



Too Big Not to Fail?

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*This is the second in a **three-part series** on the economic crisis.*

Even if a global economic recovery still eludes us, has President Obama's new team already achieved a stunning turnaround in US economic policy? Or has the administration just been fighting the last war, paying far too much attention to ancient history, special interests and political correctness in its programs to stimulate the economy, fix the banks and providing debt relief to homeowners?

For lifelong students of the Great Depression like Federal Reserve Chairman Ben Bernanke and Larry Summers, it probably seems that Obama's economics team is right on track. In less than a month, Obama has pushed his record \$787 billion stimulus bill through a highly partisan Congress. The resulting projected federal deficits will be even larger as a share of national income than those incurred under FDR, until World War II. At a time when unemployment is rising sharply, this should be good news for the economy--if the plan really is expected to be stimulating.

On February 10, Treasury Secretary Timothy Geithner announced a bold, if somewhat imprecise, \$2.5 trillion program to relieve US banks of dodgy assets once and for all. Combined with trillions in other loans and guarantees from the US Treasury and the Federal Reserve, this is designed to avoid another costly Great Depression-type error, in which scores of banks were allowed to fail and credit markets seized up. If the plan really is expected to work, that should also be good news for the economy.

Bernanke also concluded from his lengthy studies of the Great Depression that the Federal Reserve had **blown it** way back then by keeping monetary policy too tight. So ever since last summer he's made the US money supply as loose as loose can be, ballooning the Fed's balance sheet to nearly \$1 trillion and driving real interest rates down to zero, while pressuring his counterparts in Europe and Japan to follow suit.

Obama's team also has emphasized the importance of avoiding the beggar-thy-neighbor "protectionism" of the 1930s--aside from a little "Buy American" language in the stimulus bill and a few remarks from Geithner about China. If loose monetary policy and tighter lips are sufficient for recovery, it should be just around the corner.

Finally, in the course of Obama's drive to pass the stimulus, he traveled to troubled communities

in Indiana, Florida and Arizona and heard first-hand that millions of American homeowners and small businesses could use a little financial aid of their own right now. So Obama has committed \$275 billion of the remaining TARP/"Financial Stability" funds to this purpose. In principle, this should also be good news for the economy--if we really believe that the plan has what it takes to stem the galloping pace of foreclosures and bankruptcies.

Obama and his team may really believe that their first month in office compares favorably with FDR's in 1933. Historical pitfalls have been avoided, and there has been no shortage of good intentions, optimism and action. The new president has also assembled a team that includes, by its own admission, the nation's brightest economists and its most experienced veterans of the Fed and the Treasury.

But something seems to be missing. During FDR's first few months in office, and well into his second term, he received an overwhelmingly positive response not only from the public at large but also from the stock market, despite the fact that FDR and Wall Street generally detested each other.

In contrast, the reaction of global stock markets and market analysts to Obama's flurry of policy initiatives has been overwhelmingly negative. In the past week alone, since the passage of the stimulus, the announcement of the Geithner plan and the president's new plan for mortgage relief, the stock market has declined more than 10 percent. Indeed, the country's largest banks and auto companies, which were supposed to be the beneficiaries of much of these new programs, are on the brink of bankruptcy.

So what's the problem? Actually there are several problems. The first, as I noted in part one of this series, "**The Pseudo Stimulus**," there really is much less to Obama's stimulus than meets the eye and far less than will be needed to head off the dramatic increase in unemployment that is fast approaching.

For reasons of political convenience and a desire to move quickly, Obama and his advisors decided to appease a handful of key Republican senators, rather than seize the bully pulpit and rally support around a larger, more direct spending package with more debt relief for homeowners.

Ultimately Obama succeeded in getting just three "moderate" Republican senators and zero House Republicans to support the package. (Eleven House Democrats also voted against it.) These votes were costly. The final bill ended up slashing almost \$40 billion from the package, while boosting the share of tax cuts to nearly 40 percent--including almost half of all relief provided in the critical first year when it is essential to get the downturn under control.

Most macroeconomists still believe that under conditions of excess capacity, tax cuts generate much less employment per dollar of lost revenue than almost any kind of spending, because upper-income types will save the proceeds or use them to pay down debts. Furthermore, many of the tax cuts in Obama's bill are regressive, even allowing for his favorites, "Make Work Pay," the earned income credit and child care credit. This means their impact on jobs will be even more

limited.

For example, of \$214 billion of individual tax cuts in the first two years, \$100 billion will go to the top 20 percent, while the bottom 60 percent gets \$81 billion. Indeed, for one of the largest single tax cuts in the bill, the \$70 billion reduction in the "alternative minimum tax," 70 percent will go to the top 10 percent, while the bottom 60 percent--including most unemployed workers--get .5 percent. So Obama's vaunted plan relies on this premier-class AMT cut, plus another \$100 billion of business tax breaks, for 27 percent of its first two years of "stimulus."

On top of this, Republicans like Arlen Specter also have shown that they give no ground to Democrats when it comes to sausage-making. I won't repeat part one's list of trinkets, except to note that almost all the worst projects survived, and indeed were only enhanced by the solons' scrutiny.

As a former Minnesotan I'm all in favor of free WiFi for each and every one of the nation's two million farmers; I've also recently written here in glowing terms about the merits of **government-sponsored research and development** and "**green housing**." But this kind of spending has little to do with putting millions of unemployed people--most of whom are in urban areas--back to work.

All told, at least \$200 billion of this stimulus spending, on top of the \$200 billion of wasteful tax cuts, is not remotely related to the urgent goal of creating as many jobs as possible in the next twelve to eighteen months. The cause of recovery was hijacked by a weird coalition of environmentalists, energy companies, venture capitalists, public-sector unions, state governors, tax-cut nuts and other special interests.

The stimulus program was supposed to realize Obama's declared goal of saving or creating at least 4 million new jobs by 2012--even then, at the average cost of \$200,000 per job. According to the Congressional Budget Office, even that level of job creation would only reduce the US unemployment rate by an average of less than one percentage point a year by 2012, for a cumulative reduction of 2.5 to 3 percent relative to the CBO's projections of what unemployment will look like without the program.

By the time the Senate got through with it, Obama's stimulus became much weaker. So most economists now agree that it will be lucky to create or save even an extra 2.5 million jobs by 2012--about a 1.5 to 2 percentage-point cumulative reduction in the official unemployment rate by 2012, at an average cost to taxpayers of \$315,000 per job.

The contrast with FDR's focus on spending programs, which really did put people back to work, is stunning.

The Real Unemployment Rate

Recent trends in unemployment help us to understand just how much work we will have to do to define victory and to see how close we really may come to another Great Depression.

All the standard measures of unemployment are woefully inadequate, but the shortcomings change with the times. In good times, with tight labor markets, conservative economists find it satisfying to remind us that the degree of "involuntary" unemployment is probably overstated, because workers can afford to game the welfare system--for example, by collecting unemployment insurance while refusing reasonable job offers.

In hard times like these, however, official unemployment rates seriously understate the degree of slack and hardship in labor markets. For example, in addition to the 13 million people now unemployed (that's 8.5 percent of the labor force) another 7.8 million workers report that they are underemployed; at least 2.1 million to 5.9 million more (none of whom are collecting unemployment) say they're not in the labor force because they've given up looking. By another measure, the peak labor force participation rate, established when labor markets were very tight in 1999 and 2000, shows the potential supply of labor not counted as unemployed is even larger--10.6 million right now.

All told, this means by now there are already at least 23 million to 33 million American adults who are already experiencing increased unemployment, up from 13 million to 17 million from a year ago. By the end of 2009, as the official unemployment rate passes 10 percent and the other indicators of slack labor markets grow as well, this figure will swell to 40 million American adults--at least 9 million to 18 million more under-utilized workers than we have now.

A majority of these people have families. Furthermore, the unemployed population constantly turns over, with a median duration of joblessness that now exceeds ten weeks. This means that during the next year, up to one-third of the entire US population will personally encounter someone facing the harsh realities of involuntary unemployment, and perhaps homelessness and poverty as well.

These figures omit several other kinds of "hidden" unemployment that are not recorded in conventional labor force and unemployment statistics: the 1.44 million people on active duty in the military and the unemployment they would face if and when they return to civilian life; the 2.3 million inmates in federal, state and local prisons, all of whom are omitted from labor force and unemployment statistics; and the estimated 8.1 million undocumented workers in the United States who are in the labor force.

In many ways undocumented workers are the most vulnerable victims of the crisis. Most support families either abroad or home. Many also have been working hard here for years and have now lost their jobs, without any unemployment insurance, healthcare, rights to Social Security or other benefits. And since Congress has not been able to agree on a decent immigration reform bill, they may not even be able to count on achieving US citizenship, after years of working and waiting. Now they face a hard choice between remaining here, unemployed, or returning to violent, corruption-ridden "**Bantustans**" in Mexico, Central America, the Philippines and elsewhere.

It's important to take these factors into account when we consider how this downturn compares with earlier financial crises. Unemployment statistics for the 1930s are difficult to compare with

our current situation, given the different statistical procedures employed and the very different demographics in the two eras. But my analysis shows that it is possible that this crisis may turn out to be comparable to the situation in 1933, when unemployment peaked at roughly 25 percent of the US labor force.

This analysis provides a context for assessing Obama's original goal of creating/saving 3 million to 4 million jobs by 2012. The fact is, even that original goal simply wasn't anywhere close to being ambitious enough--and it certainly won't be met under the sadly compromised final "stimulus" plan. The negative reaction of global stock markets to Obama's plans so far appears to confirm this. We're going to have to stop the political games and get serious.

Geithner's TARP II

What about the second leg of Obama's new post-Depression economics policy initiatives, Geithner's **plan** to inject yet another \$2.5 trillion of ("public-private") capital into US banks to get rid of their toxic assets?

Markets reacted negatively to the plan not because investors necessarily opposed his new toxic asset buyback scheme. Most analysts felt that his long-anticipated statement was long on rhetoric about "stress tests and transparency" but short on digestible content--like being invited to dinner and then served pictures of food.

Indeed, like his website, **FinancialStability.gov**, Geithner's plan remains under construction. But critics may have missed the point--this lack of detail actually may be a political necessity. If the American people understood just how high a price the Obama administration may be willing to pay simply to keep our country's largest failing private banks private, we might need a few more guards at the **Winter Palace**.

Tim Geithner is not a former Wall Street insider in the Paulson/Rubin mold, nor was he ever for a single day a community organizer. He's an ambitious and cautious policy technocrat, whose lucrative private-sector career and board seats are still in front of him. We'd be hard-pressed to find anyone who, at age 47.5, had already punched more establishment tickets. His grandfather was a Ford Motor executive and Eisenhower adviser; his father is a Ford Foundation officer who raised Tim on three continents. He graduated from Dartmouth and Johns Hopkins, became a consultant for Kissinger Associates, a protégé of Robert Rubin and Larry Summers at Treasury in the 1990s, an IMF policy director in 2001-2003, a Council on Foreign Relations fellow and finally head of the Federal Reserve of New York. As of the end of 2008, he was still a member of the CFR, the Group of Thirty and the Economic Club of New York, organizations not routinely associated with sponsoring deep reforms in post-capitalist economies.

Geithner has seen his share of banking crises firsthand: Mexico in 1995, when the entire banking system had to be re-nationalized; Thailand, Indonesia and Russia in 1997-98; Argentina in 2001; and now the biggest one of all right here. All of the Third World crises just noted ended badly--costly, poorly-managed fiascos that did nothing to enhance the reputations of the US Treasury and the IMF. But perhaps Geithner was just an apparatchik. He worked closely last year with

Hank Paulson and Bernanke on Bear Stearns bailout, the Lehman/Merrill decisions, the AIG takeover and TARP I. So he probably understands full well not only the gory details of program design but also two fundamental political realities.

The first is that while nationalizing top-tier global banks may be politically acceptable in places like Norway, Sweden, Chile, Iceland, Ireland and even Japan and the UK, it is still viscerally opposed by most members of the power elite in New York and Washington--including most of his former club members.

The second is that by now, most American taxpayers have simply had it with huge Wall Street bailouts, supine members of Congress, overpaid banker *chutspadiks* and high-handed Treasury secretaries. If they were ever asked, there is no way in **Naraka** that taxpayers would ever approve yet another open-ended injection of public capital into banks--especially one costing three times the entire "stimulus" and three-and-a-half times TARP I.

So the trick is to not ask them. With bank stocks sinking every day, the credit crunch hampering recovery and high expectations about policy changes, Geithner had to say something. But not too much. The whole subtext of his vague announcement was to finesse the question of precisely where all the money would come from. The hope was that this would buy time to line up private capital, perhaps by negotiating some kind of insurance subsidy that would induce it to participate. The hope was that this would do enough to stem the decline in bank stock prices and redirect attention away from the new "N"-word--nationalization.

We've Been TARPed!

The public outrage is justified. Since October, more than 360 US banks (out of 8,367) have already received at least \$353 billion of TARP I funds from the Treasury. This is by far the largest corporate bailout in US history, more than twenty times the original \$17.4 billion auto industry bailout.

Of this, more than half went to the top fifteen banks in the country. This includes \$145 billion of capital injections awarded to Citigroup, Bank of America, JP Morgan and Wells Fargo, the top four US commercial banks; another \$10 billion each for Goldman Sachs and Morgan Stanley, two worthy investment banks that decided to become commercial banks to avail themselves of federal aid; and a grand total of \$84 billion to the rest of the US banks. There was also \$40 billion in capital injections and \$113 billion in credit in AIG, the profligate insurance company that sold so many flaky credit derivative swaps to investment banks like Goldman that it pioneered a whole new new "too fraudulent to fail" rule. In addition, by now US banks have also received at least \$1.82 trillion of federal loan guarantees and \$872 billion in federal loans.

These sums need to be viewed in the context of the staggering amount of government assistance that has recently been provided to private financial institutions all over the world. By February 2008, by my reckoning, banks and insurance companies have already absorbed at least \$817 billion of government capital injections, \$251 billion of toxic asset purchases, \$2.6 trillion of government loans and \$5.9 trillion of government debt guarantees. If we added the guarantees

for once quasi-private entities like Fannie Mae and Freddie Mac, the loan guarantees double to \$10.9 trillion.

To put all this in perspective, the 1980s savings and loan crisis cost taxpayers from \$150 billion to \$300 billion in comparable 2007 dollars. The 1998-99 Asian banking crisis cost \$400 billion. Japan's prolonged banking crisis in the 1990s cost \$750 billion. And the total amount of debt relief received by all Third World countries on the \$4 trillion of dodgy foreign debt that they incurred from 1970 to 2006 was just \$310 billion.

Those crises are completely over, while this one is still unfolding, so its ultimate cost is still uncertain. Already it is clear that ordinary taxpayers around the world are on the hook for total losses that will easily dwarf all the costs of all these other recent banking crises combined--including \$2 trillion to \$4 trillion of further bank write-offs beyond the \$1 trillion of losses already recognized. Since no government on earth has the surpluses on hand needed to fund such largesse, this means that we will be paying for this bailout one way or another for the rest of our lives, and probably for our children's lives as well, through increased inflation, taxation and reduced government services.

Never has so much been given to so few by many. Yet despite all this public generosity, much of the US banks' recent behavior been execrable. For example, in December we learned that the US Treasury got preferred securities in exchange for the first \$254 billion of TARP funds that, right off the bat, were worth \$78 billion less than the funds they received.

We've also watched with amazement as they've continued to fund corporate jets and other perks, and as several of the largest recipients of TARP funds have paid extravagant bonuses to senior executives for "performance" in 2008--a year when the banking industry contributed mightily to the tanking of the entire global economy. Nor have most banks been forthcoming about what they've actually done with all the TARP money--except to concede that they haven't done much new net lending. After all, they say, in this economic environment, with regulators suddenly breathing down their necks about leverage and toxic assets, they are not eager to take risks.

That's all well and good at the micro level, but at the level of the overall economy, we badly need banks to swallow hard and start churning out new loans--and not just to gold-plated borrowers who don't really need the money. Since TARP I funds were not dedicated to new lending, and, indeed, since policy makers like Paulson, Bernanke and (presumably) Geithner decided to leave TARP I's use entirely up to the banks' discretion, this period of extreme largesse and low interest rates has also coincided with tight credit markets--except for well-off corporations and elite borrowers and refinancers, who have actually been the main beneficiaries of Bernanke's low-interest rate policy.

So while both the Federal Reserve and the Treasury have been busy demonstrating that they have finally taken the lessons of the Great Depression to heart, and have been setting records for generosity and loose lending, at the end of the day they still allowed the private banking system to keep its elephant in the hallway, blocking the road to recovery.

'Net Worth? I Don't Got To Show...'

In the four months since receiving the first TARP Installment, the US banking industry has become a supersized version of the US auto industry--on the verge of bankruptcy, kept afloat by government capital, loans and loan guarantees, with no long-run strategy other than to continue its well-funded lobbying efforts and heavy campaign contributions and to occasionally show up in DC before toothless Congressional committees for well-choreographed rituals of contrition.

Since October 2008, the net worth of the entire US banking system-- all 8,367 domestic-owned US banks--has declined by \$420 billion, to just \$540 billion. In other words, TARP was one of the worst investment decisions in corporate history--the banks' net worth has declined by more one dollar of equity value for each additional dollar of TARP funds injected.

Indeed, the net worth of two of the largest banks in the system, Citigroup and Bank of America, is now around \$30 billion, less than half of the \$70 billion in government capital that they have received from TARP I, on top of \$424 billion of federal loan guarantees. Not only has their own "value added" during this period evidently been negative. For a fraction of the funds we've given these two banks, we could have stopped begging them to clean up their balance sheets, restructure their mortgages, stop wasting money, change their compensation plans and initiate sensible new lending programs. We could have bought a controlling share, hired new management from the droves of idle bankers now out on the street and re-privatized them at a profit for taxpayers in two to three years--just as successful "turnaround nationalization" programs have done again and again in these situations, from Norway to Chile.

No wonder that growing numbers of critics--not just hard-core lefties and Nobel laureates like Paul Krugman and Joseph Stiglitz but even pragmatic politicians like South Carolina Republican Senator Lindsey Graham--have started to break the taboo and talk explicitly about "nationalization."

But in an important sense the taboo had really already been shattered by TARP I, last year's expansion of FDIC deposit insurance and all the other new federal loan guarantees for the bank. In effect, these already "nationalized" the banks' debts. Now we're just talking about the other side of the balance sheet, where there might at least be some value, if only under new management.

The Toxic Alternative

Geithner is hardly unaware of this short-term nationalization approach to the credit crunch, or of the success it has in many other markets. But he has apparently rejected it in favor of a much more costly and uncertain route--establishing a public-private bailout fund that will somehow entice the banks to sell off their lousy assets and still have enough equity left to survive as private entities.

The limitations of this approach are best understood by taking another close look at Citigroup

and Bank of America, two of the most troubled institutions in this story. On their most recent balance sheets reported to the FDIC, these two big banks alone accounted for \$4.1 trillion of official on-balance-sheet "assets"--mostly loans and federal securities, but also a hefty amount of potentially dodgy mortgage-backed securities and other asset-based securities.

Right off the bat, therefore, at least by the accounting numbers, these two top banks alone now account for more than 30 percent of all the assets outstanding in the entire US banking industry. Indeed, the top fifteen banks account for over 60 percent. This represents an incredible increase in banking industry concentration since the early 1990s, when Citibank and Bank of America held just 7 percent of all US bank assets, and the top fifteen banks held 21 percent.

This increase in industry concentration was hardly an accident. It originated in the desires of bank executives to grow, boosting market share, short-term earnings, stock prices and the executive bonuses driven by those metrics. But it also reflected the gloves-off stance that Congress, regulators and antitrust enforcement took toward bank expansion during this period. And that, in turn, was probably related to the more than \$1 billion contributed by the financial services industry, their lobbyists and law firms, to politicians of both major parties since 1990, which turned the Senate Banking Committee the House Financial Services Committee and other key Congressional committees, in effect, into wholly owned subsidiaries of the banking industry.

Now how much might all these assets on the banks' balance sheets actually be worth? There is no active exchange for most bank assets, especially those that are hardest to value in this environment, like mortgage-backed securities. And by law, the banks are permitted to value the assets on their books at "fair market value"--in essence, whatever their accountants tell them they are likely to be worth, given historical experience with loan losses. But the difference between these accounting numbers and today's market value for these assets may be huge--up to half or more of book value. And the banks have a strong incentive to hold on to the loans and hope that things get better, rather than sell them off right now at whatever the market will bear. After all, as soon as they start selling down one loan bundle, they may be required to "mark to market" all similar ones. And the resulting writedowns might well be enough to wipe out all stockholder equity, leading to insolvency.

This whole situation is reminiscent of the 1980s Third World debt crisis, when banks like Citibank, Morgan and Chase resisted for years the demands of policy makers and developing countries to write down or sell off the billions of overvalued loans on their books--for no other reason than, as one former Chase banker put it, "a rolling loan gathers no loss." Similar behavior occurred during the prolonged Japanese debt crisis of the 1990s, when banks stubbornly resisted the efforts to get them to "mark to market" because several of them realized they would be bankrupt and no longer with us if they did so.

There's not really much moral culpability here. At ground level, from the standpoint of any individual bank, this behavior is understandable. After all, they have just gone through a period of careless underwriting, and are trying to reduce their loan losses and improve their capital ratios--just like most bank regulators want them to do. The larger banks have balance sheets that are best described as follows: "On the left side (assets), nothing is right; on the right side

(deposits and other capital), nothing is left." And since the economy is still slipping at an unpredictable pace all around them, no loan officer is eager to take on more risks. So it is hardly surprising that in the last quarter of 2008, even as the TARP money started to flow, US bank lending suffered its sharpest decline since 1980. It also makes perfect sense for them to resist selling off its loans and securities at what may eventually turn out to have been fire-sale prices.

While all this may be well and good for bankers, however, for rest of us it means that even after all those trillions in federal bailouts and loan guarantees, the economy is still starved for credit. The fact that major banks as a group continue to sit on all these lousy loans at book value, rather than selling them off and writing them down, means that they don't have much room on their balance sheets and in their capital/asset ratios for new loans. So the credit crunch continues. And banks that we eventually may find out were really insolvent may walk around in a trance for months or even years, like a scene from *Night of the Living Dead*. We're not talking about restoring the loose lending of the 2005-2007 bubble; we're talking about the essential liquidity needed to keep the wheels from coming off, stimulate demand and stem the decline in housing prices.

Citi-Zombi

The importance of all this becomes clearer when we take a close look at the composition of Citigroup's and Bank of America's \$4.1 trillion of assets outstanding. It turns out that these include \$1.3 trillion of real estate loans and mortgage-backed securities (22 percent of the US industry's total), \$153 billion of credit card loans (38 percent of the total) and \$150 billion of auto loans, student loans and other loans to individuals (25 percent). Clearly all these book values may be severely at risk in the current economic crisis.

But these potentially troubled categories of assets only add up to about \$1.6 trillion; why is Geithner talking about a \$2.5 trillion program? The FDIC's latest statistic provides a clue. It reveals the dominant role that the country's top banks have also played in issuing derivatives, including not only interest rate and currency swaps, but also in more notorious debt-based over-the-counter derivatives. As of September 2008, JPMorganChase, Citigroup and Bank of America accounted for an incredible 90 percent of \$7.9 trillion of these "off-balance sheet" credit derivatives that have been guaranteed by these banks themselves--including \$2.6 trillion guaranteed by B of A and Citi. So when Secretary Geithner was talking about running "stress tests"--scenarios for future housing prices, default rates and interest rates--against the balance sheets of particular banks, he was not talking about First Federal of Tuscaloosa or Suffolk County National in Riverhead. They've probably never guaranteed a credit derivative in their lives, much less tucked anything away in some Cayman Island "special purpose vehicle." Clearly, Geithner had his friends on Wall Street in mind.

A Political Problem

In short, we have a choice to make: we can spend perhaps \$150 billion to \$200 billion buying out the equity of a handful of leading banks that have gotten themselves in this mess and reform

them. This would involve taking them over immediately, installing new managers, giving their creditors a **haircut**, writing down the toxic assets (which the government-owned bank could do without fear of market reactions) and then preparing them for privatization when the market recovers.

Or we can follow Secretary Geithner's lead, fiddle around for months, throwing trillions more of government capital, loan guarantees and portfolio insurance at the problem, without any guarantee that the resulting cockamamie approach to creating a "public-private" toxic bank will ever work--while the same old troubled institutions are left standing, no longer encumbered by their dodgy assets perhaps, but still encumbered by dodgy managements.

There are lots of technical issues to be weighed in making this choice. But after reviewing all the objections to the kind of short-term, temporary, partial nationalization, I'm convinced that the most important issues are simply political, a choice between our commitment to a failed, hands-off model of bailouts and banking regulation and decisive, FDR-like action.

It is precisely because it is so hard to value these dodgy assets at all that we are even having this discussion. Given the absence of competitive markets for the assets, the uncertain environment and their dependence on taxpayer subsidies and insurance, the prices established are intrinsically political. Either they will be set so low that banks will have to take such massive writedowns that their shareholder equity will disappear entirely anyway, or--more likely--the prices or insurance arrangements will be set so that even more taxpayer wealth is transferred to these very same top-tier banks.

Meanwhile, the whole economy is hostage to this decision. We have no time to waste. We should get on with it, making use of one of the clearest market signals available in this situation--the current value of Citibank and Bank of America shares.

This argument is not at all anti-market, or necessarily even anti-bank. At their best, private markets, entrepreneurship and innovation are absolutely essential. My real objection is to a very specific kind of bank-dominated political economy. To call this "capitalism" is to have Ayn Rand and Friedrich von Hayek turning somersaults in the crypt. Time and again, this pathological form of pro-bank development has jeopardized the prosperity, stability and innovation of the small businesses, inventors and would-be savers who are the backbone of market economies. Bank-dominated political economies don't really deserve to be called "capitalism," since big bankers have never really been entrepreneurs who are content to stick to the capitalist rules of the game. Instead, they periodically demand the divine right to take unlimited risks, privatize the resulting gains and stick the rest of us with any resulting losses.

It is time for accountability, we are told by our new president. If so, we should start by holding the world's largest banks, hedge funds, insurance companies, mortgage brokers and private equity firms, together with their many friends in accounting, law, public relations, credit rating, central banking and higher office accountable for this crisis--if in no other way than by refusing to award them this even more massive TARP II bailout, permitting them to rob us, once again, with both hands.

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