Banks dictate conditions of US financial bailout

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The 936 point rise on the US stock market yesterday was the American ruling elite's initial verdict on the extraordinarily favorable terms the government is granting to financial firms in the $700 billion bailout passed by Congress on October 3. Far from heralding improving economic conditions for working people, the Wall Street surge reflects the financial establishment's success in extorting massive sums of money from taxpayers.

Several factors played important roles in the market's rise. A technical correction was likely after the massive falls of last week, when the Dow Jones Industrial Average fell 2,236 points, or 21.33 percent, to 8451.19. The announcement of bank bailouts in Europe totaling trillions of dollars—under conditions where national governments are competing to rescue their respective banks—contributed to expectations that Washington would continue to bail out its own banks. Another major factor was undoubtedly a series of announcements by US officials underscoring that US banks would essentially dictate the terms of the bailout.

Late yesterday morning, news broke that the CEOs of the largest US banks would meet with US Treasury Secretary Henry Paulson, the former CEO of Goldman Sachs, to discuss the terms of the bailout. The *Wall Street Journal* wrote, "Expected to attend were banking executives including Ken Lewis, CEO of Bank of America; Jamie Dimon, CEO of JPMorgan Chase; Lloyd Blankfein, CEO of Goldman Sachs Group; John Mack, CEO of Morgan Stanley; and Robert P. Kelly, CEO of Bank of New York Mellon."

A Treasury spokeswoman said, "Treasury and [the Federal Reserve] are meeting today with leading financial market participants to finalize details on a financial market stabilization initiative." The *Journal* wrote, "One person familiar with the matter said Mr. Paulson is expected to discuss details of his new plan to take equity stakes in financial firms, among other points."

The meeting's roster underscores the social character of the bailout. A handful of current and former top banking executives gathered for a meeting, publicly announced a few hours before it took place and closed to the public, to discuss the conditions under which they will receive hundreds of billions of dollars in public funds. The fact that, in a healthier political climate, these executives would face investigation and prosecution for overseeing the predatory lending practices that led to the housing and credit crises was simply ignored.

In this meeting of the godfathers of American finance, no one was present who represented the overwhelming majority of the American population. Indeed, the participants live in a world of wealth and power that has no resemblance to the existence of ordinary working people.

One could start with Paulson himself, whose former bank stands to benefit handsomely from the bailout which he has authored. While at Goldman Sachs, Paulson amassed a personal fortune of $700 million.

The list continues:

According to *Forbes* magazine, Ken Lewis last year brought in a salary of $20.13 million, and his holdings of Bank of America stock are worth an estimated $112 million.

Jamie Dimon received a 2007 Christmas bonus of $14.5 million and holds $190 million in JPMorgan stock.

Lloyd Blankfein received a Christmas bonus of $68 million and his holdings of Goldman Sachs stock were worth $414.5 million last year.

Vikram Pandit received a $165 million signing bonus from Citigroup last year, together with a $2.7 million salary for a few months of work and $48 million in stock options.

John Mack received $41.8 million in compensation last year, and his 2007 holdings in Morgan Stanley stock were worth $220 million.

These firms' stock, and particularly that of Goldman Sachs and Morgan Stanley, rose rapidly on news of the meeting with Paulson. Goldman stock rose 25 percent to $111 a share, and Morgan Stanley stock rose 87 percent to $18.10 per share.

Other financial stocks also rose significantly. Citigroup rose 13.25 percent to $15.98, Bank of New York Mellon rose 15.77 percent to $30.68, and Bank of America rose 9.2 percent to $22.79. JPMorgan stock fell in initial trading on fears of further write-downs, but after the meeting announcement it rose from just over $40 per share to close at $41.64.

Neel Kashkari, the assistant secretary of the treasury and ex-Goldman Sachs executive who is overseeing the $700 billion bailout, confirmed in a speech yesterday that his goal—in purchasing both equity (shares of stock) and assets of financial corporations—is to concentrate money in the hands of the biggest banks.

Kashkari told a Washington DC meeting of the Institute of International Bankers: "We are designing a standardized program to purchase equity in a broad array of financial institutions. As with the other programs [in the bailout], the equity purchase program will be voluntary and designed with attractive terms to encourage participation from healthy institutions."

This emphasis on bailing out supposedly "healthy" banks reflects the increasingly shaky position of many of the major banks. They are jockeying for influence over the government handouts that will determine which banks profit, which suffer, and which close.

Writing 125 years ago in the third volume of his masterwork, *Capital*, Marx noted, "So long as things go well, competition affects an operating fraternity of the capitalist class... But as soon as it is no longer a question of sharing profits, but of sharing losses, everyone tries to reduce his own share to a minimum and to shove it off upon another. The class, as such, must inevitably lose. How much the individual capitalist must bear of the loss, i.e., to what extent he must share it at all, is decided by strength and cunning, and competition then becomes a fight among hostile brothers. The antagonism between each individual capitalist's interests and those of the capitalist class as a whole then comes to the surface..."

This anti-social struggle between the various factions of the bourgeoisie is expressed in the secretive and exclusive character of the planning of the bailout.

The Treasury has set up the bailout's asset purchases—which are to be carried out by private firms—so that only the largest companies will be able to participate and rake in the lucrative fees the government will pay out. Kashkari said: "Our initial procurements set high capability standards: for example, securities asset managers had to have at least $100 billion of dollar-denominated fixed-income assets under management. This is critical given the magnitude of the program—up to $700 billion. Treasury believes it would not be fiscally prudent to ask a firm that only had experience managing only a few billion to manage $100 billion."

The Treasury is reserving the other roles in the bailout for an elite group of financial and legal firms. Kashkari stated that the Treasury Department had considered only three candidates for the role of "master custodian firm," whose function, according to Kashkari, would be to "hold and track the assets we purchase as well as run and report on the auctions we use to buy the assets." The Treasury also contacted six law firms as potential consultants on the bailout's stock-purchase program. Kashkari added, "We received two proposals, and selected [top New York law firm] Simpson Thatcher [& Bartlett] on Friday."

The result of this bailout—a major consolidation and restructuring of the US banking industry—will be quite harmful to the interests of the population. The smaller number of surviving banks will have even more market power to set interest rates and control access to credit for working people, students and small businesses.

While the best-connected firms will profit immensely from the bailout, the bourgeoisie and its political representatives insist there is no money for elementary social needs of the working class, such as foreclosure relief, universal health care and the right to a secure retirement. The major presidential and vice presidential candidates have uniformly called for cuts in existing, already inadequate, programs such as Social Security and Medicare.

The stock market's rise today is not the advent of a new era of prosperity for the American people. Rather, the bourgeoisie is celebrating the Great Heist of 2008.