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The Right Time to Down-Size Washington

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In every American city today there are people losing their jobs. There are families who cannot pay their mortgages and or electrical payments. Some may even have to choose between medication and food. The United States Government and corporations all around the country are tightening their budget, as we enter the next phase of the current recession. Unemployment is at the highest point it has ever been. Many corporations are taking advantage of the current economic crisis to downsize, right size, and out-source American jobs to other countries for cheaper labor. 2010 is rapidly approaching, and many people are starting to wonder how the budget cuts will affect them and how long is their employment safe. The government decided it was important to use seven hundred and fifty billion dollars to bailout corporate America, giving billions of our tax dollars to financial institutions, insurance companies, and the auto industry, while funding for programs like Social Security, healthcare, and education are rapidly becoming extinct. America definitely needs to tighten up the budget. More than ever America needs to downsize Washington. Congress needs a pay cut. In my opinion, politicians are bought and paid for by big business, so they do not need or do not deserve compensation with tax dollars. It is a humiliation and an embarrassment that the richest country in the world is suffering from such a major economic crisis: The Feds solution is to take money from hard working people—suffering from personal problems of their own—to fund a nation wide bail-out of the financial system including: the financial institutions; the auto industry; and the largest insurance company in America, AIG.

The housing crisis started in June of 2007 and began the first of many problems that would soon attack the financial stability of the economy. Prior to this event, many lenders were neglectfully writing loans to people who could not afford them. There were many types of loans that were setting homeowners up for failure. Some of these loans included: interest only loans, balloon loans and mortgages that required little or no money down, and many other outrages loans. Many loan officers were speculating and taking unmanaged risks because most of these bad loans were sold on the secondary market. Credit default swaps were also a tool that got many lending brokers in trouble. Credit default swaps were created to act like a type of insurance for the bonds, but this is how banks became terribly interconnected, like a web, therefore leaving each financial institution vulnerable to each other. Unfortunately, the only security that they created was that if one bank was large enough it could inevitably bring down the entire financial system if it was to fail.

Financial institutions did not cause the economic crisis alone. There were many speculators buying property just to turn over for a profit. Many people thought the act of buying property or a home would bring them wealth since the value of them had always risen in the past Many people took risk they could not afford. Many of these speculators assumed the act of buying the home or property was a win, win and that they could not lose. Some homeowners were to blame as well as speculators and loan officers. Some homeowners purchased homes larger than they could afford. Many homeowners entered into mortgages without fully understanding the agreements they were entering into. No one should ever sign a contract he or she does not fully understand. It is the responsibility of both the loan officer and the homeowner to understand the terms and conditions of the contract. All mortgages should require a twenty percent down payment. By requiring a down payment from a homeowner and or a speculator, it takes some of the risk away from the bank. The down payment ensures that the person attaining the loan has something to risk as well as the financial institution. This policy has been a rule for many generations and helps to instill pride in ownership. Over the years, loan officers have become more relaxed and have found loopholes to get around down payment enforcement. By the year, 2007 the housing market began to crash, foreclosures were rising, and home appreciation was rapidly declining which I feel is a direct reflection of the lax in judgment caused by greed in the housing industry.

The nationalization of the financial sector of our economy occurred in 2008.The timeline according to CNBC news and PBS Frontline are as follows. March of 2008, Bear Sterns is in trouble and heading for bankruptcy. Rumors caused a run on Bear Sterns, a financial institution that was heavily leveraged in subprime mortgages. Bear Sterns was the smallest investment bank on Wall Street. Investors in Bear Stearns lost confidence, which caused a run on the bank. At the beginning of the attack on Bear Sterns, they were having no problems with the toxic assets. Although it may have been unavoidable, I believe that financial meltdown did not have to occur at this point in time. The rumors of future problems caused investors to panic, not the problems themselves. The Federal Reserve stepped in and attempted to save Bear Sterns and caused the beginning of the economic meltdown. The Fed was concerned with systemic risk, which is if one institution fails it will cause the collapse of all the institutions connected with it. The Fed should have stepped aside and let the market correct itself. Other institutions would have gladly devoured Bear Sterns for pennies on the dollar. In a free market economy corrections happen all the time. This keeps the market from inflating too big and keeps prices more competitively priced. Since Bear Sterns was an unregulated investment bank, the Fed could not loan money to them directly. The Fed gave money to J.P. Morgan to buy Bear Sterns. This allows the Fed to control the purchase amount. Although the Fed was trying to help Bear Sterns, they actually hurt them by singling them out the rest of the market. Within days of the rumors about Bear Sterns, it was gone, sold for two dollars a share, when less than one year before it had been trading around one hundred and seventy dollars a share.

After the Bear Sterns debacle, the Fed nationalized Fannie Mae and Freddy Mac. Sept. 7, 2008 the Feds took an 80 percent stake in Fannie Mae and Freddie Mac. The Fed fired the board of directors and gave the new board access to about two hundred billion dollars of capital.

The next investment bank to fall victim to the financial crisis was Lehman Brothers. Lehman Brothers was the oldest and fourth largest investment bank on Wall Street. By this time, the Fed was starting to wake up and realize that eventually they will have to let someone fail. By this time, it was too late for the Fed to fix the problems. Wall Street had been conditioned to the Fed providing help and did not want to take on the toxic assets without the invisible umbrella of the Fed to insure these assets. The Fed said that due to moral hazard they must let the markets correct themselves. Lehman was incredibly interconnected with the other investment banks of Wall Street, but if the Fed bailed out Lehman Brothers, they would have had to bail out Merrill Lynch, Citibank, and Bank of America and on and on and on. The Fed made the decision to let Lehman Brothers fail. On September 15 2008, Lehman Brothers files bankruptcy.

After Lehman Brothers filled bankruptcy, AIG, The American International Group, was now in big trouble. They sold billions of dollars of insurance with the assumption that Lehman brothers could never fail (Inside The Meltdown). AIG after years and years of profiting from selling insurance for bonds it could not cover is now facing bankruptcy. In my opinion each member of the board of directors for AIG should be imprisoned for a felony charge of fraud. It is a tragedy that not only did they get away with this fraud, but also American taxpayers were forced to bail out their debts. The Fed gave AIG $85 billion dollars to keep them from going bankrupt At this time the Fed had $800 billion dollars to their disposal. Within days of Lehman Brothers collapse, the financial markets worldwide began to freeze. Interbank lending skidded to a halt; not just in America, but worldwide, the banks did not want to lend to each other. The Investors lost confidence in each other. Realizing that the contagion was larger than they could handle The Fed had to turn to Congress for help. The first attempt of the Fed to get help from Congress was rejected. Wall Street was in shock and the markets took a major hit. On October 07, 2009 TARP, Toxic Asset Relief Program, was created. TARP gave the Fed the power to not only nationalize the banks, but also gave the Fed complete control over the entire financial sector. The Fed met with the heads of the largest investment institutions on Wall Street. The Fed Chairman, Ben Bernanke, and Treasury Secretary, Hank Paulson, told the heads of the investment institutions that they had to accept funds from the Fed. They were trying to encourage them to start lending to each other again. Ironically, Hank Paulson had built his career defending free markets, but now hypocritically has become the largest interventionist since the Great Depression (Breaking the Bank). I feel strongly that the entire financial crisis could have been avoided if the Fed would have stepped aside in the very beginning and let Bear Sterns fail. I also will admit that if the Fed had done so (stepped aside), the press would have attacked them for the failure of Bear Sterns. The government did not influence Bear Sterns and the rest of the investment banks to make risky choices, greed did. Sometimes risky behavior pays off, and sometimes it does not. That is the price you pay to play in the investment game.

Choices made by the government have a direct effect on the American taxpayers. They are taking the hit for the government's bad decision to intervene in the free market system. Taxpayers are being forced to pay higher taxes on common goods that contain sugar. Smokers are paying extremely high taxes for cigarettes. As a non-smoker, this does not affect me personally, but I feel that as a free country an American should be able to consume sugar or nicotine without being penalized by the government. Americans who receive benefits such as: Medicaid, Medicare, Social Security, Financial-Aid for education and Food benefits are also being punished for the government's actions. Each of these programs have had their budgets cut. President Obama submitted to Congress a pay as you go plan on June 09, 2009 (Wall Street Speech). I feel this would have been a great plan if it had been submitted in 2007. Currently, Americans feel the brunt of this crisis now. Businesses may be starting to recover but Americans are still in a full-blown crisis. Treasury Secretary, Hank Paulson, mentioned moral hazard as an excuse to let Lehman Brothers fail. Was there no moral hazard when the Fed decided to bail out the auto industry as well as the entire financial sector of our economy? Ironically, three CEO's of three separate automakers flew in three separate private jets to meet in Washington D.C. to request Congress to "bailout" the auto industry, if there industry was hurting for cash, why not jet pool, since all three were from Detroit Michigan. The bailout would have been better described as the reverse Robin Hood effect. The government stole money from the poor to give to the rich. Corporate America took advantage of the financial crisis, by downsizing, rightsizing, and outsourcing American jobs to other countries for cheaper labor. Government intervention caused many unforeseen problems, and even the minimum wage increase has had unwarranted effects. These acts by the government are unjustifiable and the people involved should be held accountable for their actions.

According to the Beige Book published on September 09, 2009, many businesses and local governments are imposing wage freezes or even reducing employee compensation in some instances. The price floor set by the establishment has caused pain for many small business owners and employees who have worked together to build their businesses. Employers have the same amount of income to spread now as they did before the wage increase, and now they are actually less productive. This makes it even harder for a small business owner to be able to compete for market share against the larger players, or against foreign manufactures in their industries. Maybe now is the right time to downsize or right size Congress. We could lower the salaries of the politicians serving in Congress. We could cut the size of the teams that serve each of the Congressional representatives forcing them to do their own work. We could impose that each of the state and federal employees start at minimum wage and that each state and federal job or position has a price ceiling. Economists have opposing viewpoints of what is best for our economy in its current state. William Poole openly expressed his opinion that he completely opposed the intervention of the government in the free market system. Whereas Jim Cramer lashed out publicly in what has become known as "Cramer's Rant" that the Fed was extremely late with the help that they gave. Even Michael Moore, who I consider a socialist, defiantly not a capitalist, completely opposes the bailout and recently did a documentary exposing the government for defrauding taxpayers by distributing the money to the wealthy. Adam Smith, a sixteenth century economist, who was considered the father of capitalism spoke of the invisible hand that guides a market. Adam Smith did not say The Government guides the invisible hand. A firm or institution that does not produce is supposed to fail. That's it! That's all! There is no tolerance for a hand out or bailout in a free market system. The American Dream is the right to fail. It's a cutthroat game, the players have to have the courage to take the risk of failure. The little guys who are sticking their necks out cannot even compete if the Government is going to step on their heads by helping the big guys stay ahead. Every American has the same opportunities, to succeed or to fail.

Many Americans blame the Presidents for the state of our economy. It's not just the presidents fault that congress is broken. President Bill Clinton's administration was able to lower the deficit amount each year of his presidency and was able to create a surplus that grew each year after 1998. George W. Bush, who publically acknowledged he was not an economist, sent us into a downward spiral of debt each year of his presidency, creating the massive deficit that we have today. When asked about the economy President George W. Bush replied: "I am not an economist, I am an optimist." Maybe this is the problem: Perhaps we should have higher requirements for our presidents. President Bush must have been staring at a optical illusion, because he was blinded by reality. Nevertheless, President Obama has inherited, not only the eleven trillion dollar deficit, but also added to the recession and financial crises. Most people believe that the government will be forced to surge deeper into debt, in its hopes to stimulate growth in our economy and to reestablish faith in our economic system to those who matter most, the taxpayers. Maybe I am alone with my thoughts, but this is ludicrous. Do not go backwards if you want to go forwards. This concept is a major misconception that has corrupted Washington. Federal, state and local agencies have proven for decades that they have no clue how to run a successful business. Go to any of these programs, they will tell you the same thing, "We will lose funding if we don't spend it. That's the wrong way to run a business they should be rewarded for not wasting capital. Now it is up to President Obama to fix the problems that have sent our nation into a downward spiral. This is a task that I would not wish upon my worst enemy, and reluctantly he seems eager to dive in headfirst to tackle the worst crisis our nation has experienced in over seven decades. I would like to issue a challenge to President Obama, do what is best for the children who will inherit the debt that is being created today, and if an industry needs a bailout let them fund it within their own sector.

Capitalism is dying in America; “The bailout” in 2008 was the nationalization of the financial industry. Normally in a socialist society the establishment is geared toward helping the common man. American politics seem back-ass-ward, a reverse Robin Hood affect, taking the money from the common person or the taxpayer to give it to the rich or the corporate fat cats, and labeling it systemic risk.

According to *The Beige Book*—that is published eight times a year by the Federal Reserve, and is a collection of economic data reported from each of the twelve Federal Reserve districts. “Further job cuts are expected in Auto Manufacturing according to St. Louis and Dallas indicated further staff reductions are anticipated in the airline, energy and residential construction sectors… Wage pressures remain low across all districts. Seven Districts noted businesses and local governments imposing wage freezes or even reducing employee compensation in some instances” (V). Of course, there is a wage freeze, after the minimum wage hike a few months ago, employers of small business cannot compete with the cheap labor of foreign competitors. It is very upsetting that even though the government gave billions of dollars to the auto industry and the financial sector of the economy, hoping it would trickle down to other sectors and help to increase consumer spending. Consumer sentiment is still very low; people are scared to spend money because they do not know if they are going to have a job next month, or next year. I feel to get our economy to move forward we will have to make many sacrifices, sacrificing is not something Americans are used to. These sacrifices will come by raising taxes and extremely cutting government spending. This report is indicating that demand is very low in many sectors especially for employment. It is very unlikely to happen but maybe the minimum wage needs lowered. This has never happened in the history of the minimum wage. The American worker is not alone, Congress needs a pay cut as well, less staff and smaller expense accounts. Why should the taxpayers have to pay someone to do a Congressman or Congresswoman's job?

America wake up, this is not a daydream or even a nightmare. This is reality. It is what it is. I challenge each American to "Step-Up" and do his or her part. Together, united we stand one nation we can make a difference.

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