As crisis hits consumer credit

Paulson announces shift in Wall Street bailout scheme

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In an abrupt about-face reflecting the desperate character of the crisis of the US and world financial system, US Treasury Secretary Henry Paulson announced Wednesday that he has abandoned the plan that he pushed through Congress barely one month ago to buy up so-called "toxic assets" on bank balance sheets. Instead, he said the bailout will focus entirely on direct injections of public money into a broader array of financial institutions.

The official revision of a plan that was put in place ostensibly as the only means of forestalling a financial meltdown triggered a further sharp fall on the stock market, which interpreted the shift as a sign of disarray. The market had already been battered by multiple reports of collapsing consumer spending, falling corporate profits across a variety of economic sectors and impending layoffs. The Dow Jones Industrial Average fell for the third straight day, ending the session down 411.3 points, with a combined loss of 9 percent since the beginning of the week.

In explaining how the $700 billion bailout plan had been so sharply revised that its very name—the Troubled Asset Relief Program, or TARP—had been rendered obsolete, Paulson commented that the proposal to buy up mortgage-backed securities had "looked like the way to go," but "as the situation worsened, the facts changed."

The treasury secretary indicated that in the month since the enactment of the program, the crisis that has toppled major finance houses and threatened the country's largest banks with collapse has only spread, threatening to trigger a meltdown of the critical consumer credit market. The growing fear is that the unraveling of this sector could lead to the freezing up of consumer credit, accelerating a downward spiral into depression.

While Paulson claimed that the economy has already shown "signs of improvement" as a result of the Wall Street bailout and similar measures taken internationally, he went on to issue a warning that seemed to belie this claim: "Our financial system remains fragile in the face of an economic downturn here and abroad and financial institutions' balance sheets still hold significant illiquid assets; market turmoil will not abate until the biggest part of the housing correction is behind us."

"The thing I am grateful for is we were prescient enough and Congress was, that we got a wide array of authorities and tools under this legislation," Paulson continued. "And I will never apologize for changing an approach or a strategy when the facts change."

Indeed, the bailout bill passed by Congress on October 3 granted Paulson, the former CEO of Goldman Sachs, virtually unrestricted powers to dole out public funds to his former cohorts on Wall Street.

Paulson indicated that the government would expand its direct investment in both banks and other financial institutions, which was launched on October 14 with the plan to pour $250 billion into the country's major banks. The new investments will go as well to non-banking companies that trade in credit card, student loans, car loans and other forms of consumer debt.

He also said that the government was considering a scheme in which it would match investments made by private financial institutions, though it was unclear under current conditions who would be seeking to make such investments.

While both Paulson and the corporate media attempted to present this expansion of the program as a boon to students and consumers and a stimulus for job creation, the money is to be directed not at bailing out working people struggling to keep their heads above water, but rather at rescuing the financial companies that extend credit and then securitize debts, packaging them together and selling them to investors in what until recently had proven a highly profitable form of financial speculation.

The crisis in the consumer credit market found expression this week in the move by American Express Co. to convert itself into a bank-holding company, in order to become eligible for bailout funds. The high-end credit card company has seen a doubling of its default rate over the past year.

Paulson reported that the Treasury has already poured $115 billion in taxpayer money into eight large financial institutions and that it has approved "dozens of additional applications" for the federal money from other banks seeking a share of the $250

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billion allotted for the government to purchase preferred shares in these institutions.

Under this plan, the government explicitly pledged not to exercise its voting rights on the shares it has purchased, thereby exercising no power over the use the banks will make of the hundreds of billions of dollars they are receiving from the public treasury.

There is ample evidence that the banks, rather than lending the money gained from the Treasury injections, are hoarding it and preparing to use it to pay out dividends to shareholders and bonuses to top executives as well as to gobble up smaller competitors.

According to one estimate, the country's nine largest banks, which together are receiving $125 billion in public capital injections, will likely pay out $25 billion—fully 20 percent of this money—in the form of dividends to wealthy shareholders within one year of receiving it.

According to *Bloomberg News*, Goldman Sachs and Morgan Stanley, which together received $20 billion in bailout injections, have set aside a combined $11 billion in bonuses to be paid out to top executives, traders and investment bankers, whose median annual salary before such awards is nearly $400,000—almost ten times that of an average American worker.

The Treasury Department has refused to comment on the upcoming taxpayer-funded bonus bonanza, and the legislation approving the bailout includes no restrictions on such payouts. It has likewise rejected calls to compel the banks to lend the money it is receiving from public coffers. The department official responsible for the bailout, Neel Kashkari, insisted last week that he will not "micromanage" bank lending decisions.

Another little-noted corollary to the bailout legislation, which is just now receiving some media attention, is an extra-legal move by the Treasury Department in September to change the tax code so as to encourage bank takeovers and allow major banks to evade some $140 billion in taxes in the process (See: "Illegal tax scheme gives $140 billion to biggest US banks").

The abandonment of the initial proposal to use so-called reverse auctions to buy up "toxic assets" reflected the difficulty in setting a price for these mortgage-backed securities. Buying them up at current market prices would have forced the banks to write down huge losses, intensifying the threat of bankruptcies.

Having already doled out $250 billion in direct capital injections for the banks, together with another $40 billion approved this week in the expansion of the effort to prop up the failing insurance giant, American International Group (AIG), the Treasury has only $60 billion left in its first installment of the bailout. Afterwards, it must return to Congress to release $350 billion more, an action that may not take place until after President-Elect Barack Obama takes office in January.

While insisting that hundreds of billions of dollars must be handed out to banks and financial speculators with no strings attached, Paulson took a decidedly different attitude toward calls for money from the $700 billion bailout to be used to prop up the failing auto industry or to aid homeowners confronting foreclosure.

"We care about our automotive industry, when you look at autos and that whole food chain, it is critical," Paulson said. "We need a solution, but that solution has got to be one that leads to viability... the intent of the TARP was to deal with the financial industry."

In other words, while unlimited resources can be lavished on the banks and finance houses, the future of the auto industry must be based on "viability," that is, the restoration of profitability through the destruction of jobs, the slashing of wages and the elimination of benefits for the workers who remain.

The same principle was invoked in relation to homeowners, two million of whom have already been foreclosed, with millions more facing the prospect of being thrown out of their homes. "I just can't tell you how many proposals I've looked at to modify mortgages and keep people in their homes," the Treasury Secretary said, calling the problem "very complicated" and insisting that there are "no easy answers."

"We must be careful to distinguish this type of assistance, which essentially involves direct spending, from the type of investments that are intended to promote financial stability, protect the taxpayer and be recovered," Paulson declared.

This is a fraud. Money for embattled workers and homeowners is "assistance" and "spending," while billions that are being provided to pay out bonuses and dividends to multi-millionaires are "investments" designed to "protect the taxpayer."

Nothing could make clearer the thrust of the so-called "financial rescue" program being carried out by Washington with the support of both major parties. It amounts to a systematic plundering of social wealth to benefit a narrow financial aristocracy, paid for through a massive assault on the conditions of life of the broad mass of working people.

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