US Senate votes another $350 billion to bail out the banks

Barry Grey
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The United States Senate on Thursday voted to release the second $350 billion installment of the $700 billion bailout fund for the banks. The vote came amid predictions of hundreds of billions of dollars in new bank losses and calls by economists and some Federal Reserve officials for a vast expansion in the transfer of taxpayer funds to Wall Street over and above the $700 billion provided by the Troubled Asset Relief Program (TARP) passed by Congress last October.

Under the TARP legislation, the second installment, once requested by the president, could be blocked only if both houses of Congress voted to do so. Bush formally requested the release of the second $350 billion on Monday and the incoming Obama administration made its first priority rounding up sufficient votes in the Senate to defeat a Republican-led attempt to block the money.

Obama's top economic adviser, former Treasury Secretary Lawrence Summers, his incoming White House chief of staff, Rahm Emanuel, Vice President-elect Joseph Biden and Obama himself lobbied intensively to overcome the opposition of most Republican senators and some Democrats who were wary of defying broad popular hostility to yet another windfall for the banks.

A resolution to stop the release of the TARP funds was defeated by a vote of 52 to 42, with all but nine Democrats voting to release the money and all but six Republicans voting to block it. As with the bill to establish TARP last fall, the Democrats took the lead, in alliance with the Bush administration, in bailing out Wall Street, while the bulk of the opposition in Congress came from right-wing Republicans, who opposed it on the grounds that it was an affront to "free market" principles and who pushed instead for more sweeping tax cuts for big business.

Republican opponents were able to cite the utter failure of the first $350 billion in handouts to the banks to stem the slide into recession or solve the financial crisis, the refusal of the banks to use their taxpayer money to increase lending to businesses and consumers, and the absence of any serious restrictions or conditions attached to the government handouts.

Just last week, a congressional oversight panel established as part of the TARP program issued a report complaining that it had no idea how the banks were using their TARP funds, that nothing had been done to address the catastrophic rise in home foreclosures—ostensibly one of the main purposes of the government bailout—and that Treasury Secretary Henry Paulson, who was given virtually unlimited powers over the program, had provided no standards to measure its success and had ignored the panel's questions.

Only two weeks after the TARP bill was passed, Paulson abandoned the original plan he and Federal Reserve Board Chairman Ben Bernanke had laid out to justify the bailout—that the US Treasury would use the money to purchase "troubled" housing-related loans and other "toxic" assets weighing down the banks' balance sheets so as to free up cash and unfreeze the credit markets—and instead opted for direct cash infusions to the banks.

Of the first $350 billion, $250 billion was handed over to banks, with $125 billion of that amount going to the nine biggest institutions. An additional $40 billion was given to the insurance giant American International Group and a further $20 billion to Citigroup, on top of the $25 billion Citigroup received as part of the $125 billion that initially went to the biggest banks. The latter handout to Citigroup was part of a rescue operation carried out in late November involving a total allocation in cash, loans and guarantees of more than $300 billion in government funds.

Some $17 billion went for emergency loans to General Motors and Chrysler to avert the imminent bankruptcy of the two auto companies. But while the banks and other financial firms got their money with no strings attached, the Democratic-controlled Congress and the White House, with the support of President-elect Obama, insisted that the comparatively small loans to the auto companies include provisions for the slashing of tens of thousands of auto workers' jobs and sweeping cuts in the wages and benefits of unionized workers to bring them down to the level of nonunion auto workers.

It quickly emerged that the TARP program had been designed by Bernanke and Paulson, the former CEO of Goldman Sachs, to facilitate a wave of bank takeovers and a further concentration of economic power in the hands of a few Wall Street giants. Reports surfaced that some $40 billion of the $125 billion given to the biggest banks would go to pay for the accumulated compensation and pension packages of the banks' top executives.

These facts demonstrate that the TARP program was improvised for one purpose: To secure the profits and personal fortunes of multimillionaire and billionaire CEOs and big shareholders. To this end, the sacred shibboleths of American "free market" capitalism were cast aside, with the state intervening to place the resources of the American people at the disposal of a financial elite whose recklessness, incompetence and criminality had precipitated the deepest economic crisis since the Great Depression.

Some commentators have equated this government bailout of the banks with "nationalization." But as the *World Socialist Web Site* has pointed out, it could be more accurately described as the "privatization" of the government.

To secure the release of the second TARP installment, Obama and his aides have promised to impose serious limits on executive pay and other restrictions on banks that receive government handouts and devote at least $50 billion to help "responsible" homeowners from losing their homes to foreclosure. The $50 billion figure is a drop in the bucket, with home foreclosures rising at record rates and some 3 million families having lost their homes in 2008 alone. The household wealth of the American people has declined by trillions as a result of the collapse of house prices.

Moreover, $50 billion for the victims of predatory lending policies pales in comparison to the $8 trillion estimated to have already been allocated in government loans, cash and guarantees to bail out banks, insurance firms, the mortgage giants Fannie Mae and Freddie Mac and other financial companies.

These assurances from the incoming administration were provided to give political cover primarily to Democratic legislators who know their support for TARP II is deeply unpopular. The second installment of the bailout fund will proceed under the same legislation that provided a blank check to the banks in TARP I. There will be no serious congressional hearings to uncover what happened to the money dispensed in the first installment, examine the failure of the program to avert a deepening economic disaster, or hold accountable the bankers who benefited or the government officials who fronted for them.

Meanwhile, the banks are reporting huge new losses and the government is racing to give them billions more in taxpayer money. Bank of America, the biggest US bank by assets, is about to receive an additional $20 billion in cash in a deal that will have the government absorb up to $100 billion in the bank's losses, according to reports in the press.

Goldman Sachs on Tuesday released a report estimating that the total in US bank losses from bad loans and investments will total $2.1 trillion, with the bulk of these still to come. That figure does not include losses from overseas investments.

Citigroup is expected to report a quarterly loss of at least $3 billion on Friday and announce it will downsize its business by a third.

JPMorgan Chase on Thursday reported that its profits plunged 76 percent in the fourth quarter as it wrote off another $2.9 billion in bad loans and added $4.1 billion to its loan-loss reserves.

Economist Nouriel Roubini, chairman of RGEMonitor.com, said on Thursday, "The fact that Bank of America is going back now to the Treasury and saying ‘we need more money,' the fact that Citigroup is in trouble, the fact that many regional banks are insolvent, the fact that hundreds of community banks are insolvent means we need much more. If the credit losses are going to be as large as the estimate, $350 billion will not be enough."

Edmund Phelps, Nobel Prize winner and economics professor at Columbia University, said, "We've got to do a huge amount of TARP, TARP two and maybe TARP three...."

The cost of this government bailout of the banks will be borne by the working class. Obama is slated to make a speech on Friday on his economic stimulus plan in which he will reiterate his intention to slash spending for bedrock social programs such as Social Security, Medicare and Medicaid.