

FINANCIAL MANIPULATION: Unrestrained Stimulus and Draconian Economic Austerity: Two Sides of the Same Coin

By [Washington's Blog](#)

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Theme: [Global Economy](#), [Poverty & Social Inequality](#)

The Elite Financial Players Are Manipulating the Game So that They Get the Stimulus ... and the Little Guy Gets the Austerity

Liberal economists and financial wonks say that we need to stimulate more to avoid falling back into an economic abyss.

Conservative economists and financial gurus say that we need to tighten our belts and live within our means, or the tsunami of debt will wipe out our prosperity, and that of our children and grandchildren.

We've repeatedly noted that [neither stimulus or austerity can ever work ... unless and until the basic problems with the economy are fixed](#).

But stimulus and austerity are not only insufficient ... they are actually 2 sides of the same coin.

Specifically, the central banks' central bank [warned in 2008](#) that bailouts of the big banks would create sovereign debt crises. That is exactly what has happened.

Remember, it is not the people or Main Street who are getting bailed out ... [it is the giant banks](#).

A study of 124 banking crises by the International Monetary Fund [found](#) that propping up banks which are only pretending to be solvent hurts the economy:

Existing empirical research has shown that providing assistance to banks and their borrowers can be counterproductive, resulting in increased losses to banks, which often abuse forbearance to take unproductive risks at government expense. The typical result of forbearance is a deeper hole in the net worth of banks, crippling tax burdens to finance bank bailouts, and even more severe credit supply contraction and economic decline than would have occurred in the absence of forbearance.

Cross-country analysis to date also shows that accommodative policy measures (such as substantial liquidity support, explicit government guarantee on financial institutions' liabilities and forbearance from prudential regulations) tend to be fiscally costly and that these particular policies do not necessarily accelerate the speed of economic recovery.

All too often, central banks privilege stability over cost in the heat of the containment phase: if so, they may too liberally extend loans to an illiquid bank which is almost certain to prove insolvent anyway. Also, closure of a nonviable bank is often delayed for too long, even when there are clear signs of insolvency (Lindgren, 2003). Since bank closures face many obstacles, there is a tendency to rely instead on blanket government guarantees which, if the government's fiscal and political position makes them credible, can work albeit at the cost of placing the burden on the budget, typically squeezing future provision of needed public services.

In other words, the "stimulus" to the banks blows up the budget, "squeezing" public services through austerity.

But instead of throwing trillions at the big banks, we could give some stimulus to Main Street. It would [work much better](#) at stimulating the economy.

And instead of imposing [draconian austerity](#), we could [stop handouts to the big banks, stop getting into imperial military adventures and stop incurring unnecessary interest costs](#) (and see [this](#)). This would be better for the economy as well.

Why aren't we doing this?

Underneath the false left-versus-right puppet show, this is not a financial crisis ... [it's a bank robbery](#).

As we [wrote](#) last year:

Economists [note](#):

A substantial portion of the profits of the largest banks is essentially a redistribution from taxpayers to the banks, rather than the outcome of market transactions.

Indeed, all of the monetary and economic policy of the last 3 years has helped the wealthiest and penalized everyone else. See [this](#), [this](#) and [this](#).

A "jobless recovery" is basically a [redistribution of wealth from the little guy to the big boys](#).

Economist Steve Keen [says](#):

"This is the biggest transfer of wealth in history", as the giant banks have handed their toxic debts from fraudulent activities to the countries and their people.

Nobel economist Joseph Stiglitz [said](#) in 2009 that Geithner's toxic asset plan "amounts to robbery of the American people".

And economist Dean Baker [said](#) in 2009 that the true purpose of the bank rescue plans is “a massive redistribution of wealth to the bank shareholders and their top executives”.

The money of individuals, businesses, cities, states and entire nations are disappearing into the abyss ...

... and ending up [in the pockets of the \[super-elite\]](#).

Passionate liberal Keynesians and committed fiscal conservatives might both want to guard against being manipulated into seeing only part of the picture. If the powers-that-be are manipulating the game so that they get the stimulus the little guy gets the austerity, then neither stimulus or austerity as currently being implemented are for the greater good.

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