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The Bush Bail-Out -- We Have Been Here Before

*** By John Atlas and Peter Dreier ***

We've been here before -- in the 1930s Depression, when the entire economy collapsed, and in the 1980s, when the savings-and-loan industry imploded. Both times, citizens demanded that the federal government do something to rescue the economy. In the Depression, President Roosevelt and Congress came up with bold plans to save capitalism and humanize it - the Works Progress Administration, the minimum wage, Social Security, and regulations to protect depositors and to keep banks from irresponsible practices. In the 1980s, President George H. W. Bush and Congress set up a bail-out agency, the Resolution Trust Corporation (RTC), that put the corporate foxes in charge of the financial chicken coop. We served on the RTC advisory committee and watched in horror as the RTC sold off the assets of failed banks to politically-connected developers at fire sale prices.

In response to the current economic crisis, President George W. Bush -- whose misguided policies triggered the Wall Street meltdown in the first place -- has shown no inclination to be bold or to look out for the needs of ordinary Americans worried about losing their jobs, their homes, their health care, and their retirement savings.

The Bush bail-out plan has triggered lots of outrage on the blogosphere and talk show circuit, and skepticism among some Congressional Democrats and editorial writers. But given the magnitude of the crisis, and the proposed corporate give-away, where are the protests? As we know from history, anger and frustration at the bottom takes time to bubble up.

But a number of liberal activist groups and think tanks -- including ACORN, US Action, MoveOn , the AFL-CIO, SEIU, the Steelworkers Union, the American Federation of Teachers, the Center for American Progress, the Campaign for America's Future, and others -- have already taken the lead, formulating a progressive alternative to Bush's plan and urging the Democrats in Congress to show some backbone in standing up to the White House. On Tuesday, for example, ACORN sponsored protests at Federal Reserve banks and financial institutions in 40 cities to protest the failure of the Bush administration and the Federal Reserve to include lifelines for American homeowners facing foreclosures in its big bank bailout bill.

Every American will be effected in some way by the current banking meltdown, the resulting economic crisis (including major lay-offs), and the huge bail-out now under review. We should be asking two questions: Who does the bail-out help? What reforms are needed to make sure this doesn't happen again?

This is the worst economic crisis we've witnessed since the Depression, but most Americans seem paralyzed by confusion and inertia. This is exactly what happened in the 1930s. When the stock market crashed in October 1929, most Americans were in shock. When they got laid off and couldn't find work, or were evicted from their homes, or couldn't afford to feed their children, they initially blamed themselves, or were simply too dazed to act.

At first, it was only a handful of small groups -- most unions and community groups, some veterans groups, and some farmers groups -- who tried to mobilize people politically. Labor unions organized strikes and protests demanding that the government do something. Unemployed workers, relief recipients, unpaid schoolteachers, and housewives organized demonstrations. President Herbert Hoover, a Republican conservative who believed that the federal government shouldn't interfere with economic affairs, watched as things went from bad to worse. During his 1932 campaign for the White House, Franklin D. Roosevelt ran on a platform of "change," but he offered few specifics about what he intended to do to fix the economic chaos engulfing America. FDR won because he wasn't Herbert Hoover. But once Roosevelt took office, he became bolder, helped along by protests in the streets demanding action.

Sound familar? Like Herbert Hoover, President George W. Bush has been a disaster, presiding over an economic free fall that includes high unemployment, huge deficits, a growing gap between the rich and everyone else, an increase in poverty, Katrina, and negligent financial regulation policies. The Republicans, including John McCain, have lost all their credibility for managing the economy. It was their philosophy and their policies that got us into the current mess.

Only after Treasury Secretary Henry Paulson and Fed Chair Ben Bernacke insisted that Bush act did the President agree to try to rescue the economy from even deeper disaster. But what is their plan really about? Although the details are still being debated, the outline of Bush's plan is clear. The federal government will buy up tainted or rotten assets from financial firms and then resell them to private investors at a later date, hopefully after the value goes up. The plan would give Paulson a blank check -- $2,333 for every man, woman, and child -- to buy and sell assets without further approval of Congress. Paulson is the former head of GS, a company that spurred the growth of exotic financial products that helped get us into the current mess in the first place. Like the RTC 20 years ago, the fox is in charge of the chicken coop.

The Bush bail-out is a corporate give-away, with no quid-pro-quos requiring companies to act responsibly in the future, limit outrageous executive compensation, or help ordinary homeowners to keep their homes. For example, Goldman Sachs recently paid out $16.5 billion in year-end bonuses to its employees. That worked out to over $620,000 per employee. The Bush plan will give the administration a $700 billion check with no strings attached, which they'll hand over to the Wall Street firms that got us into this mess.

The Democrats, led by Rep. Barney Frank, chair of the House Financial Services committee, are under enormous pressure to go along with the Bush/Paulson/Bernacke plan. The Dems have insisted that they want some changes in the Republican proposal but they don't want to look like they are getting in the way of an emergency response to the deepening crisis. The chain of events is happening so fast that its difficult to evaluate what Bush has proposed. The media aren't helping with its usual "on the one hand/on the other hand" reporting. Most articles offer average Americans little guidance about how the Bush plan will help or hinder their jobs, communities, and families.

The powers-that-be have a stake in making the economic crisis seem so complex and inscrutible that it defies understanding. That way, they get to set the terms of the debate, leaving ordinary Americans on the sidelines. But this crisis is too important to leave to the corporate big-wigs and their GOP allies that got us into the mess in the first place. In fact, the current economic crisis is a real "teaching moment." It's like the story of the emperor's new clothes, laying bare the underlying realities of Bush's misguided economic policies for the past eight years.

But the Democrats shouldn't cave in to pressure from Wall Street and their Republican allies to support just any rescue plan. They should learn important lessons from the misguided S&L bail-out during the late 1980s and early 1990s.

Like the current Wall Street meltdown, the S&L crisis resulted from the federal government's deregulation of the industry. Under pressure from the S&L lobby, Congress removed restrictions on the lending practices of S&Ls, which had been originally created to provide homeownership to families with modest means.

The industry, like Charles Keating's Lincoln Savings, had balked at constraints on the S&Ls' ability to compete with conventional banks engaged in commercial lending. They got Congress to change the rules, including lifting the lid on interest rates. This gave S&Ls, whose deposits were insured up to $100,000, a green light to engage in high-risk lending. They began a decade-long orgy of real-estate speculation, mismanagement, and fraud. Banks and S&Ls gobbled each other up and made loans to finance shopping malls, golf courses, office buildings and condo projects that had no logic other than a quick-buck profit. When the dust settled in the late 1980s, about a thousand S&Ls and banks (including Lincoln) had gone under, billions of dollars of commercial loans were rendered useless and the federal government was left to bail out the depositors whose money the speculators had looted. But the S&L executives knew that, should their companies fail, their depositors would be protected by federal insurance. The S&Ls executives also paid themselves excessive salaries -- living off the gravy train until it crashed.

Because both the Democrats and Republicans in Congress had close ties with the S&Ls -- including campaign contributions from S&L executives -- neither party was interested making the corruption scandal a public issue. But by 1989, the magnitude of the financial crisis -- the large number of S&Ls threatened with bankruptcy -- couldn't be hidden. Leaders in Congress and President George H.W. Bush abruptly announced that the taxpayers must bail out a bankrupt industry.

Keating alone bilked more than 21,000 investors, including many senior citizens, who lost $285 million life savings. His attempts to escape regulatory sanctions led to the Keating Five political scandal, in which five U.S. senators, including Republican John McCain of Arizona, were implicated in an influence-peddling scheme to assist Keating. Major law firms, accounting firms, and investment bankers were also implicated in the scandal.

To solve the crisis, Congress created the Resolution Trust Corporation to close or reorganize more than 700 institutions holding assets of nearly $400 billion by seizing the assets of the nearly bankrupt savings and loans and then reselling them to recoup the taxpayers cost. Wealthy bankers and investors who had benefited from the deregulation that caused the S&L crisis in the first place quickly took advantage of the "fire sale" sponsored by the RTC. Politically-connected investors snap up foreclosed properties at RTC auctions at bargain-basement prices. The S&L cleanup cost American taxpayers an estimated $124 billion. The best selling author, Martin Mayer, correctly titled his book about the S & L crisis, *The Greatest-Ever Bank Robbery*.

The current Wall Street crisis is even worse than the S&L boondoggle. And Bush's corporate welfare plan is similar to his father's S&L bail-out.

"Secretary Paulson's plan calls for spending a trillion dollars of taxpayer funds to bailout out his former colleagues on Wall Street, but does not devote a single penny to rescue American homeowners who were victimized by the predatory lending of these same institutions," said Maude Hurd, president of ACORN. "We urge Congress to protect the millions of American homeowners facing foreclosure before they bailout the shareholders of big banks."

At its rallies around the country this week, ACORN isn't simply protesting *against* a corporate give away. It is protesting *for* a rescue plan that protects ordinary families. ACORN's plan for rescuing Main Street, not just bailing out Wall Street, includes the following planks:

-Bankruptcy shelter for homeowners. Congress should amend the bankruptcy bill to allow homeowners to restructure their home mortgages in bankruptcy and save their homes.

-Mandatory restructured mortgages for victims of predatory loans in danger of losing their homes. The modification program recently enacted by the FDIC and the depression-era Home Ownership Loan Corporation should be the models.

-Outlaw predatory lending practices and cap at 36 percent the interest rate on small loans charged by payday lenders and other predators.

-Expand unemployment benefits, food stamps, and heating assistance for families in need.

-Extend the Community Reinvestment Act (CRA) to investment banks and insurance companies. Any financial institution that benefits from the bailout must in return provide public benefit by investing in low- and moderate-income communities under the provisions of the CRA.

We suggest that, in addition, the plan require every executive at a firm that accepts the public's bailout money to agree to a salary cap; a good rule of thumb would be no more than ten times what the lowest paid person in their firm earns, to a maximum of $1 million per year.

At a time of deepening economic crisis brought on by misguided federal policies and irresponsible corporate behavior, it seems that even the very rich should have to sacrifice a bit for the good of the country.

John Atlas and Peter Dreier were appointed by President Bill Clinton to the RTC advisory committee. John Atlas is founder and president of the New Jersey-based National Housing Institute, a think tank that publishes Shelterforce magazine and Rooflines. He is writing a book on poverty, democracy, and progressive politics, focusing on the work of ACORN. Peter Dreier is professor of politics and director of the Urban & Environmental Policy program at Occidental College. He is coauthor of several books, including Place Matters: Metropolitics for the 21st Century *and* The Next Los Angeles: The Struggle for a Livable City. *He is a member of the NHI board and chair of the Horizon Institute, a Los Angeles-based think tank focusing on the proper role of government in economic affairs.*