

## The Road to [Economic] Perdition: Paulson's Scatterbrain Capitalism

by Mike Whitney via reed - ICH *Friday, Jul 25 2008, 9:33am*

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Something has gone terribly wrong with the economy, but no one wants to say what it is. This is more than just a typical downturn in the demand-cycle or a temporary "rough patch". In fact, it's not a recession at all; it is a meltdown of the financial system. And it's obvious. The "deep pocketed" Federal Reserve is currently providing hundreds of billions of dollars through its auction facilities to the most craven speculators on the planet, the investment banks. These very same banks have no ability to pay that money back. Show me their revenues; show me their assets; show me their capital cushion which is calculated mainly in terms of "Level 3 assets" and which allow the banks to assign their own value to the bad paper that's overflowing from their vaults. Have you ever heard of anything more ridiculous? One blogger called Level 3 assets "mark to fantasy". He's right, too. It's all smoke and mirrors. So why are we letting crooks decide what their assets are worth?

True, a few of the investment banks just reported "better than expected" earnings, but no one on Wall Street is fooled by that baloney. The SEC changed the rules on shorting bank stocks just days before their earnings reports were due; another gift from Uncle Sam to hide the dirty laundry. Also, some of the banks have started extending their "write downs" from 120 days to 160 days, buying themselves a little more time to deceive their shareholders about the size of their losses. It's all one big swindle following another. The whole business stinks to high heaven and the Bush administration is right there in bed with them, snuggling up close and holding their hands.

If the public grasped the significance of the Bear Stearns fiasco, they'd understand how grave the situation really is. The technical details are irrelevant; don't bother with them. What IS important is that the Fed acknowledged that the investment speculators had so polluted the financial system with their toxic, unregulated garbage,(Credit default swaps) that if the transaction with JP Morgan flopped, the entire system would have imploded. Think about that. In other words, the legitimate, "Real Economy" is now inextricably lashed to a massive \$500 trillion dollar unregulated shadow banking system that operates without rules, supervision or sufficient capital. Over the counter derivatives trading is a cancer that has spread to every part of the system and is devouring it from the inside. It's only a matter of time before the patient succumbs. That's what the Bear bailout really means; the rest is bunkum.

The banking system is broke, busted, penniless; and yet the Fed and the G-7 allow this comedy to persist like nothing is wrong. When will the American people wake up?

And, will someone please explain how free markets can exist when speculators are subsidized by the state, or when the risk is removed from risky investing? That's what it means when the Fed opens its auction facilities to the investment banks and brokerage houses. It makes no sense at all. Government "safety nets" are anathema to free market capitalism. "You pays yer money and you takes yer chances". That's finance capitalism; deal with it.

What we are seeing is a hybridized version of capitalism; "Paulson's Scatterbrain Capitalism"; a hodge-podge of taxpayer bailouts, government intervention and free market mumbo jumbo. It's a

toxic mix on off-balance sheets operations, over-the-counter "unregulated" derivatives, dark pool trading, opaque hedge funds, dodgy Enron-style accounting, and complex, hard-to-pronounce debt-instruments wrapped up into one, cheesy, unsustainable shell game, managed by Harvard-educated flim flam men and backed by a 100% government guarantee. That's the system we're supporting with our tax dollars and that's the system that is dragging us headlong to ruin.

It ain't capitalism, my friend. It's a crooked system run by corporate carpetbaggers and banking scalawags who shot the Golden Goose in hopes of keeping the larder at the cottage on the New Jersey coast chock-full of Dom Perignon and halibut fillets. They created this nightmare and they've doomed us all.

As long as we prop up the existing system, the economy will flounder, unemployment will rise, foreclosures will soar, banks will be shuddered, and the wobbly old greenback will continue its inexorable march towards Pesoville. It's time to clean house and we can start by firing Paulson.

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