US Treasury meeting: How the financial aristocracy laid down the law

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16 October 2008

Accounts of the October 13 meeting between US Treasury Secretary Henry Paulson and top bank CEOs on the government's bailout of Wall Street—now estimated at $2.5 trillion—paint an extraordinary portrait of class relations in America. Though they were to receive hundreds of billions of dollars from the Treasury to stave off a credit collapse of their own making, the bankers arrogantly refused to accept the slightest limits on their prerogatives.

Instead, the Treasury approached the bankers as a supplicant, agreeing that if they accepted the bailout, it would place no real caps on exorbitant CEO pay and exercise no effective oversight of bank operations.

On the evening of the 12th and morning of the 13th, Paulson telephoned the CEOs of major banks who had gathered in Washington for the annual meeting of the International Monetary Fund. At the time, the US media was predicting a deal along the lines of the European bailout arranged over the weekend: the Treasury would pump money directly into the banks by buying shares and guarantee inter-bank loans.

When one CEO, John Mack of Morgan Stanley, asked Paulson the reason for the meeting, he replied: "Come on down, we'll tell everyone at the same time. I think you'll be pleased."

The bankers' response to the initial presentation of the bailout was for the most part one of furious opposition. Wells Fargo CEO Richard Kovacevich objected to limits on executive pay—he is currently entitled to $43 million in retirement benefits and $140 million in stock and options. The *New York Times*, in its account of the meeting, reassuringly noted, "Pay experts say the new Treasury limits would probably not affect his exit package."

Kovacevich also worried that the Treasury might demand high returns and shareholder voting rights, cutting into large private shareholders' profits and power.

These objections were echoed by Goldman Sachs CEO Lloyd Blankfein, Citigroup CEO Vikram Pandit, Merrill Lynch CEO John Thain and JPMorgan Chase CEO Jamie Dimon.

The *Times* wrote, "With the discussion becoming heated, [US Federal Reserve Chairman Ben] Bernanke interceded. He told the bankers that the session need not be combative, since both the banks and the broader economy stood to benefit from the program."

At this point, Timothy Geithner of the Federal Reserve Bank of New York began explaining the specifics of the program. "As they heard more of the details," the *Times* reported, "some of the bankers began to realize how attractive the program was for them."

They learned that the Treasury would give banks $250 billion in exchange for preferred shares paying a 5 percent dividend, rising to 9 percent after five years. It would also receive the right to purchase common shares, worth 15 percent of the initial investment. To deal with concerns that it would receive substantial control over shareholder decisions, the *Times* wrote, "the Treasury said it would not exercise its right to vote those common shares."

When he invested in Goldman Sachs last month, private investor Warren Buffett arranged for far better terms than the Treasury. In exchange for $5 billion, Buffett will receive perpetual interest payments of 10 percent.

Paulson gave the Treasury no means of enforcing even those payments it is supposedly requiring: banks will have the right to skip a year and a half of quarterly dividend payments. If a bank skips more payments, the Treasury will only have the right to name two directors to the bank's board.

Such conditions, one need hardly point out, are never granted to ordinary mortals. Working class mortgage holders typically face foreclosure after missing three monthly payments. A small business receiving a loan from a bank must make all interest payments and can typically operate at a loss for at most two quarters before the bank places it in workout, effectively taking over its operations.

The Treasury also committed itself to guaranteeing $1.5 trillion in bank debt and $500 billion in non-interest-bearing bank accounts, used mainly by businesses. In total, and despite massive popular opposition to the initial $700 billion bailout passed earlier this month, the Treasury increased US liabilities by $2.25 trillion, without any Congressional vote or semblance of democratic consultation with the American people.

The bailout deal underscores a powerful social reality: There is a ruling class in America, whose interests the government is dedicated to defend, by blatantly unequal treatment if necessary. Despite ritual invocations of democracy, the American ruling class will not allow any popular interference in matters affecting its fundamental interests.

The deference paid to this financial aristocracy, amid predictions of a global economic depression, recalls nothing more than the dying days of the *Ancien Régime* monarchy before the French Revolution. One can imagine similar meetings as Louis XVI's last finance minister, Viscount Charles Alexandre de Calonne—whose role is now played by Paulson, the multimillionaire ex-CEO of Goldman Sachs—drew up doomed plans attempting to stave off state bankruptcy, while preserving the nobility's privileges.

All that is missing from this week's bailout negotiations are the silk stockings and powdered wigs.