Responding to Main Street:

A Sensible Plan for Recovery

Program Basics

- Fund a green stimulus for the real economy
- Restructure mortgages for families put at risk by predatory lenders
- Make Wall Street speculators pay for the bailout
- Shut down the global casino: Assert real oversight of financial markets
- Limit CEO pay and prohibit profiteering from the bailout

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Rebuilding Accountabilty and Trust

The grassroots blowback against the Bush Administration's Wall Street bailout is rooted in a deep distrust. Americans certainly do recognize the need to act on our current crisis. But they detest the idea that ordinary taxpayers should bear the brunt of bailing out the kingpins of Wall Street.

The Bush administration, with its recent moves to begin purchasing bank equity, has essentially acknowledged the inadequacy of the original bailout plan. The administration's new direction, even so, remains inadequate. We believe the program we outline below can far better address the root causes of our financial collapse and restore trust and confidence in our economic system.

1. Fund a Green Stimulus for the Real Economy

The debate over the economic crisis has so far concentrated on the $700 billion financial sector bailout crafted by Treasury Secretary Henry Paulson and approved by Congress. A real "bailout" would target the troubled households of working families.

At the national level, Congress should authorize a $200 billion "Main Street Green Stimulus Package" that could bolster the real economy and those left vulnerable by the subprime mortgage meltdown.

This package should include:

- A $130 billion annual investment in renewable energy to stimulate good jobs anchored in local economies and reduce our dependency on oil.
- A $50 billion outlay to help keep people in foreclosed homes through refinancing and creating new homeownership and housing opportunities.
- A $20 billion aid package to states to address the squeeze on state and local government services that declining tax revenues are now forcing.

See the terms of the $56.2 billion proposed Economic Recovery Package proposed by Senators Reid (D-NV) and Byrd (D-WV).
Link: Reid/Byrd Economic Recovery Act of 2008

We also need action at the international level. Rising unemployment in the United States is already spreading around the world. A global recession would especially hit poor countries already suffering from the food price crisis. The U.S. government should:

- Work with leaders of other leading economies to put in place a coordinated recovery plan to stimulate the real economy in the industrialized countries and beyond. They need to support infrastructure programs and investments in alternative energy to create green jobs and advocate tax measures and spending programs that support middle- and lower-income population purchasing power.
- Support expanded debt cancellation. External debt payments currently cripple the capacity of many developing nations to stimulate their economies. Any resolution of the financial crisis, to be effective, must expand the resources available and the countries eligible for multilateral debt relief – without onerous policy strings.

2. Restructure Mortgages for Families Put at Risk by Predatory Loans

Institute a moratorium on foreclosures and work with homeowners and at-risk tenants to enable people to stay in their homes. Keeping people in their homes will stabilize home asset values and prevent deep community distress. Funds from the "Main Street" stimulus can help restructure loans to protect those put at risk by predatory practices.

3. Make Wall Street Speculators Pay for the U.S. Bailout

The lawmakers who negotiated the bailout appear to have assumed that the federal government will simply borrow more money to foot the bailout bill.

But this rush to borrowing merely shifts the bailout burden onto the backs of future taxpayers. Congress needs to change course — and develop a "pay as we go" plan that makes Wall Street pay. The lion's share of bailout funding should come from the high-finance gamblers and the wealthy CEOs who have so profited from our casino economy.

The Institute for Policy Studies has identified $900 billion in dollars in revenue to pay for a Main Street stimulus and Wall Street bailout. A full text of this appears at: http://www.ips-dc.org/articles/740.

A fair and responsible plan would include:

- **A securities transaction tax: $150 billion**

  A fair plan to pay for the bailout should include a modest financial transactions tax on the buying and selling of stock and other financial products. A penny on every $4 invested would generate $100 billion a year. Other European countries already tax stock transactions, and these transaction taxes effectively discourage speculation.

- **A corporate minimum income tax: $60 billion**

  In August, the Government Accountability Office reported that two-thirds of U.S. corporations paid no income taxes between 1998 and 2005. These corporations paid nothing toward our shared expenses of defense, environmental protection, public health, and education. Ordinary taxpayers should not be left holding this bag. A minimum corporate income tax should contribute toward the bailout.

- **A 'disgorgement' recovery from profligate CEOs: $40 billion**

  Until several weeks ago, top executives were collecting massive paychecks while they told the rest of us that "everything is fine." CEOs gorged themselves and have now taken the money and run. The four biggest investment banks on Wall Street shelled out $3 billion in bonuses last year. One of them, Lehman Brothers, has just gone under. Another, Bear Stearns, was bailed out earlier this year. To help pay for recovery, we should seek the payback of executive compensation inappropriately extracted in the years before the Wall Street meltdown.

- **An end to overseas corporate tax havens: $100 billion**

  Congress should close down corporate tax havens that allow corporations to game the system and cut their taxes, sometimes to zero. This step would generate $100 billion from profitable companies that have paid no taxes over the last decade.

- **The elimination of subsidies for excessive CEO pay: $20 billion**

  As taxpayers, we subsidize excessive CEO pay, through a host of tax loopholes, to the tune of $20 billion a year. Congress should close these loopholes, including the accounting gimmicks that permit companies to report one set of earnings to shareholders and another lower number to Uncle Sam.

4. Shut Down the Global Casino: Assert real oversight of financial markets

The public would feel more positively about government intervention if this intervention were clearly aimed at addressing the root causes of the financial crisis. This crisis has evolved from a convergence of disasters:

- The tolerance by the Federal Reserve and other government overseers of a dangerous housing bubble.
- The rapid expansion of unregulated financial institutions and instruments, everything from hedge funds to credit default swaps.
- The failure of government oversight of existing financial institutions
- At the national level, the federal government should take the following steps to shut down the casino:
- Direct the Federal Reserve to intervene to prevent present and future asset bubbles.
- Extend financial reserve requirements to new security categories such as derivatives and place strict limits on leverage for all regulated financial institutions. Tradable instruments, like credit default swaps, should be standardized and traded on regular exchanges.
- Regulate the packaging of loans so they can be evaluated, rated, and priced rationally.
- Regulate hedge funds and private equity funds in a way comparable to banks
- Move against predatory home mortgage lending.
- Establish a system of ongoing public trusteeship for banks receiving public assistance to ensure such problems are not repeated.

At the international level, the U.S. government should:

- Work with other governments to develop a new international regulatory architecture aimed at preventing future financial crises. This should cover not just banks but also the parallel financial system -- hedge funds, private equity and what is left of the investment banking sector. This new architecture needs to apply stricter capital reserve requirements, a speculation tax on international transactions, and stronger transparency rules.
- Revise current trade policies. Existing free trade agreements and bilateral investment treaties ban governments from placing controls on capital flows and applying other sensible conditions on foreign investment.
- Demand that the international financial institutions allow borrowing country governments maximum policy space to set exchange rate policy, regulate capital movements, and eliminate speculative activity.

5. Limit Excessive CEO Pay and Prohibit Bailout Profiteering

Many Americans oppose the bailout because they believe that Wall Street CEOs and fund managers will be financially rewarded for their reckless behavior. Americans also fear that Wall Street profiteers will make money from the bailout, just as slick operators made millions "fixing" the Savings and Loan bailout.

Placing limits on CEO pay would remove the key incentive that has driven the short-term "casino" mentality in Corporate America. The bailout bill left this incentive largely in place, with a provision that gave the determination of what's "excessive" in executive pay to Treasury Secretary Paulson, a former Wall Street wheeler-dealer who made hundreds of millions of dollars as an investment bank CEO.

Several members of Congress have proposed fixed executive pay limits for the bailout. Senators John McCain (R-AZ) and Diane Feinstein (D-CA), for instance, have both made offhand comments calling for capping compensation for bailed-out executives at the current compensation level of the U.S. President, $400,000.

The Institute for Policy Studies favors a lid on CEO pay set at 25 times the pay of a bailed-out company's lowest-paid worker. The current top federal paycheck — the President's $400,000 annual compensation — represents about 25 times the pay of the federal government's lowest-paid employee.

The most respected business thinker of the 20th century, Peter Drucker, considered the 25-to-1 ratio to be the appropriate standard for the private sector as well. Pay gaps too wide, management experts like Drucker believe, undermine enterprise effectiveness.

But executive pay controls need to go beyond the ranks of "bailed-out" firms. Companies hired to manage the bailout need to be controlled as well. Private firms, as news reports (*New York Times*, "Big Financiers Start Lobbying for Wider Aid") indicate, are already lining up to cash in cash in on the bailout. We need strict pay controls and conflict-of-interest oversight to prevent this profiteering at taxpayer's expense.

ACTION

Educate members of Congress. We should immediately contact our members of Congress, whether they voted for or against the bailout, and urge them to embrace this five-point program:

- **Fund a green stimulus for the real economy**
- **Restructure mortgages for families put at risk by predatory lenders**
- **Make Wall Street speculators pay for the bailout: No more debt**
- **Shut down the global casino: Rein in the unregulated financial sector**
- **Limit CEO pay and prohibit profiteering from the bailout**

Local Media. Influence the conversation. We should write letters to the editor, call in to talk radio programs, put forward op-eds.

Watch for ongoing action activities at http://www.extremeinequality.org