The looting of America

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The *New York Times* on Thursday published a front-page article that provides further insight into the economic and class interests that are being served by the Obama administration's economic "recovery" policies.

Headlined "Small Investors May Be Enlisted in Bank Bailout," the article outlines discussions between the administration and Wall Street investment firms on structuring the so-called "Public-Private Investment Program" announced last month in a manner that will allow people of modest means to invest in the scheme, whose purpose is to enable the banks to offload their toxic assets at public expense.

When the plan was announced March 23 by Treasury Secretary Timothy Geithner, it sparked a wild rally on the stock market. The Dow Jones Industrial Average rose 497 points when it became clear that the government was offering to provide up to 95 percent of the capital, insure almost all potential losses and virtually guarantee large profits for hedge funds and other financial firms that agree to purchase the bad debts of the banks at inflated prices, with the taxpayers underwriting the windfall for Wall Street and assuming virtually all of the risk.

Thursday's *Times* article indicates that opening the scheme up to small investors is seen as a way of providing a "democratic" gloss to what is, in reality, a brazen plan to plunder the public treasury for the benefit of the very bankers and speculators who are responsible for the financial crash. Evidently not seeing a contradiction, the article also makes clear that the bailout measures are being drawn up in the closest consultation with the Wall Street insiders who stand to profit from them.

"Some of the biggest investment managers in the United States," the *Times* notes, "including BlackRock and PIMCO, have been consulting with the government on ways to rebuild the country's broken financial markets."

The article quotes Steven A. Baffico, an executive at BlackRock, as saying, "It's giving the guy on Main Street an equal seat at the table next to the big guys." This is true only in the sense that "Main Street" will be given the opportunity to absorb the bulk of any losses while the "big guys" cream off the best assets and pocket the profits.

There are political concerns behind this effort to create the appearance of offering the general public a cut in the winnings. Hedge fund managers are wary that when, as they anticipate, their partnership with the Treasury, the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) pays off with double-digit profits there will be a public outcry, similar to that which erupted over the AIG executive bonuses. This, they fear, might lead to limits on their compensation, higher taxes on their fortunes or similar intolerable infringements.

More important are definite commercial calculations. By opening up the scheme to the broad public, the private firms chosen by the Treasury to operate the plan stand to increase greatly their take from investor fees. As the *Times* puts it, "For the investment managers, the benefits are potentially large. These big firms can charge healthy fees to investors for taking part."

There is one particularly remarkable passage in the *Times* account. "But the comparison one industry official uses to illustrate the mistake that America must avoid," the newspaper writes, "is the large-scale privatization in Russia in the 1990s, which involved a transfer of entire industries to a few, well-connected oligarchs. That experience tarnished the idea of free-market capitalism in Russia and undermined its program to move toward a market economy."

The many differences in political and historical circumstances aside, there is a very real parallel between the plundering of Soviet society by the former

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Stalinist bureaucrats and their domestic gangster and foreign imperialist allies and the current manner in which the economic crisis in the US is being seized upon by Wall Street and its political instrument, the Obama administration, to further enrich the American financial aristocracy. Indeed, the perpetrators are themselves quite conscious that they are engaged in a similar—although much bigger—looting operation.

The scale and character of the operation are further indicated by another *New York Times* article published this week. This one, authored by *Times* financial writer Andrew Ross Sorkin and published on Tuesday, concerns the role of the FDIC in the new bailout scheme.

The article begins by noting that the FDIC was established 76 years ago, in the depths of the Great Depression, to provide a government guarantee, initially up to $5,000 and now up to $250,000, on the bank deposits of small savers. It describes the transformation of the FDIC, under the toxic asset disposal plan of the Obama administration, as follows:

"It's going to be insuring 85 percent of the debt, provided by the Treasury, that private investors will use to subsidize their acquisition of toxic assets."

In other words, the function of the FDIC is being transformed from guaranteeing the bank deposits of small savers to guaranteeing the investments of multimillionaire investment fund managers. And, as the article notes, this is occurring without a vote by Congress.

The FDIC will be insuring more than $1 trillion in new obligations incurred as the government covers the bad debts of the banks. However, the FDIC's charter limits the obligations it can take on to $30 billion. The *Times* article quotes one "prominent securities lawyers" as saying, "They may not be breaking the letter of the law, but they're sure disregarding its spirit."

How does the government justify this breach? By calculating the obligations which the FDIC is assuming not at their monetary value, but at their value as "contingent liabilities." That is, according to how much the FDIC expects to lose from its vast extension of credit to Wall Street firms (in the form of nonrecourse loans, i.e., loans in which the firms put up no collateral of their own, but only the supposed value of the toxic assets they are purchasing).

And what is the sum total of these "contingent liabilities"? Sorkin writes: "'We project no losses,' Sheila Bair, the chairwoman, told me in an interview. Zero? Really? 'Our accountants have signed off on no net losses,' she said. (Well, that's one way to stay under the borrowing cap)."

What is the significance of this astonishing reasoning? Simply this: The Obama administration, in order to protect the wealth and power of the financial elite, is facilitating and directly perpetrating on a colossal scale the same type of accounting fraud and reckless leveraging that led to the economic catastrophe in the first place.

Who is to pay the price for this looting operation? The answer can be seen in the Obama Auto Task Force's demands for the liquidation of much of the US auto industry and the brutal downsizing of what remains, combined with the imposition of poverty-level wages on those workers who remain in the surviving plants and the gutting of the pensions and health benefits of retirees. It can be further seen in the administration's pledge to slash social programs, including Medicare, Medicaid and Social Security.

The administration's "recovery" plan is a barely disguised scheme to preserve the fortunes of the financial aristocracy, whose interests it represents, by imposing poverty and social misery on the working class.

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