LAKE LAND COLLEGE

# Right Size Washington

## Complete Sentence Outline

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October 8, 2009

2009

REAL-CARE

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Thesis: 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 person problems of their own—to fund a nationwide bail-out of many sectors of the economy including: the financial institutions; the auto industry; and the largest insurance company in America, AIG.

I. 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.

A. Prior to this event, many lenders were neglectfully writing loans to people who could not afford them.

1. There were many types of loans that were setting homeowners up for failure.

a. Some of these loans included: interest only loans.

b. Other bad loans were balloon style loans.

c. Some mortgages required little or no money down.

d. There were many other outrages styles of loans as well.

2. Many loan officers were speculating and taking unmanaged risks because most of these bad loans were sold on the secondary market.

3. Credit default swaps were also a tool that got many lending brokers in trouble.

a. 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.

b. 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.

B. Financial institutions did not cause the economic crisis alone.

1. There were many speculators buying property just to turn over for a profit.

a. Many people thought the act of buying property or a home would bring them wealth since the value of them had always rose in the past

b. Many people took risk they could not afford.

c. Many of these speculators assumed the act of buying the home or property was a win, win and that they could not loose.

2. Some homeowners were to blame as well as speculators and loan officers.

a. Some homeowners purchased homes larger than they could afford.

b. Many homeowners entered into mortgages without fully understanding the agreements they were entering in.

i. No one should ever sign a contract he or she does not fully understand.

ii. It is the responsibility of both the loan officer and the homeowner to understand the terms and conditions of the contract.

c. All mortgages should require a twenty percent down payment.

i. By requiring a down payment from a homeowner and or a speculator, it takes some of the risk away from the bank.

ii. The down payment ensures that the person attaining the loan has something to risk as well as the financial institution.

iii. This policy has been a rule for many generations and helps to instill pride in ownership.

C. By the year 2007 the housing market began to crash foreclosure were rising and home appreciation was rapidly declining.

II. The nationalization of the financial sector of our economy occurred in 2008, the timeline according to CNBC news and PBS Frontline are as follows.

A. March of 2008, Bear Sterns is in trouble and heading for bankruptcy.

1. Rumors caused a run on Bear Sterns, a financial institution that was heavily leveraged in subprime mortgages.

a. Bear Sterns was the smallest investment bank on Wall Street.

b. Investors in Bear Stearns lost confidence, which caused a run on the bank.

c. At the beginning of the attack on Bear Sterns, they were having no problems with the toxic assets

2. At the beginning of the attack on Bear Sterns, they were having no problems with the toxic assets.

   a. Although it may have been unavoidable, I believe that financial meltdown did not have to occur at this point in time.

   b. The rumors of future problems caused investors to panic, not the problems themselves.

3. The Federal Reserve steps in and attempts to save Bear Sterns and causes the beginning of the economic meltdown.

   a. 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.

      i. The Fed should have stepped aside and let the market correct itself.

      ii. Other institutions would have gladly devoured Bear Sterns for pennies on the dollar.

      iii. In a free market economy corrections happens all the time, this keeps the market from inflating to big and keeps prices more competitively priced.

      iv. Since Bear Sterns was a unregulated investment bank, the Fed could not loan money to them directly.

   b. The Fed gave money to J.P. Morgan to buy Bear Sterns.

      i. This allows the Fed to control the purchase amount.

      ii. Although the Fed was trying to help Bear Sterns, they actually hurt them by singling them out the rest of the market.

      iii. Within days of the rumors about Bear Sterns, it is 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.

B. After the Bear Sterns debacle, the Fed nationalized Fannie Mae and Freddy Mac.

1. Sept. 7, 2008 the Feds takes a 80 percent stake in Fannie Mae and Freddie Mac.

2. The Fed fired the board of directors and gave the new board of director's access to about two hundred billion dollars of capital.

C. The next investment bank to fall victim to the financial crisis was Lehman Brothers.

1. Lehman Brothers was the oldest and fourth largest investment bank on Wall Street.

a. By this time, the Fed is starting to wake up and realize that eventually they will have to let someone fail.

b. Although, by this time it was too late, Wall Street had been condition 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.

c. The Fed says that due to moral hazard they must let the markets correct themselves.

2. 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.

3. The Fed made the decision to let Lehman Brothers fail, on September 15 2008, Lehman Brothers files bankruptcy.

D. 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.

1. AIG after years and years of profiting from selling insurance for bonds it could not cover is now facing bankruptcy.

a. In my opinion each member of the board of directors for AIG should be imprisoned for a felony charge of fraud.

b. 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.

c. The Fed gave AIG 85 billion dollars to keep them from going bankrupt

d. At this time the fed had 800 billion dollars to their disposal.

2. Within days of Lehman Brothers collapse, the financial markets worldwide began to freeze.

3. Interbank lending skidded to a halt, not just in America but worldwide, because no bank wanted to lend to any other bank, the investors lost confidence in each other.

    a. Realizing the contagion was larger than they could handle The fed had to turn to congress for help.

    b. The first attempt of the fed to get help from congress was rejected from congress.

    c. Wall Street was in shock and the markets took a major hit.

E. October 07, 2009 TARP, Toxic Asset Relief Program, was now formed, giving the Fed the power to not only nationalize the banks, but also giving the fed complete control over the entire financial sector.

1. The Fed holds a meeting with the heads of the largest investment institutions on Wall Street.

    a. The Fed Chairman Ben Bernanke and Treasury Secretary Hank Paulson tells them that they have to except funds from the Fed to encourage them to start lending to each other again.

    b. Hank Paulson has built his career defending free markets. and now hypocritically has became the largest interventionist since the Great Depression.

2. 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.

    a. I also will admit that if they would have, the press would have attacked them, and the government would have been blamed for the failure of Bear Sterns.

    b. The government did not influence Bear Sterns and the rest of the investment banks to make risky choices, greed did.

    c. Sometimes risky behavior pays off very well, sometimes it does not, this is the price you pay to play.

III. How does the choices the government made, effect American taxpayers?

A. American taxpayers are taking the hit for the government's decision to intervene in the free market system.

1. Taxpayers are being forced to pay higher taxes on every day goods that contain sugar.

2. Smokers are paying extremely high taxes for cigarettes.

3. As 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.

B. 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, because each of these programs have had their budgets cut.

1. President Obama submitted to congress a pay as you go plan on June 09, 2009.

2. I feel this would have been a great plan if it had been submitted in 2007.

3. Americans are feeling the brunt of this crisis now, businesses may be starting to recover but Americans are still in a full-blown crisis.

4. Treasury Secretary Hank Paulson mentioned moral hazard as an excuse to let Lehman Brothers fail.

5. 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?

6. Ironically, three CEO's of three separate automakers flew in three separate private jets to meet in Washington D.C. to ask congress to bailout the auto industry, if there sector was hurting for cash, why not jet pool, since all three were from Detroit Michigan.

IV. The bailout would have been better described as the reverse Robin Hood effect.

A. The government is stealing from the poor to give to the rich.

1. Corporate America is taking full advantage of the financial crisis, by downsizing, rightsizing, and outsourcing American jobs to other countries for cheaper labor.

2. Government intervention as caused many unforeseen problems, even the minimum wage increase as had unwarranted effects.

a. 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.

b. 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.

c. Employers have the same amount of income to spread now as they did before the wage increase, and now they are actually less productive, making it even harder for a small business owner to be able to compete for market share against the larger players, and against foreign manufactures in their industries.

B. Maybe now is the right time to downsize or right size congress.

1. We could lower the salaries of the politicians serving in congress.

2. We could cut the size of the teams that serve each of the congressional representatives forcing them to do their own work.

3.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.

V. Economist have opposing viewpoints of what is best for our economy in its current state.

A. William Poole has openly expressed is opinion that he completely opposed the intervention of the government in the free market system.

B. 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.

C. 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 scamming taxpayers distributing the money to the wealthy.

C. Adam Smith, a sixteenth century economist, who was considered the father of capitalism spoke of the invisible hand that guide the market.

VI. Many Americans blame the President for the state of our economy.

A. Bill Clinton' administration was able to lower the deficit amount each year of his presidency and was able to create a surplus in that grew each year after 1998.

B. George W. Bush, who publically acknowledged he was not an economist, turned our economy around the very first year of his presidency and sent us into a downward spiral of debt each year of his presidency, creating the massive deficit that we have today.

1. When asked about the economy President George W. Bush replied: " I am not an economist, I am an optimist."

2. Maybe this is the problem; maybe we should have higher requirements for our presidents.

3. President Bush must have been staring at a optical illusion, because he was blinded by reality

C. Nevertheless, President Obama has inherited, not only the eleven trillion dollar deficit, but also the recession and finical crises

1. Most people would admit that now more than ever the government will be forced to surge deeper into debt, in hopes to stimulate growth in our economy and reestablish faith of our economic system to those who matter most, the taxpayers.

2. 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.

3. 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 a industry needs a bailout let them fund it within their own sector.

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