Sanders Comments on Economic Crisis -- 09/18/2008

Mr. SANDERS. Mr. President, let me begin by concurring with Senator Brown. He raised a very important issue, and that is: In the midst of a major economic crisis, when people today--especially senior citizens on fixed incomes--are wondering about how they are going to heat their homes, how they are going to purchase the food they need--I wonder about 3 years ago, had we listened to President Bush, if we had listened to John McCain, if we had listened to the Republican leadership and we had privatized Social Security--can one begin to imagine the anxiety that would be existing all over this country in terms of senior citizens wondering what kind of retirement they would have, what kind of funding would be there for their remaining years? So thank goodness we did not follow the advice of President Bush and John McCain and the Republican leadership; thank goodness we kept Social Security strong.

Yesterday I came to the floor to discuss the interconnection of the two great crises that are currently facing our country. The first, of course, is the financial crisis--the collapse of major Wall Street firms--and secondly is the very serious problem of high and volatile energy prices, whether it is $3.70 for a gallon of gas to put in your car, or whether it is very high oil prices this coming winter to heat your home. Both of these problems clearly are having a major impact on middle-income families from one end of this country to the other.

In terms of the financial crisis, the American people are finding it harder and harder to get a mortgage or a home equity line of credit. They are seeing the equity in their homes going down, and they are seeing the values of their savings, including their 401(k) savings, plummeting. What anxiety is existing all over this country. People have put money into their 401(k), the stock market is going down rapidly, and people are wondering what is going to take place for their economic future.

In terms of the energy crisis, the American people have been forced to pay tens of billions of dollars more in inflated energy prices because of the outrageous price levels caused by speculation occurring in unregulated energy markets. We have heard testimony from energy economists who are telling us that between 25 percent to 50 percent of the cost of a barrel of oil today has nothing to do with supply and demand, it has nothing to do with marketplace fundamentals; it has to do with speculation on the part of financial institutions that are driving oil prices higher, and now, by the way, with that money coming out of oil futures, driving prices down, creating a lot of volatility.

I laid out yesterday the connection between those two crises. Both of these crises are tied to the same extreme economic ideology--an ideology which says the Government should play no role--or a minimum role--in protecting consumers; that we should put all of our trust in the honesty and the integrity of the heads of large multinational corporations.

I should mention that both of these crises are also tied to the work of one former Member of the U.S. Senate, and that is the former chairman of the Senate Banking Committee, Phil Gramm of Texas. To a significant degree, a lot of what we are experiencing today is related to the disastrous changes to Federal law that deregulated both the energy industry and the financial industry, and that effort was led by former Senator Gramm.

To recap, as chairman of the Senate Banking Committee in 1999, then-Senator Phil Gramm, spearheaded legislation that bears his name, and that is the so-called Gramm-Leach-Bliley bill that broke down critical regulatory safeguards that the Government put in place after the Great Depression to prevent exactly what we are experiencing today. Having laid the groundwork for our crisis in the financial sector, the very next year, amazingly enough, Senator Gramm is credited with slipping legislation into a largely unrelated bill that deregulated the electronic energy market. Shockingly, when he slipped this measure into the law, a measure we now know as the Enron loophole, Senator Gramm's wife, Wendy Gramm, had recently been on the board of directors of--you guessed it--the Enron Corporation.

This deregulation of the energy markets has allowed speculators to drive up the price of a barrel of oil to as high as $147 and, as I mentioned earlier, there are many economists who believe the volatility and the high price of oil today is not supply and demand primarily, but it is because of speculation on the part of financial institutions and hedge funds.

Now, as bad as things were yesterday, last night they got even worse. Last night, the Bush administration nationalized the world's largest insurance company: AIG.

The Bush administration claimed it had to put $85 billion of taxpayer money at risk because AIG's collapse would have brought down perhaps our entire economy--the entire economy of this country--and had a major impact on the entire world's economy. Let me ask the same question about AIG today that I asked yesterday about the energy and financial crises this country is facing, and that is: Is this bad luck? Why is this happening? We need to understand that, because the risks are enormous and the amount of money we are dealing with--trillions and trillions and trillions of dollars--is literally beyond comprehension. I think very few people can understand the scope and the magnitude of what we are dealing with.

Well, it turns out the AIG situation is closely tied to the same rightwing economic ideology that has been pushing us toward economic disaster, and the responsibility for AIG's near collapse lies, again, with that same philosophy which has been led by former Senator Phil Gramm.

As a very recent online article from Time magazine explains, AIG's traditional insurance business seems to be doing well in what they have been doing for many years. They are, in fact, making money. But what AIG got involved in was more than the traditional insurance business. They got involved in risky derivative schemes that about three people in the world understand called credit default swaps, or CDS's that allow big companies to guarantee each other's risky lending practices. This is extremely complicated stuff--a long way away from where we were 10 or 15 years ago.

Now in order to give the American people a full understanding of the risks posed by these unregulated credit default swaps--unregulated credit default swaps--I wish to read a short September 15 article by Professor Peter Cohen, a graduate of the Wharton School, that deals with the full scope of the problem we face and the role that Senator Gramm had in its creation. I apologize to anybody who is listening. What is following is technical, it is a bit boring, but when we are dealing with trillions of dollars, I think it is important that we try to understand this. This is what Professor Cohen writes:

Lurking in the background of this weekend's collapse of two of Wall Street's biggest names is a $62 trillion segment of the $450 trillion market for derivatives that grew huge thanks to John McCain's chief economic advisor, Phil ``Americans are Whiners'' Gramm.

Let me just go through these numbers again, because these numbers are so huge. When the Presiding Officer and I represent our State, we fight for a few million dollars here and a few million dollars there, and that makes a lot of difference to the people of Colorado or the people of Vermont. What we are dealing with is so incomprehensible: It is a $62 trillion segment of the $450 trillion market for derivatives. Who can even understand what that means? A $450 trillion market, what does that mean?

Now, all of this occurred, all of this deregulated activity, of which the Government plays no role, took place because in December of 2000, Senator Gramm snuck in--snuck in--a 262-page amendment. That is what goes on around here. We can sneak in 262-page amendments to a government reauthorization bill that created what is now the $62 trillion market for credit default swaps, or CDS's.

Continuing to quote:

I realize it is painful to read about yet another Wall Street acronym, but this is important because it will help us understand why the global financial markets are collapsing. CDSs are like insurance policies for bondholders. In exchange for a premium, the bondholders get insurance in case the bondholder can't pay. .....

In the case of the 1.4 trillion dollars' worth of Fannie Mae and Freddie Mac bonds, the Government's nationalization last Sunday triggered the CDSs on those bonds. The people who received the CDS premiums are now obligated to deliver those bonds to the ones who paid the premiums.

Professor Cohen continues:

Gramm's 262-page amendment, dubbed ``The Commodity Futures Modernization Act''--

We have heard that term--

``The Commodity Futures Modernization Act,'' according to the Texas Observer, freed financial institutions from oversight of their CDS transactions.

That is the important thing, they became deregulated. The Government no longer was able to see what was going on.

``Prior to its passage, they say, banks underwrote mortgages and were responsible for the risks involved.''

You went to a bank, you got a mortgage, the bank took responsibility, they lost money, they made money, that was the transaction.

``Now, through the use of CDSs--which in theory insure the banks against bad debts--those risks are passed along to insurance companies and other investors,'' wrote the Texas Observer.

Still, in Professor Cohen's article:

How does this relate to Lehman's bankruptcy? ``CDSs were a key factor in encouraging lenders to feel they could make loans without knowing the risks or whether the loan would be paid back.''

When you and I were younger, Mr. President, banks knew the people to whom they made loans. They didn't give a loan to somebody they knew would not be able to pay it back. But that is no longer the case.

``The Commodity Futures Modernization Act freed them of Federal oversight ..... '' And it was due to these CDSs that Wall Street held an emergency session yesterday to try to minimize the damage of Lehman's CDSs and other derivatives. Unfortunately, the session did not produce much, thanks to the built-in lack of knowledge of the risks in these transactions that Gramm's legislation ensured. You are going to be reading more and more about CDSs over the months ahead.

Professor Cohen continues:

It will become as familiar as the phrase subprime mortgage--

Which, unfortunately, many of us now are familiar with--

was in the year 2007. Unfortunately--

Get this, this is quite amazing--

there were ``only'' $1.3 trillion worth of subprime mortgages and the CDS market is 48 times bigger than that.

Forty-eight times bigger than the subprime market--

and more than four times bigger than the U.S. GDP. And since nobody has ever had to deal with this volume of CDS unwindings, it is impossible to calculate how much they will cost.

In other words, what has happened as a result of Senator Gramm's legislation is, unbelievable amounts of money have been traded, accumulated without anybody really knowing what is going on. Now we are left trying to pick up the remains of those problems.

Professor Cohen's article is compelling because it tells us how huge this crisis is and why we have every reason to fear that AIG may well be just the first of many companies involved in risky investments that the American people will have to bail out.

The time for hand wringing is over. This Congress needs to put an end to the radical deregulation that was pushed by Senator Phil Gramm and many other Republicans, and there were Democrats who went along with that as well. We need to put the safety walls back up in the financial services sector. We need to regulate the electronic energy markets. We need to end the use of unregulated credit default swaps. In other words, what we need to do once again is have the U.S. Government play an important role in protecting the people of this country against the greed of large corporate interests.

Unfortunately, the response from the administration and Wall Street is not to do that but to push for further consolidation in the financial services sector. Here is just an amazing thing. The argument we are hearing over and over again is that AIG was too big to fail, and what we are now creating are institutions that are even larger than AIG. And 10 years from now, when these institutions are threatened with collapse, there will be people coming up saying: Oh my goodness, we can't allow those to fail; we have to bail those out as well.

This country can no longer afford companies that are too big to fail. If a company is so large that its failure would cause systemic harm to our economy, if it is too big to fail, then it is too big to exist. If it is too big to fail, it is too big to exist. We need, as a Congress, to assess which companies fall in this category. Bank of America is certainly one of them. Those companies need to be broken apart. We cannot have companies so huge that if they go under they take the world economy with them.

Then once we break them up, if a company wants to act in a risky manner, if they want to take risks in order to make some quick bucks, that is OK. If they want to take the risk and they want to lose money, that is OK. The American people should not have to, and would not be under those circumstances, be left to pick up the pieces.

Finally, in terms of dealing with this unfolding disaster, we need to make sure working Americans, the middle class, do not foot the bill. If the economic calamity requires a Federal bailout, it should be paid for by those people who actually benefited from the reckless behavior of people empowered by the extreme economic views of Senator Gramm, President Bush, Senator McCain, and many others.

In other words, the point I am making is that in the last 10 years, many of these people have made billions and billions of dollars. It is unfair to simply ask the middle-class working families who are trying to figure out how they are going to pay their fuel bills, how they are going to send their kids to college, to bail out these large institutions from which many people made huge amounts of profits.

We don't talk about this too often, but today the wealthiest one-tenth of 1 percent earns more income than the bottom 50 percent. The top 1 percent owns more wealth than the bottom 90 percent. And the wealthiest 400 Americans in this country have not only seen their incomes double, their net worth has increased by $640 billion since George W. Bush has been in office.

Can you believe that? Four hundred families, four hundred people, less than the Congress, have seen a $640 billion increase in their wealth since President Bush has been in office. And, amazingly, these 400 families are now worth over $1.5 trillion--400 families. On average, they earn over $214 million a year.

As a result of President Bush's policies, amazingly enough, their tax rates have been cut almost in half to only 18 percent on average. Amazingly, the wealthiest 400 Americans pay a lower tax rate than most police officers, teachers, firefighters, and nurses. So if you are one of the very wealthiest people in this country, if you are earning $214 million a year on average, you pay a lower tax rate than somebody who is a police officer, a teacher, a firefighter, or a nurse.

That may make sense to somebody; it does not make sense to me. What does it say about us as a nation when the middle class pays a greater percentage of their income in taxes than the wealthiest 400 Americans?

It is this very small segment of our population that has made out like bandits--frankly, some of them are bandits--during the Bush administration. We have to recognize that when we talk about who is going to pay for the bailouts.

In my view, we need an emergency surtax on those at the very top in order to pay for any losses the Federal Government suffers as a result of efforts to shore up the economy. It should not be hard-working people who are trying to figure out how they are going to keep their families economically above water, people who are working longer hours for lower wages, people who have lost their health care, people who cannot afford to pay their fuel bills this winter. Those are not the people who should be asked to pay for this bailout. If there is a bailout that has to be paid for, it should be the people, the segment of society that has benefited from Bush's economic and tax policies over the last 8 years.