STIMULUS, STIMULI, STIMU-LA-LA

By Michael Ventura

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How President Barack Obama’s stimulus works at street-level today is witnessed in this email from a friend who does anti-poverty social work:

“There's… been great excitement for me the last [several] weeks... Last month we finished the process of awarding the money for our 2009 youth programs and about three days later President Obama signed the Recovery Act. So now I have an additional 2 million bucks to use for youth programs this summer, which I must admit is one of the best problems I've ever had. It about doubles my workload for no extra money, but I'm just thrilled that I'm in the position to make decisions about what we do. I'm aiming to serve an extra 800-1000 kids this summer, and making sure as much as possible of the money goes in their pockets. I'm also trying to get all kinds of innovative folks to apply for funds to run these programs. As always, the greatest struggles and barriers (for me) lie with the bureaucratic assholes and I'm trying hard not to be one for the people who work with me.”

The importance of Obama’s stimuli cannot be overestimated when there has been “a 60 percent increase in children forced into ‘food insecurity.’ That’s bureaucratese for families driven to skipping meals” (The New York Times, Dec. 26, 2008, p.38). And “the Congressional Budget Office estimates that over the next two years, this country will suffer more than $2 trillion in lost economic production, with additional millions of lost jobs” (The Week, Jan. 23, p.6). And “household wealth dropped $11.1 trillion, or about 18 percent,” in 2008 (The New York Times, March 13, p.B1). And “a record 5.4 million American homeowners with a mortgage of any kind, or nearly 12 percent, were at least one month late or in foreclosure at the end of last year” (Associated Press online, March 5).

Lately many voices on Wall Street and in broadcast news have claimed the recession has bottomed. Those numbers say different. Stimuli are needed desperately, and will be for some time. Speaking for his party with straight-faced hypocrisy, Senate Minority Republican Leader Mitch McConnell of Kentucky objected to the Obama’s budget because it “taxes too much, spends too much and borrows too much” (Associated Press online, April 3) -- though Republicans had no problem amassing comparable deficits for Iraq, upper class tax cuts, etc., leaving U.S. Treasury debt at $10.6 trillion by the end of the Bush years (The New York Times, Dec. 27, 2008, p.WK1). True, “there is no escaping the potential ramifications of large deficits, and the sobering prospect that annual interest costs on the federal debt could soon exceed the entire military budget” (David M. Herszenhorn in The New York Times, March 28, p.10). Yet however dangerous it is to print and borrow so much money, Obama is right when he says doing nothing, or doing little, for America’s working people is more dangerous.

Why, then, is Obama quietly, even secretly, giving far more money to Wall Street than to Main Street? This is made possible, in part, because “the Federal Reserve and the Federal Deposit Insurance Corp…. provide loans and guarantees without a word from Congress” (The Economist, March 28, p.16). Though taxpayers now own “almost 80 percent” of AIG, how AIG has used at least 50 billion government dollars is, in the tradition of George W. Bush, secret (The New York Times, March 15, p.BU1). What's not secret is tricky. Very tricky. Treasury Secretary Timothy F. Geithner's plan for Wall Street is advertised by Obama as "creating a public-private partnership," but "private investors… would be contributing as little as 3 percent… and the government as much as 97 percent" (The New York Times, March 31, p.1). "For every private dollar invested, the taxpayer will provide a matching dollar… and up to $12 of other financing… The taxpayer is on the hook for most of the losses but gets only half of the profits" (The Economist, March 28, p.83). This is a "partnership" the way our forces in Iraq are a "coalition" – in name only.

Not only is the partnership not a partnership, but Obama has arranged for the banks to arbitrarily decide what their assets are worth. "Robert H. Herz, the chairman of the Financial Accounting Standards Board, was essentially ordered to change the rules or face Congressional action" (The New York Times, April 1, p.B1). That article goes on to note that normally "the board offer[s] detailed rationales for changes and [gives] interested parties months to comment on them… The process this time has been different in almost every respect. The board allowed only 15 days for comments, and said it would act after taking just a day to review the comments." One change allows banks "to value the assets at what they believe they would be worth in a normal market. The other change would let banks avoid reporting some of the impairment losses on their income statements." This "[allows] banks to value assets at what they might be worth some time soon, or should be worth in a more perfect world" (USA Today, April 2, p.10). "Joshua Shapiro, chief U.S. economist at MFR Inc., [said] the decision 'allows financial institutions to use fictional valuations on many of their toxic assets'" (Associated Press online, April 3).

The AP article summarized that the new rules "[allow banks] to increase earnings and carry less capital as a buffer against potential losses."

Which is exactly what AIG did, and exactly what caused its blow-out, as summarized in an angry, lengthy, deeply researched article by Matt Taibbi (Rolling Stone, "The Big Takeover," April 2, p.66). I'm not fond of Taibbi's tone and I don't sign on to all his conclusions, but his research is superb. "The essence of the bailout [is] rich bankers bailing out rich bankers, using the taxpayers' credit card… The state is now being asked not just to call off its regulators or give tax breaks or funnel a few contracts to connected companies; it is intervening directly in the economy, for the sole purpose of preserving the influence of the megafirms. In essence, [former Treasury Sect. Hank] Paulson used the bailout to transform government into a giant bureaucracy of entitled assholedom, one that would socialize 'toxic' risks but keep both the profits and the management of the bailed-out firms in private hands." Taibbi backs up his rant with solid journalism.

What has to disappoint all who believe in Obama is that the Obama-Geithner bank bailout is no different from the Bush-Paulson bailout. "The common element to the Paulson and Geithner plans is insistence that the bad assets on banks' books are really worth much, much more than anybody is currently willing to pay for them… The idea, says Mr. Obama's top economic adviser, is to use 'the expertise of the market' to set the value of toxic assets" [Paul Krugman in The New York Times, March 23, p.21).

To facilitate the "expertise of the market," Obama has pressured the Financial Accounting Standards Board into letting bankers define the worth of their own assets. As that USA Today editorial points out, it's as though you could decide the worth of your home no matter what others were willing to pay for it, plus get a line of credit based on your self-serving estimate. You can't. Now, thanks to Obama, bankers can.

It's a flat-out scam.

So it's no surprise that Obama, at London's G20 talks, "thwart[ed] a French[and German]-backed attempt to set up an international financial regulator" (Associated Press online, April 3). Such regulation may one day come, imposed by international consent -- but only after America, as a financial entity, has failed beyond even the audacity of our silver-tongued president to deny. And that won't be a good day for anybody.

China is floating the idea of an international currency unconnected to the economy of the United States. Many think that proposal is either far-fetched or far in the future. We don't want to believe that the dollar can fail utterly. But "America's reliance on foreign funding means the risk of a currency crash cannot be ruled out" (The Economist, Feb. 14, p.81).

Obama's bank policy is good for bankers and reckless for us. Those helped most by his stimuli are those who will be hurt most by his stimu-la-la.