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Primary Reasons the Current Actions by the Government Are Not Helping the True Economy

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This document outlines the primary reasons the current actions by the government are not helping the true economy. It also provides examples of items from the stimulus act that do not significantly contribute to rapidly creating jobs or providing assistance for the unemployed.

A. **PRIMARY REASONS THAT CURRENT EFFORTS ARE NOT WORKING TO IMPROVE THE REAL ECONOMY**

1. **Actions by Officials of the Federal Reserve, FDIC and various U. S. Government Agencies.**

Neil Barofsky, the Special Inspector General over the Troubled Asset Relief Program (TARP) in his July 2009 report to Congress reported that "Since the onset of the financial crisis in 2007 [through June 30 2009 the Federal Reserve, FDIC and various U. S. Government agencies have provided or committed $23.7 trillion of taxpayers' money to support the economy and financial system.

Most of these funds have gone to prop up selective, insolvent banks and other financial institutions under the guise of getting them to increase lending. Lending has not proportionally increased. Most banks, are charging exorbitant interest rates on the money that they are willing to lend. Meanwhile, foreclosures on homes, unemployment, poverty, hunger, the price of food and in particular the wealth divide between the rich and poor have increased or at least not getting any better.

If just a fraction of the of the $23.7 trillion had been spent on jobs, there would be no recession today.

If trillions of dollars can be provided to banks and financial institutions, there is certainly enough money for health-care and jobs.

One of the key programs of the bailout was the Troubled Asset Relief Program (TARP) which is described in detail, along with other related programs and issues, in Wikipedia at http://en.wikipedia.org/wiki/Troubled_Asset_Relief_Program.

The former Secretary of the Henry Paulson, Fed Chairman Bernake and the current Secretary of the Treasury Geithner were instrumental in distributing the $23.7trillion. **They have done nothing to fix the real problems in the financial systems** and have not announced which financial institutions are insolvent and by how much. Instead they used taxpayers money to buy stock in these institutions some of which are insolvent. They paid at least $78 billion more than the stock in the financial institutions was worth. (On February 5, 2009, Elizabeth Warren, chairperson of the Congressional Oversight Panel, told the Senate Banking Committee that during 2008, the federal government paid $254 billion for assets that were worth only $176 billion.)

The $23.7 trillion was provided in such a way that the U.S. Government and taxpayers essentially have no say as to how the money was spent or over the management of institutions that they bought shares in or provided funds to.

It would have been infinitely better to have used this money for jobs and recovery.

Under their “new" plans to try to fix the financial system, Geithner and Bernanke are unwisely and illegally, giving hundreds of billions of dollars more to financial institutions and draining more resources needed for jobs and other recovery efforts.

Geithner and Bernanke are allowing some of the banks to convert the preferred stock, that they and Secretary Paulson bought with taxpayers dollars, into common stock. This means that the banks will not have to pay the government dividends or buy back the stock in cash as they and Paulson had promised that the banks would do. At any point the common stock could become worthless.

Geithner and Bernanke are misleading the public under their so-called *new Consumer and Business Lending Initiative.* Under this program money will not be lent to consumers or businesses. According to the Treasury's Document: **The Consumer and Business Lending Initiative**[1] *the Federal Reserve Bank of New York will lend up to $200 billion to holders of eligible asset backed securities (ABS) with the ABSs as collateral .* [An ABS is a derivative]. *Eligible ABSs include newly issued securitizations backed by credit card loans, private and government-guaranteed student loans, and loans guaranteed by the Small Business Administration* [none of these items are assets] and they can easily become worthless with the taxpayers will be left holding the bag.

Likewise under their **"Homeowner Affordability and Stability Plan"** billions of more taxpayers' dollars will be given to banks. This will not work. It follows several other federal efforts to prevent foreclosures that have failed, including the Hope for Homeowners program, which was enacted last year.

Bernanke is also purchasing hundreds of billions of troubled mortgage-backed securities from Fannie Mae and Freddie Mac. Buying troubled assets will slow down the effort to actually determine what they are worth and reward the business executives who caused the problems with taxpayers money.

There are several articles on the internet that show how Geithner's **Public-Private Investment Program (PPIP)**[2] will transfer more taxpayer money to Wall Street. Basically, The Federal Deposit Insurance Corporation (FDIC) will put up 87%, the Treasury 7% and a "private assets funds manager", such as Goldman Sachs, 7% of the funds to setup essentially a hedge fund to buy toxic assets. The private investor will have absolute control over the assets. Geithner has apparently already picked the firms that will bid against one another to run up the price of the toxic assets to close to full price, which are probably worth less than 30 cents on the dollar. The asset manager could buy the toxic assets at full price and then sell them later for 28 cents on the dollar to another investor. The firm is supposed to give half of the sales price, 14 cents or 14% to the government and retain the other 14%. Under this scenario the brokerage firm will double it's investment, the bank get over three times what the toxic asset are worth and the taxpayer will lose 86% of their investment. The FDIC falsely represented to Congress that they needed $500 billion to protect depositors but is using the $500 billion for the PPIP.

Neither Geithner nor Bernanke are saying that these new plans will actually remove all the toxic assets from the financial systems. There is simply no way that the financial systems in the U.S. or the world can be bailed out. The Fed and U.S. government must not provide any additional funds to banks or to Wall Street. This money is needed for jobs and other recovery efforts.

On April 2, 2009, the Financial Accounting Standards Board (FASB) approved changes to fair-value, or mark-to-market accounting rules to allow firms to use "significant" judgment in gauging prices of some investments on their books, including mortgage-backed securities. *Banks will also be allowed to exclude from net income any* *losses they deem "temporary," making it easier to provide a flattering earnings picture*, said Kersting at Edward Jones.

2. **The abject failure of the Department of the Treasury's and Federal Reserve's bailout** which is not working and draining resources needed to put America to work.

a. The former Secretary of the Treasury, Henry Paulson, Fed Chairman Bernanke and Secretary of the Treasury Geithner were instrumental in distributing the $23.7 trillion. They apparently did nothing to determine the actual value of the troubled assets, how deep the financial institutions are in the hole or how to fix the real problems in the financial systems. Instead they used taxpayer money to buy stock in and lend money to banks, insurance companies and other financial institutions, some of which were insolvent. They purposely arranged it to see that the U.S. Government had no say over the management of institutions they bought shares in.

b. Under their "new" plans to try to fix the financial system, Geithner and Bernanke will unwisely and illegally, literally give trillions of dollars more to financial institutions, drain resources needed for jobs and other recovery efforts and enrich financial industry executives, bankers and stockbrokers with taxpayers and now FDIC money.

c. The Government should be regulating banks, not buying stock in them.

d. The bailout/TARP was supposed to restore confidence in the financial markets. It clearly has not done this.

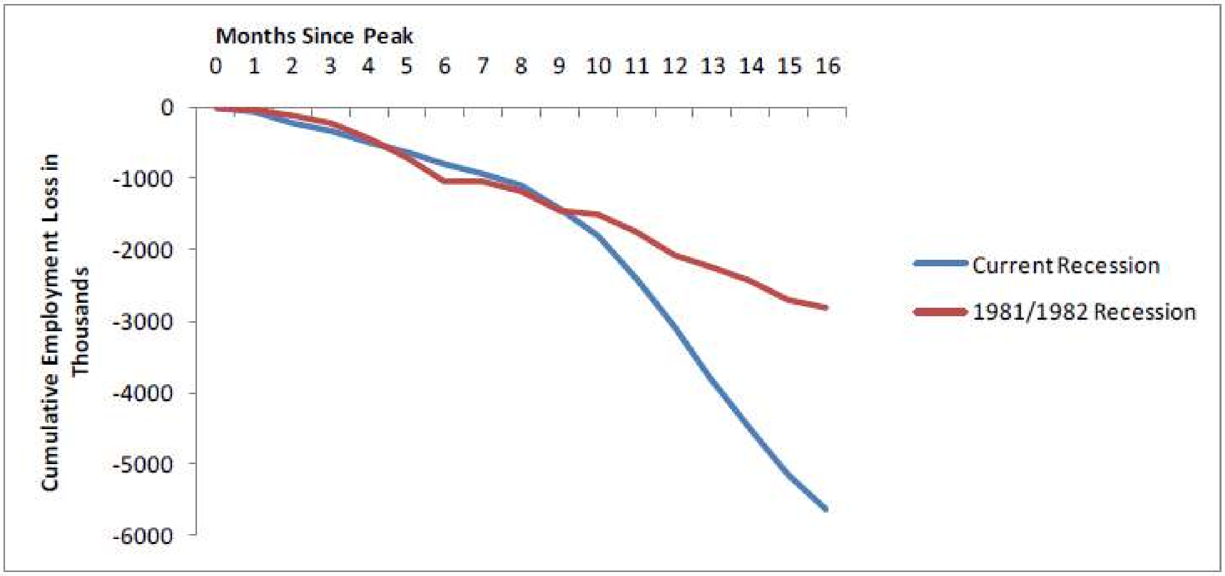
BACKGROUND

According to official Bureau of Labor Statistics, as of June 1, 2009, 14.5 million Americans are unemployed and the unemployment rate rose to 9.4% and another 9.1 million are only able to find part time work.

As can be seen in the below figure, the increase in unemployment has been a straight line for the past seven months. Since Congress and the President are doing essentially nothing to change this, unemployment is like to increase indefinitely.

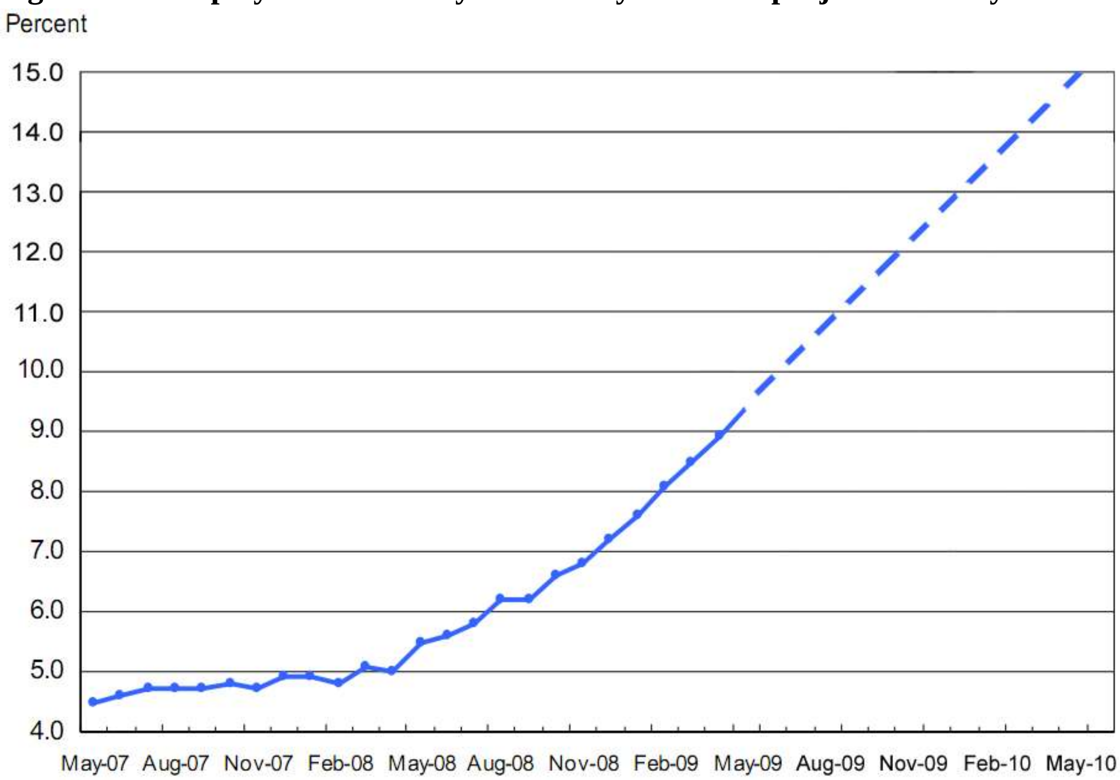
To grasp the severity of the current downturn, it is useful to compare it to the last severe post-World War II contraction in 1981-1982. The 1981-1982 recession lasted 16 months, although it took several years for employment to recover to its pre-recession level. In 1982, at the end of the recession, employment had dropped by 2,824,000 jobs or by 3.1% of payroll employment. By 16 months into the current "great recession," the U.S. economy had already shed 5,656,000 jobs or more than twice the number of jobs lost in that earlier recession. The current recession has not yet ended. By May, employment had dropped by 6 million jobs or 4.3% of payroll employment.[1] This comparison is shown graphically on the following page:

[1] "California Crisis: Unemployment Outpaces U.S. in Recession" By Lauren D. Appelbaum, Ph.D. Research Director, UCLA Institute for Research on Labor and Employment



Cumulative employment losses 16 months from the start of the current recession compared to 16 months from the start of the recession in 1981-1982. Source: Bureau of Labor Statistics

Figure 1. Unemployment rate May 2007 - May 2009 and projected to May 2010



The solid line is from the Bureau of Labor Statistics - Employment Situation May 2009

Credible sources believe that the actual number of unemployed are twice the government's official number. For example, the Jobs Solution, By Leo Hindery Jr. & Donald W. Riegle Jr., in the April 20, 2009 edition of The Nation stated that there are *in all, 26.9 million unemployed Americans* [over twice what the official number was at about the same time] *, who have little or no financial safety net--and, sadly, there are several million more to come. ... . we cannot be at all surprised that our food kitchens are serving millions of people, our homeless shelters are filled to capacity and Hooverville-type tent cities are cropping up in every region of the country.*

The $787 billion Stimulus Act is unlikely to create more than a half a million jobs this year. It is too long, complicated, and very poorly organized. It has earmarks and many other items that do not contribute to creating jobs or providing assistance . It provides billions of dollars to health insurance companies over one third of which will go to overhead and profits and not to new jobs or actual healthcare. Look at the table of contents of the Stimulus Act.

Even if it does create a half million jobs this year, at the end of December 2009, 20 million Americans will be unemployed and 13 million will only be able to find part time work based on the current monthly rates of increase in these two numbers.

A total of 20 million new jobs must be created as rapidly as possible and no later than the end September 2010. As many jobs as practicable must be saved. If the recession ends before this or if it worsens before the total is reached then these numbers can be adjusted.

Ramping up to 20 million new jobs, with average annual wages/salaries of $40,000.00 and 25% for overhead, energy and materials, by the end of the year, would cost about $375 billion, less than half of the $787 billion Stimulus Act.

Jobs for a year for 20 million people with average annual wages/salaries of $40,000.00 and 25% for overhead would cost one trillion dollars which is one twelfth of what has been provided or committed to prop up Wall Street and banks.

With decent jobs, people will be able to pay their mortgages (if interest rates are reasonable) and buy more goods. Companies will then be able to hire more people and produce and provide more goods and services. This will leverage the funds put into jobs and avert a depression.

These jobs should be in both the private and public sector and scattered throughout the country. A portion of the workers will be providing health care, child care and elderly care for others and manufacturing items that others will be installing. Other workers will be teaching, training, counseling, recycling materials, mining raw materials, generating energy, and food services and doing all the things that a community/country needs to do.

As these workers spend, millions of other jobs will be created.

Likewise, according to the CIA World Factbook, 30%, well over one billion, of the world's workforce are unemployed. Accordingly, one billion new jobs must be created as rapidly as possible and no later than the end December 2009. As many jobs as practicable must be saved. If the recession ends before this or if it worsens before the total is reached these numbers can be readjusted.

Ramping up to one billion new jobs, with average annual wages/salaries of $20,000.00 and 25% for overhead, energy and material by the end of the year, would cost about $10 trillion.

Jobs for a year for 20 billion people with the same average annual salaries and overhead would cost $25 trillion.

Underlying causes of the current recession

The following two figures explain the primary reason we have so much unemployment, they are from attachment A **Plan to Resolve the Foreclosure, Mortgage, Derivative, and Banking Crises, and Reform and Regulate Financial Systems**[3]:

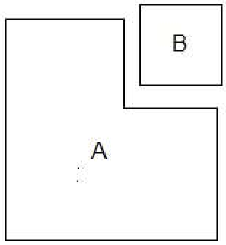


Figure 1: Before – mankind learned how to invent inventions and run them by inanimate power, all the inhabitants of the world working to full capacity, could not produce enough to escape chronic SCARCITY. Group A worked to support B, and in times of extreme hardship (war, famine, etc.) A (the masses) were sacrificed to preserve B (the elite who controlled production)

Figure 1.

Figure 2: After – mankind learned to invent inventions and run them with power taken from coal, oil, and waterpower. Now, a small fraction of the world (A) can produce enough goods for themselves and the remaining population of the world. Each year, as inventions improve, fewer workers are needed in production. Thus, the trend of modern civilization is toward unemployment[4]

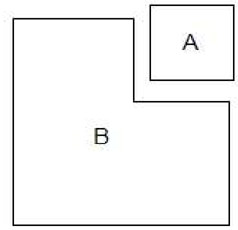


Figure 2.

The primary reasons for the recession is unemployment and the failure of the modern day businessman to share the increase revenues that resulted from the inventions.

They focused on huge profits and massive salaries instead.

B. **EXAMPLES OF ITEMS FROM THE STIMULUS ACT THAT DO NOT SIGNIFICANTLY CONTRIBUTE TO RAPIDLY CREATING JOBS OR PROVIDING ASSISTANCE FOR THE UNEMPLOYED**

Enact legislation on a priority basis to redirect items from the Stimulus Act that do not contribute to rapidly creating jobs and providing assistance for unemployed workers and struggling families and individuals and apply these savings to job creation.

Following are examples of such items:

All of the appropriations for military research development test and evaluation (RDT&E) and operations and maintenance. There are literally billions of dollars for these accounts in the 2008 and 2009 Iraq War Supplementals and the 2009 Defense Authorization and Appropriation Acts.

1. National Institute of Standards and Technology scientific and technical research and services

2. National Oceanic and Atmospheric Administration operations research procurement and acquisition

3. DEPARTMENT OF JUSTICE General Administration, tactical law enforcement wireless communications, Detention Trustee United States Marshals Service, Federal Bureau of Investigation, Federal Prison System, State and Local Law Enforcement Activities, Office on Violence Against Women, violence against women prevention and prosecution programs, Office of Justice Programs state and local law enforcement assistance, Community Oriented Policing Services

4. National Aeronautics and Space Administration aeronautics, exploration and cross agency support.

5. National Science Foundation, research and related activities.

6. $35 billion dollars for digitized health records. (A standard digitized record format should be agreed to first and should be a part of single payer health care systems.)

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2. **Troubled Asset Relief Program** (TARP): Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency, GAO-09-161. http://www.gao.gov/new.items/d09161.pdf

3. Five articles describing concerns with mortgage base securities, derivatives, deregulation, lobbying, campaign contributions, earmarks, and pork barrel spending at: http://www.sanjuanislander.com/columns/brandt/part-1.shtml

4. **Economic Crisis**: Supplement to Undoing the Bush/Cheney Legacy: A Tool Kit for Congress. http://mcli.org/Legacy_Add-On_Econ_Crisis.pdf

5. Article in **On Capitol Hill**, Money Is the Root of All Hypocrisy, 21 February 2009, by: Michael Winship, t r u t h o u t | Perspective, http://www.truthout.org/022109Y

Office of the Special Inspector General (SIGTARP) for the Troubled Asset Relief Program Quarterly Report to Congress, July 21, 2009 Advancing Economic Stability Through Transparency, Coordinated Oversight and Robust Enforcement

ENDNOTES

1. Treasury's Document: **The Consumer and Business Lending Initiative** (http://www.treas.gov/press/releases/reports/talf_white_paper.pdf.)

2. Doctorhousingbubble.com **Public-Private Investment Program for Dummies**, http://www.doctorhousingbubble.com/public-private-investment-program-for-dummies-how-does-the-new-treasury-plan-impact-housing-and-the-market-poorly-planned-investment-program-ppip/

3. See Endnote #2.

4. Willard and Marguerite Beecher, **The Sin of Obedience** which can be ordered from http://www.willardmargueritebeecher.org