Bernanke, Paulson outline strategy to make working class pay for Wall Street crisis

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In speeches delivered Tuesday, Federal Reserve Board Chairman Ben Bernanke and Treasury Secretary Henry Paulson outlined the ruthless class policy being carried out to place the burden for the financial and housing crisis on the backs of working people.

Bernanke indicated that the Fed would extend its policy of offering unlimited loans to major Wall Street investment banks. The provision of Fed funds to non-commercial banks and brokerage firms, a departure from the Fed's legal mandate without precedent since the Great Depression, is part of a policy of bailing out the banking system to the tune of hundreds of billions of dollars. The Fed announced its loan program for investment banks last March when it dispensed $29 billion to JPMorgan Chase as part of a rescue operation to prevent the collapse of Bear Stearns.

In his speech, Treasury Secretary Paulson acknowledged that home foreclosures in 2007 reached 1.5 million and predicted another 2.5 million homes would be foreclosed in 2008. But he made clear that nothing would be done to save the vast majority of distressed homeowners from being thrown onto the street.

Paulson, the former CEO of Goldman Sachs, said that "many of today's unusually high number of foreclosures are not preventable." With a callous indifference reminiscent of Marie Antoinette's "Let them eat cake," he went on to say that "some people took out mortgages they can't possibly afford and they will lose their homes. There is little public policymakers can, or should, do to compensate for untenable financial decisions."

In other words, low-income home owners who were lured into high-interest mortgages by predatory mortgage companies and banks are getting their just deserts! Of course, the Wall Street CEOs and big investors who made billions of dollars by speculating on these loans, creating a vast edifice of fictitious capital that was bound to collapse, are not to be held accountable for any "untenable financial decisions." On the contrary, they are to be subsidized with hundreds of billions of dollars of credit, ultimately to be paid for by public funds.

The two speeches, presented at a Federal Deposit Insurance Corporation forum on the housing crisis held in Virginia, underscore the real social interests—those of the financial aristocracy—that are being protected by the policies of the Fed, the Bush administration, and the Democratic Congress.

Bernanke made clear that his call for an extension of loans to big investment banks is part of a more comprehensive proposal to systemize and regularize federal subsidies and bailouts for troubled banking giants. Particularly significant was the following remark: "Because the resolution of a failing securities firm might have fiscal implications, it would be appropriate for the Treasury to take a leading role in any such process, in consultation with the firm's regulator and other authorities." The implication is that the US Treasury should be ready to fund bank bail-outs with whatever taxpayer funds are necessary.

In neither speech was there even a hint that the government has any responsibility to protect home owners, or that the people responsible for the "lax credit and underwriting standards" that led to the current crisis might be called to account by regulators, Congress, or the courts.

Essentially the same principles underlie the Democratic-sponsored housing bill currently under debate in Congress. The bill, which President Bush has threatened to veto, includes provisions to provide government insurance on mortgages in exchange for

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lenders writing down the principal by 15 percent. The main purpose of the bill is not to assist homeowners, but to prevent foreclosures from harming the balance sheets of financial firms by transferring risky mortgages to the government.

The bill is tailored to marginally reduce the flood of home loan defaults and foreclosures, at a minimal cost to the government, so as to stabilize the housing market and stem the losses suffered by banks and financial institutions from the collapse of subprime mortgage-backed securities. Home owners with subprime and adjustable-rate mortgages, who demonstrated their ability to pay off a refinanced loan, would have the debt converted to a thirty-year, fixed-rate mortgage, resulting in lower monthly payments.

The plan is entirely voluntary. No bank or mortgage lender would be required to participate, and the financial firms would decide which, if any, loans they refinanced in return for a government guarantee against losses. As a result, mortgage companies and banks that decide to participate will "cherry pick" the loans they refinance, choosing from among the loans which qualify under the terms of the bill only those they believe most likely to default.

The Congressional Budget Office (CBO) estimates that the measure would help a maximum of 500,000 home owners—that is, only 20 percent of the 2.5 million who, according to Paulson, will face foreclosure this year. It does nothing to help those who have already had their homes foreclosed, or block banks and mortgage lenders from carrying out new foreclosures. Lenders are currently filing foreclosure proceedings against more than 7,000 home owners a day.

The CBO estimates that the actual cost of the program—resulting from defaults of Federal Housing Administration-backed refinanced loans—would amount only to $2.7 billion over the next five years. This is less than the amount spent on the Iraq war every 15 days, and a billion dollars less than the 2007 earnings of the top hedge fund manager in the US. It is a tiny fraction of the nearly $1 trillion that the Fed has pumped into the financial markets since the credit crisis erupted last August.

The moves to further subsidize the banks coincide with the Fed's announced policy of halting interest rate cuts and preparing to raise rates later this year. As Bernanke has made clear, the major consideration behind this policy shift is a desire to stem "inflationary expectations"—a euphemism for wage increases. The aim is to utilize the economic contraction to drive up unemployment and undercut any struggle by workers for wage hikes to compensate for soaring prices and ruinous levels of household and personal debt.

The eruption of the credit crunch last August was not anticipated by the Fed or government policy-makers, whose easy credit policies had fueled the housing bubble. They initially badly underestimated the seriousness and depth of the crisis, but soon responded with a series of interest rate cuts and massive injections of liquidity to bolster the banking system. This was bound to ignite inflationary pressures and further weaken the dollar.

By the time of the Bear Stearns rescue last March—carried out with the support of both parties and all of their presidential candidates—it had become clear to the Fed that the credit and housing crisis would have a protracted impact on economic growth and that the financial system would remain highly fragile for an extended period. A consensus emerged within the ruling elite in support of a brutal class policy to continue the bailout of Wall Street, while seeking to manage an orderly unwinding of the trillions of dollars in fictitious capital built up during the speculative boom—at the expense of the working class.

Now the strategy is to exploit the economic contraction to further depress wages. There is no support in either political party to allocate any significant resources to relieve the economic and social distress of working class families being hammered by job cuts, sharply rising gas and food prices, and the collapse of their home values.

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