

## **How the Banksters are Making a Killing Off the Bailout**

by Pam Martens via fleet - CounterPunch *Tuesday, Oct 21 2008, 9:26am*

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In 1897, when 8-year old Virginia O'Hanlon posed her Santa Claus query to the New York Sun, she received a heart-warming editorial response reassuring her that "He exists as certainly as love and generosity and devotion exist...." Today, we hand our 8 year olds a \$13 trillion national debt while our Congress hands Wall Street banksters the national purse without so much as a hearing to determine the cause of the debt collapse. Worse still, the money is doled out to the very same individuals who leveraged their institutions to casino status.

Americans are correctly outraged at the spectacle of U.S. crony capitalism crashing stock and bond markets around the globe while simultaneously watching the poster boys of crony capitalism on Monday, October 13, 2008 march up the granite steps of the United States Treasury building in their Armani shoes and heist a fresh \$125 Billion of taxpayer dough in broad daylight.

The U.S. Treasury Secretary, Henry Paulson's, \$700 billion bailout plan to buy up distressed mortgage assets has spun off its own \$250 billion subsidiary plan (skipping that pesky detail called taxation with representation) to inject \$125 billion in equity capital into 9 of the biggest commercial and investment banks in the country. Another \$125 billion may possibly go to smaller regional banks and thrifts, assuming they will sign on to the deal.

And what will taxpayers get for their investment in these financial firms whose stock prices are getting hammered as the public recoils in revulsion at what they have done to our financial system? The taxpayers, who were not invited to send their own legal representative to the negotiating table, will receive a paltry 5% dividend, exactly half of what Warren Buffett received for his recent investment in General Electric, a company that actually makes something real, like jet engines and light bulbs.

Now we learn from the U.S. Treasury web site that it has hired the law firm of Simpson, Thacher & Bartlett to represent our taxpayer interests going forward at a cost to us of \$300,000 for six months work. But we're not allowed to know their hourly wages; that information has been blacked out on the Treasury's contract. Curiously, the Treasury has named in its contract the specific lawyers it wants to work for us. Two of those are Lee A. Meyerson and David Eisenberg. Mr. Meyerson has been a central player in facilitating the bank consolidations that have led to the present train wreck, including building JPMorgan Chase from the body parts of Chemical Bank, Chase Manhattan and Bank One.

Mr. Eisenberg has played a central role in the proliferation of the credit derivatives blowing up on the books of the Frankenbanks created by Mr. Meyerson. Here's what the Simpson, Thacher & Bartlett web site says about its relationships and Mr. Eisenberg's work:

"The Firm's practice benefits from established relationships with all of the major investment banks...Mr. Eisenberg is responsible for creating the asset-backed practice at the firm and has represented clients involved in the structuring of the first asset-backed commercial paper program, the first public offering of credit card-backed securities by a bank and the first offering of asset-

backed securities supported by dealer floor plan loans...Mr. Eisenberg represents JPMorgan Chase Bank, as issuer, in its ongoing program of public offerings of its credit card receivables backed notes. In addition Mr. Eisenberg represented JPMorgan Chase Bank in connection with the issuance of notes backed by commercial loans and in connection with its offerings of Leveraged Notes for Credit Exposure, a credit derivative product. Mr. Eisenberg has also represented underwriters, issuers and sponsors of modeled index catastrophe bonds. Mr. Eisenberg has represented sellers and buyers of credit protection in connection with synthetic securitizations of consumer loans, commercial loans and high yield bonds."

This is an unconscionable conflict of interest given that JPMorgan Chase is receiving \$25 billion of taxpayer funds under this bailout and that the program is very likely to be buying the very toxic waste for which Mr. Eisenberg wrote legal opinions and assisted in proliferating.

What most Americans do not understand, because mainstream media rarely explains it, is the incestuous relationship between the U.S. Treasury and this small band of financial marauders who busted the entire financial system with insane levels of leveraged derivative bets.

The bulk of the \$125 billion will be dispersed among Uncle Sam's own brokers, or in street parlance, Primary Dealers. Primary dealers are those financial firms anointed by the Federal Reserve to participate in the Fed's open market activities and are required to participate to a significant degree in buying up Treasury securities at every Treasury auction. In other words, without these firms, the U.S. Government would have no means of financing its own funding needs.

Treasury, therefore, has an obvious conflict of interest in keeping these firms alive, even when they are the walking dead. Here's how much of the \$125 Billion the Fed's Primary Dealers will collect: Citigroup, \$25 Billion; JPMorgan Chase & Co., \$25 Billion; Bank of America and its soon to be acquired brokerage, Merrill Lynch, \$25 Billion; Goldman Sachs, \$10 Billion; Morgan Stanley, \$10 Billion. In other words, of the first \$125 billion outlay from the emergency bailout fund, 76% is going to shore up Uncle Sam's brokers and \$300,000 is going to retain one of Wall Street's favorite law firms.

In 1988 there were 46 primary dealers. That number had shrunk to 30 by 1999. In June 2008 there were 20, in no small part as a result of the mergers facilitated by Simpson, Thacher & Bartlett. In rapid succession since July, three more have disappeared from bad bets: Countrywide Securities (shotgun marriage with Bank of America); Lehman Brothers, bankrupt; Bear, Stearns (shotgun marriage with J.P. Morgan Securities). That currently leaves 17 and that number will drop to 16 when Merrill Lynch is folded into Bank of America. (The rest of the 16 primary dealers that are not getting part of the \$125 billion are foreign banks.)

In addition to the repeal of the depression era, investor protection legislation known as the Glass Steagall Act, the removal of credit default swaps from regulation by the Commodity Futures Modernization Act of 2000, various U.S. Supreme Court decisions upholding Wall Street's ability to run its own private justice system shrouded in darkness, there was one more key regulatory change that greased the tracks of this train wreck. On January 22, 1992 the Federal Reserve announced that its New York region would "discontinue the 'dealer surveillance' now exercised over Primary Dealers through the monitoring of specific Federal Reserve standards and through regular on-site inspection visits by Federal Reserve dealer surveillance staff."

In other words, as bank consolidation left the country with fewer and fewer Primary Dealers and more and more "too big to fail candidates," instead of beefing up surveillance, the Federal Reserve

amazingly dropped inspections. Who was at the helm of the Federal Reserve when this nutty decision was made: the same man who lobbied for the repeal of the Glass Steagall Act that ushered in the merger of depositor banks with casino investment banks and brokerages; the same man who lobbied for the passage of the Commodity Futures Modernization Act of 2000 to allow for unregulated derivatives markets. The man, of course, is Alan Greenspan who served a breathtaking 19 years as Chairman of the Federal Reserve. That, by the way, is the approximate number I would assign to how many years it will take to repair the collapse of confidence engendered by his crony wealth transfer system created under the guise of free market capitalism.

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