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## Americans take out frustrations with Wall Street

### As they struggle financially, they must pick up tab for unregulated markets

BY JOHN GALLAGHER, JEWEL GOPWANI AND BRENT SNAVELY • FREE PRESS BUSINESS WRITERS • SEPTEMBER 21, 2008

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Like medicine that works but tastes awful, the government bailout of Wall Street may help Main Street families -- but only by causing them considerable discomfort.



MADALYN RUGGIERO/Special to the Free Press

Wayne Senior, 63, of Detroit is a real estate broker for Lakeshore Realty. He says he has seen a lot of activity in the housing market in recent months, but that it has been mostly people scouring for bargains.

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Every U.S. household over time will pay thousands of dollars in taxes for the bailout, estimates Amiyatosh Purnanandam, assistant finance professor at the University of Michigan's [Ross Business School](#). "It's not an amount of money which people just can ignore," he said.

Top U.S. officials were [working](#) this weekend on a plan to relieve Wall Street firms of many of the bad debts stemming from the sub-prime mortgage debacle and ensuing credit crunch. Taxpayers would be on the hook for \$700 billion, a draft of the plan revealed Saturday.

For ordinary Americans who see their [home values](#) collapsing and their retirement accounts tanking, learning that the government will spend hundreds of billions of dollars to help mega-investors who made lousy decisions sounds like a really rotten idea.

The bailout goal is to stabilize a financial system in which credit greases everything from buying cars, dishwashers and houses on the consumer level to multibillion-dollar corporate deals. Without a bailout, financial markets may have collapsed in a string of failures, ushering in years of painful restructuring and possibly a deep recession.

"Capitalism is supposed to be, if a company cannot make it because of bad management, then you fail," said Richard Stover, 66, a retiree from Livonia. "This thing of too big to fail is nothing but a gimmick, perpetrated on the American public."

"I guess the government had to do something. I still think it's a

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bad deal," said Doug Anderson, 46, of New Baltimore, an electrician at American Axle & Manufacturing. Anderson has taken a \$6-an-hour pay cut and said he's learning to live on less. "The fact that they made some bad decisions on some investments and now they're going to bail their butts out, I just don't see it."

Charlie Owens, state director of the National Federation of Independent Business/Michigan, which represents small business in the state, said in a statement, "With so many big hogs lined up at the federal trough for a bailout, taxpayers are rightfully worried about who's ultimately going to be stuck with the feed bill."

### Government had to do it

Even if a bailout was necessary, the image of the mighty U.S. government reconfiguring the financial markets gagged many business leaders, who favor as little government oversight as possible. But everyone seemed to accept that only the government had the money and the power to end the crisis as soon as possible.

"Could the private sector fix this problem eventually?" asked Sarah Hubbard, vice president of government relations for the Detroit Regional Chamber. "Yes, I think it probably could."

"It would just be an extremely painful process for many of us, and this is a way to short-circuit that."

Even critics of Wall Street agreed the time had come for the government to step in, but they asked in the same breath whether Main Street would benefit as much as Wall Street from a bailout.

"A comprehensive rescue plan is the right course," John Sweeney, president of the AFL-CIO, the nation's largest union coalition, said Friday in statement. "But the questions that remain are, how will this plan be implemented, and what will it mean for ordinary Americans?"

The chaos on Wall Street already has cost ordinary families dearly during the gyrations of the stock market, some said. "Michigan investors, like investors around the world, are less wealthy than they used to be," said George Schwartz, president and chief investment officer of Schwartz Investment Counsel Inc. in Bloomfield Hills.

Ordinary Americans had plenty to worry about anyway. In Detroit's historic Indian Village district, the real estate market has been struggling for the past 12 to 18 months, said Wayne Senior, a real estate broker for Lakeshore Realty. While homes there sell for \$450,000 to \$600,000, others that are for sale because of foreclosures have sold for as little as \$50,000 through auctions.

"There is a lot of activity, but the activity tends to be more for people who are out there scouring the marketplace for bargains," Senior said.

### More oversight a given

As with previous financial collapses in U.S. history, this one will lead to significant changes, many economists predicted.

It almost certainly will be tougher to borrow money.

"The era of easy credit is over. I think it's over for a long time to come," said Don Grimes, a senior research specialist at U-M's Institute for Research on Labor, Employment and the Economy.

Dana Johnson, senior economist for Dallas-based Comerica Inc., said the changes coming to U.S. banking and investment markets will rank in importance with those that followed

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### BUSH, CONGRESS AIM FOR A QUICK DEAL

Lots of activity is expected today in Washington as Bush administration officials and congressional leaders negotiate the largest financial bailout since the Great Depression.

The White House hopes to have a deal with Congress by the time markets open Monday; top lawmakers said they would push to enact the plan as early as the coming week.

According to a draft of the proposal obtained by the Associated Press, the Bush administration is asking Congress to let the government buy \$700 billion in bad mortgages. The plan does not specify what, if anything, the government would get in return.

The proposal would:

- Give the treasury secretary broad authority to buy up to \$700 billion in mortgage-related assets from any U.S. financial institutions.
- Raise the \$10.6-trillion statutory limit on the national debt to \$11.3 trillion.
- Allow the treasury secretary to buy, hold and sell the assets in any way he sees fit.
- Give the government power to designate financial institutions as "financial agents of the government" and require them to carry out any "reasonable duties" that entails.
- Require the government to report to congressional budget, tax-writing and financial services committees within three months of using the authority and then every six months.
- Instruct the treasury secretary to consider both providing market stability and protecting taxpayers in using the bailout power.
- Expire 2 years after enactment.

Sticking points

Democrats are:

- Insisting the package include mortgage help for homeowners facing foreclosures.
- Considering attaching additional middle-class assistance, for instance an expansion of jobless benefits.
- Pushing for limits on pay for finance industry leaders.

*Associated Press*

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the bank failures of the Great Depression in the 1930s.

That era gave birth to federal deposit insurance and strict limits on what banks could do. Equally momentous changes are ahead, Johnson said.

"There was breakdown in so many different parts of the financial market infrastructure that the way it's regulated, what's allowed, what's not allowed, is all going to be reexamined," he said.

Already many voices are calling for a crackdown on the excesses of Wall Street. The Center for America's Future, a Washington, D.C.-based progressive advocacy group, called Friday for tough new limits on what banks and investment firms can pay their executives, how much they can borrow, and what kinds of exotic financial instruments they can employ.

### Loans harder to come by

Banking, of course, used to be stodgier than it is now. At one time, bankers made only those loans that they were virtually sure would be repaid. Getting a loan without good credit was difficult at best.

But in recent years, bankers made more and more of their income from fees for generating loans. Those bankers sold off the loans and the associated risks to Wall Street investment firms who packaged the loans into [bonds](#) and various exotic financial instruments.

New mortgage brokers sprang up to take advantage of the same fee-based system. Lenders originated billions of dollars in sub-prime mortgages, pocketed the fees, and dumped the risk onto Wall Street banks, insurance firms, pension funds and other investors now in line for the government bailout.

One likely casualty of the near-collapse on Wall Street is the unfettered, Wild West free-market atmosphere that allowed such a system to develop.

"One thing is certain," Sweeney of the AFL-CIO said Friday. "No one -- no politician, no investment banker, no television commentator, no economist -- should ever be able to say again with a straight face that here in the United States we just let markets do whatever markets do and everything works out for the best."

Contact **JOHN GALLAGHER** at 313-222-5173 or [gallagher@freepress.com](mailto:gallagher@freepress.com).

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debtNslaved wrote:

You wrote, just under "Government had to do it"; this; "But everyone seemed to accept that only the government had the money and the power to end the crisis as soon as possible."

I'd question the veracity of that "everyone", and please follow up this column with an explanation of just how the government gets this money? We are the only ones with money! The wages we earn, the fruits of our productive enterprises, are our true legitimate earnings. This is what gets deposited into our banks. The banks' system of fractional reserve lending, has led directly to the crisis we are in. Credit absolutely should tighten, and loans must be based upon impeccable creditworthiness. Our money, our hard work, our production is being sacrificed to save the bankers and financiers who created precisely what "good", what "service". Mortgage backed securities, and their ilk, are the worst form of legal gambling. I say let the Bettors lose. Change the system! Overhaul fractional reserve lending.

09/21/2008 7:46:34 a.m. EDT

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FrankEC wrote:

Greed is ruining America.  
09/21/2008 7:46:02 a.m. EDT

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Kjmclark wrote:

I contacted my Senators and Representative on the Fannie Mae and Freddie Mac bailout. Seems to have done a lot of good, huh? Looks like the politicians are in the financial company's pockets.

I don't really care who they bail out, as long as 1) the taxpayers get every penny back before the companies bailed out are allowed to make a profit again or provide dividends and 2) the employees of these companies are forced to accept the federal pay scale. It burns me knowing that most of the management of these companies that fleeced the public are still going to earn more than the President. It's the pay at fat cat companies like these that need to come down. They want the money, they accept the terms.

09/21/2008 7:40:50 a.m. EDT

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Kdude wrote:

NO Bail Out, NO WAY ! Contact your Senators and Congressmen. Make those responsible take the loss. Why Stick the American Citizens with this debt ? This is Unbelievable! After 8 years the Republicans have almost completely Ruined this Country. This buy out is corporate welfare ! They get saved, we get shafted. NO BAIL OUT, NO WAY !

09/21/2008 6:09:12 a.m. EDT

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