

The Wall Street crisis and the failure of American capitalism

Barry Grey
16 September 2008

The end of Lehman Brothers and Merrill Lynch, two of the largest Wall Street investment banks, one week after the government takeover of the mortgage finance giants Fannie Mae and Freddie Mac, marks a new stage in the convulsive crisis of American capitalism.

On Monday, global markets fell sharply in a sign of mounting panic and doubt over the stability of the entire US banking system. Throughout Europe stock markets plunged by as much as 4 percent.

The fall on Wall Street was even steeper, with the Dow Jones Industrial Average losing 504 points, or 4.42 percent. There is every indication that the sell-off will intensify, with the full implications of the collapse of the two Wall Street banks as yet far from clear.

The immediate concern is the fate of American International Group (AIG), the world's largest insurance company, and Washington Mutual, the largest savings and loan bank in the US, both of which are teetering on bankruptcy.

The sudden demise of Lehman Brothers and Merrill Lynch has removed a huge amount of liquidity from the economy, as paper values built up over decades of speculation come crashing down. This is capital that is needed to finance business operations, and its elimination will inevitably depress economic activity, fueling unemployment and recession, further undermining home prices and consumer spending, and further weakening the balance sheets of already financially shaken banks.

A sea change is unfolding in the US and world economy that portends a catastrophe of dimensions not seen since the Great Depression of the 1930s.

The fall of icons of American capitalism such as 158-year-old Lehman Brothers and 94-year-old Merrill Lynch can only lead to the further discrediting of the "free market" ideology of the US ruling elite, as well as its political and economic system. The spectacle of giants of capitalism drowning in debt piled up over decades of reckless speculation must inevitably discredit the social class—the American capitalist class—which is responsible for the debacle.

The bromides that have been uttered by the official spokesmen for the government, the media, Wall Street and the political parties over the past year of mounting financial crisis have lost all credibility. The assurances that the latest government bailout will stabilize the situation, that the US banking system is "fundamentally sound," that the housing and credit markets are about to "turn the corner," etc., reassure no one.

On Monday, President Bush mouthed such phrases in a brief White House appearance. Treasury Secretary Henry Paulson at a White House press conference evaded questions about who was responsible for the financial disaster and instead declared that he was "focused on the future."

The presidential candidates, Republican John McCain and Democrat Barack Obama, made perfunctory statements that were remarkable only for their brevity and vacuity. What is widely acknowledged, even in ruling class circles, as the greatest financial crisis since the Great Depression is unfolding in the midst of a presidential election. But it barely rates a mention by either the Republican or Democratic candidate.

Both parties and their candidates tip toe around a financial scandal of world historic proportions because they are equally implicated. They are both bound hand and foot to Wall Street and single-mindedly dedicated to the defense of American capitalism.

McCain issued a statement demanding "reform" in Washington and on Wall Street and pledging to bring "accountability" to Wall Street. This from a multi-millionaire whose campaign is being run by a bevy of lobbyists for Wall Street and other sections of big business.

His Democratic counterpart, Barack Obama, issued a predictably mealy-mouthed statement complaining that "too many folks in Washington and on Wall Street weren't minding the store." While attempting to pin the blame for the crisis entirely on the Bush administration—ignoring the "free market," deregulatory policies of Democrats Jimmy Carter and Bill Clinton—he offered a mutual amnesty between himself and McCain, saying, "I certainly don't fault Senator McCain for these problems..."

These events are signposts in the historic failure of American and world capitalism. For the working class, they mean a rapid growth of unemployment, poverty, homelessness and social misery. The government, Wall Street and both political parties will seek to place the burden for the consequences of their own greed and incompetence squarely on the backs of working people.

The collapse is devastating ever wider layers of the population, including those who have worked on Wall Street and received some of the financial benefits of the speculative boom. Some 26,000 Lehman employees are not only out of a job, with few prospects of finding similar employment elsewhere, but as owners of 25 percent of the company's stock they have lost a combined \$10 billion, wiping out their savings and retirement funds.

Tens of thousands of employees at Merrill Lynch and Bank of America will lose their jobs in the merger of the two firms, adding to the 110,000 jobs slashed in the US financial services industry over the past year.

The broader implications of the mounting financial crisis were signaled by Hewlett-Packard's announcement Monday that it was cutting 25,000 jobs.

Many of those who precipitated this economic disaster, on the other hand, will profit handsomely from the debris they have left behind.

Hedge funds and other short-sellers, who bet on the collapse of corporations, are even now speculating furiously on the demise of the remaining Wall Street firms, Morgan Stanley and Goldman Sachs, as well as big commercial banks such as Bank of America.

William Gross of the nation's largest bond fund, Pimco, took in \$1.7 billion last week by betting on—and publicly agitating for—a government takeover of Fannie Mae and Freddie Mac.

The emergency talks over the weekend, involving the heads of the major commercial and investment banks and led by Treasury Secretary Paulson and top Federal Reserve officials, centered on rescuing Merrill Lynch and orchestrating an orderly liquidation of Lehman. Under pressure from Paulson and the Fed, Merrill agreed to sell itself to Bank of America, the largest consumer commercial bank in the US.

At the same time, there were frantic negotiations over the fate of AIG, which faces bankruptcy unless it can raise tens of billions of dollars in capital. When US markets opened Monday, AIG was asking for emergency loans from the Fed to stave off collapse.

A failure of AIG threatens to bring down the entire credit system both in the US and internationally, because the company holds a large stake in the multi-trillion-dollar, unregulated market in so-called "credit default swaps." AIG has sold CDS contracts to banks, hedge funds and big investors all over the world, under which it guarantees the mortgage-backed debt of a wide range of companies in the event that they default. If AIG should go under, the value of the debt which it insures would fall to an unknown level, destabilizing the credit markets and threatening a chain reaction of defaults and bankruptcies.

The events of the past two weeks demonstrate that the American financial aristocracy is plunging the entire country into bankruptcy. These events are themselves climatic moments in a protracted process.

For three decades, the "free market" has been elevated to the status of a secular religion in the US, with the capitalist market as its god and socialism as its devil. This period, under both Republican and Democratic administrations, has seen the wholesale dismantling of the productive base of the US economy, at the cost of millions of jobs and the living standards of the American working class.

In the name of the supposed infallibility of the market, the operations of big business have been deregulated, removing all legal restraints on corporate profit-making and fueling the accumulation of ever more obscene levels of wealth in the hands of a financial oligarchy. A vast process of social plunder has occurred, in which the wealth of the country has been redistributed from the bottom to the very top.

The scrapping of huge sections of industry and the immense growth of social inequality are the hallmarks of the historic decline of American capitalism. At the heart of this decay is the separation of the process of personal enrichment of the ruling elite from the material process of production.

The United States has become the world leader not in manufacturing technology or industrial power, but in financial speculation and parasitism. As Floyd Norris, the economics columnist of the *New York Times*, put it on Friday, "During recent years, Lehman—along with many competitors—went on a borrowing binge to buy assets with as little money down as possible."

By its very nature, the parasitism of American capitalism has generated corruption and criminality on an unprecedented scale. Wall Street CEOs have awarded themselves tens of millions and even billions in compensation, in an utterly irrational and socially destructive squandering of social resources for the benefit of private

greed.

At the end of 2007, for example, the Lehman board awarded CEO Richard S. Fuld a compensation package worth more than \$40 million. According to Reda Associates, he can expect to collect \$63.3 million if he is terminated. In 2004, he paid \$13.75 million for an ocean-front home in Jupiter Island, Florida, adding to his other properties, including a home in Sun Valley, Idaho.

Joe Gregory, a former president of Lehman, used to travel to work in a helicopter. He recently put his 9,500-square-foot ocean-front home in Bridgehampton, New York on the market for \$32.5 million.

The *Financial Times* recently reported that compensation for major executives of the seven largest US banks totaled \$95 billion over the past three years, even as the banks recorded \$500 billion in losses.

The question of precisely who and what is to blame for the greatest economic disaster in more than three quarters of a century is something that will not and cannot be raised by any section of the political or media establishment.

Since the eruption of the current crisis, there have been no serious congressional hearings, no public investigations, no attempt to hold anyone accountable. Massive government interventions into the supposedly sacrosanct precincts of the "free market," for the purpose of bailing out giant Wall Street firms, including the biggest government takeover of corporate entities in US history, have been carried out without any public debate or significant opposition from either political party. This, while millions of Americans are losing their homes and their jobs as a result of predatory corporate practices!

Certain conclusions must be drawn from the crisis of the American economic and political system. There is no solution within the framework of the profit system. What is needed is a socialist program that places the needs of the people before the profits and personal fortunes of the ruling elite.

The entire financial system must be taken out of private hands and nationalized in the form of a public utility under the democratic control of the working class, with provisions taken to safeguard the holdings of small depositors and share-holders. It must be subordinated to the social needs of the people and dedicated to developing and expanding the productive forces in order to eliminate poverty and unemployment and vastly improve the living standards and cultural level of the entire population.

Those who are responsible for the economic catastrophe must be called to account. Criminal investigations should be undertaken with appropriate sanctions for those who have plundered the social wealth. A full public accounting should be made of the hundreds of billions that have been diverted to private bank accounts through fraud and criminality. Such gains should be seized and used for the public good.

The only social force that can carry this out is the working class. It requires a clean break with the Democratic Party and the two-party system and the mobilization of the immense social power of the working class in its own party, on the basis of a revolutionary socialist program.

This is the program fought for by the Socialist Equality Party.



To contact the WSWP and the
Socialist Equality Party visit:

wswp.org/contact