

# Trillion-dollar baby

I understood the Bush administration's decision to promise up to \$30 billion to facilitate the fire sale of Bear Stearns. I got the administration's decision to spend as much as \$200 billion to stabilize mortgage giants Fannie Mae and Freddie Mac, which are worth about \$5 trillion. Ditto the \$85 billion federal bailout of AIG.

As for this Bush administration "troubled asset relief plan" to authorize Treasury Secretary Hank Paulson to spend another \$700 billion bailing out investment firms has too many question marks, I am not sold.

Yes, I've talked to experts who believe the package is necessary to thaw an international credit freeze and the run on money markets. But it is difficult to assume that they really understand how to fix the credit mess when most experts didn't see this coming.

As it is, it also doesn't make much sense for the federal government to



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spend (which means borrow) as much as \$700 billion — or a total of \$1 trillion, when you add in the other bailouts — in order to stave off a credit crunch.

Alas, I do not see President Bush pushing a fiscally conservative bailout plan. At the very least, Bush should have opened with a smaller price tag, say, \$100 billion.

Exhibit A: According to the Washington Post, Paulson has opposed House Democrats' proposal to force compa-

nies that sell their flailing assets to the government to "meet appropriate standards for executive compensation." Why? Also, Paulson fears that financial institutions won't participate if there is a compensation cap. As if that's a bad thing.

Economist Chad Stone, of the non-partisan but left-leaning Center on Budget and Policy Priorities, said the big question on the plan is price. If Paulson thinks that the underlying value of bad mortgages is 30 cents to the dollar, and the federal government has the spine to pay 30 cents on the dollar rather than 70 cents in order to close the deal, then "it's a viable solution."

But if Paulson wants to convince Washington he won't overpay, why has he let it be known that he is concerned about underpaying the feckless managers of failing funds? The Bush plan would give Paulson czar-like powers — and I can't for the life of me figure out why. (Yeah, I know, it's because Paulson has to act quickly — but quickly and dumbly? No.)

Former Comptroller-General David

Walker, now president of the Peter G. Peterson Foundation, told me that the Bush package must come with "oversight, transparency and accountability."

Oversight, transparency and accountability — these three words likely will replace the old trifecta of "waste, fraud and abuse." Of course, Washington should regulate Wall Street, but the fact is that Group Think will not go away, and whatever tight regulations might percolate in the next year will become watered down over time — because they always have a persuasive argument to do so. That's what Washington does, and both parties have participated.

For his part, GOP nominee John McCain has stood against that tide of facilitating corporate misbehavior. The Washington Post editorialized last week against Barack Obama's campaigns charge that McCain is anti-regulation. *Au contraire*, if found on reviewing McCain's record, the Arizona senator was "a leader" in cleaning up shoddy accounting practices after the Enron scandal.

"In 2006," the Post editorialized,

McCain "pushed for stronger regulation of Fannie Mae and Freddie Mac — while Mr. Obama was notably silent. 'If Congress does not act, American taxpayers will continue to be exposed to the enormous risk that Fannie Mae and Freddie Mac pose to the housing market, the overall financial system, and the economy as a whole,' McCain warned at the time."

At a Chronicle editorial board Jan. 21, Obama had the foresight to call for an investigation of rating agencies (that overrated murky investment deals) and tougher conflict-of-interest regulation. Investors, he said, "think that they're investing in stuff that doesn't have a lot of risk, and they're wrong."

This Bush package could cost more than \$2,000 per American. Bush should do what fiscally responsible American families do every day — they find the cheapest, smartest way to fix the roof. They patch the hole. They don't construct a super-deluxe roof with borrowed funds.

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## OPEN FORUM

# The end of the republic

By Sean Olender

Treasury Secretary Paulson's edict to create a \$700 billion fund to buy worthless mortgage securities from agitated wealthy bond investors is nothing short of a final step on the path to the end of the republic. The secretary claims he can only be effective if his decisions are beyond judicial review.

Our government and its owners appear to be testing how much the American public will tolerate. A few years ago, no one could have imagined that the silent majority would quietly accept thefts of this magnitude from a government that stopped tiny payments to single mothers with poor children in the name of welfare reform because the program's \$10 billion cost was breaking the federal budget.

This isn't socialism, it's fascism.

If the public allows this theft, then it will signal to powerful forces that they can essentially do anything, because the American public has become so mushy-headed that it will stand up for nothing. When power discovers that those from whom it would exact payment are powerless, its viciousness increases infinitely.

Our politicians appear on television and say, this is an emergency, so we have to do this now and talk about it later. And then later is too late.

It is not just a \$700 billion bailout, it is a \$700 billion fund that can have no more than \$700 billion in liabilities at any one time. Maybe Goldman Sachs can sell mortgage-backed securities to the fund at 80 cents on the dollar and then the fund will liquidate the securities by selling them back to Goldman for 50 cents on the dollar. Then Goldman can sell them back to the fund for 85 cents on the dollar. That would be a good business, especially if no court can review it.

Our enemy has revealed itself, and it is our own government. The concentration of such outrageous power in government — the power to take the equivalent of half our annual federal budget and give it to anonymous investors — is nearly reaching the point at which it may not be revoked.

It is only natural that we, dreaming of the possibility of our own riches, acquiesced in some of these financial schemes. Of that, we should not be ashamed. Many Americans may now be thinking, "But suppose someday I am a wealthy bond investor worth \$50 million?" But you are not a wealthy bond investor and the value of your house and stock investments is going to drop, regardless of how much tax money the government gives to wealthy bond investors. This bailout is essentially the federal government saying to creditors, "Because the American consumer appears to be refusing to pay his debts, we will buy your claims on the consumer, and exchange them for money created by issuing Treasury bills, which is our promise to extract that money from American consumers using our taxation authority."

Some day our children will call on us to explain how our republic was lost. I cannot imagine the shame of facing a grown child to explain, "Foolishly, I thought I would get some of the money, too."

Because the American public has not been introduced to methods for controlling its government for generations for generations, I will suggest one called a general strike. This fundamental democratic power is where everyone decides to send a message to the government by not going to work, to school, shopping, nowhere.

At this point in our history, very bad things are going to happen regardless of what we do. There is no government action that can alleviate the discomfort we must endure because of the wild speculation and reckless borrowing that ensued. What's coming is inescapable. This is the critical time when charlatans among us will promise they can save us from the inevitable if we only allow them the power they need to save us. They are lying. It is time to earn our freedom. It is time to remind the government that we are Americans and we have a history of subjecting tyrannical governments to unpleasant consequences.

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