

Federal Reserve Chairman Ben Bernanke Explains the Wall Street Bailout to the Average American

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Ben: If you don't bailout Wall Street, giant investment banks like my buddy Hank Paulson's company Goldman Sachs won't be able to lend money to your employer to make payroll. You won't get paid! All you need to do to get paid is spend \$700 billion to purchase Goldman Sachs bad investments.

Average American (scratching his head): I'm not sure that I understand. In my high school history class, I learned that the Fed was set up as a lender of last resort to lend money to banks during a crisis. Why can't you just lend some money to FDIC insured banks that are in good shape to provide liquidity so I can get paid? Doesn't the FDIC know which banks didn't buy mortgage-backed securities, sub-prime loans, and other junk?

Ben: No, no, no. That is not how it works. The Fed and the government's job is to buy bad investments from badly run investment banks at far above their market value so the investment banks can borrow more money and stay in business.

Average American: I still don't understand. Is the government going to require that the badly run investment banks pay me with the \$700 billion?

Ben (aghast): My God, no, of course not, that would be socialism and micromanagement of the economy by government bureaucrats.

Average American: It's not socialism and micromanagement of the economy when you buy the bad investments from Goldman Sachs and the other investment banks?

Ben: Of course not.

Average American: And there is no guarantee that I will get paid?

Ben: Of course not.

Average American: So you are saying that Goldman Sachs and the

other badly run investment banks could just take the \$700 billion and buy, I don't know, most of Brazil as a private playground?

Ben: Er, well, yes, that *could* happen. But I am sure they will borrow more money from Saudi Arabia or China and then lend it to your employer so you can get paid. Trust me.

Average American: Well, does the bailout plan have a guarantee that the badly run investment banks will borrow the money from Saudi Arabia or China and make sure I get paid?

Ben (looks horrified): No, no, no. That is socialism. You have to take your chances with the free market like everyone else.

Average American: Are you sure Saudi Arabia or China will lend them the money? I mean I admit I only have a A.A. degree from Podunk Community College, not a Ph.D. like you, but I wouldn't lend them a plug nickel.

Ben (chuckling): Well, the leaders of Saudi Arabia and China are much smarter than you are. Some of them went to Princeton. A few were even in my economics class. I only teach the best. I have no doubt they will recognize the fundamental soundness of the American economy and lend money to Goldman Sachs and the other badly run investment banks.

Average American: Why not just buy America outright? I mean there is a really beautiful national park just down the road from where I live, and, boy if I were a billionaire prince from Saudi Arabia, I'd like to own the whole thing. They could drill for oil too since the park has been off-limits to drilling. ExxonMobil says there is a ton of oil underneath the park if only they were allowed to drill. I think it would be a great deal if I were from Saudi Arabia and knew a lot about the oil business.

Ben: No, no, no. That's too simple for brilliant sophisticated investors like the governments of China and Saudi Arabia. They would never sully their hands by buying *real assets*. If you were a pampered Saudi prince or Chinese communist party official, would you want to be involved in something as messy as owning and running something real? No, no, no. They want to buy IOU's from badly run investment banks like Goldman Sachs and Morgan Stanley. It's much easier and safer than buying real assets like land or oil.

Average American: Hmmmm. I guess you could be right. I don't

know any Saudi princes or communist party bigshots from China like you do. But, there is no guarantee that they will lend any money to keep Goldman Sachs and the other investment banks afloat? A guarantee sounds like a good idea to me.

Ben (scowling): Well, you don't have a Ph.D. in economics and you haven't taught at Princeton. Did you know Einstein was at Princeton? A guarantee would subvert the very foundation of the free market democratic capitalist system.

Average American: Let me see if I understand this correctly. Instead of making sure the \$700 billion is used to pay my paycheck, you are going to give it to Goldman Sachs and other badly run investment banks with no guarantee of results? Have I got it?

Ben: Exactly!

Average American (looking just a tad upset): Hmmmm. I'm clearly not as smart as you Professor Bernanke. I still just don't understand why this is a good idea for me.

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