Rule by "Hedge Fund Democrats"

Institute for Public Accuracy
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NOMI PRINS
Prins just wrote the piece "Geithner's Plan: Pure Plunder" for Mother Jones magazine. Prins is a senior fellow at Demos and is the author of two books: "Other People's Money: The Corporate Mugging of America" and "Jacked: How Conservatives Are Picking Your Pocket." She is a former investment banker turned journalist. She used to run the European analytics group at Bear Stearns and has also worked at Lehman Brothers and Goldman Sachs.
More Information

JOHN SAKOWICZ
Sakowicz is a 30-year veteran of Wall Street. He is currently a general partner at Templar Advisors, an offshore investment advisory group. Sakowicz also hosts "The Truth About Money" at KZYX in Northern California and he writes for alternative weeklies as a contributing editor at the North Bay Bohemian.
He said today: "Bank stocks have soared, but their bonds haven't budged. In some cases, they've actually fallen. When that happens, the market is telling us something. It's telling us to come back to reality. It's telling us these toxic assets may be more toxic than we think. ... In Geithner's plan, the leverage is about five or six federal dollars to every one dollar invested by the private sector. That's like saying, 'Let's drive a truck full of money directly at a freight train full of money to prevent a train wreck.'"
More Information

TIMOTHY CANOVA
Canova is a professor of international economic law at the Chapman University School of Law in Orange, California. He is the author of numerous articles and book chapters forewarning of financial crisis, in addition to such short essays as "Greenspan's Grip" and "Legacy of the Clinton Bubble."

Canova said today: "The latest Treasury plan by Timothy Geithner is befitting an administration run by 'hedge fund Democrats.' Such is the nature of bankster capitalism, the zombie banks are propped up by public subsidies and their losses are socialized. Under the plan, the Federal Reserve and Treasury as the 'public partners' would provide enormous subsidies to the 'private partners,' the unregulated and unregistered hedge funds that have been overleveraged and facing mounting losses of their own. The subsidies would go to hedge funds for taking near worthless assets off the books of the ailing banks.

"There's been much criticism of the American Insurance Group for paying out $165 million in excessive bonuses to executives in its financial products division, the now notorious AIG unit that sold more credit default swaps than the firm could cover. Lost in the outrage was news that

AIG had paid out $40 billion in taxpayer bailout money to some of the world's largest banks and hedge funds. Most of that went to ten U.S. and foreign banks, with Goldman Sachs leading the list. This is the same Goldman Sachs that has owned the Treasury Department for two decades. Its former CEOs, Robert Rubin and Henry Paulson, became Treasury secretary. Its chief lobbyist, Mark Patterson, recently became chief of staff to Geithner, one of the few vacancies filled in the department, and one that required an immediate waiver to Obama's supposedly tough ethics rules.

"Within the academy, there's a recognition that the sanctity of private contract requires striking down sham contracts. Bert Ely, a Cato Institute banking analyst, now argues that credit default swaps should be considered unenforceable contracts since the counterparties lack any insurable interest in the underlying assets. Lucian Bebchuk, a Harvard Law professor and centrist, now proposes Chapter 11 bankruptcy for AIG to stop the bleeding on its $1.2 trillion in credit default swaps. Paul Krugman, Nobel economist, argues for nationalizing the zombie banks to get them to shed their toxic assets and jump-start their lending activities for productive investment in real economic activity.

"The subsidies to Wall Street hedge funds and banks are not without enormous costs. Last week the Federal Reserve announced that it would double the size of its balance sheet to $3 trillion by doubling its purchases of asset-backed securities from its favored clientele, which now includes foreign banks and central banks. Three trillion dollars that could be spent on real needs, like jobs and education, the kinds of large public spending programs that raised the economy out of the Great Depression, created the last great middle class boom for the Greatest Generation, and left future generations with tangible assets instead of worthless paper."

More Information

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