

INSIGHT

Opinion, Editorials and more

Book section inside

A surprising bio of Henry David Thoreau, father of modern environmentalism.

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Alex Wong / Getty Images

Bailout psychology

Geithner, Obama and the banks keep talking about a credit crisis. But Sean Olender says there isn't one.

FROM THE COVER

WHAT THEY SAID

It's not all just a crock



Lance Iversen / The Chronicle 2002

"I'm a Crock-Pot guy. It's one of the great all-time wedding presents. Everyone laughs when they get it, and then they use it all the time."

John Burton, former state Senate leader, on his wedding gift to Gavin Newsom and Jennifer Siebel Newsom.



Steve Yeater / Associated Press 2008

"Three renegade school board members are playing games with the lives of our students."

State Assemblywoman Fiona Ma, D-San Francisco, during a hearing on her bill that would force San Francisco to reinstate JROTC in high school.



Saul Loeb / AFP / Getty Images

"We're starting to see some restoration of America's standing in the world."

President Obama, at a news conference at the G-20 Summit.

BAILOUT PSYCHOLOGY



Mark Wilson / Getty Images

Treasury Secretary Tim Geithner would say taxpayers must "help" so stockholders get the "right" price.

It's a phony crisis — sever the lifelines

By Sean Olender

President Obama must stop the bailouts and start the prosecutions. It's time to focus on anti-poverty programs to protect the growing unemployed from hunger and homelessness. Stealth payments to billionaire bondholders must cease immediately.

Since the mid-1970s, average Americans' wages have stayed flat when adjusted for inflation. Productivity rose, profits rose, but not wages. To compensate for stagnant wages and the desire to consume more each year, Americans worked more, retired later, spouses went to work, and many burned savings. Then they started borrowing. Debt became America's growth industry.

The scheme collapsed because Americans' wages weren't sufficient to pay the interest on existing debts. The only way out of this is to tighten our belts and pay down debt, the opposite of what our bank-owned government is advising.

The administration and the banks keep talking about a credit crisis, but there isn't one. Banks are lending. If you want a mortgage and can afford to pay it back, you can borrow at low rates today. You can finance a car at low rates for seven years. But most Americans don't want more debt because it is a debilitating path to poverty. The average American family already pays 14 percent of annual income in interest to banks.

To fix this fake crisis, there are fake discussions about what the government must do. The endlessly recycled plan to buy "troubled" assets isn't to get banks lending again, because they haven't stopped lending. The plan seeks for taxpayers to buy worthless assets at high prices to absorb rich investors' losses. That's it. It keeps coming back as a different plan, but with that same goal. There is no goal beyond that one goal: keep rich people from taking losses.

Obama and his economic gurus all chant, "Credit is

the lifeblood of the economy," but they don't mean credit. They mean debt. Imagine the president saying, "Debt is the lifeblood of our economy. We desperately need to get more American families deeper in debt." That's what he means, and that's what these bailouts hope to do.

In a Sept. 14 article in this newspaper, I noted that banks push senators, with the blessing of the administration, to introduce bills that are bailouts, but disguised to appear not to be bailouts. The goal is to accomplish the desired result without risking your bought-and-paid-for representative.

Imagine you bet \$500,000 on a stock and it dropped to \$20,000. If you owned Treasury Secretary Tim Geithner, he'd get on TV and explain that if the government didn't buy your shares for \$500,000, the economy would suffer because you couldn't invest anymore. He'd

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FROM THE COVER

BAILOUT PSYCHOLOGY



Mark Wilson / Getty Images

Obama and his economic gurus all chant, "Credit is the lifeblood of the economy," but they mean debt.

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say the "free market" isn't pricing the stock "right," and we have to "help" the market with taxpayer money to make sure you get the "right" price.

Bailout psychology is destroying the economy. Banks hold off on foreclosures in the hope of refinancing borrowers into government-backed loans that will almost certainly default — at taxpayer expense. I've talked to ordinary people delinquent on credit cards who put off bankruptcy because they "heard" the president was unhappy with unfair bank practices and "help was coming soon." Millions of homeowners desperate to sell are keeping empty houses off the market waiting for a "rebound," flushing a stream of income down the toilet.

Worsening economic figures are being used to confirm that more bailouts are needed rather than that previous ones might be failing. The logic is much like medieval blood letting: The patient died because we didn't drain enough of his blood.

The promise of more bailouts also keeps everyone from doing what's necessary. Millions of houses sit empty, open to vandalism and destruction, while millions of Americans live in cars or on the street. Our tax money is given to banks and speculators to hold houses empty.

On March 20, 2007, I wrote here that a mortgage bailout was coming and would cost at least \$1 trillion, yet not bail out homeowners. As it turned out, the bailout did nothing to stop foreclosures from going through the roof. On Feb. 8, 2008, I wrote here that Fannie and Freddie would be taken into receivership within a year — an event that occurred Sept. 7. I argued here on Sept. 18 that most loan modifications were a fraud and "I optimistically predict that within 12 months half of these refinanced loans will result in default." On Dec. 8, the Office of the Comptroller of the Currency announced that 53 percent of modified loans were in default.

To "fix" all these problems, the George W. Bush administration, and now the Obama administration, have chosen people (or their accomplices) who stole from the public. That's why no one has been prosecuted. Would former Treasury Secretary and Goldman Sachs chief Henry Paulson have pressured for an investigation of Goldman Sachs? Right.

As president of the Federal Reserve Bank of New York, current Treasury Secretary Geithner had a front-row seat during the run-up to the crisis and watched for years while pushing a "no regulation" policy. Why? At that time his friends were winning their bets and making a lot of money.

Why didn't Bush or Obama pick Brooksley Born (the Commodity Futures Trading Commission chair who tried to regulate credit default swaps) or Harry Markopolos (the whistle-blower in the Madoff scandal) to serve as treasury secretary or chairman of the SEC? Because Born and Markopolos are technically competent and possess integrity. Banks would tolerate neither quality in an administration official.

We have a crisis of confidence, because fraud permeates most of our banks and financial institutions. The solution is law enforcement, not handouts. On Jan. 31, 2009, Santa Barbara police held a 53-year-old homeless man on \$20,000 bail for shoplifting \$7.69 worth of soup and bread. Yet Bush did not move to prosecute a single executive at any of these banks, and Obama likewise doesn't want to be "vengeful" by investigating the crimes of investment bankers.

If the government feels lenient, can't it let alone families camping in a vacant lot in Sacramento, or homeless people stealing bread?

We can stop this by closing our accounts at any bank that took government money. A list is on the Treasury's Web site. Close your accounts and move them. If we do, those banks will suffer receivership or bankruptcy within a few months, and then there will be no need for bailouts. Our healthy community banks will thrive, while billionaire bondholders will have to downsize their G-5 fleets and take a haircut.

If you buy an American car, buy a Ford. Do not buy GM or Chrysler. GM and Chrysler took bailout money. If everyone who would buy a GM or Chrysler bought a Ford, GM and Chrysler would quickly go bankrupt, the government would be forced to stop giving them tycoon welfare, and Ford would probably have enough customers to get through this. If Ford takes bailout money, don't buy a Ford, either. You don't need to buy anything. Save your money until the government stops the bailouts. Your children will thank you for the peace and security.

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BAILOUT ONLINE

Thinking outside the myths

To learn more

Concerned about how the federal government is spending your tax money to bail out the nation's banks? Here are some resources:

► "Facts and Myths about the Financial Crisis of 2008" by Patrick Kehoe and V.V. Chari. Published by the Federal Reserve Bank of Minneapolis
links.sfgate.com/ZFQY

► Lists of the banks, and how much bailout funds each has received under the Troubled Assets Relief Program (TARP).
links.sfgate.com/ZGQB

► Insightful economic analysis by Mish Shedlock at his blog, "Mish's Global Economic Trend Analysis."
links.sfgate.com/ZGQC



Karen Bleier / AFP / Getty Image

The Treasury building in Washington, D.C. The government and central bank last week upped the ante on reform of the stricken financial system, calling for tighter regulation to prevent a repeat of the worst economic crisis in decades.