The “dirty little secret” of the US bank bailout

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In an unusually frank article published in Saturday's *New York Times*, the newspaper's economic columnist, Joe Nocera, reveals what he calls "the dirty little secret of the banking industry"--namely, that "it has no intention of using the [government bailout] money to make new loans."

As Nocera explains, the plan announced October 13 by Treasury Secretary Henry Paulson to hand over $250 billion in taxpayer money to the biggest banks, in exchange for non-voting stock, was never really intended to get them to resume lending to businesses and consumers--the ostensible purpose of the bailout. Its essential aim was to engineer a rapid consolidation of the American banking system by subsidizing a wave of takeovers of smaller financial firms by the most powerful banks.

Nocera cites an employee-only conference call held October 17 by a top executive of JPMorgan Chase, the beneficiary of $25 billion in public funds. Nocera explains that he obtained the call-in number and was able to listen to a recording of the proceedings, unbeknownst to the executive, whom he declines to name.

Asked by one of the participants whether the $25 billion in federal funding will "change our strategic lending policy," the executive replies: "What we do think, it will help us to be a little bit more active on the acquisition side or opportunistic side for some banks who are still struggling."

Referring to JPMorgan's recent government-backed acquisition of two large competitors, the executive continues: "And I would not assume that we are done on the acquisition side just because of the Washington Mutual and Bear Stearns mergers. I think there are going to be some great opportunities for us to grow in this environment, and I think we have an opportunity to use that $25 billion in that way, and obviously depending on whether recession turns into depression or what happens in the future, you know, we have that as a backstop."

As Nocera notes: "Read that answer as many times as you want--you are not going to find a single word in there about making loans to help the American economy."

Later in the conference call the same executive states, "We would think that loan volume will continue to go down as we continue to tighten credit to fully reflect the high cost of pricing on the loan side."

"It is starting to appear," the *Times* columnist writes, "as if one of the Treasury's key rationales for the recapitalization program--namely, that it will cause banks to start lending again--is a fig leaf.... In fact, Treasury wants banks to acquire each other and is using its power to inject capital to force a new and wrenching round of bank consolidation."

Early this month, he explains, "in a nearly unnoticed move," Paulson, the former CEO of Goldman Sachs, put in place a new tax break worth billions of dollars that is designed to encourage bank mergers. It allows the acquiring bank to immediately deduct any losses on the books of the acquired bank.

Paulson and other Treasury officials have made public statements calling on the banks that receive public funds to use them to increase their lending activities. That, however, is for public consumption. The bailout program imposes no lending requirements on the banks in return for government cash.

Already, the credit crisis has been used to engineer the takeover of Bear Stearns and Washington Mutual by JPMorgan, Merrill Lynch by Bank of America, Wachovia by Wells Fargo and, last Friday, National City by PNC.

What the *Wall Street Journal* on Saturday called the "strong-arm sale" of National City provides a taste of what is to come. The Treasury Department sealed the fate of the Cleveland-based bank by deciding not to include it among the regional banks that will receive government handouts. It then gave Pittsburgh-based PNC $7.7 billion from the bailout fund to help defray the costs of a takeover of National City. PNC will also benefit greatly from the tax write-off on mergers enacted by Treasury.

All of the claims that were made to justify the bank bailout have been exposed as lies. President Bush, Federal Reserve Chairman Ben Bernanke and Paulson were joined by the Democratic congressional leadership and Barack Obama in warning that the bailout had to be passed, and passed immediately, despite massive popular opposition. Those who opposed the plan were denounced for jeopardizing the well being of the American people.

In a nationally televised speech delivered September 24, in advance of the congressional vote on the bailout plan, Bush said it would "help American consumers and businessmen get credit to meet their daily needs and create jobs." If the bailout was not passed, he warned, "More banks could fail, including some in your community. The stock market would drop even more, which would reduce the value of your retirement account.... More businesses would close their doors, and millions of Americans could lose their jobs ... ultimately, our country could experience a long and painful recession."

One month later, the bailout has been enacted, and all of the dire developments--banks and businesses disappearing, the stock market plunging, unemployment skyrocketing--which the American people were told it would prevent are unfolding with accelerating speed.

While Obama talks about the need for all Americans to "come together" in a spirit of "shared sacrifice"--meaning drastic cuts in Medicare, Medicaid, Social Security and other social programs--and the cost of the bailout is cited to justify fiscal austerity, the bankers proceed to ruthlessly prosecute their class interests.

As the *World Socialist Web Site* warned when it was first proposed in mid-September, the "economic rescue" plan has been revealed to be a scheme to plunder society for the benefit of the financial aristocracy. The American ruling elite, utilizing its domination of the state and the two-party political system, is exploiting a crisis of its own making to carry through an economic agenda, long in preparation, that could not be imposed under normal conditions.

The result will be greater economic hardship for ordinary Americans. The big banks will have even greater market power to set interest rates and control access to credit for workers, students and small businesses.

While no serious measures are being proposed, either by the Bush administration, the Republican presidential candidate or his Democratic opponent, to prevent a social catastrophe from overtaking working people, the government is organizing a restructuring of the financial system that will enable a handful of mega-banks to increase their power over society.

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