



**Your on the
Street Reporter**



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**Epilogue I to *The Nearly Perfect Storm*
Deadbeats on the Dole**

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Preface

My intent in writing *The Nearly Perfect Storm: An American Financial and Social Failure*, and these epilogues is to spark your ire. I am not one to compose inflammatory compositions. I began my studies of the 2008 financial crisis with a neutral view of the subject, perhaps even skewed toward the financial world (specifically, the investment banking industry), reflecting my former employment at the Federal Reserve.

No longer. The more I learned about the institutions and individuals who were involved in the meltdown, the more disgusted I became. I wish this turn of events had not come about. I wish I had found the Great Recession occurred because of a downturn in a conventional business cycle. It did not.

Do not expect this series to be light-hearted, although I will attempt some gallows humor to lighten the load.

The Nearly Perfect Storm: An American Financial and Social Failure
Epilogue I: Deadbeats on the Dole

Quote from *The Nearly Perfect Storm* about the issue.

Page 187:

Limbaugh [Rush]: “We can’t have a great country and a growing economy with more and more people being told they have a right, because of some injustice that’s been done to them or some discrimination, that they have a right to the earnings of others.”

November 1, 2012

These epilogues will be written on occasion as follow ups to, *The Nearly Perfect Storm: An American Financial and Social Failure*, available at Amazon, Barnes & Noble, and other book stores. Epilogue I uses the October, 2012 presidential debates as a starting point.

The second presidential debate ended with Barack Obama attacking Mitt Romney for Romney’s “comments at a fundraiser that 47 percent of Americana are ‘dependent on government’ and see themselves as ‘victims.’”¹ In turn, Obama has attacked the richest people in this nation, the 1 percent of the population, as being “fat cats”.

Romney went on to say that 47 percent of the population would not vote for him. That’s good news for Romney as 53 percent will vote for him. Mitt was making the point that a segment of America’s voters are locked-in to vote against a Republican. Some experts have stated that he is correct.

I start these follow-ups to my book with the subject of money: who has it and who does not. The underlying subject is about “sour grapes” from the Red side of the debate. From the Blue perspective, it is about “spoiled apples.”

To frame the discussion, here is a quote from Leon Cooperman, a self-made billionaire who got his start at Goldman Sachs, “Our problem, frankly, is as long as the president remains anti-wealth, anti-business, anti-energy, anti-private-aviation, he will never get the business community behind them. The problem is the forty or fifty per cent of the country on dole that support him.”² He also said Obama’s disparaging [and likely unwise] comments about the wealthy was “a declaration of class warfare.”³

Dole. An interesting word. Let’s use it to do an analysis.

Mr. Copperman, the figure is far greater than 47 percent. It includes not just welfare queens, it also includes welfare kings. Let’s even the blame game scales with these facts:

1. The tax deduction on home mortgages is a government hand-out. America is almost alone in supporting this dole. Yet other industrialized countries that do not permit this

¹ <http://elections.huffingtonpost.com/2012/>.

² Chrystia Freeland, “Super-Rich Irony,” *The New Yorker*, October 8, 2012, p. 46.

³ *Ibid.*

- deduction have the same percentage of home ownership as in America (see Canada, for example.) **Result: Dole to the upper and middle class (who can afford to buy homes).**
2. Unemployment compensation is constantly abused. I've a friend who owns a company consisting of forty employees. He tells me he has had employees asking him to lay them off, so they can stay at home for awhile and collect unemployment benefits. **Result: Dole to the middle and lower class.**
 3. Food stamps cost the government over \$70 billion a year. As of March 2012, 46.4 million Americans were receiving on average \$133.14 per month in food stamps.⁴ That's almost 15 per cent of the population. **Result: Dole to lower and middle class.**
 4. Medicare and Social Security: Given the eligibility dates and the longevity of lives, we take out of these programs more than we put into them: **Result: Dole to upper, middle, and lower class.**
 5. In 1966, the government "temporarily" lowered royalties that firms paid for drilling on federal land. The strategy was to encourage more drilling at a time of low oil prices.⁵ When prices went up, the royalty relief stayed in place, resulting in a windfall of billions of dollars to the oil industry: **Result: Dole to large companies.**
 6. Wireless operators, encouraged to move to high definition TV, were given bandwidth worth billions of dollars: **Result: Dole to large companies.**
 7. Cable television companies were granted limited monopoly powers from their inception. So were telephone land lines. Now, the cards are so much stacked against any other entry into these domains, it will never happen: **Result: Dole to large companies.**
 8. Cellular spectrum: Uncle Sam essentially auctioned away a national resource to the big players in the industry, to the extent that the government has limited leverage in gaining back this space, even for purposes of national security. *Nor do taxpayers receive any rental compensation.* These auctions represent a one-time purchase of one of the most precious natural resources on earth. **Result: Dole to large companies.**
 9. Welfare spending in the United States reached nearly \$900 billion (including food stamps): **Result: Dole to lower class.**
 10. Mining industry: "Companies can lease federal land for...five dollars an acre, and then keep all the gold, silver, or uranium they find; we the people get no royalty payments."⁶ **Result: Dole to large companies.**
 11. Farmers receive five billion dollars annually in direct deposits "along with crop insurance and drought aid."⁷ **Result: Dole to large, medium, and small size farmers.**
 12. Local governments give away \$70 billion in tax breaks and subsidies to lure big companies to set up shop on their turfs. **Result: Dole to large companies.**
 13. Big financial institutions are deemed too big to fail, and they don't. Small banks can go under. **Result: Dole to large banks.**
 14. Big companies (GM, Chrysler, AIG) are deemed too big to fail, and they don't. Small companies can go under. **Result: Dole to large companies.**
 15. Uncle Sam's ethanol tax credits result in 40 percent of America's corn going to this fuel industry,⁸ leading to higher prices for anything that has corn in it...which is almost everything. **Result: Dole to corn growers.**

⁴ http://www.fns.usda.gov/fns/key_data/march-2012.xlsx.

⁵ The Financial Page, *The New Yorker*, October 8, 2012, p. 42.

⁶ Ibid.

⁷ Ibid.

16. Closed trading of financial derivatives among eight Wall Street banks, which is valued at more than the net worth of other parts of the stock market. **Result: Dole to investment banks.**
17. Congress has allocated over \$15 billion for 2,834 airports, all with no scheduled flights. More than half operate at less than 10 percent of capacity. Nearly 90 percent operate at less than one-third of capacity. The principal users: 66 percent are private flights for personal/recreational use. 6 percent are for flight instruction for future personal/recreational use. 16 percent are for business purposes.⁹ A fee attached to commercial flight tickets fund this program. **Result: Dole to...not certain which specific class, but for sure, not a dole to those who ride a Greyhound bus.**
18. Congressional insider trading (illegal for everyone except national senators and representatives) have made millionaires of some lawmakers. **Result: Dole to politicians.**
19. For the readers who believe 47 percent of the population are deadbeats and 1 percent of the population are “upbeats,” be aware that a big part of the bailout money went to the *bond holders* of these troubled companies. That is correct. Using tax payer money, the United States government doled out money to prevent the bond holders from going belly up or at least gaining back some return on their investment. But buying a bond is supposed to carry risk proportionate to the quality of the bond.

Let’s pause for a moment and reflect about point 19. First, bonds are not purchased by the same folks who purchase Velveeta with food stamps. So, it is safe to tally: **Result: Dole to the affluent part of the population.**

But this situation is worse than I have stated. *The Economist* (March 12, 2009) states the following, with my emphasis in bold italics:

- Concern grows that government officials *may determine* that it's time to make *creditors* share the pain of financial losses.
- The administration could take over the banks; in that case, the regulator *might decide* not to pay back all of the *bond holders* - but it certainly *could decide* to pay them back.

Those bold, italicized words unequivocally mean the government routinely makes bond holders whole. These facts are staggering in relation to the idea of capitalism and risk.

In the *Storm* book, I have this passage: Sheila Bair, the former head of FDIC,¹⁰ had this to say about bailouts:

“Why do we do the bailouts” she went on. “It was all about the bond holders,” she said. “They [other government regulators] did not want to impose losses on bond holders, and we did.... [Bond holders] are supposed to take losses”

⁸ Ibid.

⁹ Thomas Frank, “Little Used Airports Cost Taxpayers Big Money,” *USA TODAY*, September 17, 2009, pp 1A – 2A

¹⁰ When this report was first written, Bair was the chairwoman of FDIC. She has since retired. This quote is from Joe Nocera, “Sheila Bair’s Bank Shot,” *The New York Times Magazine*, date not cited in article, circa July, 2011, p 29.

Now, consider these other facts:¹¹

1. The share of national income in America going to the top 0.01 percent of the population is 5 percent.
2. 16,000 families in America have 5 percent of the national income. This figure was 1 percent in 1980.
3. According to the U.S. Census Bureau data released September 13, 2011, the nation's poverty rose to 15.1 percent (46.2 million) in 2010, up from 14 percent (approximately 43.6 million) in 2009 and to its highest level since 1993. In 2008, 13.2 percent (39.8 million) Americans lived in relative poverty.

I think it fair and accurate to summarize:

- The 47 percent cited by Mitt are on programs that dole-out food stamps and unemployment checks. These doles amount to a few *thousand dollars a year per citizen* for people in this income bracket.
- The 1 percent cited by Barack are on programs that dole-out bail-outs and tax exemptions. These doles amount to few *million dollars a year per citizen* (known to be billions) for people in this income bracket

Almost all Americans on the dole. Some more than others.

¹¹ *The Economist*, October 13th, 2010, pp. 13,