

Government of the rich, by the rich, and for the rich

Arthur Jones | Sep. 23, 2008

The financial market is still afloat. Fine. But it's floating upside down. A memory might help draw the picture.

Forty years ago my wife and I were sitting on the porch of our Frenchtown, N.J. house watching as people in canoes idly floated by. They could rent the canoes upriver at the Delaware Water Gap, and glide down to near Trenton as make-believe Minnehahas and Hiawathas. The river current did most of the work as long as they steered their course.

At Trenton, the canoe rental people drove them and the canoes back up to the Gap. So it has been with the U.S. economy. The wealth from natural resources, and the fruits of the United States as a successful trading empire enabled Americans to ride the current ? though most Americans, unlike the Gap canoeists, had heavy paddling to do throughout their working lives.

This particular day, as we watched, a young couple ? they behaved like newlyweds, all star-struck and giggly ? were mid-river when the canoe flipped over. As they surfaced she was shouting, ?Help! Help! I can't swim! ? He was shouting, ?Save the beer! Save the beer! ?

The financial markets tipped over mid-September. Washington and Wall Street were shouting, ?Save the beer! ? while the U.S. public cried out, ?Help! Help! I can't swim. ? The non-swimmers, a significant number, economically speaking, have drowned. (That didn't happen on the Delaware. The couple stopped yelling when each person realized the water was waist deep.)

Treasury Secretary Hank Paulson, who usually hasn't Longfellow's gift for conjuring up images, nonetheless concocted a dreamy scenario of the current crop of Wall Street bail-outs saving the little people who can't swim.

Consequently, the Associated Press Sept. 21 stated, ?Home prices. That's what the Bush administration's historic Wall Street bailout is really about. ? Don't invest in it. What really happened is Washington decided to save the beer, the financial system. The percentage of duped sub prime and double mortgage holding swimmers, along with the gasping home equity foolhardy who'll emerge relieved, is on a par with those in New Orleans who found government relief after Katrina.

There's a more cynical game being played. President Calvin Coolidge (1923-29) presided over the Roaring Twenties. Clinton and Bush, with Fed-man Greenspan stoking the borrowing boiler, presided over the Roaring Nineties and Zeroes of our day. `Twas Coolidge, in a rare moment of loquaciousness, who opined: ?The business of America (i.e. government) is business. ? George Bush, under puppet master Paulson, just proved it. This is a Wall Street bail-out, not a duped Americans' bail-out.

Paulson, like Clinton's Treasury Secretary Rubin, formerly ran Goldman Sachs. In 2006 Alpha Magazine declared that Goldman Sachs was ?top of the list of hedge fund giants, ? and had ?been successful in real estate asset management space and have been able to convert that into hedge fund space. ? In non-finance-speak,

Goldman was hip deep in creating the mess Paulson is pumping taxpayer-funded concrete into to provide a firm footing for the financial marketplace. Cheney and Halliburton shade into pikers by comparison.

Meanwhile, penitent capitalists (don't we wish) everywhere are beating their breasts, and declaring, "My! My! My! Washington has taken over Wall Street." Blink everyone and look again. Wall Street just took over Washington. The canoe may still be floating, but everything's been tipped upside down.

Someone sniffed and got it right, or at least detected an odor that wasn't the odor of government service sanctity emanating from the Treasury Department.

New Jersey's junior senator, Robert Menendez (who serves on the Banking, Housing and Urban Affairs committee and sees the mess writ large), was quoted asking: "Are we going to be more robust in the number of foreclosures we're going to stop in this process? Or is this all about Wall Street and nothing about Main Street?"

Out of the mouths of Senators.

Meanwhile, the rest of the world sees the canoe upside down, sees the Federal Government of the United States turned into World Bank II for the rich and needy, and mulls its options. What the world (okay, China, etc.) does will have a lot to say about what happens next to the U.S. economy.

The man and woman waist deep in the Delaware? My wife and I agreed: when man dove to save the beer, he'd gone for the lesser prize. And there'd be hell to pay. The correct answer for today is to save them both.



Jones, a former NCR editor, is a former Forbes associate editor and European bureau chief, a former Financial Times correspondent, a Financial World magazine and World Trade magazine cover story writer. Since retiring from NCR in 2006 he has written on energy industry risk management for Scudder Publishing's Risk Chief, and on risk management for Law Firm Inc. magazine.

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