Democrats signal support for Wall Street bailout at Senate hearing

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At a hearing Tuesday, Democratic members of the Senate Banking Committee assured Treasury Secretary Henry Paulson and Federal Reserve Board Chairman Ben Bernanke that they would move quickly to pass legislation authorizing the Bush administration to launch a trillion-dollar-plus bailout of Wall Street.

While a number of senators from both parties sought political cover in the face of growing popular opposition to the taxpayer-funded bailout by making populist-sounding declarations, the basic tone was set by Charles Schumer, the Democratic senator from New York who heads the Joint Economic Committee of Congress.

Insisting there was no time to consider the causes of the greatest economic crisis since the Great Depression, or investigate the bankers whose actions precipitated the financial disaster, Schumer declared, "We must look forward, not backward."

"It's not fair, it's not right, but that's the world we live in," he said. He added, "I want to assure the markets, we will not Christmas tree the bill. We will act and act soon."

The hearing was billed by the media as a confrontation between angry and skeptical senators and the top financial regulators in the Bush administration. But it was held in the midst of intense closed-door negotiations between the administration and congressional leaders and repeated assurances from the Democratic and Republican congressional leadership that progress is being made toward rapid passage of the bailout legislation.

On the eve of the hearing, Senate Democratic Majority Leader Harry Reid of Nevada said, "Democrats in the Senate aren't going to drag our feet. We'll respond with the urgency of action that this situation demands..."

Speaker of the House Nancy Pelosi, Democrat of California, after a meeting with party leaders Monday night, reiterated that she was committed to getting a bill to the president as quickly as possible.

President Bush, speaking before the United Nations on Tuesday, said he was "confident... that there will be a bipartisan bill and that the Republicans and Democrats will come together to get this piece of legislation passed."

The five-hour hearing was an exercise in deception and double-talk on all sides. The main witnesses, Paulson and Bernanke, gave brief and perfunctory opening statements that repeated the mantras they have employed since announcing the bailout plan last Friday.

They both reiterated that the US and global economy had been brought to the brink of collapse by the bursting of the US housing and credit bubbles. They insisted that Congress had to immediately sanction their plan for the American people to subsidize the financial elite by handing over hundreds of billions in public funds in exchange for virtually worthless mortgage-backed securities and other bad debts piled up by the banks and financial institutions.

The brevity and vacuity of their remarks reflected their contempt for Congress and the democratic rights and social conditions of the American people. They provided neither an explanation for the crisis nor any details of their bailout program.

Declaring that "last week our credit markets froze," Paulson, the multi-millionaire former Nixon administration official and CEO of Goldman Sachs, demanded that Congress "enact this bill quickly and cleanly, and avoid slowing it down with other provisions that are unrelated or don't have broad support."

This is code for any measures to provide relief to homeowners facing foreclosure or the millions of workers who face the loss of their jobs, livelihoods and life savings as a result of the predatory policies of Wall Street, and who are being told they must foot the bill for the bailout.

In one breath Paulson said that the root cause of the crisis was the housing "correction," (without explaining what had caused the collapse of home prices and wave of foreclosures), and in the next he made clear his opposition to any serious measures to help people stay in their homes, a precondition for stabilizing home prices. Not a single senator pointed out this contradiction.

He and Bernanke came before the Senate as the representatives of the American financial aristocracy, which is adamantly opposed to any measures that would negatively impact their bank accounts and stock portfolios. Notwithstanding their occasional grandstanding, the senators paid the expected obeisance.

Christopher Dodd of Connecticut, the Democratic chairman of the committee, made an opening statement in which he summed up, fairly accurately, the proposal that Paulson had put before congressional leaders over the weekend.

"The proposal," he said, "is stunning and unprecedented in its scope and lack of detail. It would allow him (Paulson) to intervene in the economy by purchasing at least $700 billion of toxic assets. It would allow him to hold on to those assets for years and to pay millions of dollars to handpicked firms to manage the assets. It would do nothing to help even a single family save a home. It would do nothing to stop a single CEO from dumping billions of dollars of toxic assets on the backs of taxpayers—and walking away with a bonus and a golden parachute. And it would allow him to act with utter and absolute impunity—without review by any agency or court of law. After reading this proposal, I can only conclude that it is not just our economy that is at risk, Mr. Secretary, but our Constitution as well."

Dodd then hastened to declare, "Nevertheless, in our efforts to restore financial security to American families and stability to our markets, this committee has a responsibility to examine this proposal carefully and in a timely manner." He went on to praise Paulson, Bernanke and the other government witnesses as "good" and "intelligent" men.

Dodd, other Democrats and some Republicans are appealing to Paulson and the Bush administration for marginal amendments to their initial proposal, which they hope can be used to diffuse popular anger and make the bailout appear more "fair." These include some form of oversight of the treasury secretary, "conflict of interest" provisions regarding the Wall Street firms that will manage the program, language to limit—or give the appearance of limiting—executive pay of companies that offload their financial junk to the government, a requirement that companies hand over stock or stock warrants as collateral, and some form of minimal relief for distressed homeowners.

While the Bush administration has indicated it is considering the proposals on oversight and stock warrants, and press reports suggest it might accept some token limit on executive pay, it remains adamant against relief to homeowners, including a Democratic proposal that would allow bankruptcy judges to alter the mortgage terms of people facing foreclosure. The latter has been fiercely opposed by the banking industry since the housing crisis erupted last year, and Democratic leaders have privately given assurances that they are using it merely as a bargaining chip.

In fact, the proposals being pushed by the Democrats on oversight, conflicts of interest and executive pay are utterly toothless. An amended bailout bill submitted by Dodd to Paulson on Monday makes this clear.

The supposedly independent "emergency oversight board" in the bill would be chaired by Bernanke and include the head of the Federal Deposit Insurance Corporation, the chair of the Securities and Exchange Commission, and financial "experts" appointed by the Democratic and Republican congressional leadership—that is, Wall Street figures and the government regulators who are pushing the bailout plan.

Rules on conflicts of interest would be drawn up by Paulson, as would any nominal limitations on executive pay.

In the question-and-answer period that followed the opening statements at Tuesday's hearing, Paulson and Bernanke refused to give a straight answer to a single question, or provide any information on their bailout plan beyond the vague formulations contained in their initial proposal.

Instead, they combined dire predictions of disaster should their plan be rejected with evasions, bromides and assurances that their sole concern was the well-being of the American people.

Asked how the government would set the price on the toxic assets it bought from the banks, Paulson refused to be pinned down. He would go no further than suggest that the Treasury would use "reverse auctions" to carry out the transactions.

As some commentators have pointed out, the plan, by its very nature as a bailout of the banks, requires that the government pay premium prices for junk assets far higher than what they could fetch on the market, with the banks pocketing the difference and the people paying the cost.

Asked why the government did not demand shares of stock in the companies being bailed out, Paulson would only say that he might consider such a measure down the road, but that the success of the plan required that he have unfettered flexibility in working out the details.

He responded to a question about taxpayers being put "on the hook" by saying, "You ask me about taxpayers being on the hook? Guess what, they are already on the hook."

Asked what provisions would be made to prevent conflicts of interest, Paulson replied, "We have procedures to mitigate conflicts."

Asked about oversight, he said, "We will bring in experts and work through this."

When the ranking Republican on the committee, Richard Shelby of Alabama, asked, "What's it going to do for the homeowner?"

Paulson retorted, "Not every homeowner is going to be able to save their home."

Asked by Republican Senator Jim Bunning of Kentucky how he knew the program's stated cost of $700 billion would be enough, Bernanke replied, "It's hard to know how much is enough." (In fact, as everyone involved in the hearing knew full well, the $700 billion figure is a fiction, since Paulson's proposal stipulates that the Treasury can hold only that amount of purchased bank assets *at any one time*).

The following exchange between Schumer and Paulson typified the stonewalling by Paulson and Bernanke and the refusal of the senators to challenge them:

Schumer: "How about doing this in stages, with, say, $150 billion now, and then come back in January and see how we're doing? Could you live with less?"

Paulson: "I think that would be a grave mistake. Give us the tools we need to make this work."

Schumer: "Why?"

Paulson: "It's about market confidence and having the tools to do the job."

In response to questions about requiring the banks to sell stock to the government and imposing limitations on executive pay, Bernanke warned against any measures that might "limit market participation."

Paulson sounded the same theme, declaring, "If you impose any kind of punitive conditions, this program won't work and we'll all lose."

The two fixed principles enunciated by Paulson and Bernanke were (1) the treasury secretary must be given unlimited power to place the wealth of the country at the disposal of Wall Street, and (2) the financial elite must suffer no consequences.

At about 2:20 p.m. Paulson suddenly declared, "We have to go," and Dodd immediately wrapped up the hearing—but not before the following display of obsequiousness and hypocrisy:

"I hope our witnesses see the value of this," Dodd bayed. "The public gets a better understanding. Your answers have been very good. Most of us understand the gravity of the situation and it's important that we act. It's extremely important that we work together on this. We thank you immensely for the time you've spent."

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