

# Stocks plunge on Wall Street as bailout fails in Congress

Bill Van Auken, Socialist Equality Party vice presidential candidate  
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Wall Street suffered its biggest one-day point fall in history amid panic selling, as the proposed government bailout of the major banks and finance houses went down to defeat Monday in the US House of Representatives.

The Dow Jones Industrial Average plummeted 777 points, or 7 percent. The other major indexes fell even further, in percentage terms, with the Nasdaq Composite Index plunging more than 9 percent and the Standard & Poor's 500 Index falling 8.8 percent. A total of \$1.2 trillion, or 9 percent, of total market value was wiped out.

The decline on Wall Street was already well under way before the vote was cast in the House, and there is ample reason to suspect that if the bill had passed, the news headlines would have read, "House Approves Bailout, Market Collapses Anyway."

In Europe and Asia, where it was widely assumed that the bailout would be passed and markets ceased trading before the vote was taken Monday afternoon, there were across-the-board losses amid fears that the credit crunch would yield a new wave of bank failures in the US and internationally, irrespective of the \$700-billion-plus proposal's fate. Before the markets in the US opened Monday, European governments and major financial institutions were forced to organize the bailout of three major banks.

The governments of the three Benelux countries carried out a \$16 billion bailout of the Fortis Bank, while Banco Santander, Spain's biggest bank, bought out Bradford & Bingley Plc, Britain's biggest lender to landlords. In Germany, the government and major banks were compelled to intervene with a \$51.2 billion line of credit to prevent the collapse of Hypo Real Estate Holding AG, one of Europe's largest real estate and local government lenders.

In the US, bank lending rates rose to their highest levels in nearly a quarter century, with widespread warnings that credit markets were seizing up to the point where major companies might be forced to shut down. This was the implication of remarks made by Treasury Secretary Henry Paulson in the White House driveway Monday afternoon after the failure of Congress to approve the bailout.

"Markets around the world are under stress, and that reduces the availability of credit that businesses across America depend on to meet payroll and to purchase inventories," said Paulson.

The specter of depression, mass layoffs and deep cuts in living standards hangs over the US and world economy. However, there is no reason to believe—and evidently scant confidence in the financial markets—that Paulson's bailout scheme will prevent such a calamity. The proposal is directed not at alleviating the deterioration of conditions of life for millions of working people, but at salvaging the fortunes of the top layers of the American financial aristocracy.

The naked class character of the proposal being promoted by the

leadership of both major parties was spelled out by *Washington Post* columnist Steven Pearlstein, who insisted that those opposed to the scheme would have to come "to the understanding that the only way to get out of these situations is to have governments all around the world borrow gobs of money and effectively nationalize large swaths of the financial system so it can be restructured, recapitalized, reformed and returned to private ownership once the crisis has passed."

In other words, "gobs of money" are to be seized from the people to protect the wealth of the major shareholders and investors and place the big banks under the wing of the government until they are profitable enough to be turned back to these same financial oligarchs.

To call this a "plan" is a gross misrepresentation. It is nothing more than a decision to hand over more than \$700 billion in taxpayers' money to Treasury Secretary Paulson, the former CEO of Goldman Sachs, to use as he sees fit in buying up worthless paper assets from his former colleagues on Wall Street.

Never in history has one US official been granted such sweeping powers. Even the staggering figure attached to this proposal is viewed by most analysts as only a first installment, as the totality of worthless assets on the books of the major financial institutions is many times higher.

As for the "concessions" that the Democratic congressional leadership claims to have extracted from the Bush administration, all of them amount to verbal window dressing, placing no binding restraints on this breathtaking transfer of wealth, nor providing any relief for average working people who are suffering the brunt of the economic crisis.

Despite the unity of the leadership of both parties and their respective presidential candidates behind this scheme, popular opposition to the proposal is overwhelming and ultimately led to its defeat. In nearly every case, those in Congress facing tight races in November—both Democrats and Republicans—voted against the measure, fearing retribution at the polls if they supported it.

The administration and the congressional leadership indicated that they would push for reconsideration of the package as soon as possible, though a second vote appears unlikely before Thursday.

Both Wall Street and the White House appeared stunned by the defeat of the legislation, which had the backing of the president, the Democratic majority and Republican minority leaderships in Congress, and Barack Obama and John McCain.

"We've got a big problem," a dazed looking George W. Bush said during an appearance at the White House with the president of Ukraine.

On Wall Street, the mood in the major finance houses after the

House vote alternated between panic and seething anger towards the opposition of the American people to the bailout. Some spoke darkly of the people “waking up” when they could no longer use their credit cards or get cash from their ATMs.

As for the media, the pretense of objective reporting was cast aside. Television news announcers voiced the anger and concern of the major financial interests and sought to apportion blame for what was universally presented as the irrational defeat of an indispensable measure.

The bailout proposal was rejected by a vote of 228 to 205, with 60 percent of the House Democrats voting for it and 67 percent of the House Republicans voting against.

Once again, the Democrats emerged as the most consistent and loyal defenders of Wall Street’s interests.

Obama delivered a speech Monday calling for the plan’s approval. He echoed the remarks of Bush, delivered hours earlier on the White House lawn, aimed at blackmailing the American people into supporting the plan. The bailout, he declared, is “our best and only way to prevent an economic catastrophe.”

Neither Obama nor anyone else, however, was able to explain how this proposal would benefit the American people. On the contrary, he has already admitted that its passage will force the rescinding of the paltry promises he has made in his election campaign and necessitate greater fiscal discipline. This will inevitably translate into an attack on essential social programs such as Social Security, Medicare and Medicaid.

After the bill was voted down, Obama delayed making a statement until he could consult with Paulson. Then he insisted that the proposal was “required for us to stabilize the markets.” He continued: “Democrats and Republicans in Washington have a responsibility to make sure an emergency rescue package is put forward that can at least stop the immediate problems that we have.”

For his part, McCain issued no immediate statement, while a campaign aide echoed the ludicrous claim of the Republican House leadership that the measure’s defeat was a response to a partisan attack in the remarks of Democratic House Speaker Nancy Pelosi before the vote was taken.

The major congressional opposition to the bailout came from the most right-wing sections of the Republican Party, who cast the attempt to effect a vast transfer of public resources to the wealthiest interests in the country as “socialism.”

Representative Thaddeus McCotter of Michigan went so far as to invoke the October 1917 Revolution in Russia, saying that the bailout plan recalled the Bolshevik slogan of “bread, peace and land.”

This right-wing ideology is infused in many cases with racist overtones, scapegoating minority homebuyers, who were disproportionately victimized by subprime mortgages, for the crisis created by Wall Street’s parasitism.

In the end, the program of these opponents of the bailout is one of even more tax cuts for the rich and the destruction of what little remains of a social safety net in America, transferring all public monies to big business, albeit by a different route.

If these imbecilic demagogues are able to exploit the popular opposition that exists to the bailout, it is only because the leadership of the Democratic Party is so solidly unified behind the interests of finance capital and so indifferent to the concerns of the masses of working people. They are utterly incapable of offering the slightest substantive alternative to the demands of Wall Street.

A way out of the crisis—the deepest to confront American and world

capitalism since the Great Depression of the 1930s—requires a rejection not only of the bailout, but of the entire framework in which the debate in Washington is being conducted.

The capitalist system has failed, and there is no reason to doubt the warnings from Bush, Paulson, Obama and others that it is preparing a social catastrophe.

Finding an answer to this crisis begins with asking the question: Who is to pay for it? Whatever their tactical differences on the bailout, the answer of the Democrats and Republicans is clear: Working people must give up their jobs, living standards and social interests in order to rescue the financial parasites who created the disaster.

The working class must put forward its own solution. The banks and major financial institutions which now threaten to drag down the economy and plunge millions into poverty must be nationalized, without compensation to their executives and big shareholders.

These institutions should be transformed into public utilities, controlled democratically by the people, with their resources utilized not for the creation of profits for the rich, but rather for productive purposes, including the creation of jobs, a halt to foreclosures and evictions, the rebuilding of the social infrastructure and the funding of education, health care and other vitally needed social programs.

Those directly responsible for this crisis, the Wall Street executives who oversaw fraudulent forms of financial manipulation that generated multi-million-dollar compensation packages for themselves, must be held accountable. Their assets should be confiscated and they themselves should be subject to criminal prosecution.

The struggle for this program is possible only through the mobilization of working people in their own independent political party, fighting to replace the political rule of the banks and big business defended by both Democrats and Republicans with a workers’ government.

These are the policies fought for by Socialist Equality Party and its candidates for president and vice-president. Jerry White and I are participating in the 2008 election to bring this program to the widest possible audience of working people, students and youth. We urge all of those who see the need for this socialist alternative to support us in this campaign and to join the SEP.

*To find out more about the SEP campaign, visit [www.socialequality.com](http://www.socialequality.com) or contact us.*



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