Obama pick for treasury secretary tells Senate: Trillions for the banks, austerity for the people

Patrick O'Connor
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President Barack Obama's nominee for treasury secretary, Timothy Geithner, testified Wednesday at his confirmation hearing before the Senate Finance Committee. Without providing specific details, Geithner said that he and the White House economic staff were working on a plan involving a handover to the banks of enormous sums, potentially trillions of dollars, in additional public funds.

The treasury secretary-designee's performance was welcomed by Wall Street. Stock indexes closed higher yesterday, clawing back most of the value lost in Tuesday's Inauguration Day market plunge. The Dow Jones Industrial Average rose by 3.5 percent to 8,228, the S&P 500 rose by 4.4 percent, and the Nasdaq Composite gained 4.6 percent. Geithner's promise of further bailout measures drove banking stocks higher, with Citigroup, Bank of America and JPMorgan Chase all gaining more than 10 percent.

These gains represented a vote of confidence in the Obama administration's pledge to place virtually unlimited public funds at the disposal of the financial elite.

Geithner is expected to be endorsed by the Senate Finance Committee Thursday morning and the Senate proper next week, with both Democratic and Republican support. As president of the Federal Reserve Bank of New York, Geithner was directly involved in the bailout measures taken last year, including the $700 billion Troubled Asset Relief Program (TARP). Speaking before the Finance Committee, he defended the various measures taken by former Treasury Secretary Henry Paulson, merely suggesting that the previous bailout measures were not "aggressive" enough—that is, did not involve enough money.

Republican senators raised some questions about Geithner's failure to pay more than $30,000 in personal taxes from 2001 to 2004. But, as the *New York Times* noted, these were "lapses that might have doomed the nomination of a candidate less experienced and less respected among Republicans than Mr. Geithner." The nomination hearing was entirely amiable, with Geithner and the Democratic and Republican senators in agreement on all the central issues.

No one objected from either party when Geithner, in his opening statement, indicated that the Obama administration intends to deal with ballooning budget deficits resulting from government handouts to the banks by slashing bedrock social programs such as Social Security and Medicare. He told the committee, "Our program to restore economic growth has to be accompanied—and I want to emphasize this—has to be accompanied by a clear strategy to get us back as quickly as possible to a sustainable fiscal position." It was necessary to demonstrate, he added, that "we as a nation will return to living within our means."

Marketwatch noted: "He [Geithner] said the budget would have to tamed on a five-year horizon. Along these lines, Obama is looking for a 'mechanism' to move forward on entitlement reform on a bipartisan basis."

Meanwhile, the banks are being rewarded with a new bailout package involving sums of public money substantially larger than that already committed by the Bush administration under TARP and related programs.

Paul Volcker, former Federal Reserve chief and current chairman of Obama's Economic Recovery Advisory Board, endorsed Geithner's nomination in remarks to the Finance Committee. Volcker said that the banking system was "broken" and fixing it would require "several trillions of dollars"—an estimate that no one challenged.

Geithner refused to give details of Obama's bank bailout program, which is expected to be unveiled in the next few weeks. He admitted, however, that one plan being considered involves the creation of a "bad bank," which would use public funds to buy and quarantine subprime mortgage and other "toxic assets" currently held by the banks. Democratic Senator Charles Schumer told the hearing that economic experts had advised him that such a plan would cost more than $3 trillion.

The "bad bank" option is the preferred course of many in the financial sector because it does not involve the federal government directly purchasing large stakes of the banks' and financial institutions' stock. Fears of such a partial "nationalization," which would largely wipe out the investments of major shareholders, have contributed to driving down the share values of many major banks, compounding their solvency crisis.

An article in the *Wall Street Journal* on Wednesday, "Banks Hit By Nationalization Fears," explained: "The common stock of the major banks tracked by the Dow Jones Wilshire US Banks Index has fallen roughly $287 billion in value since Jan. 2, a 43 percent decline in just over two weeks. Banks that have sought further government aid have suffered the most, with Citigroup's market value falling 61 percent and Bank of America's 64 percent. The market value of JPMorgan Chase, which hasn't sought new government aid, has fallen 42 percent."

The accelerating American and world recession, initially triggered by the subprime mortgage market collapse, is in turn rebounding on the financial system.

The latest economic data from the US includes record low homebuilder sentiment, as recorded by the National Association of Home Builders' (NAHB) Housing Market Index. The gauge was 8 in January, down from 9 in December—the lowest level recorded since the index began in January 1985. The NAHB added that it expected the current housing downturn—the worst in more than six decades—will further worsen this year.

General Motors has lost its status as the world's largest manufacturer, with its 8.35 million vehicles sold in 2008 falling short of Toyota's 8.97 million. GM had previously been the largest automaker in every year since 1931. President Fritz Henderson admitted yesterday that GM's January sales were looking no better than the month before, when they plummeted by 31 percent. He also warned that unless the company received the second part of the federal bridge loan next month, it would run out of cash and face bankruptcy.

Major corporate layoffs continue apace. Manufacturer and auto supplier Eaton Corp has announced 5,200 job cuts. Taken together with the 3,400 workers Eaton laid off late last year, the company has eliminated 10 percent of its total workforce. United Airlines announced that it is sacking another 1,000 workers. Mining giant BHP Billiton is to reduce its workforce by 6 percent, affecting 6,000 positions. Most of these are in Australia and Chile, while about 550 workers in Arizona will also reportedly be laid off.

Global economic activity is contracting at an accelerating rate. The International Monetary Fund has warned that it will sharply cut world growth forecasts in a new report due to be released in the next few days. "Things are not improving," IMF Managing Director Dominique Strauss-Kahn told the BBC.

In Japan, the world's second-largest economy, the government has downgraded its assessment of the national economy for the fourth straight month. Also in Asia, Singaporean officials said yesterday they expected gross domestic product to decline this year by 2 to 5 percent, revising an earlier forecast issued just three weeks ago of growth ranging from negative 2 percent to 1 percent. In the fourth quarter of 2008, Singapore's largely export-driven economy contracted by 16.9 percent on an annualized basis.

In Europe, the German government yesterday cut its 2009 GDP forecast to negative 2.25 percent—down from the 0.2 growth predicted last October—marking the deepest recession since World War II. Portugal had its credit status downgraded by rating agency Standard and Poor's—making it the third Eurozone country, after Spain and Greece, to be hit in recent days by revised credit ratings. Other economies are expected to soon follow.