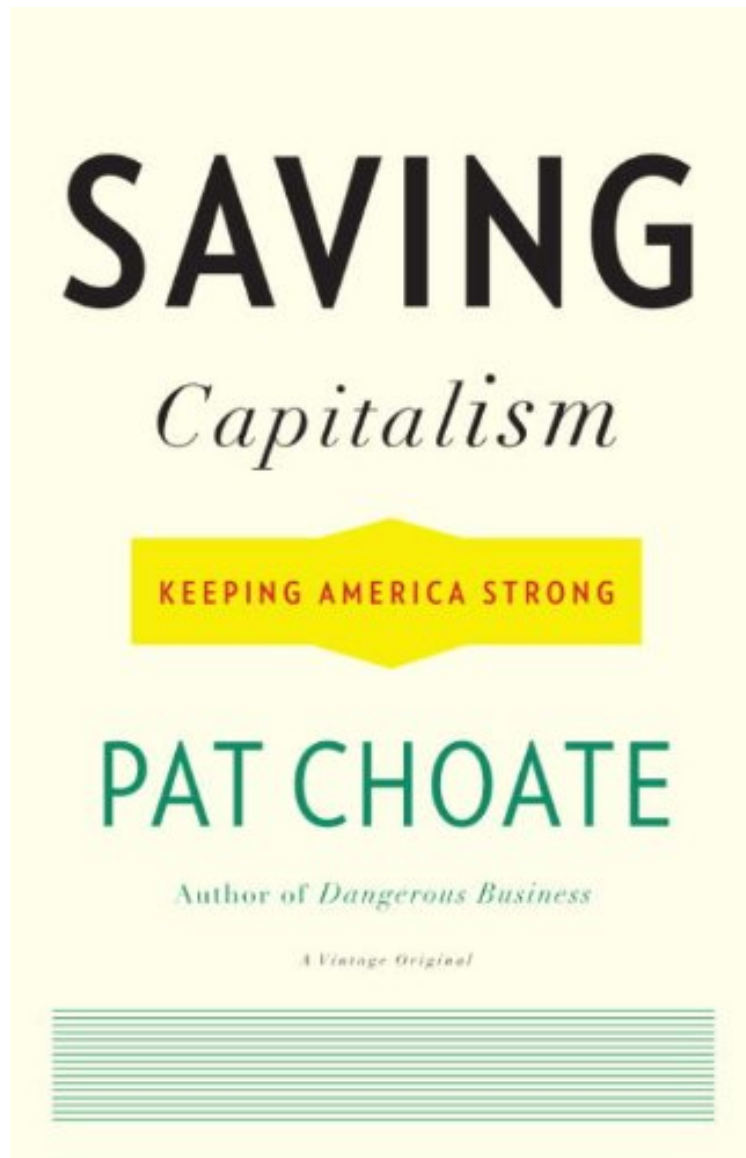


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## Saving Capitalism: Keeping America Strong

Pat Choate

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**Pat Choate : Saving Capitalism: Keeping America Strong** before purchasing it in order to gage whether or not it would be worth my time, and all praised Saving Capitalism: Keeping America Strong:

1 of 2 people found the following review helpful. correct but doomedBy lenazifrogChoate correctly notes the fraud of market-fundamentalism but unfortunately I'm not sure his prognosis of negotiation is feasible. After decades of naked capitulation by American leaders, why would Chinese and the rest of the world compromise on anything now? As he himself implicitly notes, using tariffs to hold our consumerism hostage is really the only option. Otherwise, everything between the lumpenproletariat and the 1% will disappear.He is right that we require more, not less, regulation, but that

it requires a fundamental reorientation of our political policy in conjunction with a reconstitution of our federal structure. Value-added tax is good, universal 401's is good, immigration restriction, if not moratorium is necessary, using the existing medicare structure for universal healthcare instead of merely bloating out an whole other apparatus (like Obama) is a strong argument. However, as Choate implies, but does not explicitly say, all of this is only possible with a global reorientation of labor and which is itself only possible through the political initiative of the United States, not through neoconservative expansionism but by removing ourselves from the WTO and international engagements, which is really only prostitution of American post-war capital surpluses for craven short-term interests.this was written in 2009. Obama has done the exact opposite of what Choate intended, and Choate himself was suspicious of Obama. Many short-term interests can hijack market-fundamentalism, not just corporate and foreigners. Domestic animosity can play too. Obama used the hollowing out of American industry by market-fundamentalism as a weapon in his race war against whites. Abandon blacks to temporary servitude to the federal government, and introduce a new and lower means of desegregation through mutual economic impoverishment. Afterwards the mongrelized brown cattle can be peacefully ruled over by the minority occupation government on top, because all the historical feuds were bred way and so we won't feel bad about a little redistribution anymore. Then you can work 15\$ an hour at Home Depot or whatever other deadbeat service job remains and receive about 10% more medicaid and foodstamps than what you already have, and then still go home to play videogames and watch television and porn or whatever else little people do for pleasure. That's the Hillary/Obama plan. It was Trump of all people who decided to try the Choate plan, but he was called a racist for doing so, so we can't have him. Besides, Choate is a white guy that doesn't say the same things as New York Times, why would we be listening to such a person in 2016?1 of 2 people found the following review helpful. Causes of the Crisis and Solutions.By J.L. PopulistSAVING CAPITALISM is one of the best recent books on the economic crisis that I have read so far.Pat Choate is a very efficient communicator of his message to the reader.In the Prologue Mr. Choate questions why our government leaders didn't anticipate this depression and then responded slowly and so incompetently.His Chapter titled "Money" was one of the best I have read on what he calls the "economic hurricane".There are so many relevent areas that the author addresses.Some of them are:\* The Wall Street bloodlines of the financial cabinet members from the Clinton, Bush II, and Obama administrations.\* The contrasts between market capitalism and state capitalism.\* Why long-term investment is healthier for the economy than short-term speculation.\* Why the real unemployment rate is much higher than the figures in media reports.\* Why multi-national corporations that were once considered American corporations oppose all "Buy American" policies.\* The myth that "free trade" is really free. He details various countries' closed markets regarding American products.\* The details of the Andrew Rosenfield and Isaac proposals for addressing the crisis.Another strongpoint of this book is Mr. Choate's solutions to the crisis. He offers numerous ideas that make sense. From taxation (he discusses three plans) market regulation, and trade policy, the author looks at possible solutions and cautions the reader of a possible recurring crisis.If I could recommend one book on the crisis and the solution it would be this book! It's organized, realistic, and highly readable.2 of 3 people found the following review helpful. Let's discuss the disease, not just the symptomsBy Noah LeedI was a bit dismayed when Choate opened the book with, "President Franklin D. Roosevelt not only saved the American economy, he saved market capitalism itself." My own reading of history shows that the American economy and market capitalism suffered greatly under FDR's corporatist policies, and did not recover until after the war.But in any case, this is a fine summary of the many ways in which our once productive and vibrant economy has been devolving towards a financialized speculative casino of crony-capitalism rather than a true capitalist system. The author gives a thorough accounting of policy changes that might help reverse this trend, including:- better regulation of the financial industry, featuring actual enforcement of those regulations, and actual punishment for the bankster elites who have learned from experience that crime DOES pay, and better efforts to keep those very same elites from filling every single government position that relates to financial sector regulation-wholesale changes to our tax system- a revisiting of trade policy and so-called "free" trade agreements- a shift from public spending on consumption to public investmentUnfortunately, in the discussion of our deepening twin deficits, the author is quick to lay the blame at those who embrace free markets and deregulation and lower taxes. While he is quite correct to blame GOP presidents from Reagan on for their reckless deficit spending, he totally misses the basis of our ability to run both massive trade deficits and massive budget deficits.Choate pinpoints 1981 as our point of departure, perhaps showing a bit of political bias. In fact, our trade deficit kicked in in the mid-70s, as did the real divergence between government receipts and outlays.After the end of Bretton Woods in 1971, Nixon pushed Mr. Burns and the Fed to crank up the printing presses. Suddenly, all we had to do to fund imports was to keep the presses running -- production and exporting were no longer a requirement. Why pay for oil with the real wealth of gold or goods, when little green pieces of paper will do?After the inflation of the 70s ended, interest rates fell and were held low by Greenspan and Bernanke, fueling a massive credit expansion and an explosion of public and private debt (total debt rose from 150% of GDP to 350% of GDP in under three decades). The Fed, fooled by relatively stable prices just as it was in the 1920s (and probably thanks to new ways to under-report CPI), focused on price inflation and ignored monetary/credit inflation.It is the role of the fiat dollar as global reserve currency, along with suppressed interest rates, that allows our twin deficits and our ever-increasing growth of debt. If we want the Chinese to stop flooding us with

cheap goods, shouldn't we stop borrowing money from them to buy those goods? This dollar-recycling has been going on for decades. By sinking trillions of accumulated dollars into reserves of US government debt, the Arabs, Japanese, Europeans and now the Chinese provide the ability to endlessly borrow at low rates. But someday, perhaps soon, "endlessly" will come to an end.

When the U.S. financial structure collapsed in fall 2008, it quickly became clear that our system of market capitalism was broken, endangered by decades of absolutist market dogma, shortsighted policies, and the abandonment of America's working people. Now, as the Obama administration seeks to repair the country's economy, one thing is clear: this crisis calls for drastic reforms. Regrettably, the government's response, so far, has been inadequate. In *Saving Capitalism*, economist and bestselling author Pat Choate offers six game-changing actions that can strengthen the U.S. economy now and stimulate long-term, self-sustaining, noninflationary economic growth that will create millions of better jobs. Here are proposals for: bull; Major tax reform; All-encompassing financial regulation; A strong social safety net; A major infrastructure program; Ways and means to balance U.S. trade with the rest of the world; The renewal of national innovation. Urgent and provocative, *Saving Capitalism* is an accessible and informative dissection of the gravest threat our economy has faced since the Great Depression, and a bold and creative blueprint for the future. From the Trade Paperback edition.

.com A QA with Pat Choate Question: Why did you write this book? Pat Choate: My goal in writing this book is to create a clear and concise overview of the situation we are in and put forth positive solutions. The book goes beyond questions of whether the stimulus is too big or not big enough. It proposes creative reforms that will strengthen the economy overall, and for a long time to come. Question: How grave is the economic situation, really? Many economists are saying the worst is over. Pat Choate: The arithmetic of our state of affairs is stark. Over the past 28 years, the United States has gone from being the world's largest creditor nation to its largest debtor. Our federal budget deficits are doubling the national debt every 8 years and our trade imbalance with the rest of the world since 1981 has created a cumulative deficit of more than \$6 trillion, which constitutes the largest unilateral transfer of wealth in world history. The financial sector, moreover, has more than a half trillion dollars of sub-prime loans that have yet to be reconciled on their books; almost \$170 billion of the \$1 trillion of unsecured credit card debt is in default, the commercial real estate sector has an equal financial overhang; 6 million home mortgages are in default or in foreclosure, and the Federal Deposit Insurance Corporation's reserves are depleted. No one in public life believes that the U.S. debt accumulation and these massive trade losses are sustainable for much longer. Yet the competing economic and political interests in our society have created a political gridlock in which these twin deficits go unaddressed. My hope is that this book will stimulate a substantive discussion on what we need to do to save our economy. I have put forth six game-changing proposals that are within our political and fiscal capacity. They are a good starting point. Question: You write that the economic stimulus plans enacted by Congress in late 2008 and in 2009 do not go far enough. Are we going to need more bailouts? Pat Choate: Yes, more bailouts will be required to keep the nation out of deep depression, at least as far into the future as the U.S. continues its policies of market absolutism that prevent the nation from dealing pragmatically with changing global realities. The financiers, and their lobbyists, want government out of their business, and it's in their interest to keep alive this notion that the system works best with little or no regulation, and that it has thrived without it. But this is not true. The present financial crisis is the ninth since 1982. In each instance, the money industry gambled, lost, and then passed the cost onto U.S. taxpayers. Since 1982, the bailout policies of a succession of Administrations, including the present one, have been to restore the industry to the way it was before the crash, including retaining the same people in charge and even paying them enormous bonuses despite their failures. Until the U.S. government regulates the financial industry in its entirety, sets prudent bounds on its risk taking, requires sound capital reserves, and rids the industry of those whose misjudgment created this crisis, another spectacular financial failure, the 10th, is inevitable. The only question is when. Until we make basic structural changes, such as I propose, in our trade, financial, innovation, infrastructure, budgetary, and related policies, we are years away from creating long-term, self-sustaining, non-inflationary economic growth. Question: You blame "free market absolutism" for much of what happened in the recent financial crash. What do you mean by that? Pat Choate: U.S. economic policy has been under the control of those who fervently believe in the concept known as the "efficient market hypothesis," which is an academic theory that says that the decisions of millions of independent participants in the economy, always acting to gain their own narrow advantage, creates a market whose decisions are always right. Under this market absolutism, the U.S. government since 1981 has aggressively deregulated many parts of the economy, including trade laws and the Depression-era controls imposed on finance. I open the book with quotes from a Congressional hearing in October 2008 in which Alan Greenspan, former Chairman of the Federal Reserve System, told a Congressional Oversight Committee that he was shocked to find that his view of the world (efficient market ideology) was not right and was not working. Question: In your book, you call for major reform to the United States health care system. What specific changes would you like to see and what do you think of the current proposals Congress is debating? Pat Choate: I call for expanding Medicare to include the entire

U.S. population. It would be far more efficient than any proposal now before Congress, since the administrative costs of Medicare are about a third that of all other alternatives. The Medicare model requires broad-based financing from individuals and employers, allows choice, and enables savings from mass purchases. For decades, Medicare has been nothing more than a government-operated insurance company. Contrary to much of the current debate, Medicare beneficiaries are overwhelmingly pleased with the assured accessibility and modest costs. The current proposals in Congress would keep the U.S. insurance industry in control of health care in the United States. Costs will remain high, those corporations will continue ration care to keep profits high, and millions of Americans will be without any care other than at public emergency rooms. Contrary to public misconception, the U.S. health care system is providing poorer service overall than in most other developed countries, and at a far higher cost. (Photo copy; Kay Casey)

About the Author PAT CHOATE is a political economist, policy analyst, and the author of the books *Dangerous Business*, *Agents of Influence*, *Hot Property*, *The High-Flex Society*, *America in Ruins*, and, with Ross Perot, of *Save Your Job, Save Our Country*. A new book, *Preparing for War*, is forthcoming from Knopf. In 1996, he was Ross Perot's vice presidential running mate. He lives with his wife outside Washington, D.C. Excerpt. copy; Reprinted by permission. All rights reserved.

Chapter One MONEY An unending economic hurricane has been ripping apart the U.S. and world economies since December 2007. In the seventeen months between then and April 2009, the number of unemployed Americans increased by seven million. By April 2009, almost 5.4 million of the nation's 45 million home loans, worth more than \$717 billion, were delinquent or in foreclosure. Although the pace of decline seemed to be slowing by the early summer of 2009, far worse is yet to come in 2010. The Treasury Department's stress test of the nineteen largest banks in early 2009 revealed that they could be forced to write off as much as a fresh \$600 billion by the end of 2010, increasing their losses to more than \$1 trillion. Most of those mortgage defaults will be by people now at work, who once were thought financially immune to such distress, but now are likely to lose their jobs and then their family homes. The lender of last resort, the federal government, has tried to blunt this depression with unprecedented levels of money infusions into the U.S. economy. Despite federal commitments of almost \$9 trillion for direct investments, \$1.7 trillion for guarantees, and \$1.4 trillion for loans, plus a cut of the Federal Reserve loan rate to banks of almost zero, the prolonged freeze in credit markets cracked only slightly by the spring of 2009. In the last quarter of 2008 and the first of 2009, auto production fell by half and global trade declined at the fastest pace since the Great Depression. The governments of Europe, Japan, and China are engaged in massive bailouts of their economies. Yet the bottom of this depression is not visible, let alone a domestic or global upturn. America's money industry is directly to blame for much of the world's economic meltdown. It gambled with other people's money and lost, used faulty risk-assessment tools, and knowingly sold fraudulent assets, including hundreds of billions of dollars of subprime mortgages, for vast profits. The administrations of Bill Clinton and George W. Bush enabled Wall Street's recklessness by scrapping the regulatory safeguards Franklin Roosevelt had erected in the 1930s. Equally significant, the U.S. Federal Reserve System, Securities and Exchange Commission, and Treasury Department failed to exercise their oversight authority adequately. The salvage program put into place by both the Bush and Obama administrations is designed to restore the U.S. financial system to the way it was before the crash of 2008, with the same oligarchs in control but with a bit more regulation. If that is all that is accomplished, we will have learned nothing and can be sure that we will have a repeat of the behavior that brought us to this crisis. We must think bigger about what America wants from the money industry and act accordingly. A strong capitalist system requires an equally strong financial sector, whose integrity is safeguarded by strict federal supervision of all money institutions, bans on Wall Street speculation with other people's money, and an adequate and sound currency, thereby ensuring a steady flow of capital and credit to American businesses of all sizes. We need a money industry that uses the great reservoirs of other people's money that it holds to serve the real economy, as it did successfully for several decades in the post-World War II era, as opposed to the recent exploitation of privileged access for compensation-based looting, speculation, and selfish schemes. American capitalism needs a long era of dull but prudent banking, overseen by suspicious federal regulators. The free-market absolutism of the past thirty years, most notably the last ten, created such an antigovernment, antiregulatory bias, coupled with the fantasy that the market always knows best and always regulates itself, that the very will to regulate disappeared at the top levels of American government, academia, and business. For sure, other factors affected this crisis, as subsequent chapters will reveal, but it all came together as a perfect storm in the money industry. Here are the essentials of what happened and recommendations for rebuilding America's financial system.

The Money Industry The economic origins of the present crash are the oil shocks of the 1970s, when many major oil-producing countries created their production cartel, the Organization of the Petroleum Exporting Countries (OPEC), and radically increased the price of crude oil. The OPEC nations deposited much of their money for safekeeping in major U.S. banks such as Chase Manhattan, Citibank, Chemical Bank, and Bank of America. These banks recycled hundreds of billions of petrodollar deposits as loans for developing countries, eagerly and often imprudently offering high-interest financing to countries such as Argentina, Brazil, Mexico, Nigeria, Ivory Coast, and the Philippines- nations whose leaders repeatedly stole part of the proceeds, wasted part, and used a little for the intended development. Forgetting how nations defaulted on loans during economic crises in the 1800s and during the Great Depression, Walter Wriston, chairman of Citibank, then considered America's leading banker, proclaimed in the

late 1970s that lending to governments was safe because sovereign nations do not default. Wriston's maxim was totally wrong. In 1982, when Argentina, Brazil, and Mexico defaulted on more than \$300 billion of debt, much of it owed to Citibank, the Federal Reserve and Treasury had to scramble to prevent major U.S. financial institutions, including Citibank, from collapsing. By the end of the 1980s, developing nations had defaulted on more than \$1.3 trillion of debt, most of which was owed to U.S. banks. A Washington Post Book Company study revealed that more than one thousand U.S. banks were technically bankrupt by 1992. Despite the rhetoric of market absolutism embraced by every U.S. president from 1981 to 2008, Washington had to bail out the financial services industry eight times, even as it cancelled many of the financial regulations that governed the industry.

1. In 1982, the Federal Reserve and the Treasury bailed out U.S. banks holding Mexican, Argentine, and Brazilian debt.
2. In 1984, Continental Illinois received a \$4 billion rescue package.
3. In the late 1980s, the Federal Reserve paid out large loans to save 350 banks that later failed.
4. Between 1989 and 1992, Congress provided \$250 billion to support hundreds of insolvent savings and loan institutions.
5. From 1990 to 1992, federal banking authorities provided \$4 billion to save the Bank of New England and arranged for Citibank to get capital from Saudi Arabia.
6. In 1994, Congress provided Mexico a \$50 billion loan to bail out Goldman Sachs and other U.S. financial institutions that had bought high-yield Mexican debt.
7. In 1997, the Treasury pushed the International Monetary Fund (IMF) to rescue East Asian currencies in order to save American lenders.
8. In 1998, the Federal Reserve saved Long-Term Capital Management, a massive hedge fund whose investors included leaders from U.S. finance.

Misfeasance, malfeasance, and malversation (corruption of officials) distinguished the finances of this era. Despite these repeated bailouts and Wall Street's widespread abuse of its clients, federal regulators were extraordinarily tolerant. When a financial institution failed to obey or fulfill a law, regulation, contract, or agreement, punishment was mostly limited to a warning or a fine, sometimes in the hundreds of millions of dollars, followed by a corporate announcement that the company neither admitted nor denied any guilt. Such federal wink-and-nod acceptance facilitated the rise of a gambling culture in the great financial houses where solvency and soundness once reigned.

**A Favored Industry** As this lenience suggests, the "money" industry was, and remains, favored in Washington. Although never naming it as such, the federal government in the latter part of the twentieth century put into place, step by step, a long-term national industrial policy that privileged the financial industry over all others, particularly manufacturing. The benefits to finance were enormous, and the consequences to manufacturing were devastating. By the 1980s, finance dominated the American economy, and what finance wanted was quick cash. Beginning with the merger mania of that decade and continuing through the buyouts, privatization, and outsourcing of subsequent years, our leaders sacrificed the real economy for the financial one. Where our best and brightest graduates had once sought their fortunes in the corporations that created wealth by producing goods and services, these talented young people were soon seeking jobs in financial firms where they sought quick fortunes manipulating paper wealth. Consequently, the number of jobs in the financial sector (the winner) grew and those in manufacturing (the loser) declined. The math is clear. Between 1981 and 2009, manufacturing employment fell from 18.7 million jobs to barely 12 million, a 40 percent loss, while finance grew from 5.1 million jobs to 8.1 million, a 60 percent increase. America lost almost three jobs for every one it gained in that exchange. In the process, the Wall Street-driven outsourcing of industrial and service jobs over the past three decades has devastated America's middle class. First, families tried to cope by having both adults work outside the home. When joint incomes were insufficient to maintain family lifestyles and pay bills, families went into debt to credit card companies at usurious rates. During this time, banking institutions financed hundreds of thousands of mortgages, often to unqualified borrowers. Then millions of families borrowed against the equity in their homes to pay off other debts, putting themselves on the financial edge. Millions of those mortgages were "subprime" because the money industry made them to people without th...