

Obama pledges more bank bailouts, cuts in social programs

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In what was billed as a major economic policy speech, President Barack Obama on Tuesday defended his administration's multitrillion-dollar taxpayer bailout of Wall Street, claiming it was moving the economy toward recovery. At the same time, he outlined a policy of budget austerity that will hinge on containing health care costs and exacting funding cuts from basic social programs.

The speech, delivered at Georgetown University in Washington D.C., was characterized by evasions and lies. Obama adapted his rhetoric somewhat to growing anger toward the government and the finance industry over the bank bailouts. This phony populism did not alter the speech's central purpose, which was to prepare public opinion for further bailouts of the biggest banks and attacks on the core entitlement programs: Medicare, Medicaid and Social Security.

In an acknowledgement of mounting social opposition, Obama dedicated much of his address to a defense of Washington's massive bank bailouts. He suggested that these handouts have begun to work, referring to supposed signs of an economic recovery, an implicit reference to the surge of share values on the major US stock exchanges and recent earnings reports from banks showing hefty profits.

The equation of increasing share values and bank profit margins with broader economic recovery is false. In fact, the recent success of banks has resulted largely from Obama's favorable policies, such as his new bailout scheme that will subsidize hedge funds to purchase the banks' toxic assets. These policies entail a massive transfer of social wealth at the expense of the working class, which faces mounting layoffs and foreclosures in spite of the new moneymaking on Wall Street.

Obama reiterated that his administration will "clean up those bank balance sheets" by providing "banks with the capital and the confidence necessary to start lending again." Appropriating money for Wall Street is "the purpose of the stress tests that will soon tell us how much additional capital will be needed to support lending at our largest banks," he added.

Obama is aware that masses of Americans hate these policies, noting, "There are a lot of Americans who understandably think that government money would be better spent going directly to families and businesses instead of to banks." He continued, "You know, one of my most frequent questions in the letters that I get from constituents is, 'Where's my bailout?' And I understand the

sentiment. It makes sense intuitively, and morally it makes sense."

Despite this "intuitive" sense, Obama made clear that no such bailout was coming. Instead, he repeated the lie that bailing out the banks would aid the population. He claimed, "A dollar of capital in a bank can actually result in eight or ten dollar of loans to families and businesses." Yet the bailouts have thus far failed to create the promised wave of bank lending. Obama admitted as much later in his speech, noting, "Credit is still not flowing nearly as easily as it should."

Obama trotted out the tired economic blackmail argument, claiming that should the "free market" be allowed to work for the banks as it does for the millions who face layoffs and foreclosures, that the crisis could "last for years and years."

He also referred specifically to demands that he nationalize the banks, claiming without providing reasons that "government takeovers are likely to end up costing taxpayers even more in the end." He added that "it's more likely to undermine than create confidence," a cryptic reference to the veto power Wall Street wields over the economic decisions of the government.

Criticism of the bank bailouts dismissed, Obama spent the next portion of his speech reiterating that the country can expect more of the same. "So rest assured, we will do whatever is necessary to get credit flowing again," he promised.

"And to that end, in addition to the program to provide capital to the banks," Obama said, "we've launched a plan that will pair government resources with private investment in order to clear away the old loans and securities—the so-called toxic assets—that are also preventing our banks from lending money." This was a reference to Treasury Secretary Timothy Geithner's bailout scheme that has been widely celebrated by the financial elite, and which has spurred on the recent rebound in bank stocks.

Obama also indicated that the government will extend the bank bailout to more insurance corporations and endorsed recent demands made by Federal Reserve Chair Ben Bernanke and Geithner that Congress grant "new legal authority" to the executive branch so it can infuse insolvent firms with emergency cash and loans without public scrutiny.

Later in his speech, Obama made vague reference to implementing "new rules for Wall Street." "It is simply not sustainable," he said, "to have a 21st century financial system that is governed by 20th century rules and regulation that allowed the recklessness of a few to threaten the entire economy."

From an administration that has actively worked to thwart

taxation on million-dollar executive bonuses at bailed-out financial firms, such threats of new regulation will be taken with a grain of salt.

Obama prepares an attack on social spending, entitlements

While he guaranteed a limitless bailout of the banks, Obama used his economic recovery speech to promise heightened levels of austerity for the working class, warning workers of “more job loss, more foreclosures and more pain.” Even Obama’s rosy economic recovery scenario envisages the creation of 3.5 million jobs over the next two years—far fewer than the number of jobs lost in the last year alone.

Obama outlined “five pillars” for a new economy that would “make this new century another American century.” In addition to his vague promise of new regulations on finance, Obama listed education (including several right-wing policy initiatives) and “new investments in renewable energy and technology.”

The other two “pillars” foretell massive cuts to social spending: cutting health care costs and “restoring fiscal discipline.”

Obama did not explain how he would cut the cost of health care, referring only to his stimulus packages’ investment “in electronic health records” and “preventive care.” However, the support his reform initiative has thus far enjoyed from insurance corporations, health maintenance organizations (HMOs), and the pharmaceuticals indicates that “cost savings” will come at the expense of patients and the provision of services.

Obama did not tarry long on the first four pillars, but a considerable portion of his speech was dedicated to the fifth, “restoring fiscal discipline.”

This austerity will not extend to the bailouts of the financial industry, as Obama made abundantly clear earlier in his speech. It will come at the expense of social programs upon which tens of millions depend.

Obama boasted that he would “reduce discretionary spending for domestic programs as a share of the economy by more than 10 percent over the next decade.” This will not come from the military budget, which has been handed a record \$640 billion for the coming fiscal year.

“Let’s not kid ourselves and suggest that we can solve this problem by trimming a few earmarks,” Obama said.

“[T]he biggest cost drivers in our budget are entitlement programs like Medicare, Medicaid, and Social Security, all of which get more and more expensive every year,” Obama continued. “So if we want to get serious about fiscal discipline—and I do—we will also have to get serious about entitlement reform.”

At the heart of Obama’s vision for rebuilding the economy is the impoverishment of much of the American population. “We must lay a new foundation for growth and prosperity,” Obama said, “where we consume less at home and send more exports abroad.” This is the same formula the International Monetary Fund has for decades demanded that the third world countries adopt.

Obama alluded twice to the crisis in the auto industry. Untroubled by the clear double standard in his administration’s funneling of trillions to the big banks who continue to bestow millions on their executives, Obama has predicated further loans to General Motors and Chrysler on auto workers giving up massive wage and benefit cuts. This is Obama’s “plan to put [automakers] on a path to profitability without endless support from American taxpayers.”

Obama on the origins of the economic crisis

Obama opened his speech with a presentation of the origins of the economic crisis. This “interpretation,” however, did not proceed beyond a description of the most immediate causes of the collapse.

According to Obama, the crisis was caused by a “perfect storm of irresponsibility and poor decision-making that stretched from Wall Street to Washington to Main Street.” To Obama, in other words, the crisis is not systemic in nature. It was caused by many mistakes and poor decisions, in which the ordinary (i.e., “Main Street”) are equally culpable.

Yet taken at face value, Obama’s description of the immediate causes of the collapse implicitly places the blame on the big banks. While “Americans found they could take out loans that by traditional standards their incomes just could not support,” Obama said, “[o]thers were tricked into signing these subprime loans...”

“The reason these loans were so readily available was that Wall Street saw big profits to be made,” he went on. “Investment banks would buy and package together these questionable mortgages into securities, arguing that by pooling the mortgages, the risks had somehow been reduced.”

Though “no one really knew” what these securities were worth, “banks and investors just kept buying and selling them, always passing off the risk to someone else for greater profit,” Obama said.

Obama made no effort to square this description of the crisis with his overriding aim to continue to hand over enormous quantities of money to Wall Street, and his refusal to hold responsible the executives and large stockholders primarily responsible for the collapse.

This is because Obama and the Democratic Party, like the Republicans, are a political tool of these same Wall Street interests. Their primary objective is to ensure that the economic crisis be resolved in the manner that most favors the financial elite.



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