FRIENDS OF THE MIDDLE
NEWSLETTER #32 — DEC. 6, 2011

Welcome to always lively political discussion and whatever else comes up.
http://www.FriendsOfTheMiddle.org FriendsOfTheMiddle@hotmail.com

INDEX: Click here.

The Real Divide in America

(posted by Steven W. Baker / SteveB, Dec. 6, 2011)

Republicans and Democrats. Right and Left. Red and Blue. As polarized as this seems, it does not represent the complete reality of American politics.

Yet we end up in two camps, sniping at each other between occasional bursts of machinegun fire. Despite having as many things in common as opposed.

Three things are interesting to me here: 1) Why we tend to extremes; 2) Why people hold the views they do; 3) What common ground can we find and build upon.

This article sheds light on these. Between the polarities of Individualism and Institutionalism that the article discusses, I feel exactly in the middle of the continuum. Institutions should protect society from bad individuals and bad individual behavior, even one's own, and should do everything else possible to promote the freedom and success of the individual. Neither is more important than the other. Else we might as well live like bobcats.

May we find a way forward together.

"The Real Divide in America" by David Sirota, *Salon*

Dec. 5, 2011, (http://www.salon.com/2011/12/05/the_real_divide_in_america/singleton)

(The real divide in America isn't red versus blue, it's individualists versus institutionalists. And the latter may finally be winning.)

Less than a year from the presidential election, the harrowing television graphics, tired sports metaphors, and end-of-the-world fundraising pitches are once again upon us. You know the script — Democrats versus Republicans, good versus evil, with-us-or-against-us. Whichever team you happen to be on, you are encouraged to see it as your side's phalanx lining up on the battlefield against the other's, in hopes that this time, your troop offensive will finally vanquish the despised opponent once and for all.

But while so much of our culture asks us to rely on this vapid red-versus-blue analysis to understand American society, the truth is there are other binary constructs that better explain the very real chasms separating us.

Economic policy, for instance, typically ends up being a fight not between Democrats and Republicans, but between two competing forms of socialists — Corporate Socialists, who insist that public money is best used to bribe or subsidize private business, and Democratic Socialists, who want public money spent exclusively on publicly owned entities (corporate socialists, who dominate both parties, almost always win the big legislative fights). Foreign policy, as we've seen most blatantly in the post-9/11 era, is now a fight between Interventionists and Mind-Our-Own-Business types, with the bipartisan coalition of the former usually winning out. And social policy has long been a struggle between Huge-Government Moralists, who want to regulate every aspect of your private life, and Live-and-Let-Livers.

While certainly as crude as Red versus Blue, these paired archetypes better reflect the political and cultural gaps that cleave America. But of all those fissures, none has been more defining than the one between Individualists and Institutionalists — and the unexpected good news in the awful events of the last year is that we may be experiencing a once-in-a-lifetime psychological shift toward the latter.

To clarify these two broad terms, let's review their contemporary meaning.

Individualists are those who see society's successes and problems as coming mostly from individual behavior. Motivated by impulse and human nature's affinity for simple good-versus-evil stories, Individualists tend to see history as a series of parables about Great Men and Bad Men, Rogues and Bureaucrats, Heroes and Villains. In other words, Individualists subscribe to Margaret Thatcher's theory that "there is no such thing as society — there are individual men and women."

So, for example, an economic boom period is viewed by the Individualist as a success story of individual and/or presidential intelligence, innovation and hard work, not a triumph of institutions such as good schools, solid infrastructure or properly calibrated tax and trade laws. Likewise, rich people are viewed as singular superheroes whose wealth is a consequence of personal perseverance, not beneficiaries of institutional support whose assets have been accrued through systemic privilege.

At the same time, problems are portrayed by the Individualist as the result of personal transgressions, but not systemic forces: Crime is the scourge of individuals like Willie Horton, not a result of institutional forces like poverty or desperation; the education crisis is the result of individual bad teachers or parents, not systemic economic inequality or misguided school funding formulas; prejudice is the plague of individual bigots, not institutional racism; housing market meltdowns happen because of irresponsible home buyers, not because of predatory financial institutions or the banking system; and recessions occur because of "welfare queens," "parasites," "takers," or other assorted layabouts — but not larger forces like globalization or crony capitalism.

Institutionalists, by contrast, see it the other way around. They tend to see institutions – whether governmental agencies, corporations, popular cultures or specific policies and incentives – as the most prominent forces in society. To them, it's "The Man," more than the particular men.

Rooted more in data and empiricism than in gut feeling and apocrypha, this camp sees the most famous historical achievements like, say, the New Deal and civil rights movement not as merely the personal victory of people like Franklin D. Roosevelt and Martin Luther King Jr., but as the result of decades of mass organizing for systemic change.

Similarly, the big problems in society aren't seen as a reflection of individual shortcomings, but as a product of systemic dysfunction. In this Institutionalist view, Congress' recent refusal to reduce the national debt isn't merely the crime of individual lawmakers serving on the so-called supercommittee, but also the fault of a democratic system that's rigged to fail. Likewise, abuses of state power — whether torture at Abu Ghraib prison or brutality from municipal police forces — are less the sin of the individual grunts than the product of a culture of violence. And nationwide unemployment doesn't stem from a lack of "personal responsibility" among workers, but from an economy that is producing only one job opening for every seven job applicants — that is, an economy in systemic crisis.

To be sure, it's not this simple — after all, mass psychology and real-world situations don't function on a strict either/or continuum. Individualists, for instance, will selectively complain about systemic problems if such grievances fit their political agenda (notice how many Ayn Rand acolytes, for instance, vent broad-brush attacks on institutions like organized labor or "Big Government"). Similarly, Institutionalists often channel part of the Individualist analysis, like when they criticize Congress and yet tell pollsters they love their congressperson, or when they chastise the banking system as a whole but also demand that individual bankers be prosecuted. And, of course, corporations try to selectively blur the distinction between the two, simultaneously presenting themselves as multifaceted organizations but also as individual persons whenever the definitions suit their objectives.

That said, the general differences between these overarching worldviews are real — and it's no overstatement to say that contemporary American history has been defined by a back-and-forth battle between the two. Think back to just the last 75 years or so: With the Great Depression attributed to the Individualist every-man-for-himself mind-set run amok, the New Deal and Great Society predicated their agenda on building public systems and institutions like Social Security, Medicare and the regulatory state. Then came the Reagan Revolution — its deregulatory agenda aimed to free the individual from those systems and its law-and-order, demonize-the-poor posture focused on punishing the so-called bad eggs.

For most of the last 30 years, the political pendulum has been swinging in that same Individualist direction. Even in the face of overwhelming economic data indicating the Individualist worldview, it has remained the dominant paradigm, with little sign of retreat. That's most likely because it is particularly well-suited to an information age that rewards oversimplified narratives about Great Men and dramatized individual stories over nuanced analysis and multifaceted reality.

Not surprisingly, this has deeply frustrated Institutionalists, whose recent political victories have been essentially limited to stopping or slowing the destruction of institutions like Social Security, Medicare and public schools rather than actually building new ones. Unable to gain any kind of traction or agency, and yet nonetheless still blamed for unpopular government-backed monstrosities like the TARP bailout, the Institutionalist argument seemed destined to reside only in magazine essays, little-read nonfiction books and Washington symposia — not in American society at large.

But then in the last year or so, as if out of nowhere, came three sets of events suddenly articulating the Institutionalist argument in a more powerful, cogent and far-reaching way than any academic white paper, political convention speech or epic cable-TV rant ever could.

In the hallowed cathedral of religion, we learned that Pope Benedict XVI may have been part of systemic efforts to cover up sexual abuse allegations against the Catholic Church. No longer could the Individualist argument stand — no longer could the allegations against the Vatican be viewed as only a transgression of single priests-turned-pedophiles. Even the legal system, which on crime-and-punishment matters leans toward the Individualist ideal, began agreeing that this is a systemic problem. As the Associated Press reported in November, a British court has cited the doctrine of "vicarious liability" in ruling that the church as a whole could be held liable for the crimes of its clergy.

This fall has also witnessed the sudden rise of the Occupy Wall Street protests, a collective primal scream anthropomorphized as a functioning social movement. And not just any social movement — one whose critique of economic and political institutions directly contradicts the Individualist ideology. As if deliberately underscoring that key point, this insurrection isn't succumbing to the media's Individualist pressures for singular iconic spokespeople and a narrow agenda, nor is it organized around toppling individual politicians. It's actually living its Institutionalist creed, refusing to elect individual leaders or to voice demands via individual mediators — all while calling for systemic change of American society.

Now, as the year comes to a close, big-time sports — the ultimate stage for "Just Do It" hyper-individualism — finds itself being viewed not through the prism of singular superstars, but through the more dispassionate lens of institutional inequities. On the professional side, NFL and NBA labor strife has turned football and basketball into cautionary tales about the iniquities of today's employer-employee system. On the college level, high-profile booster scandals and lawsuits seeking remuneration for unpaid players have transformed the NCAA into a lesson in the persistence of the institution of indentured servitude. And with its unspeakable allegations and systemic coverup over years, the Penn State sexual abuse scandal has turned a mirror onto an entire higher education monolith that can seem more interested in protecting its treasured brands than anything else.

Though America will no doubt continue its historical vacillation between the Individualist and Institutionalist mind-set, the high-profile nature of these recent events, and the fact that they pervade so many different arenas of public life, may foreshadow a deeper shift in mass psychology.

Survey data and political rhetoric highlight that potentially huge change.

In the last few years, polls have shown large majorities viewing the Catholic Church scandal as systemic in nature, with most holding the Vatican leadership — not just individual priests — partially responsible. Same thing for Penn State — a new Gallup survey shows most seeing the situation in institutional terms, with 59 percent believing that the scandal proves the football program as a whole "had become too powerful." Meanwhile, polls indicate that while Americans may have questions about the individual Occupy Wall Street demonstrations, the data also prove America overwhelmingly supports the Occupy movement's Institutionalist critique of government and the economy (tellingly, the right's major critique of the Occupy protests mimic Richard Nixon's assault on the Vietnam protests by focusing on individual-themed criticism — i.e., stories of protesters' individual illicit behavior, etc. — in order to try to distract from the movement's uber-popular institutional critique).

These numbers are likely why major leaders of both parties — who typically offer up Individualist bromides — are suddenly rushing to echo the Institutionalist analysis.

Last month, conservative radio host Rush Limbaugh and Republican icon Sarah Palin added their voice to the Occupy critique of systemic inequities. At the same time, President Obama responded to the Penn State controversy by saying "every institution has to examine how they operate."

Those words could be the official motto of Institutionalism. They don't exonerate the individual or pretend "personal responsibility" doesn't matter, nor do they make a Nazis-at-Nuremberg argument about institutional immorality wholly *absolving* individuals of responsibility. But they do reaffirm that systems can be just as culpable as individuals — and in many cases, even *more* culpable.

Herein lies the unspoken truth in the Institutionalist viewpoint. For all the Individualist rhetoric about "personal responsibility" and "bad eggs," there will always be irresponsible and bad people among us, no matter how Good and Decent our society is. That's just a fact of life, which is exactly *why* a civilized society sets up institutions in the first place: to make sure dispassionate systems are in place to be more consistently rational, judicious and fair than impulsive individuals who so often end up being the opposite.

[And not only crooks in the street, but criminals in the Board Room must be controlled too! —SteveB]

This is precisely what John Adams was speaking to when he said "**the very definition of a republic is an empire of laws, and not of men**." In light of that founding ethos, when an institution allows those laws to be broken, it should be as culpable in America as any single perpetrator. To put that sentiment in real-world terms, if the allegations are true that Jerry Sandusky raped children, then he clearly deserves a serious punishment. But if the allegations are true that Penn State systematically ignored those allegations and didn't report them to police, then the entire university — or at least its athletic department and administration — deserves a similarly harsh punishment, or worse.

Obvious as this principle is, it's hard to deal with, because institutions supposedly represent all of us — or at least our universal ethic. Many of us, in fact, draw our very self-image from the institutions we associate with, whether a football team, a religion or a nation. To admit institutional culpability, then, is to admit our own failings — which is why we have too often opted for diversionary explanations. Rather than admitting to systemic problems, we have sought simplicity over nuance, looked for reassurance in the face of disturbing realities, and taken refuge in the Individualist fairy tale — the one that insists that problems are all the fault of singular Villains. The process brings us almost completely full circle — our Individualist religion births a twisted omertà that prioritizes the protection of our treasured institutions over the protection of individuals themselves.

But all those horrifying headlines about priests abusing children and rapes in college locker rooms and police brutality against peaceful protesters just can't fit into an Individualist narrative anymore. Our anger is rightly moving us beyond the silly idea that every problem is merely the fault of a few bad guys.

This is why when we read Pope Benedict's old letters going easy on accused pedophiles, we aren't just enraged at him — we want much-needed reform of the Vatican as a whole. This is why when we read the grand jury indictment in Penn State, we don't just fume at Sandusky or coach Joe Paterno — we are rightly horrified at their university. And this is why when we see a multinational bank throwing thousands out of their homes, or we see that YouTube clip (http://www.youtube.com/watch?v=6AdDLhPwpp4) of peaceful Occupy protesters being pepper-sprayed at the University of California, Davis, we don't just get mad at the bank CEO or the pepper sprayer, Lt. John Pike — we understandably demand answers from the entire financial system and the police force that is violently defending that system's interests.

Indeed, with systemic forces so obviously at work, and with the costs of these atrocities so obvious and so huge, we are no longer willingly deceiving ourselves with the Individualist's reassuring-but-fraudulent explanation. We are instead being forced to accept that the institutions and society are part of the story.

If there are any positives to come out of the economic, religious and cultural tragedies that have marked these last few years, that radical-yet-rational realization will be the biggest of them all.

(David Sirota is a best-selling author of the new book *Back to Our Future: How the 1980s Explain the World We Live In Now*. He hosts the morning show on AM760 in Colorado. E-mail him at ds@davidsirota.com, follow him on Twitter @davidsirota or visit his website at www.davidsirota.com.)

FotM NEWSLETTER #32 (Dec 6, 2011)—HYPERTEXT INDEX

20111205-01	07:52	SteveB	Replay: "The Cost of Corporate Communism"

I would think American small businessmen would be at the fore of any movement to fight monopolies, government favoritism, and system rigging to favor large international corporations, which are all essentially against small business. No? If so, you're on our side! This is the danger we see. That government is being manipulated unfairly against the American people and small business. Gads! The middle class is falling like flies!

By the way, this is an opinion piece to get you thinking. It doesn't prove anything. That's up to each of you.

(The article below thanks to one of our two great researchers, Dennis. The other, SteveG, did an amazing job on Senate Bill S.1867 recently.)

"The Cost of Corporate Communism" by Dylan Ratigan, Huffington Post

Aug. 23, 2011, (http://www.dylanratigan.com/2011/08/23/the-cost-of-corporate-communism/)

Lately I have been using the phrase "Corporate Communism" on my television show. I think it is an especially fitting term when discussing the current landscape in both our banking and health care systems.

As Americans, I believe we reject communism because it historically has allowed a tiny group of people to consolidate complete control over national resources (including people), in the process stifling competition, freedom and choice. It leaves its citizens stagnating under the perpetual broken systems with no natural motivation to innovate, improve services or reduce costs.

Lack of choice, lazy, unresponsive customer service, a culture of exploitation and a small powerbase formed by cronyism and nepotism are the hallmarks of a communist system that steals from its citizenry and a major reason why America spent half a century fighting a Cold War with the U.S.S.R.

And yet today we find ourselves as a country in two distinctly different categories: those who are forced to compete tooth and nail each day to provide value to society in return for income for ourselves and our families and those who would instead use our lawmaking apparatus to help themselves to our tax money and/or to protect themselves from true competition.

If you allow weak, outdated players to take control of the government and change the rules so they are protected from the natural competition and reward systems that have created so many innovations in our country, you not only steal from the citizens on behalf of the least worthy but you also doom them by trapping the capital that would be used to generate new innovation and, most tangibly in our current situation, jobs.

We are losing the opportunity cost of all the great ideas that should be coming from the proper deployment of that 23.7 trillion in capital. Everything from innovation in medical delivery systems to accessible space travel, free energy to the driverless car; all of these things may never come to bear because those powerful individuals who have failed, been passed over by technological advancements, innovation and flat-out smarts, have commandeered our government to unfairly sustain their wealth and power.

Unfortunately, they use our wealth and laws not only to benefit their outdated, failed companies, but also spend a small pittance of their ill-gotten gains lobbying and favor-trading with politicians so the government will continue to protect them from competition and their well-deserved failure.

The massive spike in unemployment, the utter destruction of retirement wealth, the collapse in the value of our homes, the worst recession since the Great Depression have all resulted directly from the abdication of proper government.

Even with all that — the only changes that have been made, have been made to prop up and hide the massive flaws on behalf of those who perpetuated them. Still utterly nothing has been done to disclose the flaws in this system, improve it or rebuild it. Only true rules-based capitalism ensures constant adaptation and implementation of the latest and best practices for a given business, as those businesses that don't adapt fail, and those who deploy the latest innovations to their customers benefit, prosper.

The concept of communism is rightly reviled in this country for the simple reason that it is blind to human nature, allowing a small group of individuals near-total control, while sticking everyone else with the same crappy systems

— and the bill. America spent countless lives and half a century fighting against this system of government. So why are we standing for it now?

20111205-03	10:11	Pam	Re: “The Cost of Corporate Communism” (reply to SteveB, above)

A great piece. I never thought of it this way.

20111205-02	08:28	SteveB	From the Right: “Metrics of National Decline”

Were the Bush years were great for America or a disaster? Here’s what a conservative Republican has to say.

“Metrics of National Decline” by Patrick J. Buchanan, *Human Events*

Feb. 17, 2009, (http://www.humanevents.com/article.php?id=30725)

"Bush Boom Continues" trilled the headline over the Lawrence Kudlow column, as George W. Bush closed out his seventh year in office.

"You can call it Goldilocks 2.0," purred Kudlow.

Yes, you could. But what a difference 12 months can make.

Final returns are now in on the eight years of George Bush. Charles McMillion of MBG Information Services has crunched the numbers. And, pace Kudlow, the only relevant comparison is to Herbert Hoover.

From January 2008, right after Kudlow's column ran, through January 2009, the U.S. economy lost 3.5 million jobs. The private sector loss of 3.65 million jobs was slightly offset by 148,000 jobs created by federal, state and local governments. Say what you will, the Bush years were boom times for Big Government.

And the private sector? Beginning and ending in recession, the Bush presidency added a net of 407,000 private sector jobs over eight years, less than 51,000 a year, the worst eight-year record since 1927-35, which includes the first six years of the Great Depression.

By January 2009, the average workweek had fallen to 33.3 hours, the lowest since record keeping began in 1964.

From Jan. 31, 2001, through Jan. 31, 2009, 4.4 million manufacturing jobs, 26 percent of all of the manufacturing jobs in the United States, disappeared.

Semiconductors and electronic component producers lost 42 percent of their jobs. Communications equipment producers lost 48 percent of their jobs. Textile and apparel producers lost, respectively, 63 percent and 61 percent of their jobs.

As a source of American jobs, manufacturing, for the first time in our history, fell below health care and education in 2001, below retail sales in 2002, below local government in 2006, below leisure and hospitality, i.e., restaurants and bars, in 2008.

Between this unprecedented loss in manufacturing capacity and jobs, and the $3.5 trillion in trade deficits in manufactured goods alone, run up by George W. Bush, the correlation is absolute.

Last week, final trade figures for 2008 came in. They make for riveting reading for Americans who yet believe that manufacturing is an indispensable element of national power.

With China exporting five times the dollar volume in goods to us as she imports from us, Beijing's trade surplus with the United States set yet another world record: $266 billion. In those critical items the Commerce Department defines as advanced technology products (ATP), our trade deficit with China in 2008 reached an astonishing $72 billion. Since Bush took office, our total trade deficit with China in ATP exceeds $300 billion. Which of us, China or America, has the trade profile of a mature industrial and technological power?

Americans deplore our deepening dependence on foreign regimes for the vital necessity of oil. Are they unaware that the U.S. trade deficit in manufactured goods, $440 billion, is $89 billion greater than our all-time record trade deficit of $351 billion in crude oil? Why is a dependence on Canada, Mexico, Venezuela or Saudi Arabia for oil a greater peril than a reliance on China and Asia for vital necessities upon which our prosperity and military depend?

A week ago, the *Washington Times* ("Volcker Blames Recession on Trade Imbalances") reported that ex-Fed Chair Paul Volcker told Congress the "massive trade-related imbalances in the United States economy were the source of the financial crisis." Pressed by Sen. Chris Dodd, Volcker said, "Go back to the imbalances in the economy. The United States has been consuming more than it has been producing for many years." What "imbalances" was Volcker referring to? Perhaps these:

Since 1982, the United States has run $5.7 trillion in trade deficits in manufactured goods, and $2.1 trillion in trade deficits in auto parts, trucks and automobiles. In the Bush years alone, the United States ran more than $1 trillion in trade deficits in auto parts, trucks and cars.

These statistics, these realities—factories closing in the United States, manufacturing jobs being outsourced in the millions to China and Asia, enormous, endless trade deficits in goods—testify to a painful truth: America is a receding and declining world power. And in dealing with this systemic crisis, Obama's stimulus package is as irrelevant as were the Bush tax cuts.

How do we correct those "trade-related imbalances" of which Volcker spoke? We must export more and import less, save more and spend less, produce more and consume less. We need to emulate the ants and behave less like the grasshoppers of summer.

But how do you tell that to two generations of Americans who have been raised in an era of entitlement?

America needs an Industrial Policy.

But how do you tell that to Americans indoctrinated in the hoary myth that Reed Smoot and Willis Hawley caused the Great Depression and anything that sounds like America First risks a rerun of the 1930s?

20111205-04	10:17	Pam	Re: "Metrics of National Decline" (reply to SteveB, above)

Wow. I never thought I'd listen to anything Pat Buchanan had to say, but he sure has my attention here.

20111205-05	11:24	SteveG	"Prosecuting Wall Street"

In case you missed "60 Minutes" last night.

"Prosecuting Wall Street" by Steve Kroft, CBS/"60 Minutes"

Dec. 4, 2011, (http://www.cbsnews.com/8301-18560_162-57336042/prosecuting-wall-street/?tag=contentMain;cbsCarousel)

(Two whistleblowers offer a rare window into the root causes of the subprime mortgage meltdown. Eileen Foster, a former senior executive at Countrywide Financial, and Richard Bowen, a former vice president at Citigroup, tell Steve Kroft the companies ignored their repeated warnings about defective, even fraudulent mortgages. The result, experts say, was a cascading wave of mortgage defaults for which virtually no high-ranking Wall Street executives have been prosecuted.)

The following is a script of "Prosecuting Wall Street" which aired on Dec. 4, 2011:

It's been three years since the financial crisis crippled the American economy, and much to the consternation of the general public and the demonstrators on Wall Street, there has not been a single prosecution of a high-ranking Wall Street executive or major financial firm even though fraud and financial misrepresentations played a significant role in the meltdown. We wanted to know why, so nine months ago we began looking for cases that might have prosecutorial merit. Tonight you'll hear about two of them. We begin with a woman named Eileen Foster, a senior executive at Countrywide Financial, one of the epicenters of the crisis.

Behind the financial crisis: A fraud investigator talks (http://www.cbsnews.com/8301-504803_162-57336046-10391709/behind-the-financial-crisis-a-fraud-investigator-talks/):

> **Steve Kroft**: Do you believe that there are people at Countrywide who belong behind bars?
>
> **Eileen Foster**: Yes.
>
> **Kroft**: Do you want to give me their names?
>
> **Foster**: No.
>
> **Kroft**: Would you give their names to a grand jury if you were asked?
>
> **Foster**: Yes.

But Eileen Foster has never been asked - and never spoken to the Justice Department - even though she was Countrywide's executive vice president in charge of fraud investigations. At the height of the housing bubble, Countrywide Financial was the largest mortgage lender in the country and the loans it made were among the worst, a third ending up in foreclosure or default, many because of mortgage fraud.

It was Foster's job to monitor and investigate allegations of fraud against Countrywide employees and make sure they were reported to the Board of Directors and the Treasury Department.

> **Kroft**: How much fraud was there at Countrywide?
>
> **Foster**: From what I saw, the types of things I saw, it was— it appeared systemic. It, it wasn't just one individual or two or three individuals, it was branches of individuals, it was regions of individuals.
>
> **Kroft**: What you seem to be saying was it was just a way of doing business?
>
> **Foster**: Yes.

In 2007, Foster sent a team to the Boston area to search several branch offices of Countrywide's subprime division - the division that lent to borrowers with poor credit. The investigators rummaged through the office's recycling bins and found evidence that Countrywide loan officers were forging and manipulating borrowers' income and asset statements to help them get loans they weren't qualified for and couldn't afford.

> **Foster**: All of the— the recycle bins, whenever we looked through those they were full of, you know, signatures that had been cut off of one document and put onto another and then photocopied, you know, or faxed and then the— you know, the creation thrown— thrown in the recycle bin.
>
> **Kroft**: And the incentive for the people at Countrywide to do that was what?

Foster: The loan officers received bonuses, commissions. They were compensated regardless of the quality of the loan. There's no incentive for quality. The incentive was to fund the loan. And that's— that's gonna drive that type of behavior.

Kroft: They were committing a crime?

Foster: Yes.

After Foster's investigation, Countrywide closed six of its eight branches in the Boston region and 44 out of 60 employees were fired or quit.

Kroft: Do you think that this was just the Boston office?

Foster: No. No, I know it wasn't just the Boston office. What was going on in Boston was also going on in Chicago, and Miami, and Detroit, and Las Vegas and, you know— Phoenix and in all of the big markets all over Florida.

After the Boston investigation, Foster says Countrywide's subprime division began systematically concealing evidence of fraud from her in violation of company policy, and Countrywide's internal financial controls system. Someone high up in the top levels of management - she won't say who - told employees to circumvent her office and instead report suspicious activity to the personnel department, which Foster says routinely punished other whistleblowers and protected Countrywide's highest earning loan officers.

Foster: I came to find out that there were— that there was many, many, many reports of fraud as I had suspected. And those were never— they were never reported through my group, never reported to the board, never reported to the government while I was there.

Kroft: And you believe this was intentional?

Foster: Yes. Yes, absolutely.

Foster, with the support of her boss, took the information up the corporate chain of command and to the audit department, which confirmed many of her suspicions, but no action was taken. In late 2008, with Countrywide sinking under the weight of its bad loans, it merged with Bank of America. Foster was promoted and not long afterwards was asked to speak with government regulators to discuss Countrywide's fraud reports. But she was fired before the meeting could take place.

Kroft: What would you have told 'em?

Foster: I would have told 'em exactly— exactly what I've told you.

Kroft: Did you have any discussions with anybody at Countrywide or Bank of America about what you should say to the federal regulators when they came?

Foster: I got a call from an individual who, you know, suggested how— how I should handle the questions that would be coming from the regulators, made some suggestions that downplayed the severity of the situation.

Kroft: They wanted you to spin it and you said you wouldn't?

Foster: Uh-huh (affirm).

Kroft: And the next day you were terminated?

Foster: Uh-huh (affirm).

Kroft: I mean, it seems like somebody at Countrywide or Bank of America did not want you to talk to federal regulators.

Foster: No, that was part of it, no, they absolutely did not.

Kroft: Do you feel like you were a victim of criminal activity?

Foster: It's a crime to retaliate against someone for making reports of mail fraud, bank fraud, wire fraud, mortgage fraud, things that would harm stockholders and investors. And that's what I did and that's why I was terminated.

Kroft: Were you offered a settlement?

Foster: They asked me to sign a 14-page document that basically would buy my silence in exchange for a large amount of money.

Kroft: But you didn't sign it?

Foster: No.

Kroft: Why not?

Foster: How many people can they— can they buy off? They just pay for it. They commit the crime and they buy their way out of it. And just do it over and over and over again. I wanted them to have some sleepless nights thinkin' about what they would say to a federal investigator and worry about being exposed and being held accountable for committing a crime.

Eileen Foster spent three years trying to clear her name. This fall she finally won a federal whistleblower complaint against Bank of America for wrongful termination and was awarded nearly a million dollars in back pay and benefits.

All of this raises several questions. Why has the Justice Department failed to go after mortgage fraud inside Countrywide? There has not been a single prosecution. Even more puzzling is the Justice Department's reluctance to employ one of its most powerful legal weapons against Countrywide's top executives. It's called the Sarbanes Oxley Act of 2002.

It was overwhelmingly passed by Congress and signed by President Bush following the last big round of corporate scandals involving Enron, Tyco and Worldcom. It was supposed to restore confidence in American corporations and financial markets.

The Sarbanes Oxley Act imposed strict rules for corporate governance, requiring chief executive officers and chief financial officers to certify under oath that their financial statements are accurate and that they have established an effective set of internal controls to insure that all relevant information reaches investors. Knowingly signing a false statement is a criminal offense punishable with up to five years in prison.

Frank Partnoy is a highly regarded securities lawyer, a professor at the University of San Diego Law School and an expert on Sarbanes Oxley.

Frank Partnoy: The idea was to have a criminal statute in place that would make CEOs and CFOs think twice, think three times before they signed their names attesting to the accuracy of financial statements or the viability of internal controls.

Kroft: And this law has not been used at all in the financial crisis.

Partnoy: It hasn't been used to go after Wall Street. It hasn't been used for these kinds of cases at all.

Kroft: Why not?

Partnoy: I don't know. I don't have a good answer to that question. I hope that it will be used. I think there clearly are instances where CEOs and CFOs— signed financial statements that said there were adequate controls and there weren't adequate controls. But I can't explain why it hasn't been used yet.

We told Partnoy about Eileen Foster's allegations of widespread mortgage fraud at Countrywide and efforts to prevent the information from reaching her, the federal government and the board of directors in violation of the company's internal controls.

Kroft: I mean, that's a deliberate circumvention, right?

Partnoy: It certainly sounds like it. And it certainly sounds like a good place to start a criminal investigation. Usually when the federal government hears about facts like this, they would start an investigation and they would try to move up the organization to try to figure out whether this information got up to senior officers, and why it wasn't disclosed to the public.

In fact, according to a civil suit filed by the Securities and Exchange Commission, Countrywide's chief executive officer, Angelo Mozilo, knew as early as 2006 that a significant percentage of its subprime borrowers were engaged in mortgage fraud and that it hid this and other negative information about the quality of its loans from investors.

When the case was settled out of court a year ago October, the SEC's director of enforcement, Robert Khuzami, called Mozilo "a corporate executive who deliberately disregarded his duty to investors by concealing what he saw from inside the executive suite — a looming disaster in which Countrywide was buckling under the weight of increasing risky mortgage underwriting, mounting defaults and delinquencies, and a deteriorating business model."

Mozilo, who admitted no wrongdoing, accepted a lifetime ban from ever serving as an officer or director of a publicly traded company, and agreed to pay a record $22 million fine, less than five percent of the compensation he received between 2000 and 2008.

Kroft: What did you think of the settlement with Countrywide?

Partnoy: I'd think a lot of it if I were Angelo Mozilo. I'd think I did pretty well for myself. No jail, a relatively small fine compared to the hundreds of millions of dollars I was able to take out of this company.

Kroft: Slap on the wrist.

Partnoy: Clearly a slap on the wrist. And part of the problem is the dual nature of how we prosecute these kinds of violations. We have the Department of Justice, which can put people in jail and the Securities and Exchange Commission, which can't. And its sort of like we have this two-headed monster - one head has some teeth. The other head has no teeth. And it was the head with no teeth that went after Angelo Mozilo. So the greatest danger he was in from the beginning was maybe he'd be gummed to death, but not even that happened.

Three months after the SEC settled the civil suit, federal prosecutors in Los Angeles dropped their criminal investigation of Countrywide and its CEO, Angelo Mozilo. We wanted to know why the Justice Department has been unable to bring a single criminal case against Countrywide or any of the major Wall Street banks and Lanny Breuer, the head of the criminal division at the Justice Department, agreed to talk to us.

Kroft: A year ago, in September of 2010, you told the congressional hearing that you seek to prosecute people who make materially false statements. People who told the investors one thing and did something different.

Lanny Breuer: That's absolutely right. And we're— we're doing exactly that.

Kroft: We spoke to a woman at Countrywide, who was a senior vice president for investigating fraud. And she said that the fraud inside Countrywide was systemic. That it was basically a way of doing business.

Breuer: Well, it's hard for me to talk about a particular case. Of course, in the Countrywide case, Steve, as you know, terrific office, U.S. attorney's office in Los Angeles investigated that, interviewed many, many people, hundreds of people perhaps, and reviewed millions of documents.

Kroft: They never talked to the senior vice president inside Countrywide, who is charged with investigating fraud.

Breuer: Well, I— we— look, I— I can't speak about that, because I actually don't know about that particular case. But if the senior vice president of any company believes they know about fraud, I want them to contact us.

Breuer says the department has brought major financial prosecutions involving hedge funds, insider trading, Ponzi schemes and a huge bank fraud case in Florida but he acknowledged there have been no prosecutions against major players in the financial crisis.

Breuer: In our criminal justice system, we have to prove beyond a reasonable doubt that you intended to commit a fraud. But when you can't or when we think we can't, there's still many, many important resolutions and options we have.

And that's why there have been civil lawsuits and regulatory action.

Kroft: Do you lack confidence in bringing cases under Sarbanes Oxley?

Breuer: Steve, no— no one is— really has accused this Department of Justice or this division or me of lacking confidence. If you look at the prosecutors all over the country, they are bringing record cases, with respect to all kinds of criminal laws. Sarbanes Oxley is a tool, but it's only one tool. We're confident. We follow the facts and the law wherever they take us. And we're bringing every case that we believe can be made.

Lanny Breuer says this Justice Department has been as aggressive as any in history. But a recent report on federal prosecutions from a research center at Syracuse University, says the number of cases brought against financial instutions for fraud is at a 20-year low. When we come back, we talk to a whistleblower who was inside Citigroup during the financial meltdown.

If you had looked at the financial statements of the major banks on Wall Street in the weeks leading up to the financial crisis of 2008, you wouldn't have guessed that most of them were about to crumble and require a trillion dollar bailout from the taxpayers. It begs the question did the CEO's of these banks and their chief financial officers withhold critical information from their investors. If they did they can be subject to criminal prosecution under the Sarbanes Oxley Act for knowingly certifying false financial reports and statements about the effectiveness of their internal controls. The Justice Department has not brought a single case against Wall Street executives for violating Sarbanes Oxley, inspite of some compelling evidence. Tonight we take a look at Citigroup beginning with a former vice president, Richard Bowen.

Richard Bowen: There are things that obviously went on in this crisis, and decisions that were made, that people need to be accountable for.

Kroft: Why do you think nothing's been done?

Bowen: I don't know.

Until 2008, Richard Bowen was a senior vice president and chief underwriter in the consumer lending division of Citigroup. He was responsible for evaluating the quality of thousands of mortgages that Citigroup was buying from Countrywide and other mortgage lenders, many of which were bundled into mortgage-backed securities and sold to investors around the world. Bowen's job was to make sure that these mortgages met Citigroup's own standards - no missing paperwork, no signs of fraud, no unqualified borrowers. But in 2006, he discovered that 60 percent of the mortgages he evaluated were defective.

Kroft: Were you surprised at the 60 percent figure?

Bowen: Yes. I was absolutely blown away. This— this cannot be happening. But it was.

Kroft: And you thought that it was important that the people above you in management knew this?

Bowen: Yes. I did.

Kroft: You told people.

Bowen: I did everything I could, from the way— in the way of e-mail, weekly reports, meetings, presentations, individual conversations, yes.

Kroft: How high up in the company?

Bowen: My warnings, which were echoed by my manager, went to the highest levels of the Consumer Lending Group.

Bowen also asked for a formal investigation to be conducted by the division in charge of Citigroup's internal controls. That study not only confirmed Bowen's findings but found that his division had been out of compliance with company policy since at least 2005.

Kroft: Did the situation improve?

Bowen: I started raising those warnings in June of 2006. The volumes increased through 2007 and the rate of defective mortgages increased to an excess of 80 percent.

Kroft: So the answer is no?

Bowen: The answer is no, things did not improve. They got worse.

Not only was Citigroup on the hook for massive potential losses, Bowen says it was misleading investors about the quality of the mortgages and the mortgage securities it was selling to its customers. We managed to get our hands on a prospectus for a mortgage-backed security that was made up of home loans that Bowen had tested.

Kroft: It says, "These loans were originated under guidelines that are substantially, in accordance with Citi Mortgage's guidelines, for its own originations, its own mortgages." Is that a true statement?

Bowen: No.

Kroft: This is not some insignificant statement. This is— speaks to the quality of the— of the mortgages that— that investors are putting their money in.

Bowen: Yes.

Kroft: And it's wrong?

Bowen: Yes.

Kroft: And people at Citigroup knew it was wrong. Had been warned that it was wrong, had been told that it was wrong.

Bowen: Yes.

In early November of 2007, with Citi's mortgage losses mounting, Bowen decided to notify top corporate officers directly. He emailed an urgent letter to the bank's chief financial officer, chief risk officer, and chief auditor as well as Robert Rubin, the chairman of Citigroup's executive committee and a former U.S. treasury secretary. The letter informed them of "breakdowns of internal controls" in his division and possibly "unrecognized financial losses existing within our organization."

Kroft: Why did you send that letter?

Bowen: I knew that there existed in my area extreme risks. And one, I had to warn executive management. And two, I felt like I had to warn the Board of Directors.

Kroft: You're saying there's a serious problem here, you've got a big breakdown in internal controls. You need to pay attention. This could cost you a lot of money.

Bowen: Yes. Somebody needed to pay attention. Somebody needed to take some action.

The next day Citigroup's CEO Charles Prince, in his last official act before stepping down, signed the Sarbanes Oxley certification endorsing a financial statement that later proved to be unrealistic and swore that the bank's internal controls over its financial reporting were effective.

Bowen: I know that there were internal controls that were broken. I served notice in that e-mail that they were broken. And the certification indicates that they are not broken.

Kroft: It would seem the chief financial officer and the people that signed the Sarbanes Oxley certification disregarded those warnings.

Bowen: It would appear.

We received a letter from Citigroup saying the bank had acted promptly to address Richard Bowen's concerns and that the issues he raised were limited to his division and had little bearing on the bank's overall financial health. Citigroup also told us that it did not retaliate against Bowen for sending the email. But not long after he sent it, Bowen's duties were radically changed.

Bowen: I was relieved of most of my responsibility and I no longer was physically with the organization.

Kroft: You were told not to come into the office?

Bowen: Yes.

Phil Angelides: Mr. Bowen.

Bowen: I am very grateful to the commission to be able to give my testimony today.

The Financial Crisis Inquiry Commission thought enough of Bowen's story to call him as one of its first witnesses and he turned over more than a thousand pages of documents to the Securities and Exchange Commission. Nothing ever came of it. But Bowen wasn't the only one to warn Citigroup's top officials about its financial weaknesses and breakdowns in the company's internal controls.

Three months after Bowen's email Citigroup's new CEO Vikrim Pandit received a blistering letter from the office of the comptroller of the currency, its chief regulator. It questioned the valuations that Citi had placed on its mortgage securities and found internal controls deeply flawed. The letter stated, among other things, that risk management had insufficient authority and risk was insufficiently evaluated and that the Citibank board had no effective oversight.

Yet eight days later, CEO Vikrim Pandit and Chief Financial Officer Gary Crittenden personally signed the Sarbanes Oxley certification. They attested to the bank's financial viability and the effectiveness of its internal controls. The deficiencies cited by the comptroller of the currency were never mentioned. Citi said it didn't consider the problems serious enough that they had to be disclosed to investors and says the certifications were entirely appropriate. But nine months later, Citigroup would need a $45 billion bailout and $300 billion more in federal guarantees just to stay in business.

> **Frank Partnoy**: I don't think Wall Street senior people really think they'll ever end up in jail and they've been right.

Frank Partnoy, the securities lawyer and expert on Sarbanes Oxley law, says the facts about Citigroup raise some troubling questions.

> **Partnoy**: They certainly knew the internal controls were inadequate and that the company was out of control from a reporting perspective.
>
> **Kroft**: And yet they signed the Sarbanes Oxley letter saying that everything was fine.
>
> **Partnoy**: I'm very surprised that the CEO and CFO would sign those letters. I wouldn't have signed them under those conditions. You're signing them under penalties of potentially 10 years in prison. You're certifying that you designed and implemented effective internal controls in the aftermath of all this news about the company's problems.
>
> **Kroft**: How is that not a violation of Sarbanes Oxley?
>
> **Partnoy**: I don't know. I think that it might be hard to establish knowledge. That might be what prosecutors are thinking in not bringing the cases.
>
> **Kroft**: The letter was addressed to Vikram Pandit, the new CEO of Citigroup.
>
> **Partnoy**: And he had eight days to think about it, from February 14th, Valentine's Day, he gets the letter. And then February 22nd, he sits down and signs his name, certifying that financial statements are accurate and that he had designed and evaluated and reported any problems with internal controls. Eight days is a long time on Wall Street. I can't get inside his head, but I would certainly think, as a prosecutor, that this would be something I'd be interested in asking some questions about.

We wanted to know what Assistant Attorney General Lanny Breuer, thought about that, and why no prosecutions have been directed at Wall Street. We also wanted to know why Sarbanes Oxley has not been used against big banks like Citigroup.

> **Lanny Breuer**: When you talk about Sarbanes Oxley we have to know that you intended— had the specific intent to make a false statement.
>
> **Kroft**: They knew there was a problem. Not only had they been told that there was a problem by one of their chief underwriters, that the loans that they were buying were not what they claimed, and that the federal government, that the comptroller of the currency didn't think their internal controls were adequate either.
>
> **Breuer**: If a company is intentionally misrepresenting on its financial statements what it understands to be the financial condition of its company and makes very real representations that are false, we want to know about it. And we're gonna prosecute it.
>
> **Kroft**: Do you have cases now that you think that will result in prosecution against major Wall Street banks?
>
> **Breuer**: We have investigations going on. I won't predict how they're gonna turn out.

Kroft: Has anybody at Treasury or— or the Federal Reserve or the White House come to you and said, 'Look, we need to go easy on the banks. That— there are collateral consequences if you bring prosecutions. Some of these organizations are still very fragile and we don't want to push them over the edge?'

Breuer: Steve, this Department of Justice is acting absolutely independently. Every decision that's being made by our prosecutors around the country is being made 100 percent based on the facts of that particular case and the law that we can apply it. And there's been absolutely no interference whatsoever.

Kroft: The perception. I mean, it doesn't seem like you're trying. It doesn't seem like you're making an effort. That the Justice Department does not have the will to take on these big Wall Street banks.

Breuer: Steve, I get it. I find the excessive risk taking to be offensive. I find the greed that was manifested by certain people to be very upsetting. But because I may have an emotional reaction and I may personally share the same frustration that American people all over the country are feeling, that in and of itself doesn't mean we bring a criminal case.

Kroft: If you had said two years ago that nobody was gonna be prosecuted on Wall Street for the subprime mortgage scandal, I think people would think, "It's not possible."

Breuer: Sometimes it takes a number of years to bring these cases. So I'd say to the American people, they should have confidence that this is a department that's working hard and we're gonna keep working hard, so stay tuned.

20111205-06	SteveG	11:30	"Gasoline: The New Big U.S. Export"

How much is gasoline in your area? How many times do we have to be screwed by major companies?

"Gasoline: The New Big U.S. Export" by Steve Hargreaves, CNN

Dec. 5, 2011, (http://money.cnn.com/2011/12/05/news/economy/gasoline_export/index.htm)

(NEW YORK) The United States is awash in gasoline. So much so, in fact, that the country is exporting a record amount of it.

The country exported 430,000 more barrels of gasoline a day than it imported in September, according to the U.S. Energy Information Administration.

That is about twice the amount at the start of the year, and experts and industry insiders say the trend is here to stay.

The United States began exporting gas in late 2008. For decades prior, starting in 1960, the country used all the gas it produced here plus had to import gas from places Europe.

Oil roars back to $100, but does anybody care?

But demand for gas has dropped nearly 10% in recent years. It went from a peak of 9.6 million barrels a day in 2007 to 8.8 million barrels today, according to the EIA.

The drop was caused partially by the recession but also by the advent of more fuel efficient vehicles, higher prices and the greater use of ethanol as an ingredient in gasoline. Demand for other products made from crude oil like diesel and jet fuel has also declined, although not as much.

To be sure, the United States is still importing plenty of oil to make that gasoline — and is still dependent on foreign countries for well over half the crude it uses.

But now the country's massive refining infrastructure is producing more gasoline, diesel and jet fuel than the United States needs, freeing it up to be exported to places like Brazil, Mexico and Chile where demand is still strong.

The *Wall Street Journal*, which reported on the export trend last week, said the United States is on track this year to be a net exporter of refined products for the first time in 62 years.

"We've got plenty of excess refining capacity," said Jonathan Cogan, a spokesman for EIA. "It's a reminder that this is a global oil market, and it's reflected by the movements of products to where they will get the highest prices."

Mark Williams, global head of refining, trading and marketing for Royal Dutch Shell (RDSA), said exporting diesel and other refined products from the United States used to happen fairly irregularly but is now becoming much more common.

"It's growing as a new business," he said, although he cautioned that the United States would probably not become a huge exporter of fuel.

Still, the ability to export oil is good news for Shell and other oil companies like Exxon Mobil (XOM, Fortune 500), BP (BP) and Chevron (CVX, Fortune 500). They can use their extensive and modern refineries in the United States to make gasoline for the rest of the world.

But it may be bewildering for American drivers, who could experience record high gas prices next year even though U.S. demand could hit the lowest level in a decade, said Tom Kloza, chief oil analyst at the Oil Price Information Service.

20111205-07	11:48	Pam	Re: "Gasoline: The New Big U.S. Export" (reply to SteveG, above)

Here in NC it's around $3.38/gal., give or take 10 cents.

20111205-08	11:55	SteveG	Re: "Gasoline: The New Big U.S. Export" (reply to Pam, above)

$3.80+ here. It seems that the oil companies have decided we have become comfortable paying $3 plus per gallon. When we were in Crawfordsville the gas prices went up every Thursday around noon and then would gradually decrease Monday through Wednesday. The stations on the north end would go up first and the last ones to raise their prices were on the south end of town. It had nothing to do with the availability of gasoline, more to do with what the corporations wanted. Some stations, across the street from each other would be $.20 different in prices.

Corporate greed at work again.

[I think oil companies need to make a lot of money to find more oil, etc. to keep prices down in the future. Believe it or not, right now, they're <u>down</u>. The problem is that oil companies don't do the right thing with their profits…like pay enough taxes for the damage they cause and the potential for disaster, and reinvest in exploration, drilling, etc. Instead, they like to divert profits to paying big bonuses and dividends and buying back their stock. –SteveB]

20111205-09	14:47	SteveG	Fw: The Wall Street Bailouts (from Alan Grayson)

Forget the contribute part at the bottom.

[SteveG—I'm not so sure about not contributing! This guy is great! I do love the tie! We saw him speak in Orlando and I was so impressed. I think SteveG or Pam first turned me on to him. He wasn't wearing a tie then. He loves to and can talk about the specifics of bills, as he does in this letter. I don't remember another politician doing that. –SteveB]

from Alan Grayson:

I think it's fair to say that Congressman Ron Paul and I are the parents of the GAO's audit of the Federal Reserve. And I say that knowing full well that Dr. Paul has somewhat complicated views regarding gay marriage.

Anyway, one of our love children is a massive 251-page GAO report technocratically entitled "Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance." It is almost as weighty as that 13-lb. baby born in Germany last week, named Jihad. It also is the first independent audit of the Federal Reserve in the Fed's 99-year history.

Feel free to take a look at it yourself, it's right here:

http://grayson.salsalabs.com/dia/track.jsp?v=2&c=BRNrEh9CMCIluMwcUzUsYH9fwJW8QTkU.

It documents Wall Street bailouts by the Fed that dwarf the $700 billion TARP, and everything else you've heard about.

I wouldn't want anyone to think that I'm dramatizing or amplifying what this GAO report says, so I'm just going to list some of my favorite parts, by page number:

Page 131 – The total lending for the Fed's "broad-based emergency programs" was $16,115,000,000,000. That's right, more than $16 trillion. The four largest recipients, Citigroup, Morgan Stanley, Merrill Lynch and Bank of America, received more than a trillion dollars each. The 5th largest recipient was Barclays PLC. The 8th was the Royal Bank of Scotland Group, PLC. The 9th was Deutsche Bank AG. The 10th was UBS AG. These four institutions each got between a quarter of a trillion and a trillion dollars. None of them is an American bank.

Pages 133 & 137 – Some of these "broad-based emergency program" loans were long-term, and some were short-term. But the "term-adjusted borrowing" was equivalent to a total of $1,139,000,000,000 more than one year. That's more than $1 trillion out the door. Lending for these programs in fact peaked at more than $1 trillion.

Pages 135 & 196 – Sixty percent of the $738 billion "Commercial Paper Funding Facility" went to the subsidiaries of foreign banks. 36% of the $71 billion Term Asset-Backed Securities Loan Facility also went to subsidiaries of foreign banks.

Page 205 – Separate and apart from these "broad-based emergency program" loans were another $10,057,000,000,000 in "currency swaps." In the "currency swaps," the Fed handed dollars to foreign central banks, no strings attached, to fund bailouts in other countries. The Fed's only "collateral" was a corresponding amount of foreign currency, which never left the Fed's books (even to be deposited to earn interest), plus a promise to repay. But the Fed agreed to give back the foreign currency at the original exchange rate, even if the foreign currency appreciated in value during the period of the swap. These currency swaps and the "broad-based emergency program" loans, together, totaled more than $26 trillion. That's almost $100,000 for every man, woman, and child in America. That's an amount equal to more than seven years of federal spending — on the military, Social Security, Medicare, Medicaid, interest on the debt, and everything else. And around twice American's total GNP.

Page 201 – Here again, these "swaps" were of varying length, but on Dec. 4, 2008, there were $588,000,000,000 outstanding. That's almost $2,000 for every American. All sent to foreign countries. That's more than twenty times as much as our foreign aid budget.

Page 129 – In October 2008, the Fed gave $60,000,000,000 to the Swiss National Bank with the specific understanding that the money would be used to bail out UBS, a Swiss bank. Not an American bank. A Swiss bank.

Pages 3 & 4 – In addition to the "broad-based programs," and in addition to the "currency swaps," there have been hundreds of billions of dollars in Fed loans called "assistance to individual institutions." This has included Bear Stearns, AIG, Citigroup, Bank of America, and "some primary dealers." The Fed decided unilaterally who received this "assistance," and who didn't.

Pages 101 & 173 – You may have heard somewhere that these were riskless transactions, where the Fed always had enough collateral to avoid losses. Not true. The "Maiden Lane I" bailout fund was in the hole for almost two years.

Page 4 – You also may have heard somewhere that all this money was paid back. Not true. The GAO lists five Fed bailout programs that still have amounts outstanding, including $909,000,000,000 (just under a trillion dollars) for the Fed's Agency Mortgage-Backed Securities Purchase Program alone. That's almost $3,000 for every American.

Page 126 – In contemporaneous documents, the Fed apparently did not even take a stab at explaining why it helped some banks (like Goldman Sachs and Morgan Stanley) and not others. After the fact, the Fed referred vaguely to "strains in the financial markets," "transitional credit," and the Fed's all-time favorite rationale for everything it does, "increasing liquidity."

81 different places in the GAO report – The Fed applied nothing even resembling a consistent policy toward valuing the assets that it acquired. Sometimes it asked its counterparty to take a "haircut" (discount), sometimes it didn't. Having read the whole report, I see no rhyme or reason to those decisions, with billions upon billions of dollars at stake.

Page 2 – As massive as these enumerated Fed bailouts were, there were yet more. The GAO did not even endeavor to analyze the Fed's discount window lending, or its single-tranche term repurchase agreements.

Pages 13 & 14 – And the Fed wasn't the only one bailing out Wall Street, of course. On top of what the Fed did, there was the $700,000,000,000 TARP program authorized by Congress (which I voted against). The Federal Deposit Insurance Corp. (FDIC) also provided a federal guarantee for $600,000,000,000 in bonds issued by Wall Street.

There is one thing that I'd like to add to this, which isn't in the GAO's report. All this is something new, very new. For the first 96 years of the Fed's existence, the Fed's primary market activities were to buy or sell U.S. Treasury bonds (to change the money supply), and to lend at the "discount window." Neither of these activities permitted the Fed to play favorites. But the programs that the GAO audited are fundamentally different. They allowed the Fed to choose winners and losers.

<u>So what does all this mean? Here are some short observations:</u>

1. In the case of TARP, at least The People's representatives got a vote. In the case of the Fed's bailouts, which were roughly 20 times as substantial, there was never any vote. Unelected functionaries, with all sorts of ties to Wall Street, handed out trillions of dollars to Wall Street. That's now how a democracy should function, or even can function.

2. The notion that this was all without risk, just because the Fed can keep printing money, is both laughable and cryable (if that were a word). Leaving aside the example of Germany's hyperinflation in 1923, we have the more recent examples of Iceland (75% of GNP gone when the central bank took over three failed banks) and Ireland (100% of GNP gone when the central bank tried to rescue property firms).

3. In the same way that American troops cannot act as police officers for the world, our central bank cannot act as piggy bank for the world. If the European Central Bank wants to bail out UBS, fine. But there is no reason why our money should be involved in that.

4. For the Fed to pick and choose among aid recipients, and then pick and choose who takes a "haircut" and who doesn't, is both corporate welfare and socialism. The Fed is a central bank, not a barber shop.

5. The main, if not the sole, qualification for getting help from the Fed was to have lost huge amounts of money. The Fed bailouts rewarded failure, and penalized success. (If you don't believe me, ask Jamie Dimon at JP Morgan.) The Fed helped the losers to squander and destroy even more capital.

6. During all the time that the Fed was stuffing money into the pockets of failed banks, many Americans couldn't borrow a dime for a home, a car, or anything else. If the Fed had extended $26 trillion in credit to the American people instead of Wall Street, would there be 24 million Americans today who can't find a full-time job?

And here's what bothers me most about all this: it can happen again. I've called the GAO report a bailout autopsy. But it's an autopsy of the undead.

Courage, Alan Grayson ["Courage"! I love it! —SteveB]

20111205-10	15:07	Pam	Re: The Wall Street Bailouts (reply to SteveG, above)

It keeps piling up. How on earth are we ever going to get out of this?

20111205-11	15:26	Dennis	Re: The Wall Street Bailouts (reply to SteveG, above) & "Finally, Someone Stands Up to Wall Street"

Well, not everyone is giving the criminals on Wall Street a pass.

"Finally, Someone Stands Up to Wall Street" by Keith Fitz-Gerald, *Money Morning*

Dec. 5, 2011, (http://moneymorning.com/2011/12/05/maverick-judge-jed-rakoff-stares-down-street/)

One of the biggest problems with Wall Street's malfeasance is how the ruling elite view legal settlements - as little more than an acceptable cost of doing business.

Well, no more.

Thanks to Judge Jed Rakoff we may see some real regulatory action leading to good old-fashioned investigations, perp walks, and even jail for the guilty.

I'm not talking just about the Bernie Madoffs or the Raj Rajaratnams either. I'm talking about potentially CEOs and even entire corporate boards.

Judge Rakoff recently rendered a 15-page decision rejecting the U.S. Securities and Exchange Commission's (SEC) $285 million settlement with Citigroup Inc. (NYSE: C) over toxic mortgages, calling it "neither reasonable, nor fair, nor adequate, nor in the public interest."

This is important because settlements like these have been a farce for years - little more than the financial equivalent of a parking ticket and having about as much impact.

In fact, in a world where banking secrecy is paramount and investment firms like Goldman Sachs Group Inc. (NYSE: GS), JPMorgan Chase & Co. (NYSE: JPM), Bank of America Corp. (NYSE: BAC) and others rule the roost, they're little more than obfuscations of the truth.

The investigations into these banks are toothless or highly secretive at best. Rarely does the public see anything even remotely resembling full disclosure.

Instead we're supposed to be placated by headlines insinuating that the SEC, the National Futures Association (NFA) and more than 20 other regulatory agencies are looking out for our best interests.

Who are they kidding?

Remember the $550 million fine Goldman was forced to pay for its role in toxic credit default swaps (CDOs)? At the time it was the largest ever levied.

SEC officials couldn't stumble over themselves fast enough nor get enough sound bites. I recall lots of PR shots with earnest-looking people evidently proud of themselves for having made Goldman pony up at the time.

And the mainstream press loved it. But there was one tiny problem.

The firm booked $13.3 billion that year. Paying off the SEC in a settlement that neither admitted nor denied wrongdoing was an acceptable cost of doing business that amounted to a mere 4% of revenue.

The proposed Citi settlement was much the same. It would have required Citi to give up $160 million of alleged ill-gotten profits, $30 million of interest, and a $95 million kicker for negligence.

Bear in mind, Citi reported full-year net income of $10.6 billion on revenue of $60.5 billion in 2010 which means that, like the Goldman fine, the settlement is a drop in the bucket at a mere 1.50% of net income.

I think Judge Rakoff's ruling has been a long time coming. And I love the fact that he specifically called out the Citi settlement as too lenient - especially when it also potentially allows Citi to skate on reimbursing investors for the $700 million the firm lost as part of its toxic mortgage trading.

You may not realize this, but private investors cannot bring securities claims based on negligence. In my mind, they should be able to, but for now this is the way the law stands.

The way I see it, Rakoff's decision finally gets at the core of what caused the financial crisis: toothless regulators beholden to the very powerful elite they were supposed to keep in check.

I am all too glad to see him show the public the first glimpse of backbone we've seen yet.

Washington, are you watching and listening?

Judge Rakoff noted in his ruling that there is an "overriding public interest in knowing the truth."

Yes, there is.

And as Judge Rakoff put it, the SEC's core duty is to "see that the truth emerges." In the event that it doesn't as part of the settlement process, "courts must not, in the name of deference of convenience, grant judicial enforcement, to the agency's contrivances."

I did some checking and I learned that this is not the first time Rakoff has stuck it to the SEC.

Apparently, he's the one who made headlines when he initially rejected the BofA settlement related to that bank's shotgun takeover of Merrill Lynch & Co., a fact I'd forgotten.

At the time, Rakoff rejected the SEC's $33 million BofA settlement on the grounds that it punished shareholders. The SEC then came back with a much more realistic $150 million agreement.

Some think Rakoff has gone too far. They worry that judges have no business interfering in agreements ostensibly reached by private parties.

But I disagree. I believe the SEC is the public.

And the public has the right to know about any case where the transparency of the financial markets (or lack thereof) has so impacted the markets as to destroy the wealth of millions of hard working people and bring the global markets to the edge of oblivion.

Frankly, I'd love to shake Judge Rakoff's hand.

I hope what he's done encourages judges to finally stand up for the body of law they supposedly represent and the public that it's intended to protect.

20111205-12	23:13	SteveBA	"Economy Improving, Stocks Cheap"

Thought this report might be of interest.

"Economy Improving, Stocks Cheap" by First Trust

Dec. 5, 2011, (http://www.ftportfolios.com/Commentary/EconomicResearch/2011/12/5/economy-improving,-stocks-cheap)

Remember the big fat "zero" jobs reports back in August? The Pouting Pundits of Pessimism reported it as the end of the world. The US was supposedly teetering on the brink of another recession, or maybe depression. Democrats wanted more government spending "stimulus." Republicans said President Obama was the equivalent of a "zero." With all this negative sentiment, the Dow fell 250 points that day.

But something happened on the way to the bank. One month later, that big fat zero was revised up to a +57,000, the next month it was revised up again to +104,000. All that recession talk in early September was highly misleading.

Private payrolls are up 157,000 per month in the past year and that's happening even though the "labor-intensive" construction industry is still in the doldrums.

Unemployment is now 8.6%, way down from 9.8% last November. Many are saying that the lower unemployment rate was caused by a 315,000 drop in the labor force (people looking for work). These pessimists say, "everyone is discouraged, so falling unemployment rates are actually a bad thing." But this is a Chicken Little view of the world.

In the past four months, civilian employment (calculated by canvassing households), has jumped by 1.28 million – an average of 321,000 new jobs each month. During the same four months, the labor force has expanded by an average of 164,000 new entrants per month. In other words, the labor market is getting better, on all fronts, not worse. We may see unemployment tick up next month, but this would be a correction for an exaggerated one month drop.

Meanwhile, reports on consumer spending and manufacturing production keep signaling growth. Auto sales – big-ticket items people shy away from when they anticipate recession – hit 13.6 million in November, the best pace since early 2008 (except for "cash for clunkers," when the government was cutting checks of $4,000 each to buy a vehicle). Industrial production is up 4.5% from a year ago.

Even the housing market is starting the long path back to normalcy. So far this year, multi-family builders have started 45% more homes than they did in the same time frame in 2010. And permits to build single-family homes are up 5% from a year ago.

And yet the stock market is more undervalued today than it was at the very bottom of the panic in March 2009.

We use a capitalized profits model to value stocks, dividing corporate profits by the 10-year Treasury yield. We compare the current level of this index to that from each quarter for the past 60 years to estimate an average fair-value. Not only are 10-year yields low (2.1%), but corporate profits are at a record high. As a result, the model says fair value for the Dow is currently 45,000.

But this result is largely due to artificially low interest rates. If we use a more realistic discount rate of 5% for the Treasury, we get a fair value of 19,500 on the Dow and 1,980 for the S&P 500.

As we've said before, there are many moving parts to this model. Interest rates could go higher than 5%, profits could fall or both could happen. Profits, for example, are now 13% of GDP, the highest in measured history (back to 1947) except for one quarter in 1950.

So what does our model say if profits revert to the historical mean of about 9.5% of GDP? Even in that scenario, and assuming a 5% yield on the 10-year Treasury, fair value is 14,200 for the Dow and 1450 for the S&P 500.

Back at the peak of the stock market in 2000, an ounce of gold could get an investor fewer than 4 shares of Intel (INTC). Today it is trading for about 70 shares. Meanwhile, Intel yields around 3.4% and gold yields zilch. Stocks are dirt cheap, relative to bonds and relative to gold.

Of course, it would be great to know the exact moment that all the bad news from Europe finally at long last blows over. But no one knows. Investors have a simple choice. Do they want to own stocks when they are dirt cheap, or will they wait and pay more when the fear disappears?

(This information contains forward-looking statements about various economic trends and strategies. You are cautioned that such forward-looking statements are subject to significant business, economic and competitive uncertainties and actual results could be materially different. There are no guarantees associated with any forecast and the opinions stated here are subject to change at any time and are the opinion of the individual strategist. Data comes from the following sources: Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis, the Federal Reserve Board, and Haver Analytics. Data is taken from sources generally believed to be reliable but no guarantee is given to its accuracy.)

[SteveBA, does this mean Obama is a hero? :-) —SteveB]

—Friends of the Middle,
Steven W. Baker (SteveB), Editor/Moderator

Your email address will always be kept strictly confidential.

Feel free to forward this Newsletter to anyone you know on the Right or the Left, though your motives might be different in each case. Regardless, PASS IT ON! Help keep your friends and acquaintances informed and thinking.

http://www.FriendsOfTheMiddle.org
FriendsOfTheMiddle@hotmail.com