

# American Democracy Project

## Ouch, My Wallet Hurts

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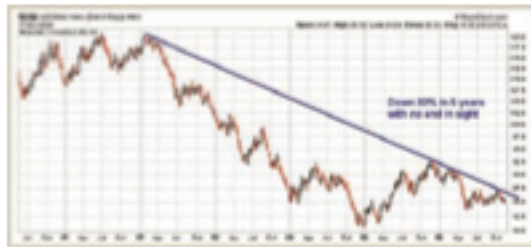


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Jon Stewart Says: "Invest in downward spiraling graphs."

In one week, the demise of three major banks has questioned the sustainability of our free market economy and one of the guiding principles of American democracy—individual greed.

Lehman Brothers, which has been around since before the Civil War, filed for bankruptcy when the government refused to cover their losses on bad investments, particularly in real estate. It raised the important question, how does a bank run out of money? Seems anomalous. Although Lehman couldn't find a new pimp, Merrill Lynch did.

Bank of America, the biggest bank in America according to National Public Radio, announced that it would buy the titan, Merrill Lynch. The company with the cool bull logo also lost money on homes sales. Finally, the government did something quite unexpected of republicans. As one wise professor pointed out, it virtually nationalized insurance.

On Tuesday evening, news broke that the Federal Reserve, the bank of the United States, announced that it would bail out the insurance company, AIG, in exchange for 80% ownership. Free health care for all finally? Probably not. Eat that malnourished baby in West Virginia.

What is going on in this country? Jeez, I wish I had stayed awake during economics in my senior year of high school. From what I can gather, I, personally am safe. You can't take money from someone who doesn't have money. That mentality kind of explains this whole crisis.

This all started when banks began doling out complicated mortgages for private homebuyers. These "sub-prime" loans that you've heard so much of, would have borrowers pay little up front and more later on unlike 'fixed-rate' loans, which remain the same each

month. Lenders thought they would profit from these sub-prime mortgages because the longer borrowers were kept in debt, the more money the bank would make off of interest.

The banks turned into bookies and loan sharks where they lent money in the hopes that people wouldn't pay the loan back right away, but, pay the vig over time and basically forever. Bankers bet on debt. Except, bankers are unlike bookies in that they can't brake fingers or hold pistols in the mouths of the borrowers who don't pay them back.

When some home buyers finally went broke, they refused to pay, because, quite simply, they didn't have the money. The banks seized homes and couldn't sell them, or lost money from decreasing property values and got stuck with these useless homes. Screw the homeless, the banks need to make money off these things. But, they didn't. And here we are now with banks without cash.

Of course, it's much more complicated than that. If Paul Krugman of the New York Times read my watered down version of this, he'd probably revoke my laptop. That just shows how complicated the whole financial system has become in general over the past few decades since (cringe) the Great

Depression.

There's a marked difference between the paupers in 2008 and the beggars of 1929. Then, people usually spent only what they had, if that. Credit (loans, credit cards, lay away) only started to grow in popularity during this time. Since then, the credit market has become so complex and interwoven in other facets of the economy that even the staunchest capitalists are calling for regulation. Still though, economists say we're not in a depression, and the numbers show that we're not even officially in a recession. Tell that to Lehman Brothers.

So who is to blame and what of capitalism? Did ignorant home buyers purchase homes they couldn't afford? Did the banks give away money they didn't have? Really, it's a combination of all of those things, plus more.

Ask a high school student what prompted the US involvement in World War II, and they'll say the bombing of Pearl Harbor. Ask a historian and he'll list dozens of reasons and name Pearl Harbor as a foot note. Disasters like this are a combination of bad practices on the part of a number of people. As for capitalism, as long as individuals covet money, the free market will survive. Maybe, though, we may have to stop betting against our own losses.