

# Bernanke, Paulson testify before Congress: Democrats cower before Wall Street

Andre Damon  
12 July 2008

Treasury Secretary Henry Paulson and Federal Reserve Board Chairman Ben Bernanke called on Congress Thursday to expand the Fed's ability to bail out failing Wall Street firms. Their testimony, delivered before the House Financial Services committee, evoked a fawning response from the Democratic committee members as they scrambled for ways to accommodate Wall Street.

Bernanke and Paulson came before Congress in the midst of growing panic on financial markets over the sinking balance sheets of Fannie Mae and Freddie Mac, the government-sponsored home mortgage finance companies that guarantee or own half of all outstanding US mortgage debt. The two companies, whose stock values have plummeted by up to 80 percent since the sub-prime mortgage bust and credit crisis erupted last August, have more than \$5 trillion in outstanding debt that is held by financial institutions and investors around the world. As the top US regulators testified before the House of Representatives committee, reports were swirling of a possible government bailout of the mortgage giants, whose collapse would have even greater global consequences than the near-bankruptcy of investment bank Bear Stearns last March.

The policies of the Fed and the Treasury Department, promoting bank deregulation and fostering unbridled speculation in housing and financial markets, played a critical role in precipitating a worldwide financial crisis without precedent since the Great Depression. The result is record home foreclosures, rising unemployment, falling wages and skyrocketing commodity prices.

However, Paulson and Bernanke did not come to Capitol Hill to defend their own conduct. There was no need since none of the congressmen seriously challenged them. Rather, they came to argue for new

laws that would modestly increase regulatory oversight of Wall Street while legally sanctioning and institutionalizing the use of taxpayer money to bail out major banks and financial companies.

The session provided a graphic demonstration of the utter subservience of Congress and both parties, Democrats no less than Republicans, to the financial aristocracy that monopolizes ever more of the national wealth.

Barney Frank, the committee chairman and stalwart of the liberal wing of the Democratic Party, opened the session with praise for Bernanke and Paulson, saying "I congratulate the officials of this administration for doing such a good job." Other members were no less servile in their praise. Republican Judy Biggert of Illinois praised Bernanke's "steady leadership" in her opening statement. Such phrases were repeated by most of the committee members.

Frank and most of the Democrats on the committee pressed for some increase in financial regulation, but Frank set the tone by making clear their opposition to any major reversal of the deregulatory policies of the past thirty years. "We don't want to do anything that would interfere with our wonderful financial system," he declared. "Done right," he added, "regulatory authority... is pro-market."

There is nothing anomalous or surprising in the abject prostration of the committee before Wall Street. As the web site of the Center for Responsive Politics ([opensecrets.org](http://opensecrets.org)) documents, in the 2008 election cycle, members of the House Financial Service Committee—which is supposed to oversee and monitor Wall Street—received over \$18 million from the financial services/insurance/real estate sector, a sum three times greater than the committee received from any other sector. Frank himself raised over \$1.2 million

this year, almost half of which came from finance and related industries. The top five industries that contributed to his campaign were securities and investment, real estate, law firms, insurance and commercial banking.

The Center for Responsive Politics web site describes the financial establishment's market in congressmen with the following characterization of the House Financial Services Committee: "This committee, formerly known as the Banking Committee, has long been considered a 'big money' panel, with jurisdiction over commercial banks and savings and loans that traditionally have been very generous with their campaign contributions to committee members. That trend is likely to continue in the 110th Congress with the addition of two cash-rich industries to the committee's portfolio: insurance and securities. Look for the giant financial sector, which includes banks, insurance companies, and securities firms, to continue its robust giving to committee members."

The main question raised by a number of Democratic committee members was not whether there was a regulatory failure and who was responsible for it, but whether Congress should hasten to enact emergency legislation to facilitate more government bailouts of Wall Street giants. Typical was Frank's question to Paulson and Bernanke: "Is it your view that immediate legislation is necessary, or should we have this first thing on the agenda next year?"

Thursday's hearing highlighted certain fundamental aspects of American politics. Both parties represent the interests of a small and parasitic financial elite. When negligence and borderline criminality among the super-rich lead to a crisis, it is the unanimous consensus of both parties that none of those responsible should be punished and that the masses of working people should be left to pay the bill.

The degree to which the two-party system has so openly and shamelessly become an instrument of the financial aristocracy is a reflection of the immense growth of social inequality in America. The concentration of wealth at the very top has become the central feature of a social structure that is increasingly incompatible with democratic institutions.

The decline in the popular base of support for both big business parties, and their inability to offer any policies to address the social disaster facing tens of

millions of people, bespeaks a social and political system in an advanced stage of decay. The working class, as it enters into massive social struggles, will be compelled to look for political alternatives to the moribund two-party system of American capitalism.



To contact the WSWs and the  
Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**