

US Banks Reap Whirlwind of Govt Spending

by Adrienne Appel via rialator - IPS *Friday, Oct 17 2008, 7:35am*

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BOSTON, Oct 17 (IPS) - The George W. Bush administration handed 125 billion dollars to nine of Wall Street's richest banks, but this will do little to help the economy that is crumbling around ordinary U.S. citizens, independent experts and activists say.

"There is no way a modern economy can function without good roads, telecommunication, rail transport and an educated labour force," Allan Mendelowitz, a member and former chairman of the Federal Housing Finance Board, told IPS.

Bush's new Office of Financial Stability, led by Neel Kashkari, sealed a deal Tuesday to provide the billions, plus 125 billion dollars more for small banks, to encourage them to start lending to each other and the world's biggest businesses again.

A freeze in lending, related to the banks' risky trading ventures, has slowed the global economy, rocked stock markets around the world, and tightened lending throughout the U.S. economy.

"We're not proud of all the mistakes that were made by many different people, different parties, failures of our regulatory system, failures of market discipline that got us here," said Treasury Secretary Henry Paulson Thursday in an interview on Fox Business Network.

Earlier Wednesday, Federal Reserve Chairman Ben Bernanke painted a grim picture of the months ahead, but tried to sound confident of the government's ability to fix the economy.

"We will not stand down until we have achieved our goals of repairing and reforming our financial system," Bernanke said, echoing a statement by leaders of the G8 richest nations.

But markets around the world were reeling again on Thursday, and declined significantly in Asia, Britain, Germany and France.

The stock market in the U.S. has been erratic, gaining or losing hundreds of points nearly every day. It ran up 936 points Monday, was down 733 points Wednesday and on Thursday by closing time was up 400 points.

Lewis Pitts, a public interest lawyer in North Carolina, said, "Look at the whirlwind of activity that's focused on a select few, the wealthiest. Meanwhile, it's a mess out there. There is real pain among the working poor," he said.

"Just think if we used those billions directly on jobs," Pitts said.

The U.S. funds for the banks are being drawn from 700 billion dollars approved by Congress Oct. 3 under an emergency request by Treasury Secretary Henry Paulson. The nine big banks that received the 125 billion dollars hold 50 percent of all deposits in the U.S.

"The American people must understand that this carefully structured plan is aimed at helping you,"

Bush said earlier in the week.

Bush and Paulson, a former CEO of Goldman Sachs, originally proposed using the funds to buy up bad mortgage assets from the Wall Street firms, a controversial idea opposed by many economists as ineffective and objected to by much of the public.

But with markets sliding, lending at a standstill and pressure from some European nations, the Bush administration changed course last week and announced the bank buyout programme, which runs counter to its hard-line, free-market ideology.

"I frankly don't want the government being involved with businesses, owning businesses. I don't think it's good for the country. It was necessary that the stock be purchased to help us through this financial crisis, but in the long run it's not good for the country," Bush said Wednesday.

"They've handled this very poorly. They have a strong ideology that markets are perfect and are self-correcting. It's not true," Mendelowitz said. "This administration sat on its hands until the situation on the ground became so severe and the facts trumped their ideology and dogma."

"At this point what they are doing is trying to prevent another great depression. It's too late to prevent a recession, we're in the midst of it," he said.

The Bush administration should have acted sooner, he said, adding that its misguided policies "have weakened our economy and society".

"In the developed world we have the worst income distribution of any country. A smaller and smaller portion of our population has a larger claim on wealth. This manifests in that the working poor have less and less income and have a harder time making ends meet," Mendelowitz said.

Focusing on infrastructure and education would be a good start, Mendelowitz said. "Infrastructure projects create real jobs."

Still, turning the nation around, if the next president wishes to, will not be easy.

"Look at all the damage that's been caused in two presidential terms," he said.

Democratic congressional leaders have announced a plan for 150 billion dollars in spending on roads and social support programmes, to be considered by the lame-duck Congress after elections in November.

"The whole concept of bailing out these institutions is dubious," said Phil Mattera, director of the corporate research project of Good Jobs First, an independent non-profit.

"Buying a stake in them might be sensible but there must be safeguards against conflicts of interest, and as long as the federal government is not being ripped off," Mattera said.

The U.S. seems to have negotiated a soft deal with the banks, he said.

Under the Paulson plan, the U.S. will receive 5 percent interest on the bank shares it purchases for three years and nine percent thereafter.

The British negotiated 12 percent interest in a similar arrangement with banks and investor Warren

Buffet will receive 10 percent interest on the stock he purchased from General Electric.

"There are a lot of problems. In all the panic about a market collapse it shouldn't be that these issues are going to be put aside until it's too late," Mattera said.

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