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Washington Bails Out the Banks

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The Congress has been trying to figure out what to do about the many commercial banks which are failing, and especially about the biggest banks, some of which are likely to fail.

The Bush administration's approach to this crisis staggers the imagination. The President wants to deregulate the commercial banks. What is remarkable about this proposal is that the deregulation of the Savings and Loan industry led directly to the huge number of bankrupt savings and loans, and that in turn has meant a minimum $500 billion dollar catastrophe for the American taxpayer.

The Bush administration also wants to put in place policies--interstate banking and branching, merging banks with insurance companies and industrial conglomerates, allowing banks to sell stocks--which will guarantee that a small number of giant banking cartels will control virtually all banking in the United States. This will result in a concentration of economic wealth and power the likes of which this country has never seen.

What is also remarkable about this aspect of the Bush plan is that it flies in the face of the best evidence available, which is that smaller banks, like the community banks we have in

Vermont, are <u>much safer</u> than large banks. A recent study done for the Federal Reserve Bank of Minneapolis makes crystal clear the fact that large banks fail at <u>twice the rate</u> of small banks.

The banking bill recently was strongly defeated on the floor of the House. But, unfortunately, it will be back. It will probably come to the floor as a much narrower bill, and then the lobbyists will line the lobbies, the financial interests will make their phone calls, and as a result amendments will be offered that will smuggle in, through the back door so to speak, much of the bank deregulation which the House has already rejected.

But that's not all. Even if a "narrow" bank bill is approved, what is in the "narrow" bill is extremely disconcerting.

The FDIC, the federal insurance fund that guarantees the safety of deposits in commercial banks, is virtually out of money. The "narrow" bill's main purpose is to provide a $70 billion "loan" to keep the FDIC afloat. Many economists believe, however, that this $70 billion will never in fact be paid back, and that it will be a direct taxpayer bailout of the industry. Further, many economists believe $70 billion is only the first installment, and that, depending upon the health of the economy, the bailout may cost tens of billions more.

What has concerned me very deeply is that in the midst of this severe crisis, which promises to cost the average taxpayer huge amounts of money, the Congress and the President refuse to determine who will pay the bill for the bailout. I am concerned that Congress refuses to be clear and straightforward about how the money will be raised, or who will foot the bill. Tragically, the Congress and the President want to quietly dump it into the deficit. That means, of course, that they want you--the average taxpayer--to pay for the bailout. And to pay again, and again, as the interest accumulates, for thirty years.

I've spoken out, on the floor of the House and in the Banking Committee of which I am a member, about this cowardly and stupid strategy. It is my strong view that the bailout of both the commercial banks and the S&Ls must be paid for on-budget--not left to our children--and must be paid for through progressive taxation.

It must be paid on-budget in a pay-as-you-go fashion, not left to our children. It must be paid on-budget because it is financially absurd to double or triple the bailout cost by paying interest over a 30-year period. If the bailout is simply dumped into the deficit, the result will be that taxes for middle income and working people will rise, and federal support of Medicare, housing, and cities and towns will be cut. This is unacceptable.

In my view, the bailout must be paid for in a progressive manner. It is time the rich paid their fair share of the banking bailouts. The wealthiest Americans created the problems the banks face and profited from the bank's foolish investments. The government must now demand that these wealthy people pay for the bailout.

The wealthy can well afford it: for a decade they profited from bank speculations and from reduced taxes on the high incomes. Today, the richest 1% of Americans own 36% of America's wealth, a gain of one-third over what they owned ten years ago, when the S&Ls were not allowed to speculate!

It is unfair and unjust to bail out the banks on the shoulders of the middle class, working people, the elderly, and the poor. I will not support any legislation that does that.

The fight, in the coming weeks, will be to make sure that the ordinary taxpayer does not have to foot the bill for bailing out the banks. While I am not overly confident that we will win this struggle, I intend to play as active a role as I can in trying to protect the interests of the working people of Vermont and America.