

## **Bailouts, Cover-ups & the Economy**

To understand the current financial crisis, we must look at what caused the problem. Simply stated bad government policy, and poor management on Wall Street and Detroit made for a perfect storm.

Thanks to bad government policy, the Federal Reserve followed an easy money policy to appease the Wall Street crowd, which incidentally is dominated by liberal Democrats. Meanwhile the government encouraged banks to make loans to borrowers with no money, a weak job history and poor credit. To the surprise of no one, except Washington and Wall Street executives, anyone with an ounce of economic sense knew the default rate would surge. And surge it did, to the tune of costing the American taxpayer hundreds of billions of dollars.

On Wall Street, executives such as former Clinton Treasury Secretary Robert Rubin, came up with the bright idea to package and bundle these dubious loans and sell them as safe "A rated" securities to investors. Insurance Companies such as AIG got into the act by underwriting the insurance on these loans using credit default swaps.

Meanwhile in Detroit mismanagement in the auto industry reigned supreme. Labor contracts were negotiated, signed, sealed and delivered to ensure "labor peace". The fact that these contracts made absolutely no economic sense was simply ignored.

Combine these and we have a perfect storm. Once it became clear that the American people would learn about the incompetence of the Federal Government, Wall Street and Detroit the great Bailout / Cover up began.

The American people were gravely informed that to "save capitalism", the government had to step in with socialist like programs and legislation. The new mantra is we are out of recession and Wall Street is supposedly on the upswing, but the following questions must be asked and answered.

Is this upswing the result of real renewed economic vitality such as an increase in manufacturing? Is it a rise in the savings rate, which will allow for an increase in production? Or has the debt and the credit situation, both individually and as a nation improved? Have our imports increased because there is a real demand for what America produces?

Sadly, the answers to all these questions are no. The government and the Fed keep artificially propping up the economy with easy money, and other gimmicks. Meanwhile, we keep falling further and further into debt.

The Federal Government now owns the controlling interest in General Motors. Because of the aforementioned labor agreements, General Motors cannot produce a small fuel-efficient vehicle to compete with the subcompacts from Japan and South Korea.

General Motors loses money on each subcompact it builds in America. It produces a profit on the bigger vehicles like the larger SUV's. In 2014 new fuel efficiency standards go into effect. These new standards call for the average vehicle GM produces to get 35 miles per gallon.

To meet this standard, GM will have to sell more of the cars they lose money on and less of the vehicles that they earn a profit on. So in 2014 GM will lose even more money. Keep in mind; thanks to the Federal Governments bail out program, the American taxpayer will bear the brunt of these losses.

Unfortunately, the Federal Government didn't actually have the money for the bailout, because they are also running a deficit. So they got the printing presses humming, printing "funny money". This debt was sold to investors and guaranteed by the "good faith" and credit of the United States. That is just a fancy way to say that you, the American taxpayers are on the hook for this debt. You may be curious, as to whom these investors are. They are from nations that have large cash surpluses, or put another way, countries that the United States has large trade deficits with, places like China.

Back on Wall Street, many money managers and investors feel a need to justify their return to big bonuses, therefore they are engaged in big block trading that inflates the price of the stock without there being a real reason for an increase in value.

The following story is a great illustration of this principle. I am not sure who the author is, but we are indebted to them.

"It's a slow day in a little East Texas town. The sun is beating down, and the streets are deserted. Times are tough, everybody is in debt, and everybody lives on credit. On this particular day a rich tourist from back east is driving through town. He stops at the motel and lays a \$100 bill on the desk saying he wants to inspect the rooms upstairs in order to pick one to spend the night.

As soon as the man walks upstairs, the owner grabs the bill and runs next door to pay his debt to the butcher.

The butcher takes the \$100 and runs down the street to retire his debt to the pig farmer.

The pig farmer takes the \$100 and heads off to pay his bill at the supplier of feed and fuel.

The guy at the Farmer's Co-op takes the \$100 and runs to pay his debt to the local prostitute, who has also been facing hard times and has had to offer her "services" on credit.

The hooker rushes to the hotel and pays off her room bill with the hotel owner.

The hotel proprietor then places the \$100 back on the counter so the rich traveler will not suspect anything.

At that moment the traveler comes down the stairs, picks up the \$100 bill, states that the rooms are not satisfactory, pockets the money, and leaves town. No one produced anything. No one earned anything. However, the whole town is now out of debt and now looks to the future with a lot more optimism.

And that, ladies and gentlemen, is how the United States Government is conducting business today.”

With your Vote and support, we can let the political establishment know that you have “Had Enough.” Vote for me, David Corsi in the Republican Primary in NJ’s 12<sup>th</sup> District on June 8<sup>th</sup> and we can start to return to fiscal sanity, and restore real economic growth and prosperity.

Regards,  
Dave Corsi