

# The Trillion Dollar Bank Job

How Wall Street and the Big Banks Are Holding Up America's Economic Recovery

September 2009



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## Executive Summary

It's been a year since the Lehman Brothers collapse set off a flurry of bank failures and near-failures, threatening the very foundations of the global financial system and bringing our national economy to the brink of a second Great Depression. Taxpayers stepped in and bailed out the ailing banks in order to resuscitate the larger economy and get money flowing to Main Street again. A year later we wonder what we have gotten for that investment. While ordinary Americans are still struggling to stay afloat, the bankers are back to business as usual, paying out billions in bonuses, making profits on the backs of the very taxpayers who bailed them out, and throwing up roadblocks to meaningful regulatory reform that would prevent a repeat of the crisis.

***What did we get over the last year?***

**1. Taxpayer Bailout.** Taxpayers have committed **\$4.7 trillion** to the financial sector over the last year, only \$700 billion of which was through TARP. Even banks like Goldman Sachs that returned their TARP funds earlier this year continue to benefit from other bailout programs, such as the \$12.9 billion that Goldman received as an AIG counterparty that it will never have to pay back. Once all crisis-related programs are factored in, taxpayers could be on the hook for a grand total of up to **\$17.8 trillion** for this economic rescue.

**2. Trillions of Dollars in Lost Wealth for Ordinary Americans.** The bank-induced economic crisis has cost Americans trillions of dollars already, on top of the trillions more we have committed through the bailouts.

- American families lost **\$11 trillion** in wealth in 2008, nearly 18% of their net worth.
- Americans have lost **\$6.1 trillion** in homeowner wealth since June 2006.
- Banks have generally refused to modify mortgages to help prevent foreclosures because it is more profitable for them to collect fees as a family loses its home than it is to save the home.
- Over **5.3 million** Americans have lost their jobs since last September, and the national unemployment rate is at its highest in 26 years.
- Personal bankruptcies are soaring, and are expected to reach levels not seen since a 2005 law made it more difficult to file bankruptcy.
- Between October 2007 and December 2008, the top 1,000 US pension funds lost **\$1.75 trillion**, or 23.3% of their value, the worst losses in 30 years.
- Declining property values and personal income have taken their tolls on state and local budgets, leading to cuts in essential services like public health programs, childhood education, and programs for the elderly and disabled.

**3. Back to Greed & Business as Usual.** While taxpayers are still suffering, the big banks are back to business as usual, paying out tens of billions in bonuses, making tens of billions in profits on the backs of American consumers, and returning to the same kinds of practices that caused the crisis in the first place.

- The nation's top six banks paid out **\$31.2 billion** in 2008 bonuses this past winter, and in the first half of 2009 alone, they set aside another **\$74.4 billion** for bonuses and compensation for their employees.
- The top six banks posted **\$29.6 billion** in profits in the first half of 2009, just months after accepting \$160 billion in direct TARP infusions.
- The banks made these handsome profits by embracing the same kind of excessive risk-taking that caused the crisis in the first place: by trading highly-complex derivatives, by repackaging mortgage-backed securities, and by making predatory loans to low-income, high-risk consumers who typically cannot afford to pay them back.
- Rising fees also contributed to the banks' bottom line. Americans will pay more than **\$38 billion** in overdraft fees alone in 2009, more than \$125 for every man, woman, and child in the United States.
- Banks also raised credit card interest rates on American consumers in an effort to boost their profits before the new credit card reforms take effect next year.

- Even as they continue lending to large corporations and private equity firms, the banks have drastically reduced their small business lending. Lending through the SBA's main program **decreased 42%** over the previous year in the first seven months following the bailout.

**4. Banks Standing in the Way of Reform.** Despite taking trillions in bailouts, the banks are now using our money to lobby against reforms that would protect us from their abuses. In the nine months following the bailout, companies in the financial, insurance, and real estate sector spent **\$321 million** lobbying against federal reforms such as the creation of the Consumer Financial Protection Agency, limits on bonuses, overdraft fee regulation, credit card reform, loan modification proposals that could help keep millions of Americans in their homes, and a ban on payday lending.

***This is not what we signed up for!***

**It's Time for a Real Economic Recovery.** As Wall Street celebrates 'green shoots' in the economy and points to signs of recovery, it feels like déjà vu. The market was celebrating signs of recovery last year too, just months before the Lehman Brothers collapse. Meanwhile, Main Street is still hurting. We don't need bankers trying to convince us that happy days are here again. We need real regulatory reform now so that we can have a real economic recovery on Main Street.

It is time for the banks to start aiding in America's economic recovery. The banks need to:

1. Stop foreclosures and save Americans' homes and state and local budgets;
2. Provide the same affordable loans to state and local governments that banks receive from the federal government;
3. Restore small business lending to save jobs and tax revenue; and
4. Lower interest rates on consumer credit cards and stop charging abusive overdraft fees that take billions out of consumers' pockets.

A year ago, Lehman Brothers' collapse shook Wall Street to its core and set off an economic crisis that threatened the foundations of the entire global financial system. In the flurry of bank failures and near-failures that followed, household names like Merrill Lynch, Washington Mutual, and Wachovia either disappeared or got swallowed up by competitors. Within a week, there were no more big, independent investment banks on Wall Street.<sup>1</sup>

As bankers across the country were fighting for their lives, taxpayers threw them a lifeline. We stepped in and bailed out Wall Street to the tune of trillions of dollars because we were told it was necessary to resuscitate the economy. The Treasury Department told us that banks would use taxpayer dollars to modify mortgages to help working families stay in their homes and resume lending to small businesses in order to stem rising unemployment rates and stimulate the economy.

One year later, what have the bailouts gotten us? While top bankers are continuing to make billions of dollars in bonuses, none of the promises made to the American people have been honored. Families continue to face rising foreclosures, rising unemployment, higher credit card interest rates, higher overdraft fees, and roadblocks to real financial reform that would protect us from a repeat of the same crisis in the future. Our pension funds are in freefall, unemployment is skyrocketing, and personal bankruptcies are on pace to set a record for the years after the passage of the new bankruptcy law in 2005.

Some of the big banks claim that they are profitable again. They are raking in tens of billions in profits and paying out tens of billions in bonuses. However, they returned to profitability through the same old tricks—by taking on even more risk with *our* money, by raising the fees and interest rates that they charge *us*, by continuing to foreclose on *our* homes, and cutting lending to small businesses in *our* communities. Furthermore, they are on a lobbying spree, using our money to lobby against the sensible reform that Americans want. They have fought tooth and nail against reforms such as the Consumer Protection Agency that would protect us from their abuses.

Despite taking our money, the banks have done little to help revitalize the economy. **The bailout was supposed to rescue the larger economy, not turn into a handout to Wall Street.** The banks, through their risky behavior, robbed average Americans of trillions of dollars of our wealth. They have taken trillions in bailouts and backstops and have done nothing to fix the overall economy that they crashed.

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## **The Bailout: A Year in Review**

A year ago, as the banks fell apart, the federal government moved in with a variety of programs to bail them out and prevent them from taking the entire economy into a freefall.

Although the \$700 billion Troubled Assets Relief Program (TARP) is the best-known, in reality, the federal government set up a variety of programs to backstop, guarantee, infuse, and hold up the banks. Taxpayers have already committed \$4.7 trillion to the financial sector over the last year through an alphabet soup of programs like TLGP, TALF, and HAMP.<sup>2</sup> Moreover, while banks like Goldman Sachs, Morgan Stanley, and JPMorgan Chase can now brag about getting approval for and, in some cases, actually returning TARP funds, they will continue to benefit

from this plethora of other taxpayer handouts,<sup>3</sup> such as the \$12.9 billion that Goldman Sachs received as a counterparty to AIG that it will never have to pay back.<sup>4</sup>

The Federal Reserve has set up emergency lending facilities that give banks access to cheap money to get them to start lending again. The FDIC has unveiled guarantee programs to protect the banks against losses. The Treasury has pledged \$200 billion to support Fannie Mae and Freddie Mac. HUD has put \$300 billion into the Hope for Homeowners Program. Once all of the crisis-related programs are factored in, including the stimulus package and the auto bailout, the total taxpayers could be on the hook for up to \$17.8 trillion.<sup>5</sup>

These programs have saved the banks from their risky bets on toxic securities. However, banks now claim they are back to profitability and doing well despite their continued reliance on these taxpayer-funded programs.

## **Trillions of Dollars in Lost Wealth**

One year later, the American families who funded the bailout are not doing so well. The fallout from this bank-induced economic crisis has hit Americans hard. American families lost \$11 trillion in wealth in 2008 alone, nearly 18% of their net worth.<sup>6</sup> Millions of us have lost our jobs or been thrown out of our homes. Personal bankruptcies have shot through the roof. Our life savings and retirement funds have been decimated. And because of billions in budget shortfalls, our state and local governments are being forced to cut back on services like public health programs and childhood education. This is all above and beyond the trillions in bailouts and backstops that we have had to fork over to the banks.

## **Rising Foreclosures**

Our communities have been devastated by the foreclosure crisis. American families have lost \$6.1 trillion in homeowner wealth since 2006.<sup>7</sup> The average homeowner has lost almost \$110,000 in equity.<sup>8</sup> In a vicious cycle, foreclosures cause property values of neighboring homes to decline, making it more difficult for neighboring homeowners to refinance their loans, in turn causing them to fall into foreclosure as well. Every thirteen seconds another American home goes into foreclosure.<sup>9</sup>

According to the *New York Times*, a recent survey by the Mortgage Bankers Association found that “six million loans were either past due or in foreclosure in the second quarter of 2009, the highest level ever recorded by the group.”<sup>10</sup> By 2011, nearly half of all Americans will be underwater on their mortgages.<sup>11</sup> In parts of California, Nevada, and Florida, the number will be over 90%.<sup>12</sup> For most Americans, our home is a major source of wealth for our families. This is a staggering loss of wealth that most of our families will likely never recover.

Unfortunately, banks are not doing their part to help fix the problem. A study by the Federal Reserve Bank of Boston shows that banks are not modifying loans to help homeowners avoid foreclosure because “Loan modification is not profitable for lenders.” According to the *Boston*

*Globe*, the study found that “only 3 percent of seriously delinquent borrowers—those more than 60 days behind—had their loans modified to lower monthly payments.”<sup>13</sup>

Industry insiders say that the reason banks are reluctant to modify loans is that delinquent loans allow the banks that service the loans to collect fees from the homeowner—late fees, fees for insurance, appraisals, title searches, and legal services.<sup>14</sup> Because mortgages are typically sold off to third-party investors who absorb the losses when a house goes into foreclosure, the banks that service the loans often do not have a vested interest in avoiding foreclosure.<sup>15</sup> Therefore they are able to maximize their profits by charging fees as homeowners fall behind on their payments and slowly slip into foreclosure.

According to an attorney at the National Consumer Law Center quoted in the *New York Times*, “Servicers thus have an incentive to push homeowners into late payments and keep them there: if the loan pays late, the servicer is more likely to profit.”<sup>16</sup>

According to the Treasury Department’s first monthly report on loan modifications in August, Bank of America and Wells Fargo were the worst performers among the big banks when it came to loan modifications.<sup>17</sup> Despite the fact that the two banks have taken \$70 billion in direct TARP funds and posted over \$13 billion in profits in the first half of this year,<sup>18</sup> they still are not doing their part to help the very taxpayers who bailed them out to stay in their homes.

### **Rising Unemployment**

Over 5.3 million Americans have lost their jobs since last September,<sup>19</sup> and the national unemployment rate has climbed 56%, from 6.2% in September to 9.7% in August,<sup>20</sup> its highest in 26 years.<sup>21</sup> Additionally, another 291,000 Americans have been added to the ranks of “discouraged workers” who are no longer included in unemployment figures because they have stopped looking for work. The number of discouraged workers is up 62% since last September.<sup>22</sup> Altogether, there are 25.8 million unemployed, underemployed, or discouraged workers in the US, 16.8% of the national workforce.<sup>23</sup>

Rising unemployment has taken a toll on our families, as for the first time ever, the number of Americans receiving food stamps topped 34 million, or roughly one in nine Americans.<sup>24</sup> Because unemployment reduces disposable income, it leads to decreased consumer spending, which serves to deepen the recession, possibly leading to even more layoffs and unemployment.

### **Rising Personal Bankruptcies**

Personal bankruptcy filings have surged over the last year during the economic downturn. 1.25 million people filed for personal bankruptcy in the year ending in June, up 34% from the previous year.<sup>25</sup> Experts predict filings this year will reach levels not seen since 2005, when 2.04 million people rushed to file before a new law went into effect making it more difficult to file for bankruptcy.<sup>26</sup> In July already, more than 126,000 people filed, the highest monthly figure since the 2005 law went into effect.<sup>27</sup>

## **Lost Retirement Security**

The turmoil in the stock markets caused by Wall Street's missteps has had profound ramifications for Main Street. American workers' pensions have taken a serious hit during the crisis, putting millions of hard working Americans' retirement security at risk. In the twelve months between October 2007 and September 2008, the top 1,000 pension funds in the country lost \$1 trillion in value. In the three months following the Lehman Brothers collapse, the losses accelerated rapidly, and by December 2008, they had lost an additional \$754 billion. The funds lost 23.3% of their value (\$1.75 trillion) in just fifteen months, the worst losses in 30 years.<sup>28</sup>

## **Cuts to Services**

Falling home values and rising unemployment have taken a toll on our state and local tax revenues. The \$6.1 trillion in homeowner wealth that has been lost in the last three years has led to a \$58 billion reduction in annual property tax revenues.<sup>29</sup> The decline in tax receipts has contributed to budget crises all over the country. In a National League of Cities survey, 67% of cities reported hiring freezes or layoffs and 62% reported having to delay or cancel capital projects because of deterioration in the economy.<sup>30</sup> According to the Center for Budget and Policy Priorities, "At least 48 states have addressed or still face shortfalls in their budgets for fiscal year 2010 totaling \$165 billion or 24 percent of state budgets," and 34 states are already anticipating holes in their 2011 budgets totaling at least \$180 billion.<sup>31</sup>

As a result, states have been forced to make drastic cuts:<sup>32</sup>

- 21 states have made cuts to public health programs.
- 22 states have made cuts to services for the elderly and disabled.
- 24 states have made cuts in K-12 education.
- 32 states have made cuts in higher education.
- 40 states have made cuts in their government workforce, often through layoffs.

## **Back to Business as Usual**

While taxpayers suffer under the crushing burden of the economic crisis and are on the hook for the Wall Street bailouts, the big banks are back to business as usual. They are ignoring their commitments to taxpayers and are helping themselves instead, setting aside tens of billions for bonuses, returning to the same risky behavior that caused the crisis in the first place, and making tens of billions in profits on the backs of American consumers.

## **Billions in Bonuses**

Wall Street's bonus structure incentivized short-term profits over long-term stability. Bankers were awarded bonuses based on how their trades performed in the short run. If their bets went bad a couple of years down the road, they got to keep the money anyway. This encouraged excessive risk-taking, since the bankers' trades only had to perform well until they

were paid their bonuses. This perverse compensation structure has been identified as a culprit in the economic crisis.<sup>33</sup>

In his report on Wall Street bonuses, New York State Attorney General Andrew Cuomo wrote of Wall Street's "heads I win, tails you lose"<sup>34</sup> bonus system:

[T]here is no clear rhyme or reason to the way banks compensate and reward their employees...[I]n these challenging economic times, compensation for bank employees has become unmoored from the banks' financial performance.

Thus, when the banks did well, their employees were paid well. When the banks did poorly, their employees were paid well. And when the banks did very poorly, they were bailed out by taxpayers and their employees were still paid well...<sup>35</sup>

Yet, despite this recognition that excessive and perverse compensation structures helped fuel the economic crisis, the big banks are continuing to pay their executives astronomical salaries and bonuses. This past winter, the nation's top six banks (Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo) paid out \$31.2 billion in 2008 bonuses to reward their bankers for posting \$84.6 billion in losses last year and wreaking havoc on the global economy.<sup>36</sup>

In the first half of 2009, these six big banks set aside \$74.4 billion in bonuses and compensation for their employees.<sup>37</sup> At this rate, total 2009 compensation at these banks could top \$148 billion, almost as much as the \$160 billion in direct TARP infusions that these six banks took last fall. This would be even higher than the banks paid out any year during the subprime boom.<sup>38</sup>

Even more outrageous, the two most heavily bailed-out banks, Bank of America and Citigroup, are increasing employees' base salaries to get around limits on bonuses for TARP recipients.<sup>39</sup> Citigroup will hike salaries by as much as 50%, so that most employees' compensation will not come down from last year's levels.<sup>40</sup> Bank of America is also offering signing packages to its new Merrill Lynch hires that are even richer than what Merrill paid out at the peak of the economic boom in 2006 and 2007.<sup>41</sup>

## **Billions in Profits**

The same banks that were on life support a year ago posted billions in profits just months later. In the first half of 2009, the top six big banks alone brought in \$29.6 billion in profits.<sup>42</sup> Goldman Sachs posted the biggest quarterly profit in its 140-year history this past June, bringing in \$50 million a day.<sup>43</sup>

The banks did it by resorting to the same old tricks as before—increasing risk, hiking up bank fees and credit card interest rates, cutting small business lending, and by refusing to modify mortgages to prevent foreclosures so that they can collect fees instead as mentioned earlier.

## **Increasing Risk**



The banks are once again embracing the same kind of excessive risk-taking that caused the crisis in the first place:

- Goldman Sachs turned a record profit in the second quarter by making even riskier bets than it was making before the crisis hit. The bank actually increased its risk profile after getting taxpayer bailout funds, making its record profits by gambling with our money.<sup>44</sup>
- Bank of America, Chase, and Citigroup are all linking corporate credit lines to credit default swaps, the same complex derivatives that caused AIG to collapse.<sup>45</sup>
- Morgan Stanley, Smith Barney, and UBS are now selling “structured notes”, which are essentially highly risky and complex derivatives for small businesses.<sup>46</sup>
- In recent months, investment banks have started repackaging old mortgage-backed securities and selling them again as new products. These were the same toxic securities that helped cause the crisis in the first place, and banks are again repackaging and marketing them as super-safe AAA-rated investments.<sup>47</sup>
- Banks like Wells Fargo, US Bank, and Fifth Third are starting up or expanding usurious payday loan programs that charge interest rates as high as 400% to low-income, high-risk consumers who typically cannot afford to pay back the loans.<sup>48</sup>

### Hiking Bank Account Fees

Banks are also boosting their bottom lines by raising fees on consumers to offset their losses on risky loans and toxic securities.<sup>49</sup> American consumers will pay more than \$38 billion in overdraft fees this year,<sup>50</sup> more than the annual revenues of most Fortune 500 firms including Apple, Google, and Nike.<sup>51</sup> That is \$125 for every man, woman, and child in the United States.<sup>52</sup> The national median overdraft fee rose 4% this year, to \$26, the first time the fee has gone up during a recession.<sup>53</sup> Earlier this year, Bank of America more than doubled its daily overdraft fee limit from \$160 to \$350.<sup>54</sup>

But the fee increases are not limited to overdrafts. Bank of America also increased its monthly maintenance fee for its MyAccess Checking Accounts by 50% this year.<sup>55</sup> Meanwhile, Wells Fargo, JPMorgan Chase, and US Bank are passing increased costs for deposit insurance onto customers.<sup>56</sup> As the *New York Times* put it, the result is that “Americans are paying more to save and spend their money.”<sup>57</sup>

### Raising Credit Card Rates

Banks are also running up interest rates and fees on credit card rates in an effort to boost profits before the new credit card reforms take effect next year.<sup>58</sup> This year, Citigroup has raised interest rates on 13-15 million credit cardholders, by an average 24%, or nearly three percentage points.<sup>59</sup> Bank of America, JPMorgan Chase, and Capital One also hiked up interest rates on many of their cardholders that had never missed a payment.<sup>60</sup> Bank of America had already been arbitrarily raising interest rates on at least one million play-by-the-rules, pay-on-time customers even before the bailout.<sup>61</sup> Bank of America, Chase, and Discover have all raised transaction fees for balance transfers on credit cards by at least 20%.<sup>62</sup>

### Cutting Small Business Loans

Even though bailout funds were intended to get banks to start lending again, the banks have drastically reduced their small business lending. When small businesses like Republic Windows and Doors in Chicago lose their financing, they often have to shutter their doors, leading to mass layoffs. 56% of small businesses that have problems finding credit reported having to lay off employees as a result in a National Small Business Association survey.<sup>63</sup> Between October 2008 and April 2009, small business lending through the Small Business Administration's main program decreased 42% over the previous year.<sup>64</sup> Meanwhile, the national unemployment rate skyrocketed, from 6.2% in September 2008 to 9.7% in August 2009.<sup>65</sup>

But at the same time that banks are cutting small business loans, they are continuing to lend to large corporations and private equity firms. For example, Bank of America, JPMorgan Chase, Citigroup, Goldman Sachs, and Morgan Stanley all helped finance the \$68 billion Pfizer-Wyeth merger, which will likely result in thousands of layoffs.<sup>66</sup> Bank of America, JPMorgan Chase, Citigroup, and Morgan Stanley are all among the banks providing \$3.1 billion in financing to help private equity-owned Warner Chilcott buy Procter and Gamble's drug business.<sup>67</sup>

### **Standing in the Way of Reform**

After crashing the economy and taking trillions of dollars in bailouts and backstops, the banks are now using our own money against us. They are spending millions of dollars of our money to lobby against reforms that would protect us from their abuses in the future. In the nine months following the bailout, companies in the financial, insurance, and real estate sector (which includes banks and other bailed-out companies like AIG), spent \$321 million on lobbying.<sup>68</sup> The top six banks alone spent \$28.4 million lobbying during this time.<sup>69</sup>

Many banks lobbied against policies that would help protect Americans, both as taxpayers and consumers. They fought against:

- The formation of a Consumer Financial Protection Agency to protect consumers' interests;<sup>70</sup>
- Limits on executive compensation and bonuses to ensure banks don't use taxpayer dollars to pay out bonuses;<sup>71</sup>
- The regulation of overdraft fees to protect American consumers from misleading and potentially predatory bank policies;<sup>72</sup>
- Credit card reform, including caps on interest rates and a ban on anytime-for-any-reason rate hikes;<sup>73</sup>
- Loan modification proposals to help keep millions of Americans in their homes;<sup>74</sup> and
- A ban on payday lending.<sup>75</sup>

The big banks' predatory and abusive business practices cost us trillions of dollars in lost wealth and brought the economy to the brink of collapse. Now they are fighting an all out war to preserve the ability to do it all over again, and they are using our money as the ammunition.

## A Real Economic Recovery

Now that the big banks are back to profitability, their promoters would have us believe that the worst is behind us. Wall Street celebrates 'green shoots' in the economy and points to signs of an economic recovery, but Main Street is still hurting.

This feels like déjà vu. The market was celebrating signs of recovery last year too, just months before the Lehman Brothers collapse.

In July 2008, according to the *Los Angeles Times*, President George Bush tried to calm the markets by saying, "We will come through this challenge stronger than ever before. Our economy has continued growing, consumers are spending, businesses are investing, exports continue increasing, and American productivity remains strong."<sup>76</sup> A month later in late August, the new GDP report showed US economic growth to be "much stronger than previously believed."<sup>77</sup> And finally, two weeks later, on September 15<sup>th</sup>, the morning that Lehman collapsed, Senator John McCain asserted forcefully that "the fundamentals of our economy are strong."<sup>78</sup>

Similarly, this year, we've seen repeated efforts to sound the trumpets and declare victory prematurely. For example, even though the market has celebrated big banks profits so far this year, the *Huffington Post* reported that "The percent of banks that lost money [in the second] quarter set an all-time high."<sup>79</sup> In fact, the percentage of banks that were unprofitable in the first half of 2009 is up 59% from last year. 2008 was the industry's worst year for profitability, and 2009 is currently on pace to beat it.<sup>80</sup>

This has been going on all summer. First in May, even before the results of the Treasury Department's "stress tests" of the largest financial institutions came out, the *New York Times* reported that the Obama administration "seems prepared to argue that...the broad financial system is healthier than many investors fear."<sup>81</sup> The stress tests showed that the biggest financial institutions needed to raise an additional \$75 billion.<sup>82</sup> It was later revealed that the number had actually been revised downwards at the behest of the banks, and that the Federal Reserve's initial findings had put the number even higher.<sup>83</sup>

Then in June, *Dow Jones* reported that a decline in credit card delinquencies in the previous month was "igniting hope of a turnaround among investors of plastic," even though the same article also noted that actual credit card losses had continued to climb.<sup>84</sup> A month and a half later, the government celebrated that "the overall economy contracted at an annual rate of only 1 percent in the spring quarter..."<sup>85</sup> To Wall Street, that may be a reason to rejoice. To the average American, it means things continued to get worse.

In early August, the *New York Times* reported that "The most heartening employment report since last summer suggested on Friday that a recovery was under way..."<sup>86</sup> This "heartening" report actually showed an additional quarter million job losses in the month of July, and while the seasonally-adjusted unemployment rate declined a tenth of a percentage point, it was

“mainly because so many people dropped out of the hunt for work, ceasing to list themselves as unemployed.”<sup>87</sup> Once again, the market was not celebrating things better, but that they were getting worse more slowly.

Then towards the end of August, another *New York Times* article reported that Standard & Poor’s Case-Shiller Home Price Index was showing improvements in major cities across the country, “[i]n a convincing sign that the worst housing slump of modern times is coming to an end...”<sup>88</sup> But at the end of the same article, there was a brief mention of the fact that “with unemployment nearing 10 percent, there are probably more foreclosures to come...,” which could push prices back down,<sup>89</sup> making that “convincing” sign of a reversal of fortunes seem a little less convincing.

That same week, Federal Reserve officials started pushing out the message that taxpayers had actually made multibillion dollar profits off of the banks that had repaid their TARP funds.<sup>90</sup> But as *Rolling Stone* writer Matt Taibbi pointed out in his blog, “This is sort of like calculating the returns on a mutual fund by only counting the stocks in the fund that have gone up,” since only the healthiest banks have repaid their TARP funds so far.<sup>91</sup> A recent study actually found that TARP was \$148 billion in the red as of June.<sup>92</sup>

All the chatter about economic recovery and the end of the recession is no more credible now that it was a year ago. In fact, as financial stocks tumbled at the start of September, even *CNNMoney* reported about “worries that market gains have raced ahead of any economic recovery.”<sup>93</sup> Wall Street’s eternal optimism when it comes to the economy is just a distraction to keep us from demanding real regulatory reform so that the big banks can carry on with business as usual, robbing us of trillions of dollars for decades to come.

We need a real economic recovery. The banks broke the economy, made us pay for repairs that benefitted bankers but have had little effect on the rest of us, and now are readying to break it again at our expense. It is time for them to fix what they broke and to get the economy back on track in a way that works for us, the taxpayers who bailed them out when their backs were against the wall.

## Endnotes

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