

US government expands bank bailout on Wall Street's terms

Barry Grey
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The Bush administration on Tuesday announced new measures, including a direct injection of \$250 billion in taxpayer money, to prop up the major US banks. The government also said it would guarantee all debt issued by the banks and provide unlimited backing for the non-interest-bearing bank deposits of businesses.

The cash injection is to take the form of voluntary sales of preferred stock by financial institutions to the Treasury. It is being carried out under the powers granted Treasury Secretary Henry Paulson, the former CEO of Goldman Sachs, in the \$700 billion bailout bill enacted by Congress on October 3.

When the bill was passed, Paulson and Federal Reserve Board Chairman Ben Bernanke said its main purpose was to permit the government to buy up to \$700 billion in mortgage-backed securities and other bad debts from the banks. That plan, while not discarded, has been superseded by moves in the US and Europe to avert a collapse of the world financial system by rapidly bolstering the cash reserves of the major banks through direct purchases of stock.

Also on Tuesday, Fed Chairman Bernanke announced that the US central bank would quickly act on its previous pledge to serve as the buyer of last resort of commercial paper issued by US businesses. According to the financial columnist of the *Washington Post*, Steven Pearlstein, the panoply of actions commits "several trillion dollars in government funds" to propping up the banks.

The new plan was announced Tuesday morning in separate appearances by President Bush and top financial regulators, headed by Paulson and Bernanke. Their statements followed a closed-door meeting Monday at the Treasury Department with the CEOs of the largest banks in the US, where the terms of the bailout were discussed among current and former Wall Street executives whose combined wealth runs to billions of dollars.

The four biggest banks--Citigroup, JPMorgan Chase, Bank of America and Wells Fargo--are to receive \$25 billion each. Goldman Sachs and Morgan Stanley are each to get \$10 billion, Bank of New York Mellon will receive \$3 billion and State Street will get \$2 billion. The remaining \$125 billion in the stock purchase program will be made available to thousands of smaller banks.

The new bailout plan is widely referred to in the media as a "partial nationalization" of the banks. It is nothing of the kind. It is, rather, a massive intervention by the state to use public funds to protect the social interests of the financial elite that is responsible

for the greatest economic crisis since the Great Depression.

Management of the entire bailout program is being entrusted to the very financial firms that stand to benefit from the government handout. On Tuesday, it was announced that Bank of New York Mellon, one of the recipients of the government cash injection, will oversee the operation.

The plan, as crafted by Paulson in consultation with his banking cohorts, is designed to secure the personal and institutional interests of the most powerful sections of the American capitalist class. It mandates no structural or even regulatory changes in exchange for placing the resources of the country at the disposal of Wall Street.

None of the CEOs whose speculative activities resulted in the near-collapse of their own institutions are required to resign, let alone face financial or criminal prosecution. The plan does not even require that the banks use the money handed them by the government to lend to other institutions, businesses or individuals.

Paulson has made clear that the stock obtained by the government will be "non-voting," that is, it will not entail the banks' ceding any control to the state. As Bush stressed in his Rose Garden remarks on Tuesday, "... these measures are not intended to take over the free market, but to preserve it."

The Wall Street Journal, in its account, noted the care taken to secure the interests of big shareholders. It wrote, "To make sure private investors aren't scared away, the Treasury is expected to structure its investment on terms favorable to the banks and will inject capital in exchange for preferred shares or warrants... a move that is designed to not hurt existing shareholders."

It further noted that the "government's hope is that the new plan... will persuade private investors that government involvement won't come at their expense."

Paulson, in his remarks, assured Wall Street that the plan would "make capital available on attractive terms" to the banks.

No similar concern is being shown for the tens of millions of working people who are being devastated by the collapse of the housing market and the rapid descent into recession. In his remarks on Tuesday, Paulson said, "We expect all participating banks to continue and to strengthen their efforts to help struggling homeowners who can afford their homes to avoid foreclosure."

This is a fraud. Under conditions where some two million families have already been foreclosed, and analysts predict millions more will be thrown into the street over the next several years, the banks are engaged in no real efforts to "help struggling

homeowners." On the contrary, they are seeking to limit the losses from their predatory lending policies by charging fees and otherwise exploiting the very families they have victimized.

As Paulson's remarks make clear, there are no requirements that the banks do anything to aid distressed homeowners, and he abandons to their fate the millions of homeowners who cannot "afford their homes."

No less fraudulent are the supposed restrictions on CEO pay which Paulson said would be imposed on companies that participate in the stock purchase scheme. These token measures were included in the bailout bill at the insistence of its Democratic supporters, who hoped thereby to give themselves a measure of political cover in the face of massive popular opposition to the bill. They impose no specific limits on executive compensation and allow already existing multi-million-dollar retirement packages to remain intact.

It is up to Paulson, who took in hundreds of millions of dollars while he was the CEO at Goldman Sachs, to define what amounts to "appropriate standards for executive compensation," and, as *Washingtonpost.com* reported Tuesday, Treasury officials have "argued that the legislation required only 'minimal' restrictions on executive pay and told congressional staffers that there was 'wiggle room' under the new law."

Unfolding social disaster

No measures are being proposed to address the social disaster that is enveloping the American people. It is widely acknowledged that, whatever the immediate turn of events on the stock market, the US and the entire world are heading into a deep and protracted recession. The crisis, which to this point has largely centered in the financial markets, is taking hold of the broader economy and entering a new stage that will see double-digit unemployment and the growth of poverty and social misery.

The auto industry is already in the grips of a deep crisis, with all of the Big Three US companies teetering on the edge of bankruptcy. The attempts of General Motors (GM), Ford and Chrysler to survive by means of mergers will entail a new round of plant closures and tens of thousands of additional layoffs.

On Monday, GM announced it would shut its metal parts plant near Grand Rapids, Michigan by the end of next year, eliminating 1,500 jobs, and speed up the closure of its Janesville, Wisconsin assembly plant to December 23 of this year, costing 1,200 jobs.

On Tuesday, the German auto giant Daimler announced it was closing its Sterling Trucks division, shutting down plants in Ontario and Oregon and eliminating 3,500 jobs.

PepsiCo reported sharply depressed third quarter earnings and announced it would slash 3,300 jobs in the US.

Far from helping "Main Street," as claimed by the politicians and the media, the bailout measures are designed to achieve a further concentration of power in the hands of a few giant banks. This will have a harmful effect on working people, students and small businesses, whose ability to obtain loans and credit, and the fees and interest they are forced to pay, will be set by firms exercising monopoly control over the financial system.

Both the substance of the bailout measures and the manner in which they are being imposed provide a stark demonstration of the iron grip of Wall Street over the state and the dictatorship of

finance capital that exists behind the trappings of democracy in America.

The Democrats, from congressional leaders to presidential candidate Barack Obama, were the main backers of the bailout bill, and have given their enthusiastic support to the expanded bailout measures. House Speaker Nancy Pelosi sent a letter to Paulson congratulating him on the new plan.

New York Senator Charles Schumer, the chairman of the Joint Economic Committee, published a column in Tuesday's *Wall Street Journal* calling Paulson's decision to make capital injections into the banks "welcome news," and Barney Frank, the chairman of the House Financial Services Committee, said he agreed with the plan's provision that government-owned stock be non-voting, i.e., that the bankers suffer no loss of control in return for taking taxpayer money.

In his remarks on Tuesday, Bush said the new measures were aimed at the "root cause" of the problem. This is another lie.

The root cause of the crisis is the failure of the capitalist system. The only answer that addresses the needs of the working class is socialism.

The Socialist Equality Party emphatically opposes the entire framework of the government bailout. We call for a genuine program to nationalize the banks--that is, to take them out of private hands and transform them into public utilities under the democratic control of the working people.

Only on the basis of such a socialist policy can the resources created by the working class be allocated to provide emergency relief to the victims of the economic crisis--a halt to home foreclosures and utility shutoffs, a vast extension of unemployment benefits, a crash public works program to provide jobs at decent wages for the unemployed.

The anarchy of the market and despotism of the banks must be replaced by a planned socialist economy, to ensure the basic needs and raise the living standards and cultural life of the entire population.

This requires that the working class break from the Democratic Party and the two-party system and build its own party to fight for the establishment of a workers' government.

This is the program being advanced in the 2008 elections by the Socialist Equality Party and our candidates, Jerry White for president and Bill Van Auken for vice president. We urge all those who see the need for a socialist alternative to depression and war to support our campaign, vote for our candidates and join the SEP.



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