

# One year since the US bank bailout

Barry Grey  
3 October 2009

One year ago today, the United States Congress passed the Emergency Economic Stabilization Act of 2008, establishing the Troubled Asset Relief Program (TARP) and authorizing the use of \$700 billion in Treasury—i.e., taxpayer—funds to bail out the banking and finance industry.

The creation of TARP inaugurated the greatest plundering of the public treasury and transfer of wealth from the working class to the financial elite in history.

One year later, the analysis of the *World Socialist Web Site* that the bank bailout was part of a fundamental and permanent restructuring of American capitalism, whose central aim was the impoverishment of the working class, has been richly vindicated.

While the Obama administration points to an astonishing rally on the stock market and a revival of bank profits to proclaim an end to the recession, the working class is being devastated by near-double-digit unemployment, falling wages, pensions and health benefits, the collapse of family savings, record home foreclosures and a precipitous growth of homelessness and hunger. Even as they tout the “recovery,” government officials warn that unemployment will remain at the highest levels since the 1930s for years to come.

The passage of the TARP legislation was the culmination of three weeks of closed-door crisis meetings between government officials and Wall Street bankers, combined with a public propaganda campaign depicting the bailout as the only alternative to an immediate descent into another Great Depression.

On September 7, the Bush administration announced the government takeover, at a cost of \$200 billion, of the mortgage finance giants Fannie Mae and Freddie Mac. The following weekend, after round-the-clock meetings with Wall Street CEOs led by Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke and then-President of the Federal Reserve Bank of New York (now Treasury Secretary) Timothy Geithner, the government refused to provide emergency funds to Lehman Brothers, allowing the Wall Street icon to

collapse.

No credible explanation for the decision to deny funds to Lehman while rescuing Merrill Lynch and the insurance giant American International Group (AIG) has ever been offered. It is now clear, however, that this move reflected the conclusion that nothing short of a massive diversion of public funds to cover the bad debts of the banks could protect the wealth of the financial oligarchy. To create the political conditions for such an unprecedented action it was necessary to deliberately stoke up an atmosphere of panic and fear.

Lehman, the smallest of the Wall Street investment firms, was sacrificed for the greater good of the financial aristocracy. Not coincidentally, the chief beneficiary of the disappearance of Lehman and Merrill Lynch was the largest investment bank, Goldman Sachs, which Paulson had headed prior to entering the Bush administration. As for the rescue of AIG, Goldman, its largest trading partner, stood to lose at least \$20 billion if the world’s largest insurer of bank assets went down.

The following weekend, once again in talks conducted behind the backs of the American people, Paulson handed congressional leaders a four-page blueprint for a \$700 billion bailout of the banking system and demanded that they immediately enact it into law. On the evening of September 24, Bush went on national television and, in apocalyptic terms, insisted that if Congress did not quickly pass Paulson’s plan “America would slip into a financial panic.”

The official line was that the bank bailout was being undertaken with the greatest reluctance and for the benefit of “Main Street,” not Wall Street. Barack Obama, then the Democratic presidential candidate, immediately declared his support for the bailout, and Democratic leaders in Congress were its most vociferous backers.

The eruption of the financial crisis and the rush to enact TARP coincided with a remarkable improvement in Obama’s electoral prospects. Prior to the crisis, Obama’s campaign was foundering. His lead in the polls over his Republican opponent, John McCain, had evaporated and

his campaign was in visible disarray.

But with the events of early September came a sharp shift in the media in his favor. A political decision had been taken at the highest levels of the ruling elite that the implementation of a massive bailout of Wall Street combined with sharp attacks on workers' jobs and wages and an offensive against basic social programs would be politically more difficult under a McCain administration than an Obama White House.

Obama's relative youth, his ethnic background and his Democratic brand could be utilized to confuse and disorient a public that would overwhelmingly view a McCain administration as the continuation of the policies of the hated and despised Bush. A clear consensus emerged within the ruling class to push for the election of the tribune of "change you can believe in."

They could count, moreover, on the Obama enthusiasts within the middle class liberal and ex-radical milieu to provide much needed political cover for a right-wing Democratic administration.

On September 22, 2008, the *World Socialist Web Site* published a statement of the Socialist Equality Party (US) National Committee entitled "No to Wall Street bailout! The socialist answer to the financial crisis." The statement declared:

Both the plan itself and the manner in which it is being imposed are deeply undemocratic. Exploiting the breakdown in US and global financial markets, the financial aristocracy, which is responsible for the crisis, is exercising its control over the government, both political parties, and the media to implement policies of the most far-reaching character without any genuine debate or discussion. As in the aftermath of 9/11, it is seeking to utilize the crisis to push through policies that would otherwise be considered entirely unacceptable...

Make no mistake: The working people, who are the victims of the financial parasitism of the ruling elite, will foot the bill to bail out those who have enriched themselves by plundering the social wealth. The massive expansion of budget deficits and the national debt as a result of this plan will be used to justify a brutal assault on basic social programs, education, housing and the wages, jobs, pensions, and health benefits of the working class.

Not a word of this citation needs to be changed in light of subsequent developments.

The stock market continued to fall sharply in the first weeks of the new administration, reaching its low-point on March 6. This in part reflected a degree of uncertainty within the financial elite over how resolute the Obama

administration would be in protecting its interests. Such doubts were largely dispelled in the course of March, when the administration emphatically demonstrated its obedience to Wall Street.

In rapid fire, Obama intervened to scuttle a bill passed by the House of Representatives, in response to public outrage over tens of millions in bonuses awarded by AIG, which would have imposed limits on the pay of bank executives; his treasury secretary, Timothy Geithner, announced a plan to offload the banks' "toxic assets" at public expense; and Obama rejected the turnaround plans submitted by General Motors and Chrysler, demanding deeper cuts in jobs, wages and benefits and driving the firms into bankruptcy in order to carry through an unprecedented attack on auto workers.

The markets reacted enthusiastically, setting off an extraordinary stock market rally that has thus far continued, despite the growth of unemployment and trillions of dollars in "toxic assets" that remain on the banks' balance sheets.

The forced bankruptcy of General Motors, in particular, shored up Obama's credentials on Wall Street. It demonstrated, first, that his industrial policy would remain completely subordinated to the interests of finance capital and, second, that he would pursue a policy of intensifying the exploitation of the working class, using mass unemployment as a bludgeon to impose wage cuts and speedup.

Since then, Obama's domestic economic policy has been focused on the drive to slash health care costs at the expense of the working class, which he himself has presented as the spearhead of a campaign to cut spending for basic entitlement programs, such as Medicare, and permanently reduce domestic consumption (of the working class, of course, not the financial aristocracy).

The balance sheet one year since the bank bailout constitutes the most telling proof of the reactionary character of the Obama administration, the class interests it serves, and the need for the working class to initiate an independent struggle for a socialist alternative to the bankrupt capitalist system.

Barry Grey



To contact the WSWs and the Socialist Equality Party visit:

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