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The Bailout: In Simple Terms  
By: Hesh Goldstein

Malia is the proprietor of a bar in Honolulu. In order to increase sales, she decides to allow her loyal customers – most of whom are unemployed alcoholics - to drink now and pay later. She keeps track of the drinks consumed on a ledger, thereby granting the customers loans.

Word gets around about Malia's drink now pay later marketing strategy and, as a result, increasing numbers of customers flood into Malia's bar and soon she has the largest sale volume for any bar in Hawaii.

By providing her customers' freedom from immediate payment demands, Malia gets no resistance when she substantially increases her prices for wine and beer, the most consumed beverages. Her sales volume increases massively.

A young and dynamic vice-president at a local bank recognizes these customer debts as valuable future assets and increases Malia's borrowing limit. He sees no reason for undue concern since he has the debts of the alcoholics as collateral.

At the bank's corporate headquarters, expert traders transform these customer loans into DRINKBONDS, ALKIBONDS and PUKEBONDS. These securities are then traded on security markets worldwide.

Naive investors don't really understand the securities being sold to them as AAA secured bonds are really the debts of unemployed alcoholics. Nevertheless, their prices continuously climb and the securities become the top-selling items for some of the nation's leading brokerage houses.

One day, although the bond prices are still climbing, a risk manager at the bank, subsequently fired for his negativity, decides that the time has come to demand payment on the debts incurred by the drinkers at Malia's bar.

Malia demands payment from her alcoholic patrons, but being unemployed they cannot

pay back their drinking debts. Therefore, Malia cannot fulfill her loan obligations and claims bankruptcy.

DRINKBOND and ALKIBOND drop in price by 90%. PUKEBOND performs better stabilizing in price after dropping by 80%. The decreased bond asset value destroys the banks liquidity and prevents it from issuing new loans.

The suppliers of Malia's bar, having granted her generous payment extensions and having invested in the securities, are faced with writing off her debt and losing over 80% on her bonds. Her wine supplier claims bankruptcy, her beer supplier is taken over by a competitor who immediately closes the local plant and lays off 50 workers.

The bank and the brokerage houses are saved by the Government following dramatic round-the-clock negotiations by leaders from both political parties. The funds required for this bailout are obtained by a tax levied on employed middle-class non-drinkers.

Now, this is a bailout explanation that everyone can understand.