Political Media Literacy 103
Deregulation and Misinformation
Part One

By

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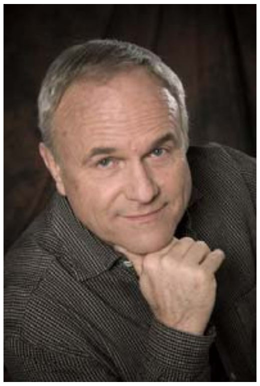

A free and open democracy, the American dream, life, liberty and the pursuit of happiness, all of these and much more depends on well informed citizens. Most believe they are well informed but aren't. Thirty percent of the American public gets their news from talk radio. Only eleven percent read newspapers. The way we get information determines the information we get. The information we get shapes perception. Control the form in which information is delivered and you control what the public perceives and therefore believes. Form is content.

Meta forces are at play and a have been decades. These forces now shape public perception by fundamentally altering the way information is delivered. Peel back patriotism, the WMD, 911, Homeland Security, the Patriot Act and all the talk radio and follow the money – your money.

The first presidential debate began with the worst financial crisis since the 1930s. McCain mumbled he would vote for a rescue bill being written in Congress. "Sure," he said. Obama wanted to see the details and focused briefly on the forces that caused the crisis, not just how to cover it up with a $700 Billion tax-payer bail-out-band-aid. The word that best describes those forces is Deregulation. What were the regulations that were deregulated? Why? And who benefited?

The following two essays put the current financial crisis in perspective and help explain how Reagan/Bush deregulation in the 80s created today's global financial crisis for us and a windfall for those who created the crisis.

> ***"Does anyone think it's just a little weird to be stampeded into a $700 billion solution by the very same people who brought us the worst financial crisis since the Great Depression?" The American people should revolt against business as usual and rule by the Lords of Finance by inundating Congress with the demand to stop the insanity now.***

We will follow with a brilliant piece by Robert F. Kennedy Jr. describing how the same flag waving, God and country forces deregulated public media crippling any chance for real democracy in the United States, perhaps forever.

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The Great Switch: Banks Rob People

Wednesday 24 September 2008

by: Jim Crotty, Professor of Economics at the University of Massachusetts, Amherst, who specializes in financial markets (T r u t h o u t | Perspective)

> ***"Does anyone think it's just a little weird to be stampeded into a $700 billion solution by the very same people who brought us the worst financial crisis since the Great Depression?" The American people should revolt against business as usual and rule by the Lords of Finance by inundating Congress with the demand to stop the insanity now.***

The US government is on the verge of making an unprecedented financial commitment, likely to cost $700 billion, to buy the bad securities held by large US and foreign financial institutions. Having driven our economy to the edge of financial destruction, the Lords of Finance now want the public to put up the money needed to save them and their firms from collapse. Maybe men don't bite dogs, but banks do rob people.

In response to the collapse of unregulated financial markets in the early 1930s, the American people decided to tightly regulate the financial system so that it could never again threaten the US economy. The Depression-era regulations worked effectively until the late 1970s, helping to create the best economic performance in US history. When our financial system was buffeted by high inflation in the late 1970s, it became necessary to reform the regulatory process so it would be effective in the new economic era. But instead of reform, the rise to power of anti-government, **right wing forces - reflected in the election of President Reagan in 1980s - led to a radical deregulation process**. By the end of the Clinton presidency, radical deregulation was completed.

Deregulation - in concert with rapid financial innovation that made complex financial products such as derivatives and mortgage-backed securities possible - created a volatile pattern of financial booms and crises. Each crash led to bailouts by affected governments, which only increased incentives to financial firms to expand further and take greater risks, since there were massive profits to be made in the upturn while the public paid to limit their losses in the downturn. The new era thus saw an explosion in the size and profits of financial firms. **Financial assets were less than five times the size of the US gross domestic product (GDP) in 1980, but over ten times as large in 2007. In the US, the share of total corporate profits generated in the financial sector grew from 10 percent in the early 1980s to 40 percent in 2006.** As financial markets grew larger and thus more dangerous, the pressure on governments to bail them out increased proportionately.

The recent boom was driven by the rapid rise in home prices in the decade ending in 2006. The fact that home buyers and mortgage lenders assumed housing prices would never decline sustained the boom, and the fact that banks and mortgage brokers were paid large fees to originate mortgages and large fees to service them generated momentum. Since most of these mortgages were not held by their originators, but rather sold to others, it made sense for banks and brokers to maximize the flow of mortgages, even if that meant selling mortgages that were likely to default if home prices stopped rising or interest rates rose substantially. Investment banks received similar fees to package the mortgages into mortgage-backed securities that were then sold to banks, hedge funds, pension funds and insurance companies around the world. These securities were essentially highly leveraged risky bets that housing prices would keep rising. They were so complicated that no one knew what their price should be. Thus, they could only be sold because credit ratings agencies such as Fitch and Moody's gave them AAA ratings. The agencies provided overly optimistic ratings only because they were paid by investment banks to do so.

Why did so many large financial institutions borrow so much money to invest in such risky securities? The answer lies in the way their top people are paid. Financial firm "rainmakers" get most of their compensation in the form of bonuses tied to the profits of their enterprise. When markets are booming, profits and bonuses are maximized by borrowing lots of money - investment banks borrowed $32 for every $33 of assets they owned in 2007 - and taking high risks with it. For example, in 2006, Goldman Sachs had a banner profit year and the average bonus for its 25,000 employees was $650,000. But most of this money was paid to those at the top, with key traders taking home $50 million. Everyone knew that such risk-taking would eventually lead to disaster when markets turned down, but they would not have to give back the big bonuses from the boom.

When housing prices began to fall in 2006, the game was up, though it took another year before the crisis broke out. Once it did, the gravitational pull of reverse leverage accelerated the downfall. Firms that borrowed heavily to buy assets used the value of the assets as collateral for their loans. When asset prices started to fall, so did their collateral value. Their creditors demanded that they put up additional cash, which forced them to sell assets. Of course, this made asset prices fall faster. Soon, financial firms across the globe found the value of their assets and the value of their capital plunging along with the price of their stock. As usual, they rushed to government regulators to save them.

In the US, the Fed responded to the crisis by extending massive loans to commercial banks, and, for the first time since the Great Depression, to investment banks as well. The Fed exchanged US Treasuries for shaky mortgage-related securities in such large quantities that the proportion of its $800 billion in assets invested in government bonds fell from 91 percent in August 2007 to 52 percent one year later. It later offered to lend money in exchange for any security, even corporate stocks. In addition, the Federal Home Loan Bank increased its loans to banks by almost $300 billion between June 2007 and June 2008, a rise of 43 percent.

In the Bear Stearns rescue, the Fed in effect bought $29 billion worth of devalued securities from the failing investment bank. The collapse of Fannie May and Freddie Mac, two firms that own or insure almost $5 trillion in mortgages (and made their top executives fabulously rich by investing in shaky mortgage-backed securities in the boom) led to their nationalization; the taxpayer is now liable for their losses, which could hit $100 billion. The US government, which the Lords of Finance told us should stay out of financial markets, now owns the largest financial companies in the world.

The Fed then effectively nationalized AIG, one of the largest insurance companies and biggest financial speculators in the world, at a cost of $85 billion, even it does not regulate and has no responsibility for, insurance companies. The rout was on.

Finally, in mid September, when even these unprecedented interventions proved unable to calm financial markets, Fed Chair Ben Bernanke and Secretary of the Treasury Henry Paulson, former CEO of the top investment bank Goldman Sachs, proposed that the government put up an additional $700 billion of taxpayer money to buy most of the bad assets held by financial corporations. This would be the largest bailout in history. At the same time, the government announced a blanket guarantee of the $3.5 trillion money market mutual fund industry.

By this time, Paulson (or Goldman?) seemed to be in control of the bailout process. His initial proposal stated that all decision-making power over the dispersal of this enormous amount of money was to be in his own hands. Neither the courts nor other government bodies would be able to exercise oversight of Paulson's handling of the money. Since the proposal said nothing about which securities would be purchased, or what firms would receive payouts, or how the prices of securities would be valued, Paulson (or Goldman?) was actually proposing that the president and Congress simply give him up to $700 billion to distribute to his cronies as he saw fit. As economist and New York Times columnist Paul Krugman put it: "Mr. Paulson is demanding dictatorial authority, plus immunity from review 'by any court of law or any administrative agency.'"

Adding insult to injury, Paulson planned to privatize the bailout process. Wall Street firms hired by Paulson would decide how much to value the bad securities the public had to buy from ... Wall Street firms. These firms would, of course, be paid lots of public money to provide this service. Moreover, Paulson and Bernanke tried to panic the Congress into accepting their Trojan Horse by arguing that if Paulson's proposal was not accepted without revision within a few days, global financial markets would collapse. Congress was to be stampeded by fear into rubber-stamping legislation that would complete the process of a virtual government takeover of a huge share of the country's financial system by one man. This was reminiscent of President Bush's successful effort to get Congress to quickly authorize his war in Iraq. There were no penalties for financial firms or their rainmakers in the proposal, and no new regulation to prevent this fiasco from recurring a few years down the road.

This is, literally, unbelievable. As recently as spring 2007, Paulson argued that excessive regulation was crippling American finance in its battle for global financial supremacy: the government should stay out of financial markets. And Goldman Sachs, along with other large investment banks, played a key role in packaging and selling the mortgage-backed securities that led to the crisis - the same securities they now want to pawn off on the taxpayer. Paulson is a representative and charter member of the Lords of Finance who foisted this corrupt and absurd system of deregulated financial markets on the American public - a system that created financial instability and rising inequality, pressured the public time and again for money to clean up the messes they made, and used their ill-gotten money and power to corrupt the political process. Having done this, the Lords of Finance now want total control of $700 billion in public money to allocate to themselves.

New York Times liberal columnist Bob Herbert put it nicely. "Does anyone think it's just a little weird to be stampeded into a $700 billion solution by the very same people who brought us the worst financial crisis since the Great Depression?" The American people should revolt against business as usual and rule by the Lords of Finance by inundating Congress with the demand to stop the insanity now.

Three - Fraudulent - Trillion Dollar Money Laundering Scams

Today's banking crisis is the THIRD trillion dollar plus US-caused financial meltdown in the last twenty years. Each one of these crises came into being through the same basic mechanism...the fraudulent over-valuing of financial assets by Wall Street - with a "wink and a nod" (and sometimes a lot more) from the White House and Congress.

The fraudulently valued assets stimulate the economy, impart the illusion of health and then, inevitably, the fraud goes too far and the whole house of card comes painfully crashing back to earth.

The three trillion dollar plus frauds were:

Fraud #1: The so-called "Savings and Loan Crisis" of the late 80s

Fraud #2: The so-called "Tech Bubble" of the late 90s

Fraud #3: The so-called "Credit Crisis" of today

How the scam works:

Take a shaky financial asset and blow up its value and then sell as much of it as you can. In the "Savings and Loan Crisis," the instrument was junk bonds. In the "Tech Bubble" it was Internet stocks. In the "Credit Crisis" it was individual mortgages collected into pools and then re-sold to investors. In each case, normal, well established "bread and butter" financial principles were consciously thrown away by Wall Street with no hint of protest from federal regulators.

The "Savings and Loan Crisis" dissected

Junk bonds caused the Saving and Loan crisis which resulted in the US taking over the assets of hundreds of banks and selling them back over time to the marketplace at fire sale prices.

Junk bonds, which caused the "Savings and Loan Crisis" were shaky bonds pumped up by "staged dealing," deliberate misrepresentation. Bonds get their value from two things: the amount of interest they pay and how safe they are. "Junk" bonds have to pay higher interest because they are less safe. Therefore, until the "Savings and Loan Crisis," savings and loan banks were not allowed by law to buy them and call them assets.

Reagan/Bush changed all this and a group of Wall Street fraudsters used the new loophole to kick off an orgy of junk bond creation and junk bond selling to banks and insurance companies. The crooks would deal the junk bonds back and forth amongst themselves thereby establishing their "value" and then they'd sell them to outsiders. The bonds then became "assets" which could be borrowed against and leveraged to buy even more bonds. When the bonds failed, the banks failed and in stepped the US government to "fix" the problem it created at the cost of at least one trillion dollars to US tax payers.

The "Tech Bubble" dissected

The instrument of fraud in the "Tech Bubble" was Internet stocks, start ups in particular. A stock gets its value from the underlying company's sales, its growth and its overall prospects for the future. Pre-tech bubble companies used to have to prove themselves by being in existence for several years before they could be sold on major exchanges. That standard was thrown away during the tech bubble. To pump up their values, the companies engaged in "staged dealing" just like the junk bond crooks.

Company #1 would "sell" 20 million dollars in banner ads to Company #2 which would in turn "sell" 20 million in banner ads to Company #1. In fact, nobody sold anybody anything. Company #2 ran ads for Company #1 and billed it for them. Company #1 ran ads for Company #2 and billed for an equal amount.

These should have been called media trades not sales, but Wall Street was happy to claim them as legitimate cash sales and then use the sales numbers to fraudulently value these companies - many of them totally worthless - in the hundreds of millions and sometimes even the billions.

The "Credit Crisis" dissected

By now, you see how the scheme works. It's not very complicated. You take near worthless pieces of paper (junk bonds, stock of start up Internet companies, etc.) and declare them to be good as gold. Then you create as many junk bonds and Internet start-up stocks as you get and sell them as fast as you can. In the case of our current crisis, the instrument of fraud was so-called sub-prime mortgages.

Previously, sub-prime mortgages had very little trading value. Only people in the sub-prime industry itself dealt in them and for good reason. They're tricky to value and packed with financial peril. **But Wall Street changed all that.**

Wall Street said: "If we take LOTS of these mortgages and assemble them into large pools and then slice and dice the pools in various ways, we can sell the slices to banks and other investors as AAA paper." If the underlying pieces of paper are garbage, how does assembling a whole bunch of garbage into one place make it "better?" It doesn't, of course, and this is a principle even a three-year-old child can understand.

But greed and the need to pump up a shaky economy for propaganda purposes are two very strong motivators. Banks created these mortgage pools, sold them to each other, and they, by virtue of these "staged sales," declared them valuable. Recognize the pattern?

This is the THIRD trillion-dollar plus fraud driven financial meltdown in twenty years and apparently no one in the financial news media can see how it happened.

But there's more...

Junk bonds were mass manufactured as fast as the crooks could invent them. Ditto for Internet stocks. But how did hundreds of billions of dollars worth of "toxic" mortgages suddenly come into being?

Why did the mortgage industry change its lending standards so radically and so suddenly to make their creation possible? And why did real estate lending regulators in all 50 states - because real estate lending is a STATE-level issue not a federal.

Here's where it gets very interesting...

The fact is state-level lending regulators were VERY concerned about what was going on. They have been for years. And they not only expressed their concern clearly, they also took SERIOUS concerted legal action to stop lenders from making bad real estate loans to their citizens.

(Most of the sub-prime loans in the news so much today were designed to screw the people who borrowed the money and can rightly be called "predatory" loans.)

Guess who stopped the states from enforcing their own time-proven real estate lending laws and thus created the raw material that made the current "Credit Crisis" possible? This is the trillion-dollar plus question. If you're a US taxpayer, you're going to pay for this fraud so you might as well know who did it to you.

His initials are GB.

You know him well. But perhaps more interesting is the name of the person who single-handedly rallied state attorney generals and then fellow governors to fight the creation of these loans and who in the process became Public Enemy #1 to the Bush Administration?

His initials are ES.. If you follow "silly" US political scandals, you'll recognize his name instantly when you hear it (Eliot Spitzer). And you will finally understand why he was quickly and permanently assassinated politically earlier this year.

Had ES been allowed to "live," he would have been in position to remind everyone every day of who made the current meltdown possible. Instead, he was silenced very effectively. Not with a bullet in the back of the head, but the net effect was just the same. So effective was his assassination that no one can even mention his name in connection with today's crisis without risking ridicule, or worse.

Last note: The crisis this fraud has created is exponentially bigger than the S & L and Tech Bubble combined. It's not going to be resolved by a quick "patch up" and will likely have the same impact on the current generation that the depression of the 1930s had on its parents, grandparents and great grandparents.

Please see:

http://www.brasschecktv.com/page/291.html

http://www.brasschecktv.com/page/411.html