Banks Bailed Out By American Taxpayers

They are Paying Us Back By Shorting Our States and Cities

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Americans bailed out the giant banks. So how do the too big to fails re-pay the American taxpayers?

By betting that American states and cities will fail.

As the Wall Street Journal notes:

> As U.S. cities and towns wrestle with financial problems, investors are finding a new way to profit on their misery: by buying derivatives that essentially bet municipalities will default.
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> These so-called credit default swaps are basically insurance contracts that have long been available to protect holders of corporate bonds against default. They became available a few years ago for municipal debt, allowing investors to short sell—or bet against—countless cities, towns and bridges, and more than a dozen states, including California, Michigan and New York.
>
> The derivatives are still thinly traded, but their existence has the potential to make investors skittish

Commenting on the story, Huffington Post points out:

> Offered by banks like JP Morgan, Bank of America, and Citigroup, the so-called municipal credit default swaps can be used by investors to bet that insurance contracts protecting holders of municipal bonds will default.
>
> Some states say the derivatives not only scare away potential buyers of municipal bonds by creating a perception of risk, but ultimately drive up states' borrowing costs. Others contend that the instruments are traded too thinly to affect municipal bond markets or a state's credit rating.
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> The California treasurer is just one of a number of state treasurers that have launched a probe into the sale of these derivatives and the sale of municipal bonds by big Wall Street firms that might reveal "speculative abuse of CDS in the muni market," says one regulator.

Of course, if states or cities go bust, Uncle Sugar will need to bail them out.

So by letting the bailed out gamblers on Wall Street run amok, Summers, Geithner, Bernanke and the gang are increasing the odds that the states and cities of America – you know, the actual constituent parts which make up the United States – will need to be bailed out.

Of course, bailing out the states and cities in the first place would have given more bang for the buck than throwing money at the giant banks, especially given that the Federal Reserve has intentionally created incentives to ensure that banks will not loan out money back into the economy.

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