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\$8 TRILLION AND COUNTING For the Financial Rescue

by Ruth Caplan

That's what the Wall Street bail-out looked like at the end of 2008. Just over **\$1 trillion** came from the US Treasury to be paid for by our tax dollars and the sale of Treasury notes to be repaid by future taxpayers.

Close to **\$7 trillion** came from the Federal Reserve, which created it out of thin air via electronic accounting transactions.

The US Treasury dole-outs include:

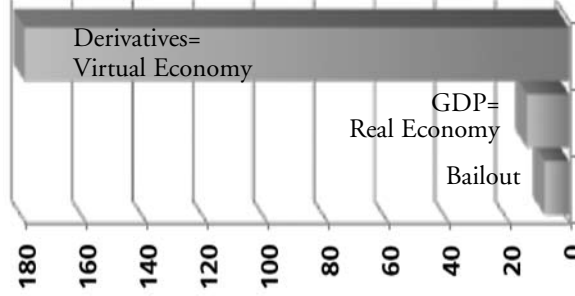
\$700 billion for emergency bailouts. Most of the press has focused on TARP; the Troubled Assets Relief Program, whose funds comes from the Treasury. Of the first \$350 billion; \$315 billion was used to inject capital into banks and AIG; \$20 billion went to unfreeze consumer credit markets; and in mid-December \$17.4 billion was promised as emergency loans to GM and Chrysler, after Congress failed to reallocate funds for the rescue.

\$267 billion went to the Spring 2008 stimulus, tax breaks, and Federal Reserve guarantees

Less noticed is the role of the Federal Reserve whose largesse includes:

- **\$1.8 trillion** in purchases of short-term notes from corporations;
- **\$540 billion** backing up money market funds;
- **\$900 billion** for a Term Auction Facility so banks can borrow more money;
- **\$291 billion** for bailing out Citigroup;
- **\$600 billion** for the bailout of Fannie Mae and Freddie Mac, who were drawn into the fiasco of packaging subprime mortgages as AAA investments;
- **\$1.55 trillion** for FDIC loan guarantees;
- **\$8 trillion** committed so far to "rescue" the economy and continue business as usual.

Economy in Trillions of Dollars



It's time this country returns to a real economy, one that serves "we, the people" not the gamblers in the virtual economy.

\$14 to \$180 TRILLION Size Of The Overall Economy

So how does the bailout compare to the size of the overall economy? That depends on what you count. First, there are the dollars in the real economy measured by GDP and highly dependent on shopping for "endless more."

- **\$13.8 trillion** GDP in 2007 (market value of all goods and services)
- **\$9.7 trillion** consumer spending (70% of GDP)
- **\$822 billion** credit card debt in late 2008

Then there is the virtual economy made up of derivatives whose paper value is derived from real or virtual assets. Warren Buffett calls derivatives "financial weapons of mass destruction." Nobody knows for sure what they are worth, not Treasury Secretary Paulson, not Federal Reserve Chair Bernanke, not the Wall Street titans, but estimates run to:

- **\$600 trillion** in derivatives worldwide (guess by the Washington Post)
- **\$180 trillion** in derivatives in the US (estimate by Comptroller of the Currency) which include:
 - **\$33-55 trillion** in credit-default swaps. These provide a promise of private insurance if the underlying debt obligations fail. The insurer doesn't have to prove they have funds to cover the swap. We were told these threatened to bring down the global economy when AIG's swaps were called in.
 - **\$1.5 trillion** in securitization trusts. These are created by packaging low grade sub-prime and alt-A mortgages into high grade investments.

The need for the bailout has been questioned by none other than the Federal Reserve Bank of Minneapolis. Yet, their October report, *Facts and Myths about the Financial Crisis of 2008*, was ignored by the press and the Paulson/Bernanke/Geithner trio. Was the whole rationale for the bailout a ruse promoting what Naomi Klein (see page 3) calls disaster capitalism? It's time this country returns to a real economy, one that serves "we, the people" not the gamblers in the virtual economy. We must demand this of President Obama.