Obama's open-ended bailout of the banks

Barry Grey
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It is increasingly clear that the policy of the Obama administration is to pump as much taxpayer money as possible into the banks to avert a new wave of failures, in the hope that the economy will somehow begin to recover in 2010. Then Wall Street will be free to resume the speculative practices that enriched the financial aristocracy while precipitating the greatest global economic crisis since the 1930s.

Federal Reserve Board Chairman Ben Bernanke said as much in testimony before the US Congress earlier this week. In his prepared statement to the Senate Banking Committee and the House Financial Services Committee he said, "If actions taken by the administration, the Congress and the Federal Reserve are successful in restoring some measure of financial stability—and only if that is the case, in my view—there is a reasonable prospect that the current recession will end in 2009 and that 2010 will be a year of recovery."

With banking giants such as Citigroup and Bank of America teetering on the brink of bankruptcy, and a new surge of bank losses in consumer and commercial loans as well as home mortgages in the offing as the impact of the recession deepens, the government has been obliged, with great reluctance, to increase its equity stake in the banks in return for the next round of cash infusions, in order to shore up the banks' balance sheets.

To allay fears on Wall Street of government "nationalization," which would wipe out bank shareholders and result in large losses for bondholders, Bernanke and Obama administration officials have spent much of this week reiterating the government's support for private ownership and control of the banks.

Bernanke told Congress that while the government might be forced to acquire a substantial minority stake in some banks, it had no intention of gaining majority control. Treasury Secretary Timothy Geithner, announcing details of bank "stress tests" that are to pave the way for hundreds of billions of dollars in new bailout money, said Wednesday, "US government ownership is not an objective" of the administration's bank rescue program.

In his address to Congress Tuesday night, President Barack Obama made clear that the commitment of public funds to bail out the banks is open-ended. "We will act with the full force of the federal government," he said, "to ensure that the major banks that Americans depend on have enough confidence and enough money to lend even in more difficult times." He reinforced this carte blanche for Wall Street by declaring he would do "whatever it takes" and calling on Congress to "join me in doing whatever proves necessary."

The media, which is doing its best to promote popular illusions in Obama, made no mention of the glaring double standard in the president's speech between his policy toward the banks and his plans for the American people. The people, Obama said, have to accept their supposed "responsibility" for the crisis and resign themselves in the near future to sharply reduced spending for social programs and, he suggested, a more or less permanent reduction in living standards. And while the public treasury is to be put at the disposal of Wall Street, the auto industry must be "re-tooled and re-imagined" so that it can "compete and win"—euphemisms for massive downsizing, the destruction of tens of thousands of jobs and permanent cuts in wages and benefits for auto workers.

The social implications of these policies were indicated by the budget outline released by the administration on Thursday, which proposes to reduce the budget deficit from $1.75 trillion this year to $533 billion by 2013—a proposal that can be realized only through massive attacks on the working class. The budget plan includes $250 billion in additional money for the banks—a sum described by administration officials as merely a "placeholder."

The class bias of these policies, despite occasional bursts of populist demagogy, could not be clearer. The controlling principle is to do the least possible harm to the interests of the richest segment of society, a miniscule minority, and do nothing that seriously impinges on the wealth and prerogatives of the most powerful sections of the ruling class—whatever the cost to the broad masses of people.

It is extraordinary that in the midst of the greatest economic collapse since the Great Depression there is no serious examination of its causes, no attempt to expose the social interests responsible or hold any bankers or speculators accountable, and no suggestion that a significant restructuring of the financial system and the economy as a whole is required. For all the attempts of various liberal commentators to portray Obama as the spearhead of a new "New Deal," there is nothing comparable to the reforms carried out by Roosevelt.

Roosevelt was no socialist. He was an astute defender of American capitalism, who recognized that the survival of the system, thoroughly discredited in the eyes of the people and facing that threat of social revolution, required the imposition of significant restraints on the operations of the banks and large-scale intervention by the government into what had been the exclusive preserves of private capital.

Shortly after his inauguration he passed the Glass-Steagall Act barring commercial depository banks from engaging in stock-trading and other forms of speculation. He launched government public works projects that directly employed large numbers of workers, including the massive Tennessee Valley Authority, which brought electrification to millions of rural Americans.

That, however, was during the rise of American capitalism to the status of the world's preeminent industrial power. Obama presides over a crisis that is the outcome of decades of decay and decline, which has transformed American capitalism into the debt-ridden global center of financial parasitism. The American ruling class has spent the last three decades diverting social resources from manufacturing, with devastating consequences for the working class, into various forms of financial manipulation, from which it derived huge profits and staggering levels of personal wealth.

A significant milestone in this process was the repeal of Glass-Steagall in 1999, under a Democratic president—Bill Clinton—and with broad bipartisan support. This freed the hands of the financial elite to mortgage the country's future by engaging in an unprecedented orgy of speculation, creating a mountain of paper values that has now come crashing down.

There is nothing resembling the public works programs of the New Deal and no talk of structural reform today in large part because the entire economic system has become wedded to the most parasitic forms of financial activity, and the most powerful sections of the ruling class are precisely those which have benefited the most from the separation of wealth creation from the process of production.

The industrial base of America has been decimated, to the point where, as pointed out recently by *New York Times* economic commentator Louis Uchitelle, the "Buy American" clause in the $787 billion stimulus package "has a certain quaintness to it." He notes that many of the manufactured goods required for the infrastructure projects proposed in the package are not produced in the US and have to be imported from abroad. He points out that by last year, 37 percent of all manufactured goods sold in America were imported, more than double the percentage in 1991 and nearly four times the level in 1978.

Even as he announced plans to revamp government regulation of the banks on Wednesday, Obama signaled that there would be no return to the restrictions of previous decades and that the banks would essentially be left to resume their speculative ways. "Free markets are the key to our progress," he declared, adding that nothing would be done to "hinder financial institutions."

In his Tuesday night speech, Obama engaged in a form of political extortion of the American people—asserting that the only alternative to the looting of the public treasury to rescue the private banking system is an economic catastrophe. "While the cost of action will be great," he said, "I can assure you that the cost of inaction will be far greater, for it could result in an economy that sputters along for not months or years, but perhaps a decade."

This political blackmail is based on a lie. There is an alternative to the impoverishment of the people to bail out the banks. It is a socialist and revolutionary policy directed against the so-called "free enterprise system" and the economic stranglehold of the financial aristocracy.

The real alternative is the development of a mass movement of the working class demanding the nationalization of the banks without compensation to the big shareholders and bondholders and their transformation into public utilities under the democratic control of the working population. Only on this basis can economic policy be developed in a planned and socially progressive manner to abolish poverty and meet the needs of the people for jobs, health care, education, housing and a secure retirement.

This requires a break with the two parties of the financial oligarchy and the independent political mobilization of the working class in the US and internationally in the struggle for political power.

This is the policy advanced by the Socialist Equality Party.