Our Economy Is Going to Keep Tanking Until We Stop Shoveling Billions to Rich People

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For the past eight months, we have been a nation focused on bailouts and bankruptcies. For the past ten years, we have been a nation ignoring massive wealth transfer and wealth concentration through a rigged Wall Street.

As simple and clear as this picture is, some of the brightest minds in this country are unwilling to connect the cause and effect of wealth in too few hands to bankruptcies and a tanking economy.

Wealth-deprived consumers can't buy the goods and services being produced. This leads to repetitive cycles of layoffs and growing unemployment which leads to more wealth-deprived consumers leading to more overcapacity in production plants, more layoffs, more shrinking purchasing power.

The accompanying, and equally dangerous, problem is that concentrated wealth stifles the very innovation that is necessary to create new industries, new jobs and lead us out of the downward economic spiral.

Let's think about the individuals who tapped into Wall Street's rigged wealth transfer system and what they have done with their ill-gotten loot: typically, they own three or more homes, fancy cars, multiple country club memberships, airplanes, yachts, and numbered offshore bank accounts. The problem is, they just can't buy enough to compensate for the purchases they have deprived hundreds of thousands of other consumers from being able to make.

Goods sit on shelves, new orders get cancelled, leading to production cuts, layoffs, plant closings and bankruptcies.

In a nutshell, it's the $1 Billion that Sandy Weill extracted from Citigroup as its former CEO and Chairman that's the problem; it's the $42 million condo he bought that's depriving 140 other people from having $300,000 to buy a home ready to go into foreclosure for want of a buyer. It's the hundreds of millions Weill is throwing around to plaster his name and his wife's name on buildings that could be in the hands of 10,000 consumers going out to buy Chrysler and GM cars now gathering dust on the lots of dealers about to go bust.

It's also that Sandy Weill and his colleagues of that era on Wall Street did not do anything worthy or smart in exchange for extracting that wealth from the system. They repealed the regulations that had kept the system on a more solid footing, then looted the system and left it a basket case. We have no residual benefits of innovation to compensate for all that missing wealth.

And that is the real and overlooked attendant danger: too many billionaires sitting atop too many billions tied up in mansions and yachts means that millions of budding innovators and entrepreneurs are being deprived of adequate funds to create the breakthroughs that will lead to new industries and future job growth.

And let's not forget about the trillions of dollars of wealth that evaporated in bogus ventures that Weill and his fellow Wall Streeters brought to market on NASDAQ. Add those trillions to the bailout trillions and you're looking at a lost generation of funds for innovation.

What all of this means is that President Obama has precious little time left to stop rewarding failure and bad behavior before his own Presidency is deemed a failure. It was difficult enough to countenance the reappearance in his administration of all those Wall Street faces who failed to rein in the Wall Street abuses or, worse, aided and abetted the actual creation of the opaque system that permitted the looting and pillaging. But this past week's news that the President might be considering a pivotal role for the Federal Reserve in the new regulatory structure planned for Wall Street crosses the line, if true, from hubris to outright contempt for the American people.

The inherent cronyism of the Federal Reserve renders it utterly useless as a watchdog. (Why is it even necessary to have to state that obvious fact when no one can shake loose from the Fed what it's done with trillions in taxpayer dollars or why it failed to police these Frankenbanks in the first place.) The same thing is true of the U.S. Treasury, which can't auction its own debt without the goodwill of its Wall Street primary dealers.

According to March 31, 2009 data from the Federal Deposit Insurance Corporation, there are 8,246 FDIC insured institutions with total assets of $13.5 Trillion and domestic deposits of $7.5 Trillion. Four institutions, Bank of America Corporation, JPMorgan Chase & Co., Wells Fargo & Co. and Citigroup Inc., four institutions out of 8,246, control 35% of all the insured domestic deposits and 46% of the assets according to the March 31, 2009 figures from the FDIC.

Has the Federal Reserve taken steps to reduce this massive concentration since the financial crisis began? Quite the contrary. Bank of America was allowed to purchase the investment bank and brokerage firm Merrill Lynch as well as subprime lender Countrywide Financial; JPMorgan Chase took over the investment bank and brokerage firm Bear Stearns as well as Washington Mutual; Wells Fargo & Co. took over Wachovia.

The Federal Reserve's answer to concentrated wealth is to concentrate it further. The Federal Reserve's answer to unmanageable, dysfunctional banking institutions is to make them more unmanageable and more dysfunctional.

President Obama needs to do three things quickly to get the country back on course: he needs to separate investment banking/brokerage from commercial banks. This will restore risk taking and innovation to where it belongs, in non FDIC insured institutions. He needs to put new faces that Americans can trust in charge of real regulators with real powers. He needs to stop funneling money to zombie institutions that haven't created anything of innovative value in a decade and channel those funds into innovative research and development projects.

President Obama needs to step up to the plate and stop listening to conflicted advisors. The fate of a nation, as well as his place in history, hangs in the balance.

Pam Martens worked on Wall Street for 21 years; she has no security position, long or short, in any company mentioned in this article. She writes on public interest issues from New Hampshire. She can be reached at pamk741@aol.com

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