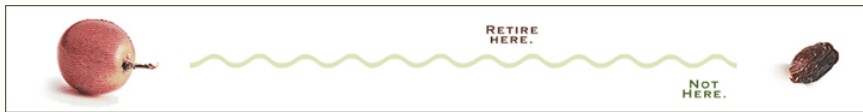


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The trickle down bailout

Sean Olender
Tuesday, September 30, 2008

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Politicians tell us that if we don't accept this fake bailout, we will lose our jobs and homes. Then no one explains why the fake bailout will work because it won't work.

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I propose an alternative rescue based on two policy goals: (1) build the nation tangible assets with lasting, measurable benefit that (2) create the most jobs possible. I propose an immediate economic study to be completed by the best economists in the country in no more than 45 days that evaluates the best options to accomplish these goals.

Candidates for investment might include high-speed electric rail, rebuilding dilapidated bridges and decaying infrastructure, new schools, alternative energy projects paid for by government with guaranteed low-cost power production creating more jobs through reduced overhead costs to business.

Who knows? Maybe someone might build a factory here.

We should also extend unemployment benefits for millions of Americans whose benefits have expired. The unemployed spend their money here and not overseas, like bankers do.

The immediate recapitalization of Federal Deposit Insurance Corp. would inspire confidence in our shaky government that moved swiftly to provide surprise unlimited backing to wealthy investors in money market funds while allowing the FDIC fund that protects Americans with simple checking and savings accounts to become dangerously undercapitalized.

Wall Street economists claim if we give \$700 billion to banks, then they will loan it back to us. That's ridiculous. Credit won't loosen until American consumers finish defaulting on their current debts. Americans borrowed too much for their incomes and must unwind the debt through reduced spending and debt defaults. The problem isn't too little money to lend - the world is awash in money. The problem is that the market knows many loans won't be paid back. There's no other solution except to print more money, hyperinflation and a risk of economic chaos.

Our political elites have said the fake bailout is a joke. A Treasury Department representative told Forbes last Monday that the \$700 billion figure was chosen because "We just wanted to choose a really large number" and the amount was "not based on any particular data point." Without study, those who failed to anticipate this crisis and who only months ago claimed there was no systemic problem - the same people who caused the crisis - conclude this bailout will end the crisis.

This is nothing more than looting.

A Harvard study of the 1990s Mexican housing crisis published in April 2000 by Natalie Pickering noted, "Nearly two decades of research on mortgage pricing have shown ... when the value of the outstanding loan exceeds the value of the house... a rational wealth-maximizing borrower will default." The Mexican government handed money to banks during the crisis, but it was never enough because as home prices dropped, borrowers "had grown to expect a new relief program each time delinquency rose. Strategic default was well-cultivated in the market, making it ever harder to attain positive results even from a well-designed program." The Harvard study found that wealthier homeowners were more likely to default because they understood economics better than poorer homeowners.

The United States doesn't have money to spend. We have to borrow it on behalf of our children. I don't want my daughter to pay a lifetime of taxes to repay gifts to banks.

Sean Olender is Bay Area attorney and writer.

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