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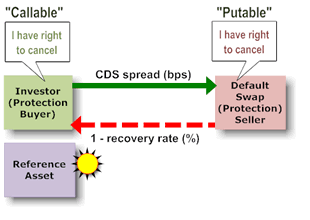
**Save the US Economy and Rekindle Democracy by Giving the Workers a Raise**

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By: Mike\_Whitney

“ The bright new financial system, with all its talented participants, with all its rich rewards, has failed the test of the marketplace. " Former Fed Chief, Paul Volcker

A specter is haunting Wall Street---the specter of insolvency. One major player, Bear Stearns, has already gone under, and from the looks of it, another may be on the way. It's getting ugly out there. The so-called TED spread---which measures the willingness of banks to lend to each other---has begun to widen ominously suggesting that the money markets believe another body will be floating to the surface any day now.

The ongoing deleveraging of financial institutions and the persistent downgrading of assets has the Fed in a tizzy. Bernanke has backed himself into a corner by stretching the Fed's mandate to include anyone on Wall Street with a mailing address and a begging bowl. Now he's taken on the larger task of fixing the plumbing that keeps credit flowing between the various investment banks. Good luck. He's already burned through nearly half of the Fed's balance sheet of $900 billion and the banking meltdown has just begun.  The IMF expects the final tally will be $945 billion, that means $3 trillion in lost loans for the banks. Bernanke better pace himself; this mess could last for years.   
  
The US subprime fiasco has spiraled into what the IMF is calling “the largest financial shock since the Great Depression.” America's capital markets are on the fritz. The corporate bond market is frozen, the banks are buckling from their losses, and the housing market is in a shambles. No one is buying and no one is lending; that's a deadly combo. Private equity deals are off 75% from last year and no one will go near a mortgage-backed security (MBS) with a ten foot pole. The mighty wheel of modern finance is grinding to a standstill and no one's quite sure how to rev it up again.   
  
The US consumer is feeling the pinch, too. His credit cards are maxed out, his student loans are overdue, his car payment is in arrears, his mortgage is entering foreclosure, and and the home-equity ATM has been shut down. Now that the credit spigot has been turned off; he's really hurting, but no one is offering him a bailout or a even helping hand; just a few table-scraps from Bush's “surplus package”. 500 bucks will just about fill the tank of a normal-sized SUV; that's it. A new survey from the Pew research Center “Inside the Middle Class—Bad Times Hit the Good Life”, shows that working families are in debt up to their ears and that fewer Americans “believe they are moving forward” than anytime in the last half century. The study also shows that most people believe “it's harder to maintain a middle class life style” and that “since 1999, they have not made economic gains.” Average families are struggling just to make ends meet.     
  
That's why so many people bought homes when they should have opened savings accounts. They thought that speculating on housing would get them a piece of the American dream. What's wrong with that? It looked like a good way to make up for the stagnant wages and crappy hours. The cheer-leading TV pundits offered assurances that “housing prices never go down”, but it was all baloney. Now 15 million homeowners are upside-down on their mortgages and the very same experts are scolding them for fudging the facts on their income. It's all backwards.   
  
No wonder consumer confidence has dropped to record lows. The trust is gone. Working people have been hoodwinked one too many times. They don't need lectures on saving money; they need a raise. The big-wigs who scuttled Bear Stearns are still dining on crab-cakes at the Four Seasons while the working slob is just trying to make his way through Greenspan's nuclear winter living on beef jerky and Big Gulps. Where's the justice?   
  
Volumes have been written about the current crisis; subprime-this, subprime that. Everything that can be said about collateralized debt obligations (CDOs) credit default swaps(CDS) and mortgage-backed securities (MBS) has already been said. Yes, they are exotic “financial innovations” and, no, they are not regulated. But what difference does that make? There's always been snake oil and there's always been snake oil salesmen. Greenspan simply raised the bar a notch, but he's not the first huckster and he won't be the last. What really matters is underlying ideology; that's the root from which this economy-busting hydra sprung. 30 years of trickle down, supply-side gibberish; 30 years of idol worship for the waxy-haired reactionary,

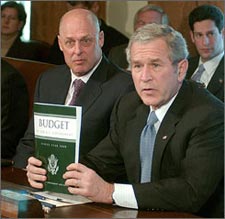
Ronald Raygun; 30 years of unrelenting anti-labor, free market, deregulated orthodoxy which inflated the biggest equity-Zeppelin in history. Now the bubble has sprung a leak and the escaping gas is wreaking havoc across the planet. There's food riots in Haiti, Egypt, and Kuwait. Wherever the local currency is pegged to the falling dollar, inflation is soaring and trouble is brewing. Also, European banks are listing from the mortgage-backed garbage they bought from trusted brokerages in the US and need central bank bailouts to stay afloat. It's just more fallout from the subprime swindle. Finance ministers in every capital in every country are getting ready for a 1930's-type typhoon that could send equities crashing and food and energy prices rocketing into the stratosphere. And it can all be traced back to the wacko doctrine of unlimited personal accumulation and its evil-spawn, neoliberalism. These are the theories that guide America's “bugger-thy-neighbor” monetary policies and spread financial turmoil to every city and hamlet around the world.   
  
The present stewards of the system, Paulson and Bernanke, are incapable of fixing the problem because they represent the interests of the people who benefit most from the disruptions. Paulson's latest “blueprint” for the financial markets just proves the point; a more pro-business, self-serving scheme has never been put to paper.

Gary North sums it up in his article “Really Stupid Loans”: “With the Federal Reserve System's latest proposal, presented to the public by Secretary of the Treasury Henry "Goldman Sachs" Paulson, the FED is asking the United States government to make it the Great Protector of Capital....The new proposals will centralize power over finance in the hands of an agency that is officially run by the government but in fact is run by agents of the largest fractional reserve banks. ...Regulation by tenured staff economists will not make the system less fragile. It will make it more top-heavy and less flexible..   
  
Some version of this plan will probably pass in the next Congress. No matter whether it does or does not, the direction is the same: toward an economy controlled by the federal government in conjunction with titular private ownership of the means of production, that is, toward fascism. (Gary North, “Really Stupid loans” lewrockwell.com)   
  
That's right; Paulson and his flock of investment bank alchemists, who cooked up the poisonous stew of derivatives that paralyzed the bond market, now want congress to put the whole kit and kabootle under their authority. Right.

Michael S. Rozeff sums it all up his article “ The American Form of Government and the Paulson Plan”: “The main result of the Paulson Plan will be increased government power over capital markets and their institutions. Certain large players will be cartelized under the enhanced regulatory umbrella. They will be under the government's thumb. In subsequent crises, the government will move further toward capital controls and find it easier to do so.   
  
To be totalitarian, a State needs to control investment, that is, the allocation of capital. Controlling the direction of finance is a means to control investment. That is the ultimate stopping point of government control over capital markets.” (The American Form of Government and the Paulson Plan, Michael S. Rozeff, lewrockwell.com)   
  
And that's the whole point, to put the markets in the Fed's control so when the next financial crisis arises the Fed can bailout the bankers and hedge fund managers without consulting Congress.

Paulson's plan is a power-play pure and simple. The investment Mafia wants to control the financial system lock, stock and barrel. They want to liquidate the SEC and any other government watchdog agency and put the investment banks, hedge funds and brokerages on the honor system. It's the end of transparency and accountability which, of course, are in short supply already.   
  
Comrade Paulson's blueprint fixes nothing. It's just another freebie for the parasite class. What the country really need is a few honest men who'll ride-herd on the Ken Lays and Jeffrey Skillings who presently run Wall Street. That doesn't require centralized power; just a rule book and a bullwhip.   
  
Currently, Paulson and Bernanke are expanding the balance sheets of the GSEs so that Fannie Mae and Freddie Mac will underwrite 85% of all mortgages while FHA will cover 10% more. The mortgage industry is being nationalized to save banking fellowship while the taxpayer is on the hook for another $4.4 trillion of dodgy loans. It's a risky business and, once again, it's all ideologically driven. Paulson doesn't care if the taxpayer gets stuck with the bill. It's no skin off his nose. What bothers him is the prospect that, somewhere along the line, workers will demand higher wages to keep pace with inflation. Then all hell will break loose. Paulson and Co. would rather see the economy perish in a deflationary holocaust than add another farthing to a poor man's salary. He and his ilk take class warfare seriously; that's why they are winning. But their strategy also creates problems. When wages don't keep pace with production, demand decreases and the economy falters.

That's what's happening now and Paulson knows it. Workers are over-extended and can't buy the things they make. They barely have enough to feed the kids and fill the tank for work. All the fat has been trimmed from the bone; there's nothing left. The only thing that's kept us from sliding into recession so far, has been the kookie banker's scam to maintain growth by easing lending standards and expanding credit. That turned out to be a real doozie; the whole thing blew up and left the banks' balance sheets ravaged and workers deeper in debt than anytime in history. Now consumer spending is nosediving at the same time the Fed's equity bubble is plummeting to earth. It looks like the plan to eliminate the standard criteria for lending money wasn't such a great idea after all. The global financial system has never been under greater strain.   
  
Was it all part of a “vast right-wing conspiracy?”   
  
Maybe or maybe not; it's hard to say. But neoliberalism does have a twenty-year record of producing the very same economic calamities. That's more than just a coincidence. What makes this crisis so different? The bankster globalists aren't bound by any silly feelings of patriotism. They would just as soon march the good old USA to the chopping block as any other unsuspecting nation; it makes no difference to them. It's just business as usual.  After the equity bubble bursts and asset prices fall, the corporate vultures will swoop down and buy up vital resources and industries for pennies on the dollar. Its the same everywhere; Darwinian capitalism. Leave nothing but the bones behind.   
  
Economist Michael Hudson anticipated many of the present-day developments in the financial markets in an amazingly prescient interview in counterpunch in 2003 called “The Coming Financial Reality”:

Michael Hudson: “Free enterprise under today's financial conditions threatens to bring about an unprecedented centralization of planning, not in the hands of government but by the financial conglomerates and money managers. Whatever government planning power is destroyed becomes available for them to appropriate, with plenty of vigorish left for the politicians whose campaigns they back and who will "descend from heaven" into high-paying private-sector jobs, Japanese style, after having performed their service for the new regime.   
  
*Question; Standard Schaefer: The financial regime is nothing but parasites?*   
  
Michael Hudson: “The problem with parasites is not merely that they siphon off the food and nourishment of their host, crippling its reproductive power, but that they take over the host's brain as well. The parasite tricks the host into thinking that it is feeding itself.   
Something like this is happening today as the financial sector is devouring the industrial sector. Finance capital pretends that its growth is that of industrial capital formation. That is why the financial bubble is called "wealth creation," as if it were what progressive economic reformers envisioned a century ago. They condemned rent and monopoly profit, but never dreamed that the financiers would end up devouring landlord and industrialist alike. Emperors of Finance have trumped Barons of Property and Captains of Industry.” (Michael Hudson, “The Coming Financial Reality”, counterpunch)   
  
Bingo. Hudson not only explains how finance capitalism is inserting itself into the governmental power structure but, also, predicts that “industrial capital formation”--which is the production of things that people can really use to improve their lives---will be replaced with complex debt-instruments and derivatives that add no tangible value to people's lives and merely serve to expand the wealth of an entrenched and increasingly powerful investor class.   
  
Finance capitalism has “devoured landlord and industrialist alike” and created a galaxy of seductive liabilities which masquerade as assets. Derivatives contracts, for example, represent over $500 trillion of unregulated counterparty transactions; a “shadow banking system” completely disconnected from the underlying “real” economy, but large enough to send the world into a agonizing depression for years to come.   
  
The goal of liberals should be to dismantle this corrupt Ponzi-system, which merely wraps debt in a ribbon, and rebuild the economy on a solid foundation of productive labor, worker solidarity and the making of tradable goods. That will restore competitiveness and reallign the political system.   
  
Political power has to be taken from the financial mandarins or the disparity of wealth will continue to grow and democracy will wither. We've already seen our main institutions--- the courts, the congress, the media, and the presidency---polluted by the steady flow of corporate contributions which only serve the narrow interests of elites.   
  
Henry Liu expands on this idea in his excellent article “A Panic-stricken Federal Reserve”:   
  
“In the 1920s, the wide disparity of wealth between the rich and the average wage earner increased the vulnerability of the economy. For an economy to function with stability on a macro scale, total demand needs to equal total supply. Disparity of income eventually will result in demand deficiency, causing over supply. The extension of credit to consumers can extend the supply/demand imbalance but if credit is extended beyond the ability of income to sustain, a debt bubble will result that will inevitably burst with economic pain that can only be relieved by inflation.....More investment normally increases productivity. However, if the rewards of the increased productivity are not distributed fairly to workers, production will soon outpace demand. The search for high returns in a low demand market will lead to consumer debt bubbles with wide-spread speculation....Today, outstanding consumer credit besides home mortgages adds up to about $14 trillion, about the same as the annual GDP. ”   
  
Voila. A strong economy requires a strong workforce and an equitable distribution of wealth. Otherwise, demand decreases and growth slows to a crawl. When money is concentrated in too few hands, the political system atrophies and becomes unresponsive to the needs of its people. That's when the nation's laws and institutions are reshaped to reflect the ambitions of rich and powerful.   
  
Liu continues:   
  
“A 2002 study released by Citizens for Tax Justice and the Children's Defense Fund reveals that under the Bush tax cut, over the next 10 years, the top 1% income recipients are slated to receive tax cuts totaling almost half a trillion dollars. The $477 billion in tax breaks the Bush administration has targeted to this elite group will average $342,000 each over the decade. By 2010, when (and if) the Bush tax reductions are fully in place, an astonishing 52% of the total tax cuts will go to the richest 1% whose average 2010 income will be $1.5 million.” And, this; “In 2006, the chief executives of the 500 biggest US companies averaged $15.2 million in total annual compensation, according to Forbes business magazine's annual executive pay survey. The top eight CEOs on the Forbes list each pocketed over $100 million.” “A Panic-stricken Federal Reserve; The shape of US Populism” Henry C. K. Liu, Asia Times)   
  
The financial system is doing exactly what it was designed to do, it is crumbling from the decades-long trickle-down experiment. Social programs have been gutted, civil infrastructure is in tatters, legal protections have been savaged, and workers rights have been trounced. Is it any wonder why we're embroiled in an unwinnable war and the financial system is on its last legs?   
  
None of this is accidental; it is the inevitable decline of a fatally flawed ideology; the Golden Calf of neoliberalism. But what will take its place? Where are the leaders who will fill the vacuum?   
  
Here's an excerpt from Bernard Chazelle's article “Saving the American Left; A New Progressive Creed”:   
  
“By virtually any measure, the United States is the least progressive nation in the developed world. It trails most of Western Europe in poverty rates, life expectancy, health care, child care, infant mortality, maternity leaves, paid vacations, public infrastructure, incarceration rates, and environmental laws. The wealth gap in the US has not been so wide since 1929. The Wal-Mart founders' family owns as much as the bottom 120 million Americans combined. Contrary to received opinion, there is now less social mobility in the US than in Canada, France, Germany, and most Scandinavian countries. The European Union attracts more foreign students than the US, including twice as many from China. Its consensus-driven polity, studies indicate, has replaced the American version as the societal model to which the developing world aspires.”   
  
America has lost its luster; it no longer attracts freedom-loving young people seeking openness and a brighter future. There are better opportunities elsewhere and less hassle. The country needs a major face-lift. Restoring liberal values is pointless without a strong commitment to economic justice; the two are inseparable. The only way to break the stranglehold of Wall Street's financial Politburo is to level the playing field through greater wealth distribution. That's the best way to rekindle democracy and make America the land of opportunity again. And it all starts with giving America's workers a raise.

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