

# Obama's economic "stimulus" paves way for multi-trillion-dollar handout to the banks

9 February 2009

In his weekly radio address Saturday, President Barack Obama endorsed the compromise stimulus plan worked out by a small group of Republican senators, right-wing Democratic Senator Ben Nelson and "independent Democrat" Joseph Lieberman, a fervent supporter of the war in Iraq who backed Republican presidential candidate John McCain against Obama in the November elections.

The deal strips from the House of Representatives' version of the stimulus plan some \$40 billion in aid to states and localities and \$19.5 billion in federal aid for school construction, reduces proposed health care subsidies for the unemployed, slashes new aid for the Head Start pre-school program, lowers a proposed increase in food stamps and scales back Obama's middle-class tax cut, while adding a \$70 billion tax break for upper-income families.

Obama's endorsement of the "compromise" plan is a continuation of the basic trajectory that has emerged in the first weeks of his presidency. His administration's response to the deepest economic crisis since the Great Depression starts from the premise that nothing can be done that infringes on the wealth and prerogatives of the American financial aristocracy and proceeds to capitulate at every point to the demands of the Republican opposition and the most right-wing sections of his own party.

The revised Senate bill, which is expected to pass on Tuesday with the support of three Republicans, removes from Obama's "stimulus and recovery" package anything that remotely suggests large-scale relief or public works, under conditions of soaring layoffs and home foreclosures and the bankruptcy of state and local governments across the country. Obama's chief economic adviser, Lawrence Summers, appearing on the Fox television network's Sunday news program, assured moderator Chris Wallace that any remaining relief measures for the unemployed or other increases in social spending would not become permanent programs, but would be rescinded once the crisis had abated.

In attacking Obama's economic stimulus package from the

right, Republicans have been able to exploit the fact that it is a hodgepodge of spending proposals and tax cuts—including tens of billions for big business—without any internal coherency or rational perspective for resolving the economic crisis. Obama's purported plan to jump-start economic activity while simultaneously transforming the United States into a "21<sup>st</sup> century economy" does neither. It testifies to the absence of any serious or comprehensive response to the mounting economic and social crisis.

One of its major purposes is to provide political cover for what is considered within the ruling elite to be a far more important component of the administration's economic program—a vast expansion of the taxpayer bailout of Wall Street. The *Washington Post* said as much in its lead editorial on Sunday, entitled "Saving the Banks: The most important steps of the administration's recovery plan are still to come."

Treasury Secretary Timothy Geithner, who, as president of the Federal Reserve Bank of New York, played a key role in engineering the first stage of the \$700 billion bailout of the banks, was expected to unveil the administration's plan to use hundreds of billions in additional public funds to cover banking losses on Monday. However, Summers let it be known that Geithner would delay his announcement until Tuesday.

One reason for the delay is to soften public opposition to the bank bailout by waiting until the Senate has approved the stimulus plan, so that the massive transfer of wealth to the financial elite can be presented as part of a broader recovery plan to rescue "Main Street." In the meantime, Obama will hold televised town hall meetings on Monday and Tuesday in cities devastated by layoffs and home foreclosures in order to engage in a bit of campaign-style demagoguery.

From numerous reports in the press based on leaks from the Obama administration, the main outlines of the new bank bailout are clear. The Treasury and the Federal Reserve will commit hundreds of billions of dollars to make fresh cash injections into the banks, guarantee the banks' worthless assets and subsidize private investors who agree to buy some of the "toxic" asset-backed securities weighing down the banks'

balance sheets, while insuring the investors against potential losses.

There will be no serious restrictions on executive pay or on how the banks use the government money, such as requirements that they use it to increase their lending to other businesses and consumers. Moreover, the government will devise the plan so as to avoid taking any significant equity stake in the banks in return for the windfalls they receive, thus reinforcing the private control over the financial system by the very executives and investors who brought the banking system to the point of collapse through speculation in the pursuit of super profits and personal enrichment. The plan will avoid the government having to directly purchase the banks' worthless assets in order to evade the political problem of paying prices wildly out of line with the actual market value of the securities.

The net result will be to protect the investments of major shareholders and ultimately make them, the top executives and big speculators immeasurably richer at the end of the day.

There is to be no investigation or public accounting of the fraudulent and criminal practices that led to the financial meltdown, or the role of government officials in utilizing the crisis to plunder the public treasury in order to further enrich the financial elite. This is despite the report issued Friday by the congressional panel set up to oversee the first \$700 billion bailout which revealed that Bush administration officials overpaid for banks' "troubled assets" by some \$78 billion.

According to the *New York Times* editorial on Sunday, the new bank bailout "will ultimately put hundreds of billions of tax dollars, if not trillions, on the line." Meanwhile, the cuts in the Senate stimulus bill to already inadequate federal aid to the states and localities contained in the House version will result in hundreds of thousands of layoffs of teachers and public employees by state governments reeling from the collapse in tax revenues and facing bankruptcy. It means the closure of parks, libraries, hospitals and the decimation of public transportation and other services.

State governments are facing a collective budget shortfall of \$47.4 billion this fiscal year and the gap will rise, according to the Center on Budget and Policy Priorities, to \$350 billion by 2011. Already, the biggest state in the country, California, has held up welfare checks and is closing public offices two days every month as a result of rolling furloughs of state workers. The *Los Angeles Times* reported Sunday that the only public hospital in the Las Vegas area has closed its outpatient oncology services center because of state Medicaid cuts, affecting hundreds of cancer patients. The Democratic governor of the state of Washington has proposed pay freezes and layoffs for teachers and state employees, a \$350 million cut in funding

for higher education, closures of 13 state parks and a 42 percent reduction in the state's health insurance program for the working poor.

American society is being bankrupted as the resources of the country are placed at the disposal of the richest of the rich.

Obama's economic program underscores the fact that no progressive or rational economic plan to solve the crisis can be developed outside of a massive, independent and revolutionary movement of the working class to break the power and political domination of the financial aristocracy.

The only answer is a socialist program, which includes the removal of the major banks and financial institutions from private ownership and their transformation into public utilities under the democratic control of the working population. The vast financial resources that the banks control must be used to provide decent education, housing, health care, retirements and well-paying jobs for all.

The prerequisite for the nationalization of the banks under the control of the working class and their subordination to the needs of society is a break with the two parties of big business and the development of an independent political movement of the working class. It is a question of state power. No capitalist government can or will carry out this task. What is required is a political and revolutionary struggle to establish a workers' government.

Barry Grey



To contact the WSWWS and the  
Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**