

## Wary of Public Outcry, Revised \$800B Wall St. Bailout Stuffed with Earmarks to Sway Election-Year Incumbents

*Democracy Now: The War and Peace Report*

October 3, 2008

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On Capitol Hill, the House is preparing to vote again on the revised \$800 billion Wall Street bailout plan after rejecting a similar bill on Monday. All 432 seats in the House are up for election next month, and many “no” votes on Monday reflected lawmakers’ fears of a voter backlash for the unpopular bill. An array of “pork barrel” projects have been inserted into the legislation to win support from nervous incumbents. [includes rush transcript]

Guest:

Robert Johnson, former chief economist of the Senate Banking Committee. He has been in Washington these past few days in the midst of the negotiations.

JUAN GONZALEZ: On Capitol Hill, the House is preparing to vote again on the revised \$700 billion Wall Street bailout plan after rejecting a similar bill on Monday. Congressional leaders spent Thursday lobbying colleagues to vote for the revised legislation, which was approved by the Senate in a 74-to-25 vote Wednesday night.

All 432 seats in the House are up for election next year—next month, I’m sorry—and many “no” votes on Monday reflected lawmakers’ fears of a voter backlash for the unpopular bill. On the other hand, the Senate, where only one-third of the 100 members are up for reelection, voted overwhelmingly to back the deal.

Now, both Democratic and Republican leaders, along with a multitude of lobbyists, bankers, brokers and businessmen, are pressuring lawmakers in a second effort to pass the legislation.

President Bush also joined in. Speaking to reporters, he praised the revised bill, which includes higher government insurance on bank deposits and some \$150 billion in personal and corporate tax cuts.

PRESIDENT GEORGE W. BUSH: The bill that’s before the House of Representatives tomorrow is a bill that has got the best chance of providing liquidity, providing credit, providing money, so small businesses and medium-sized businesses can function.

AMY GOODMAN: But that’s not all the bill includes. An array of “pork barrel” projects have been inserted into the legislation to win support from opponents in today’s House vote. The provisions include an extension of tax rebates to Puerto Rico and the Virgin Islands on rum duties; lifting a thirty-nine-cent import tax on shafts used for wooden arrows; tax breaks for film companies that produce movies in the United States; and many more.

JUAN GONZALEZ: It's unclear whether the earmarks and the pressure from congressional leaders has mustered enough support. On Monday, 133 Republicans and ninety-five Democrats rejected the bailout. A net total of at least a dozen must change their vote, or the bill faces a second defeat. House Speaker Nancy Pelosi said she would not permit a repeat of Monday and would cancel today's vote rather than watch the measure fall again.

Robert Johnson is the former chief economist of the Senate Banking Committee. He has been in Washington these past few days in the midst of the negotiations. He joins us now from Washington, D.C.

Welcome to Democracy Now!

ROBERT JOHNSON: Good morning. Good morning.

JUAN GONZALEZ: So, Robert, how does it look now, in terms of the vote coming down in the House today?

ROBERT JOHNSON: I believe the vote will pass by a narrow margin sometime between 1:00 and 2:00 this afternoon.

AMY GOODMAN: And what do you think of it, Rob Johnson?

ROBERT JOHNSON: I think this bill, five weeks before an election, is illustrating for the American people, when there are two currencies of power—votes and money—that even at this time, when the power of votes is at its cyclical high, meaning just before the election, they are almost laughing at the American people, in the—by the nature and structure of this bill. This is a very sad result.

JUAN GONZALEZ: Can you remember a time when there has been so much public anger and opposition to a piece of legislation, but yet the House and the Senate seem to be moving along and going ahead to pass it?

ROBERT JOHNSON: They can, what I would say, use the crisis anxiety of the market fragileness to, how would I say, accomplish their aims on behalf of money and do no service for the public. We have no mortgage relief in this bill whatsoever. As a matter of fact, the Black Caucus, some housing advocates and the AFL-CIO spent the night negotiating with Barney Frank's staff to take out provisions that made mortgage relief harder. Now, I will say Barney Frank's staff was working very hard to do that—they're on the same side—but on the Senate side, somebody snuck that in on page 61 of the bill.

AMY GOODMAN: Explain. What do you mean?

ROBERT JOHNSON: There was a provision, that made it more difficult to get mortgage relief than under existing law, put in that bill at that time. But there are many other provisions of this bill.

They always say in the headlines now, it was “heads they win, tails you lose,” like that’s something looking backwards. It’s heads, Wall Street won yesterday; tails, the taxpayer lose now. But the structure of this bill, which depends upon buying overpriced assets, means heads, tomorrow, in a recovery, the banking industry wins again, and the population, the taxpayers who supported them in this bill, don’t go with them.

They could have done preferred stock injections, like Buffett did for Goldman Sachs, and instead, they said, “Trust me,” so that Hank Paulson could overpay and leave the taxpayer with no rights to recoup the losses in the recovery. I’ve seen Mr. Buffett on Charlie Rose the last couple of nights, and I’m absolutely amazed that he is so supportive. I know he’s had great success trusting in management, but Berkshire Hathaway investors are being taken care of much better than US taxpayers at this time.

JUAN GONZALEZ: Robert Johnson, you mentioned Henry Paulson. The New York Times has an article today, a fascinating look at how this crisis unraveled, and they claim that back in 2004, it was Paulson himself, who, as head of Goldman Sachs at that time, had meetings with all the other major investment banks and the Securities and Exchange Commission and convinced the SEC to allow them to reduce the amount of money that they kept in reserves to back up any debt that they had, in essence, that he pushed the SEC to reduce regulation and allow them to take the risks that ended them up where they are today.

ROBERT JOHNSON: I read that story, as well, and while I can’t comment in the sense of having been there, it doesn’t surprise me. Investment bankers were trying to relieve constraints, diminish capital and give themselves the freedom to take more leverage, and that is a very significant part of why we’re in this mess today.

I do also want to underscore that I believe it was Secretary Paulson who made the call to let Lehman Brothers go bankrupt, that led to the very, very violent restructuring of AIG with taxpayers’ money, which led to the crisis that led to this bailout bill. I believe, when people take the zoom lens out and look at the history of this bill, they will look at Henry Paulson as being the person who made the critical error that has sent us not only into a national, but a worldwide, credit freeze right now. He’s got a lot of work to do to earn his reputation back with the taxpayers’ \$700 billion in the next chapter, and I am nowhere near as comfortable as Warren Buffett is about having him be the person to do that.

AMY GOODMAN: We have this latest news: Wachovia said today it’s agreeing to be acquired by Wells Fargo in a \$15 billion all-stock deal, wiping out Wachovia’s previous plan to sell its banking operations to Citigroup. A key difference is the Wachovia deal will be done without government assistance, while Citigroup would have been done with the help of the FDIC. Can you talk about this? And what do you see is going to happen now, Rob Johnson? What would you like to see, if you were writing this bill right now, what you would do?

ROBERT JOHNSON: Well, first of all, I do think the FDIC, in contrast to some of our other government agencies, has done a very good job and a very ethical job in recent weeks.

What I would like to see in this bill, I would like to have seen the money injected as capital infusion by buying preferred stock into the banks, so that the taxpayer would retain some rights, existing stockholders would be deluded. Existing stockholders, after all, are the owners of the companies that made this mess. Then, in the recovery, the Treasury could make back as much as, some estimate, \$300 billion on that stock ownership, instead of having those existing stockholders make that money.

Secondly, and perhaps a place where we should have started, was the Home Owners' Loan Corporation acknowledging the overhang of these—and unaffordability of all these mortgages and developing a restructuring, which, by the way, would raise the value of the securities, these mortgage-backed securities, that are toxic assets sitting in all the banks.

I do believe we need a bailout. As I said the other day when I was talking with Bruce Marks, I do not think this is a synthetic or fake crisis. We do need to inject what you might call life back into the organs of the economy. There was a story this morning. The Federal Reserve reports that bank lending to small businesses is being cut off very rapidly. And this does not portend well for the economic health of every region of the United States.

But homeowner relief, some significant regulatory reform, equity capital injections into the banks, which, by the way, because of the use of capital and the leverage of capital, you get ten to twelve times the impact on the credit flow in the economy as when you pay—when you overpay for toxic assets as the TARP facility would.

I think it was a very misconceived bill. Paul Krugman, Joe Stiglitz, John Makin on the American Enterprise Institute, Alex Pollock, the American Enterprise Institute, Lucian Bebchuk at Harvard Law School and Olin Foundation—these are conservatives and liberals all standing around saying, “Why are you doing the wrong thing, Secretary Paulson?” And Congress went along.

JUAN GONZALEZ: And Robert Johnson, the additional insult that has really angered many Americans, all of the pork that was put onto this same bill by the Senate. I was intrigued. I mentioned in my column in the Daily News today that manufacturers of washing machines, refrigerators and other appliances were given up to a \$250 credit per machine if they produce a more energy-efficient machine. Now, I'm sure when we go to buy a refrigerator or a washing machine, we're not going to get that additional savings in the consumer. But many things like this were put into this bill, some of it to get votes of particular people in the House. And this has really infuriated Americans, on top of all the rest of the stuff that has happened in the last few weeks.

AMY GOODMAN: That the bailout went up.

ROBERT JOHNSON: Yes. It went up by roughly \$150 billion for those kinds of special pork-related projects. Now, what you're seeing is the Congress and the Senate are daring the American people to get mad and throw them out. As David Sirota said in his first book, *Hostile Takeover*, this isn't about choosing between Rs and Ds; this is about a bipartisan money machine working against the population. They're daring you. They're daring you to turn out in five weeks

and, in essence, support challengers against incumbents, because the incumbents are the ones responsible for doing this bill.

AMY GOODMAN: What role has Barack Obama and John McCain played in this? We only have about forty-five seconds.

ROBERT JOHNSON: Sure. I believe Barack Obama and John McCain have played along, not exerted significant leadership. But one of them, on January 20th next year, is going to have to change that tune significantly, if this economy is going to repair. A credit crisis is a crisis of trust and confidence. This bailout does not contribute to the trust and confidence that we are practicing sound finance or sound democracy. There's a lot of work to do. The rage of the American population is very, very valid right now.

AMY GOODMAN: You're the former chief economist of the Senate Banking Committee. If you were a congressman today, would you be voting for or against this particular bailout?

ROBERT JOHNSON: Boy, I think we have to get the money there, and this is the best they can do. I'm nauseous saying it to you, but I would probably vote for the bill. But I would be raising hell in the lame-duck session in January and beyond to change the nature of this bill, just as, behind the scenes, many people are working right now to see if there's anything that can be done today.

AMY GOODMAN: We're going to leave it there. Rob Johnson, thank you very much for joining us.