The debate over the nationalization of the banks

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25 February 2009

The United States government has to date handed over some $300 billion in taxpayer funds to more than 400 banks under the Troubled Asset Relief Program (TARP) approved by Congress last October. These cash injections are part of a much broader commitment of public funds, including debt guarantees, low-cost loans and other subsidies estimated to total between $7 trillion and $9 trillion.

Nevertheless, US bank losses are mounting and are expected to surge further as the global recession and soaring unemployment undermine trillions of dollars in holdings backed by defaulting consumer loans and commercial real estate. Fourteen banks have been seized by state and federal regulators this year after 25 failed in 2008, and as many as 1,000 more are expected to fail within five years. Banking giants such as Citigroup and Bank of America have suffered mammoth losses and are on the verge of collapse.

The response of the Obama administration has been to announce a new and virtually open-ended bailout program that will likely involve trillions of dollars in additional taxpayer funds. This has not satisfied the financial elite, which wants nothing less than ironclad guarantees that its wealth and power will not suffer as a result of the crisis precipitated by its own speculative policies. Bank stocks have continued to plummet since Treasury Secretary Timothy Geithner announced the administration's financial rescue plan on February 10.

In the face of this mounting disaster, official public debate has increasingly focused on the possibility that some major banks could end up under government ownership. The threat of "nationalization" has become headline news.

The Obama administration has issued repeated statements affirming its support for private ownership of the banks and its aversion to government control. At the same time, it has been forced by the worsening financial crisis to announce measures that will increase the government's stake in major banks, most immediately Citigroup.

This is despite tortuous efforts by his administration and that of his predecessor, George Bush, to structure their bailouts of the banks in such a way as to limit to the greatest extent possible government ownership and control, so as to protect the investments of big shareholders and bondholders.

On Monday, the administration announced a new scheme whereby the government will convert some of the preferred stock it presently holds in the banks—considered by investors to be a form of debt—into common stock, or equity, in order to shore up the capital position of floundering firms like Citigroup and relieve them of dividends they owe the government on its holdings of their preferred shares. In the case of Citigroup, this means a savings for the bank of $2.25 billion a year.

At the same time, the statement issued by the Treasury, the Federal Reserve and three other regulatory agencies sought to reassure the banks that the government would avoid gaining majority control. It declared that "the strong presumption of the Capital Assistance Program is that banks should remain in private hands."

The degree to which discussion of government policy has centered, not on the social needs of the masses of people, but rather on financial issues related to the interests of the very wealthy who make their fortunes on Wall Street—a miniscule segment of the population—is itself extraordinary. It testifies to the reality of class relations in America and the domination of a financial aristocracy over every aspect of social and political life.

Prominent among those advocating the nationalization of some banks as a temporary measure is a section of liberal economists and commentators. Their position is summed up by *New York Times* columnist Paul Krugman, who published an op-ed piece Monday entitled "Banking on the Brink.” Krugman cites approvingly a recent comment by former Federal Reserve Chairman Alan Greenspan, who said, “It may be necessary to temporarily nationalize some banks in order to facilitate a swift and orderly restructuring.”

“I agree,” Krugman writes, and proceeds to defend temporary government ownership by declaring that “banks must be rescued... The collapse of Lehman Brothers almost destroyed the world financial system, and we can’t risk letting much bigger institutions like Citigroup and Bank of America implode.”

Without directly saying so, Krugman alludes to the fact that major banks are insolvent. He points out that the combined market value of Citigroup and Bank of America is less than $30 billion. To date the US government has pumped over $90 billion of taxpayer money into the two banks.

But he insists that “long-term government ownership isn’t the goal ... major banks would be returned to private control as soon as possible.” He suggests that instead of calling such temporary government takeovers “nationalization,” they should be termed “preprivatization.”

There is nothing remotely progressive, let alone socialist, in such proposals. They are driven entirely by a desire to defend the interests of the financial elite, arguing that temporary government ownership is the most efficient means toward that end. In practice, such a policy would mean using public resources to pay off the bad debts of the banks so they could be restored to profitability and then returned to private hands, allowing the CEOs and big investors to resume amassing their private fortunes.

Krugman’s position demonstrates that liberalism is a variety of bourgeois politics, based on the defense of the profit system. He asserts that the goal is to maintain private ownership of the banks. But why should that be the goal of public policy?

The economic and social catastrophe that is enveloping the world is the inevitable product of the private ownership and control of the financial system and the economy as a whole. The present crisis is the outcome of three decades in which the US ruling class, in an attempt to offset the decline in the global position of American capitalism and the fall of profit rates in basic industry, has used its control of finance to enrich itself by diverting resources from manufacturing into various forms of financial speculation.

The working class has suffered an immense decline in its social position, while a financial aristocracy has arisen by creating a mountain of debt and paper values, which has now come crashing down. All of the various schemes devised to bail out the banks, including that advocated by liberal proponents of temporary nationalization, seek to make the working class pay for the disaster.

The banking system is the most acute expression of the inherent anarchy and irrationality of the capitalist system, which is rooted precisely in the contradiction between private ownership of the means of production and finance and the social, and global, character of production.

The growing government stake in the banks and the possibility that it may be forced to assume control of some major institutions raise basic questions. In whose interests is this control to be exercised? At whose expense? At what cost? Under whose control? And for what purpose?

The crisis requires not a temporary government takeover to bail out the bankers, but a socialist and revolutionary policy directed against the entrenched power and economic stranglehold of the financial aristocracy. What is required is the nationalization of the banks without compensation to the big shareholders and bondholders, the transformation of the banks and financial institutions into public utilities under the democratic control of the working class, and the redirection of financial policy to meet the needs of the people for good-paying jobs, housing, education, health care and a secure retirement, rather than the drive for profit and the accumulation of personal wealth by a privileged few.

The prerequisite for carrying out this policy is the independent political mobilization of the working class, in the United States and internationally, in a struggle for political power. Only a workers’ government—a government of, by and for the working class—will implement such a program.

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