# Wall Street's War Against Main Street America

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Former Treasury Secretary Hank Paulson wrote an op-ed in The New York Times, (Feb. 16)[1] outlining how to put the U.S. economy on rations. Not in those words, of course. Just the opposite: If the government hadn't bailed out Wall Street's bad loans, he claims, "unemployment could have exceeded the 25 percent level of the Great Depression." Without wealth at the top, there would be nothing to trickle down.

The reality, of course, is that bailing out casino capitalist speculators on the winning side of A.I.G.'s debt swaps and CDO derivatives didn't save a single job. It certainly hasn't lowered the economy's debt overhead. But matters will soon improve, if Congress will dispel the present cloud of "uncertainty" as to whether any agency less friendly than the Federal Reserve might regulate the banks.

Mr. Paulson spelled out in step-by-step detail the strategy of "doing God's work," as his Goldman Sachs colleague Larry Blankfein sanctimoniously explained Adam Smith's invisible hand. Now that pro-financial free-market doctrine is achieving the status of religion, I wonder whether this proposal violates the separation of church and state. Neoliberal economics may be a travesty of religion, but it is the closest thing to a Church that Americans have these days, replete with its Inquisition operating out of the universities of Chicago, Harvard and Columbia.

If the salvation is to give Wall Street a free hand, anathema is the proposed Consumer Financial Protection Agency intended to deter predatory behavior by mortgage lenders and credit-card issuers. The same day that Mr. Paulson's op-ed appeared, the Financial Times published a report explaining that "Republicans say they are unconvinced that any regulator can even define systemic risk. … the whole concept is too vague for an immediate introduction of sweeping powers. …" Republican Senator Bob Corker from Tennessee was willing to join with the Democrats "to ensure 'there is not some new roaming regulator out there … putting companies unbeknownst to them under its regime.'"[2]

Mr. Paulson uses the same argument: Because the instability extends not just to the banks but also to Fannie Mae and Freddie Mac, Lehman Brothers, A.I.G. and Wall Street underwriters, it would be folly to try to regulate the banks alone! And because the financial sector is so far-flung and complex, it is best to leave everything deregulated. Indeed, there simply is no time to discuss what kind of regulation is appropriate, except for the Fed's familiar protective hand: "delays are creating uncertainty, undermining the ability of financial institutions to increase lending to businesses of all sizes that want to invest and fuel our recovery." So Mr. Paulson's crocodile tears are all for the people. (Except that the banks are not lending at home, but are shoveling money out of the U.S. economy as fast as they can.)

As Mr. Obama's chief of staff Emanuel Rahm put it, a crisis is too good a thing to waste. It's a con man's old trick to pressure the victim to make a decision fast. Having created the crisis, Wall Street wants to use its momentum to knock out any potential checks to its power. "No systemic risk regulator, no matter how powerful, can be relied on to see everything and prevent future problems," Mr. Paulson explained. "That's why our regulatory system must reinforce the responsibility of lenders, investors, borrowers and all market participants to analyze risk and make informed decisions," In other words, blame the victims! The way to protect victims of predatory bank lending (and crooked sales of junk securities) is not new regulations but just the opposite: "to simplify the patchwork quilt of regulatory agencies and improve transparency so that consumers and investors can punish excesses through their own informed investing decisions." Simplification means the Fed, not a Consumer Financial Protection Agency.

Moving in for the kill, Mr. Paulson explains that the Treasury is bare, having used $13 trillion to bail out high finance in 2008-09. So he warns the government not to run a Keynesian-type budget deficit. The federal budget should move into balance or even surplus, even if this accelerates the rise in unemployment and decline in wage levels as the economy moves deeper into recession and debt deflation. "We must also tackle what is by far our greatest economic challenge — the reduction of budget deficits — a big part of which will involve reforming our major entitlement programs: Medicare, Medicaid and Social Security." The economy thus is to be sacrificed to Wall Street rather than reforming finance so that it serves the economy more productively. It is simple mathematics to see that if the government cannot raise taxes, it must scale back Social Security, other social welfare spending and infrastructure spending.

What is remarkably left out of account is that today's financial crisis centered on public debts is largely fiscal crisis. It is caused by replacing progressive taxation with regressive taxes, and above all by untaxing finance and real estate. Take the case of California, where tears are being shed over the dismantling of the once elite University of California system. Since American independence, education has been financed by the property tax. But Proposition 13 has "freed" property from taxation – so that its rental value can be borrowed against and turned into interest payments to banks. California's real estate costs are just as high with its property taxes frozen, but the rising rental value of land has been paid to the banks – forcing the state to slash its fiscal budget or else raise taxes on labor and consumers.

The link between financial and fiscal crisis – and hence the need for a symbiotic fiscal-financial reform – is just as clear in Europe. The Greek government has pre-sold its tax revenues from roads and other infrastructure to Wall Street, leaving less future revenue to pay its public debt. To cap matters, paying income tax is almost voluntary for wealthy Greeks. Tax evasion is hardly necessary in the post-Soviet states, where property is hardly taxed at all. (The flat tax falls almost entirely on labor.)

Throughout the world, scaling back the 20th century's legacy of progressive taxation and untaxing real estate and finance has led to a public debt crisis. Property income hitherto paid to governments is now paid to the banks. And although Wall Street has extracted $13 trillion in bailouts just since October 2008, the thought of raising taxes on wealth to pay just $1 trillion over an entire decade for Social Security or health insurance is deemed a crisis that would lead Wall Street to shut down the economy. It is telling governments to shift to a regressive tax system to make up the fiscal shortfall by raising taxes on labor and cutting back public spending on the economy at large. This is what is plunging economies from

California to Greece and the Baltics into fiscal and financial crisis. Wall Street's solution – to balance the budget by cutting back the government's social contract and deregulating finance all the more – will shrink the economy and make the budget deficits even more severe.

Financial speculators no doubt will clean up on the turmoil.

Notes

[1] Henry M. Paulson Jr., "How to Watch the Banks," *New York Times* op-ed., February 16, 2010

[2] Tom Braithwaite, "Senators oppose 'systemic risk' curbs," *Financial Times*, February 16, 2010.



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