More US corporate bailouts on the way

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The US government, brushing aside its constant invocations of "private enterprise," has dispensed hundreds of billions of dollars in cheap loans to prop up the banks. Last March, the Federal Reserve Board paid JP Morgan Chase $29 billion to take over the investment bank Bear Stearns when Bear was on the verge of declaring bankruptcy.

Only a week ago, the US Treasury committed at least $200 billion in taxpayer funds in the government takeover of Fannie Mae and Freddie Mac—a move that makes the government responsible for the two companies' combined $5.3 trillion in mortgage liabilities.

The claims that the government, in allowing Lehman Brothers to collapse, has "drawn the line" on further taxpayer bailouts of failing corporations are false. The government decided to let Lehman fail, in part, to conserve the dwindling funds at the disposal of the Federal Reserve and calibrate hand-outs from the Treasury—which faces record budget and trade deficits and a soaring national debt—to be used to rescue more strategic companies.

The Fed has reportedly agreed to widen its bailout of Wall Street by accepting, in return for low-cost loans to both commercial and investment banks, even more dubious forms of collateral, including shares of stock whose value has collapsed and mortgage-backed securities that can be sold on the market only for pennies on the dollar.

There are growing calls on Wall Street and in the financial press for the government to directly buy the near-worthless subprime mortgage-backed securities and other collapsing credit instruments that are undermining the balance sheets of major financial companies. With the government takeover of Fannie Mae and Freddie Mac—which was sanctioned in advance by the Democratic Congress—the legal and structural framework is in place for this wholesale government bailout of the banking system.