

The Concerned Liberal Senator Explains the Wall Street Bailout to the Average American

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The Concerned Liberal Senator: I understand your frustration but if you don't bailout Wall Street, giant investment banks like my colleague 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 I understand. Haven't you been telling me for years that the government should look out for Main Street, not Wall Street?

The Concerned Liberal Senator: Well, yes. But, this bailout of Wall Street will help Main Street.

Average American: How?

The Concerned Liberal Senator: See, once the government has purchased Goldman Sachs and other big investment banks bad investments, they will be able to borrow more money which they will lend to other banks which will lend them to other banks which will finally lend them to your employer so that you can get paid. This is called injecting liquidity into the credit markets.

Average American: Isn't that what the Federal Reserve is supposed to do?

The Concerned Liberal Senator (chuckling): It is just not that simple. This is a very complicated and delicate issue.

Average American: Well, I admit that I don't know that much about high finance. Can you explain it to me?

The Concerned Liberal Senator: Look this is very complicated, involving complex financial instruments, sophisticated financial models, all sorts of stuff. Hank tells me that they use something called stochastic differential equations to develop the financial models used in mortgage backed securities.

Average American: Well, ok. But, I mean, as the liberal champion of the little guy, why don't you just give the \$700 billion directly to little guys like me instead of the Wall Street fat cats who have screwed up?

The Concerned Liberal Senator (looking very serious and sympathetic): Look, this has been a very difficult situation for me. I have been in closed-door meetings with Hank and Ben and President Bush for hours, agonizing about the situation. All I can say is that the situation is so dire that we just have to give \$700 billion to Wall Street or civilization will collapse. Hank assures me that the mortgage backed securities are so deeply intertwined with one another that this is our only hope.

Average American (frowning): Well, aren't you concerned that you are giving Wall Street a blank check with no guarantee of results?

The Concerned Liberal Senator: Look, we forced the Administration to make some major concessions. For example, the bailout now requires the Treasury Secretary to establish standards for the pay of executives at firms that receive bailout money.

Average American: Can't you just include a cap right in the bill. You know, nobody gets more than \$1 million per year?

The Concerned Liberal Senator: No, no, no. You just don't understand. This is a complex issue and experts like Secretary Paulson need to have latitude to establish standards based on detailed economic studies by pay experts.

Average American: \$1 million per year seems like a lot to me.

The Concerned Liberal Senator: Look, I empathize with your concerns. After much soul-searching, I had to admit that \$1 million may not be enough to tempt the financial geniuses that we will need to administer the rescued Wall Street firms. I mean Hank made a lot more than a million per year when he ran Goldman Sachs.

Average American: It kind of looks like \$1 million per year would have been too much for him. Maybe he should pay his salary back to Goldman to help bail it out?

The Concerned Liberal Senator (shaking his head sadly): I empathize completely with your feelings but that is just not a possibility in the

current political climate.

Average American: Why?

The Concerned Liberal Senator: I, of course, would do what you want in a heartbeat. But sadly we live in the imperfect real world. Reactionary conservatives and Republicans just have too much power to do these things.

Average American: Um, well, don't liberal Democrats now control both the Senate and House?

The Concerned Liberal Senator: Well, what with filibusters and backroom politicking, I'm afraid it just isn't that simple. But, let me assure you, I sympathize with your concerns and I am doing everything I can to extract important concessions such as the pay standards. They really have us over a barrel.

Average American: You sure you can't do more? I mean most people that I know want to string these Wall Street guys up from the nearest lamppost.

The Concerned Liberal Senator: That's horrible. I want to say that I believe in peace. Violence is never justified.

Average American: Well, didn't you vote for the War in Iraq?

The Concerned Liberal Senator: That's different. After all, we were attacked without provocation on September 11 and the Administration gave me inaccurate information about Iraq's involvement with the attack and possession of weapons of mass destruction. I remain shocked and appalled that the Administration would subvert professional intelligence analysis for partisan political concerns. I want to say that had I known then what I know now I would have considered my vote more carefully.

Average American: Well, could they be giving you inaccurate information about the Wall Street bailout?

The Concerned Liberal Senator (incredulous): No, certainly not. I want to say that although I disagree with Secretary Paulson on many issues, I consider him a colleague and have no doubt of his personal integrity.

Average American (sounding skeptical): Well, ok. I have to admit that

I don't know Secretary Paulson. He may be a stand-up guy for all I know. But, what if he is wrong?

The Concerned Liberal Senator: Wrong?

Average American: Yeah, wrong. Shouldn't you carefully check his claims with extensive hearings and research before spending \$700 billion of my money to buy worthless assets from Wall Street?

The Concerned Liberal Senator: No, no, no. We can't do that. This is a national crisis and we must act immediately – within days – to avert the end of the world.

Average American: I am not sure I understand that. How is it the end of the world?

The Concerned Liberal Senator: If we do not rescue Goldman Sachs and other badly run investment banks – and I emphasize I am holding my nose to do this – they will not be able to borrow more money and then lend that money to your employer so you can get paid. You do want to get paid?

Average American: Yes. Pay is good. But, if the Wall Street investment banks that screwed up go bankrupt, won't some other bank that didn't screw up step in and borrow the money? Can't the Federal Reserve help the banks that didn't screw up?

The Concerned Liberal Senator: It just doesn't work like that. According to Hank the mortgage backed securities are intertwined in a complex network so that if Goldman Sachs or any of the other investment banks that he wants to bail out fail, the entire economy will collapse.

Average American (puzzled): Did every bank and financial institution put its money into mortgage backed securities?

The Concerned Liberal Senator: Well, no, not really. As I said this is an extremely complicated situation involving credit default swaps, collateralized debt obligations, and hundreds of other complex financial instruments that you couldn't understand. Actually, I don't understand them either. You have to have a Ph.D. in Theoretical Physics from Princeton to understand most of them. Hank tells me that several of the instruments were designed by a former top assistant of Ed Witten, the greatest physicist alive today, Einstein's successor!

Average American (sounding just a tad hostile): So, basically you are making a decision to spend my \$700 billion to purchase assets that you don't understand and nobody else will buy? Is that it?

The Concerned Liberal Senator: Er, well, yes.

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