

# Are You Ready for the Next Crisis?

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*The Financo-State*

By **Paul Craig Roberts**

Evidence that the US is a failed state is piling up faster than I can record it.

One conclusive hallmark of a failed state is that the crooks are *inside* the government, using government to protect and to advance their private interests.

Another conclusive hallmark is rising income inequality as the insiders manipulate economic policy for their enrichment at the expense of everyone else.

Income inequality in the US is now the most extreme of all countries. The 2008 OECD report, "**Income Distribution and Poverty in OECD Countries**," [PDF] concludes that the US is the country with the highest inequality and poverty rate across the OECD and that since 2000 nowhere has there been such a stark rise in income inequality as in the US.

The OECD finds that in the US the distribution of wealth is even more unequal than the distribution of income.

On October 21, 2009, *Business Week* [reported](#) that a new report from the United Nations Development Program concluded that the US ranked third among states with the worst income inequality. As number one and number two, Hong Kong and Singapore, are both essentially city states, not countries, the US actually has the shame of being the country with the most inequality in the distribution of income.

The stark increase in US income inequality in the 21st century coincides with the offshoring of US jobs, which enriched executives with "**performance bonuses**" while impoverishing the middle class, and with the rapid rise of unregulated OTC derivatives, which enriched Wall Street and the financial sector at the expense of everyone else.

Millions of Americans have lost their homes and half of their retirement savings while being loaded up with government debt to bail out the banksters who created the derivative crisis.

Frontline's October 21 broadcast, "**The Warning**," documents how Federal Reserve Chairman Alan Greenspan, Treasury Secretary Robert Rubin, Deputy Treasury Secretary Larry Summers, and Securities and Exchange Commission Chairman Arthur Levitt blocked [Brooksley Born](#), head of the Commodity Futures Trading Commission, from performing her statutory duties and regulating OTC derivatives.

After the worst crisis in US financial history struck, just as Brooksley Born said it would, a disgraced Alan Greenspan was summoned out of retirement to explain to Congress his unequivocal assurances that no regulation of derivatives was necessary. Greenspan had even told Congress that regulation of derivatives would be harmful. A pathetic Greenspan had to admit that the free market ideology on which he had relied turned out to have a flaw.

Greenspan may have bet our country on his free market ideology, but does anyone believe that Rubin and Summers were doing anything other than protecting the enormous fraud-based profits that derivatives were bringing Wall Street? As Brooksley Born stressed, OTC derivatives are a "**dark market**." There is no transparency. Regulators have no information on them and neither do purchasers.

Even after [Long Term Capital Management blew up](#) in 1998 and had to be bailed out, Greenspan, Rubin, and Summers stuck to their guns. Greenspan, Rubin and Summers, and a roped-in gullible Arthur Levitt who now regrets that he was the banksters' dupe, succeeded in manipulating a totally ignorant Congress into blocking the CFTC from doing its mandated job. Brooksley Born, prevented by the public's elected representatives from protecting the public, resigned. Wall Street money simply shoved facts and honest regulators aside, guaranteeing government inaction and the financial crisis that hit in 2008 and continues to plague our economy today.

The financial insiders running the Treasury, White House, and Federal Reserve shifted to taxpayers the cost of the catastrophe that they had created. When the crisis hit, [Henry Paulson](#), appointed by President Bush as Rubin's replacement as the [Goldman Sachs representative](#) running the US Treasury, hyped fear to obtain from "**our**" representatives in Congress with no questions asked hundreds of billions of taxpayers' dollars (TARP money) to bail out Goldman Sachs and the other malefactors of unregulated derivatives.

When Goldman Sachs recently announced that it was paying massive six- and seven-figure bonuses to every employee, public outrage erupted. In defense of banksters, saved with the public's money, paying themselves bonuses in excess of most people's life-time earnings,

Lord Griffiths, Vice Chairman of Goldman Sachs International, said that the public must learn to **"tolerate the inequality as a way to achieve greater prosperity for all."**[\[Public must learn to 'tolerate the inequality' of bonuses, says Goldman Sachs vice-chairman\]](#)

In other words, **"Let them eat cake."**

According to the UN report cited above, Great Britain has the 7th most unequal income distribution in the world. After the Goldman Sachs bonuses, the British will move up in distinction, perhaps rivalling Israel for the fourth spot in the hierarchy.

Despite the total insanity of unregulated derivatives, the high level of public anger, and Greenspan's confession to Congress, still nothing has been done to regulate derivatives.

One of Rubin's Assistant Treasury Secretaries, Gary Gensler, has replaced Brooksley Born as head of the CFTC. Larry Summers is the head of President Obama's National Economic Council. Former Federal Reserve official Timothy Geithner, a Paulson protege, runs the Obama Treasury. A Goldman Sachs vice president, Adam Storch, has been appointed the chief operating officer of the Securities and Exchange Commission.

The Banksters are still in charge.

Is there another country in which in full public view so few so blatantly use government for the enrichment of private interests, with a coterie of **"free market"** economists available to justify plunder on the grounds that **"the market knows best"**?

A **narco-state** is bad enough. The US surpasses this horror with its financo-state.

As Brooksley Born says, if nothing is done, **"it'll happen again."**

But nothing can be done. The crooks have the government.

[PCR Note: The OECD report shows that despite the Reagan tax rate reduction, the rate of increase in US income inequality declined during the Reagan years. During the mid-1990s the Gini coefficient (the measure of income inequality) actually fell. Beginning in 2000 with the New Economy (essentially financial fraud and offshoring of US jobs), the Gini coefficient shot up sharply.]

*Paul Craig Roberts [\[email him\]](#) was Assistant Secretary of the Treasury during President Reagan's first term. He was Associate Editor of the Wall Street Journal. He has held numerous academic appointments, including the William E. Simon Chair, Center for Strategic and International Studies, Georgetown University, and Senior Research Fellow, Hoover Institution, Stanford University. He was awarded the Legion of Honor by French President Francois Mitterrand. He is the author of [Supply-Side Revolution : An Insider's Account of Policymaking in Washington](#); [Alienation and the Soviet Economy](#) and [Meltdown: Inside the Soviet Economy](#), and is the co-author with Lawrence M. Stratton of [The Tyranny of Good Intentions : How Prosecutors and Bureaucrats Are Trampling the Constitution in the Name of Justice](#)[Click here for Peter Brimelow's Forbes Magazine interview with Roberts about the recent epidemic of prosecutorial misconduct.](#)*

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