

# US government to bail out Wall Street

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20 September 2008

The Bush administration on Friday announced plans for a massive and unprecedented federal bailout of the US banking system. In separate appearances Friday morning, Treasury Secretary Henry Paulson and President Bush announced a series of measures to shore up collapsing financial markets and called on Congress to pass legislation next week to use, in Paulson's words, "hundreds of billions" of taxpayer dollars to buy virtually worthless mortgage-backed assets that cannot be sold on the market from banks and other financial institutions.

Paulson said he would meet over the weekend with congressional leaders to lay out the details of the government plan.

With this plan, the full cost of the immense debts piled up by the banks will be imposed on the American people. It will shift the banks' liabilities onto the federal government, sharply increasing government budget deficits and the US debt, a process that can only further erode the creditworthiness of the United States and place a bigger question mark on the value of the US dollar.

In the past week alone, the US Treasury has announced cash injections into the Federal Reserve Board of \$200 billion to bolster the sagging balance sheet of the central bank, which has already expended hundreds of billions in loans and subsidies to the major Wall Street banks and put out another \$85 billion in the takeover this week of the insurance giant American International Group.

The presidential candidates of both major parties, Republican Senator John McCain and Democratic Senator Barack Obama, quickly signaled their support for the wholesale bailout of the banks and big investors, and prominent congressional Democrats issued assurances that they would obey the demands of Paulson, Federal Reserve Board Chairman Ben Bernanke and Bush and pass the required legislation by the end of next week.

The immediate line-up of both parties and the media behind the bailout plan for Wall Street stands in the starkest contrast to their indifference and inaction in regard to the plight of millions of American working people, who face a rising tide of home foreclosures, layoffs and sinking living standards. When it comes to the social needs of the people, the universal cry from corporate America and the two parties is, "There is no money," but when the fortunes of the financial elite are threatened, the full power of the government and unlimited resources are marshaled virtually at a moment's notice.

There was no suggestion in the statements of Bush and Paulson of any relief for the working class—nothing to stop home foreclosures or help those who have already lost their homes. Rather, hundreds of billions—and more likely trillions—of dollars in public funds will be used to prop up the banks.

The resulting bankrupting of the government will be used to

justify a brutal assault on what remains of social programs, including Medicaid, Medicare and Social Security, and demand even greater financial "sacrifices" from workers, whether the next administration is headed by Obama or McCain. Nothing could more clearly demonstrate that behind the façade of American democracy there stands a dictatorship of big business.

Paulson made his announcement following a meeting Thursday night, with Bernanke and Securities and Exchange Commission Chairman Christopher Cox also in attendance, along with congressional leaders from both parties. At the meeting, Paulson warned that the US and global financial system was on the brink of collapse and outlined in general terms the plan to set up some form of government agency to take "illiquid" mortgage-backed securities off of the balance sheets of the banks.

News of the plan first broke Thursday afternoon, at a point when a massive injection of liquidity by the Federal Reserve and central banks in Europe, Canada and Japan had failed to unfreeze credit markets that had collapsed over the previous days. The Fed loaned \$180 billion to the other central banks and then added another \$120 billion in an attempt to get banks to lend to one another and to other companies, under conditions where confidence in the financial markets and major institutions had fallen so sharply that credit markets had ceased to function. But instead of lending the fresh money to other companies, the big banks were hoarding it to protect themselves against possible default.

The breakdown in the world capitalist system—widely acknowledged to be the worst crisis since the 1929 stock market crash and heading toward another Great Depression—came in the wake of the US government takeover of the mortgage giants Fannie Mae and Freddie Mac less than two weeks ago and the collapse this week of Wall Street icons Lehman Brothers and Merrill Lynch, followed on Tuesday by the US takeover of American International Group.

In the aftermath of these developments, other major US banks had come under immense pressure and were facing bankruptcy, including the investment bank Morgan Stanley and the savings and loan giant Washington Mutual. Both were scrambling to find buyers as their share prices plummeted. The domino effect of falling banks was threatening the biggest US investment bank, Goldman Sachs, headed by Paulson prior to his becoming treasury secretary, whose stock had suffered enormous losses in the course of the week.

The crisis reached the tipping point on Tuesday and Wednesday when major US money market funds announced losses and some were forced to close. This sparked a growing run on the funds, with \$78.7 billion withdrawn from the largest funds on Wednesday

and, according to one industry estimate, a total of \$145.3 billion over a two-day period.

Money market funds are considered the safest form of investment, and tens of millions of Americans have their savings in them. More immediately, from the standpoint of Wall Street, the funds pump money into credit markets by buying short-term IOUs issued by banks and companies, called “commercial paper.” The growing crisis of the money market funds threatened to collapse the commercial paper market, precipitating a chain reaction of defaults and bankruptcies across the economy.

“It’s the ultimate nightmare to have a run on the money markets—that is truly Armageddon—and they’re not going to allow that to happen,” said Paul McCulley at Pacific Investment Management Co.

The Dow Jones Industrial Average had already lost nearly 800 points in the first three trading days of the week, and by Thursday afternoon a rally sparked by the coordinated action of the Fed and other central banks that morning was faltering. At about 3 PM news broke of the government’s plan for a bailout of the banks, the floor of the New York Stock Exchange erupted in cheers, and the market immediately reversed itself and rocketed upward in a frenzy of buying.

In the final hour of trading, the Dow Jones Industrial Average recouped most of Wednesday’s 449-point loss, rising 410.03 points in the biggest percentage gain in almost six years. From its midday low to its late-afternoon high, shortly before the finish, the Dow swung 617 points.

The biggest winners were the financial stocks, including Morgan Stanley and Washington Mutual, which lurched from heavy losses to big gains.

On Friday morning, the government announced a series of immediate measures to bail out the markets, including a temporary ban on short-selling (betting on a fall in prices) of financial stocks and a \$50 billion government program to insure money market funds. The Treasury Department also announced that Fannie Mae and Freddie Mac, now under government ownership, would increase their purchases of mortgage-backed securities and the Treasury would directly buy up a larger number of such assets. The Fed added that it would extend low-cost loans to the banks to unfreeze the commercial paper market.

These moves and the statements of Paulson and Bush set off another orgy of buying on the stock exchange, with the Dow closing up 368.75 for the day.

In his statement, Paulson said “comprehensive” action was needed “to address the root cause of our financial system stresses. The underlying weakness in our financial system today is illiquid mortgage assets that have lost value as the housing correction has proceeded.”

This is a lie. The root cause of the crisis is the unbridled parasitism of American capitalism, which over a period of decades has dismantled huge sections of industry in order to reap super profits for the rich by means of financial speculation and fraud, based on a colossal buildup of debt. Now the bill is being passed to the American people.

Bush, flanked by Paulson, Bernanke and Cox, called for a government bailout of Wall Street in the name of “our system of

free enterprise.”

“There will be ample opportunity to debate the origins of this problem,” he said. “Now is the time to solve it.”

There will, in fact, be no debate or discussion. Nobody will be held accountable for the greatest financial scandal in world history. There will be no penalties. No one who made tens and hundreds of millions from the plundering of America will be forced to give back a dime.

All of the financial resources of the United States are being placed at the disposal of Wall Street and every American citizen, without being asked, is being given the responsibility for covering the debts of the richest people in the country.

Certainly no debate or resistance will come from the supposed political opposition—the Democratic Party. Speaking Friday in Miami, Obama said he fully supported the bailout plan. “John McCain and I can continue to argue about our different economic agendas for next year, but we should come together now to work on what this country urgently needs this year,” he said.

Obama is no less bound to Wall Street than his Republican opponent. In fact, he has received more campaign money from the financial industry—\$22.5 million—than McCain, who has taken in \$19.6 million.

Democratic congressional leaders lined up Friday to back the administration plan. New York Senator Charles Schumer, who chairs the Joint Economic Committee, said he was optimistic that Congress could approve the package in a week.

House Financial Services Committee Chairman Barney Frank, Democrat of Massachusetts, said his panel could hold a vote on the package as soon as Wednesday. “They said they would like legislation to do it, and there was virtually unanimous agreement that there would be legislation to do it,” said Frank.

Rep. Nancy Pelosi, the Democratic speaker of the House of Representatives, added, “We hope to move very quickly—time is of the essence.”

All of those involved in pushing through this scheme to funnel the entire wealth of the country into the coffers of the financial elite have direct financial stakes in the outcome. Paulson made hundreds of millions of dollars as chairman of Goldman Sachs. Pelosi reportedly has major investments in American International Group. Many of the congressional leaders of both parties are themselves multi-millionaires and rely on handouts from big business to get elected. They are all ruled by personal interests that reflect the interest of the American ruling class.

The result of the government moves announced Thursday and Friday has already been to not only cover the debts of the super-rich, but to expand their stock portfolios and bank accounts by millions more through the run-up of share prices.



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