Wall Street demands free hand with funding from US Treasury

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US Treasury Secretary Henry Paulson signaled a significant shift in the plan to turn over hundreds of billions of taxpayer dollars to Wall Street, announcing Friday that the Bush administration will invest funds directly in financial institutions, rather than buying mortgage-backed securities.

The change is driven in part by the rapid deterioration of global financial markets, which makes the bailout as initially proposed by Paulson-a complicated process in which banks will offer their toxic securities for purchase by the Treasury in reverse auctions-far too slow to funnel vast amounts of cash into the financial system.

There was a widespread clamor in the financial press insisting that the bailout proposed by British Prime Minister Gordon Brown was more effective and faster than the Paulson plan. Brown said that his plan to inject capital directly into major British banks would start delivering hundreds of billions in public funds as early as Monday.

In an additional effort to speed up the bailout, Paulson directed Fannie Mae and Freddie Mac, the government-chartered mortgage giants that were taken over by federal authorities last month, to begin immediate purchases of mortgage-backed securities using the $100 billion apiece appropriated by Congress in July-a sum on top of the $700 billion authorized in the bank bailout legislation passed by Congress October 3.

There was also concern that the overall size of the bailout was now inadequate for the scale of the catastrophe, following the worst week on global stock markets in history. According to a report in the *New York Times* Sunday, "Treasury Secretary Henry M. Paulson Jr. has refused to say whether the capital infusion program for banks would be bigger than the original plan to buy troubled assets."

The *Times* noted opinion on Wall Street that Paulson's initial proposal has simply been overtaken by events. "Even if it was adequate before, it's not adequate now," former Federal Reserve governor Frederic Mishkin told the newspaper.

According to the *Times* account of internal Bush administration and Federal Reserve discussions, the Treasury initially opposed suggestions by Fed Chairman Ben Bernanke that capital should be injected directly into the banks "in part because they were ideologically opposed to direct government involvement in business."

During the past ten days, however, important financial institutions, including Goldman Sachs and Morgan Stanley, demanded action urgently. Both Paulson and the Treasury official he selected as the interim administrator of the bailout, Neel Kashkari, are veterans of Goldman Sachs.

When Paulson indicated that he was now in favor of the Treasury buying either common or preferred shares of stock, the *Times* reported, "Industry executives quickly told Mr. Paulson that they liked the idea, though they warned that the Treasury should not try to squeeze out existing shareholders. They also begged Mr. Paulson not to impose tough restrictions on executive pay and golden-parachute deals for executives who are fired. Mr. Paulson heeded those pleas."

The picture presented here is remarkable: US government officials are engaged in high-level consultations with top bankers and with officials of other G-7 countries, as well as China, in an effort to halt the chain-reaction collapse of the world financial system. Despite lip service to the impact that a financial market meltdown will have on "Main Street," the real concern in these talks is how to safeguard the wealth of the CEOs and other top executives whose speculative financial manipulations have produced the market disaster.

Paulson, the former CEO of Goldman Sachs-himself a near-billionaire when he joined the Bush administration in 2006-is fully in sympathy with the demands of his former peers. In his statement Friday, he assured banks that the government would acquire only "nonvoting" shares. In other words, Wall Street is to be given virtually unlimited access to federal cash without any restrictions on how the money is used, including how big a share will go directly into the pockets of those responsible for the crisis in the first place.

The entire world economy, and the livelihoods of billions of people, are thus being held hostage to the demands of a handful of Wall Street bankers and speculators to guarantee their gargantuan personal incomes and assets. There is not the slightest suggestion in the official "debate" over economic policy that those responsible for the financial collapse should be made to pay for it.

The revised Paulson plan is an even more brazen effort to bail out the richest people in America at the expense of the people. That is why it is being hailed by the pillars of the capitalist press in the United States. The *Wall Street Journal*, in an editorial October 9, endorsed the decision by Gordon Brown to inject capital into British banks as well as Paulson's hints that he might do something similar.

"We take--and hope--that this means Mr. Paulson is willing to use some of his new $700 billion Troubled Asset Relief Program (Tarp) to inject capital into individual banks if needed to prevent failures," the *Journal* wrote.

The *Washington Post*, in an editorial October 11, praised Paulson's decision to follow the British example, declaring: "This would involve a direct infusion of funds into banks through the purchase of equity stakes. In contrast to the earlier plan to use most of the $700 billion to buy ‘toxic' mortgage securities, the new strategy could more directly address the problem of the banks' solvency, and it might have a quicker effect."

The *Times* itself echoed this view the same day, editorializing that a new global approach to the crisis should include "some temporary government guarantee for deposits and loans to unlock interbank lending and gain some time to figure out which banks can be saved and which cannot. It should provide for governments to quickly inject equity capital into banks."

Bringing up the rear were the congressional Democrats and Democratic presidential candidate Barack Obama, who will embrace whatever measures are proposed by the Bush administration and backed by Wall Street. Senator Charles Schumer (Democrat of New York), the chairman of the Joint Economic Committee, said Paulson's proposal to inject federal money into selected banks "is gaining steam." He added, "I am hopeful that tomorrow the Treasury will announce that they're doing it. And they have to do it quickly... markets are waiting."

This process of capital injection is frequently described by the media as "partial nationalization" of the American banking system, as though it represented some sort of inroad into private property. On the contrary, it would be better described as the "partial privatization" or, more properly, the outright looting of the US Treasury by Wall Street executives and big investors who are now demanding that the American people pay off their bad debts.

Any such arrangement would be the opposite of genuine, i.e., socialist, nationalization, in which the financial system would be taken under public ownership and reorganized to serve the needs of the working class-the vast majority of the population--rather than the financial aristocracy.