the antitrust laws, and the current monopolistic industry should be broken up once the country has recovered.

Reform. It is clear that the original \$700 billion bailout was a rush job so poorly constructed that it has largely failed and much of the money wasted. The federal government should revise the last bailout and establish new terms for oversight and disclosure of which companies are getting federal money and what they are doing with it.

Responsibility. Americans are tired of watching corporate criminals get off with a slap on the wrist when they plunder and loot. Accountability is necessary to maintain not only the honesty of the marketplace but the integrity of American democracy. Corporate officials who acted recklessly with stockholder and public money should be prosecuted and sentenced to jail time under the same rules applicable to street thugs. State and local law enforcement agencies, with the assistance of the federal government, should join to build a national network for the investigation and prosecution of the corporate crooks.

Return — to a real economy. In 2007, more than a quarter of all corporate profits came

from the Money Industry, largely based on speculation by corporations operating in international markets and whose actions call into question their loyalty to the best interests of America. To recover, America must return to the principles that made it great — hard work, creativity, and innovation — and both government and business must serve that end. The spectacle of so many large corporations lining up for government assistance puts to rest the argument made by the corporate-funded think tanks and talking heads over the last three decades that government is “the problem, not the solution.” In fact, as this report shows, government has been the solution for the Money Industry all along.

Now Washington must serve America, not Wall Street. Massive government intervention is not only appropriate when it is necessary to save banks and insurance companies. For the \$20 billion in taxpayer money that the government gave Citigroup in November, we could have bought the company lock, stock and barrel, and then we would have our own credit card, student loan and mortgage company, run on careful business principles but without the need to turn an enormous profit. Think of the assistance that that would offer to Main Street, not to mention the competitive effect it would have on the market. And massive government intervention is what’s really needed in the health care system, which

private enterprise has plundered and then for so many Americans abandoned.

Revolt. Things will not change so long as Americans acquiesce to business as usual in Washington. It’s time for Americans to make their voices heard.

