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Here is another interesting idea FYI on how to better deal with the financial crises we were put into. Thanks Mark for forwarding.

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Bailout: The Crisis Profiteering

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It is an old habit of Wall-Street brokers and financiers first to generate a crisis and then to profit from a practice that may be called crisis profiteering. Remember the great inflation of the 1970s. It was Wall Street that urged then-Fed Chairman Arthur Burns to regularly print money and fight the decade's recessions. Then inflation surged out of control and dragged the United States into a steep downturn. The brokers found a champion in President Ronald Reagan, who blamed the inflation not on money printing but escalating budget deficits and curiously argued that deep cuts in income tax rates will actually solve the deficit problem by unleashing the engine of growth and generating vastly increased revenues. Most people thought of it as voodoo economics but Wall Street embraced it with open arms. The top-bracket income tax rate fell drastically first from 70% to 50% and then all the way to 28% by 1986. The wealthy turned the inflation crisis to their advantage by persuading politicians to slash their tax bills.

Not surprisingly the budget deficit ballooned, and turned into a full-blooded deficit crisis, with the budget shortfall soaring to an all-time high of 6% of GDP. Reagan responded by sharply

raising payroll taxes, especially the self-employment tax, which is actually a small-business tax. The small business tax surged over 66%, and incidentally John McCain, who now claims to be a pal of small businesses, voted for this gargantuan tax rise in 1983. The Republicans turned out to be foes of the self-employed. This way the tax burden was transformed from the rich on to the backs of the poor and the middle class.

Then came the savings and loan crisis of 1987-1989. Many S&Ls then went bankrupt and the government bailed them out with a \$250 billion plan. Some of these financial institutions turned healthy, and then Wall Street bankers snapped them up at cheap prices and profited handsomely from the fiasco.

Now the United States is facing a terrible credit crisis, and the bankers have done it again. They have engineered another bailout with the help of a prominent financier Hank Paulson, the former CEO of Goldman Sachs. The \$700 billion rescue plan is the biggest boondoggle of all time. The bankers will come out smiling but the public has to foot the bill. It will not even solve the economic problem, which stems from excessive deregulation that was once championed by Goldman Sachs and Hank Paulson himself. So now he comes to the rescue of his buddies.

The deregulation has spawned a culture of speculation. Once the dust settles a bit, speculation will surge again; so oil could make a comeback and scorch the economy. Secondly, the government will have to borrow a lot of money; that will raise interest rates. Thus the bailout could sicken the entire economy. The slump could then spread from financial institutions to the rest of the nation. In any case, the bailout should be limited to troubled banks, which are the lenders. Why should we bailout Wall Street firms like Goldman Sachs or Morgan Stanley that are the borrowers? The government wants to unfreeze the credit system; so then rescue the banks, i.e. the lenders. Why rescue the reckless borrowers like Goldman Sachs and others?

The government is going to use up a trillion dollars in its multi-faceted rescues. What if we have a full-fledged recession with both employment and output falling? Having used up and actually wasted a precious trillion how will we then rescue the rest of the economy? This bailout is a colossal mistake and I think will come back to haunt us.

What should we do? The current problem is not with banks and financial institutions, but in the housing market. So the remedy should be applied there and nowhere else. There should be a partial bailout of harried homeowners who cannot pay their mortgages. They should be penalized somewhat for their reckless borrowing but still rescued for the sake of the economy. If

homeowners are able to make timely payments for their home loans, the banks will be paid and their loans will be secure. The banks will have a healthy balance sheet and will not need any rescue. The housing-market will also stabilize. If some banks still fail, then the FDIC will come to their rescue. The total cost of the home-owner bailout will be less than \$500 billion, a fraction of what the government has promised to spend on its multifaceted bailouts Bear Stearns, Freddie Mac, Fannie May, AIG and now the entire financial sector.

Whenever a crisis appears, Wall Street jumps to the front row to profit from it. America, wake up and say no to the worst plan yet devised for crisis profiteering.