

What the WSWS said about the Wall Street crash of September 15, 2008

14 September 2013

Five years ago, on Monday, September 15, 2008, Lehman Brothers, the fourth largest US investment bank, filed for bankruptcy. The 158-year-old icon of American finance collapsed in the midst of a mushrooming crisis of American and world financial markets precipitated by the bursting of the subprime mortgage and credit bubble that had generated staggering profits on Wall Street over the previous years.

On the same day, Merrill Lynch, the third largest US investment bank, itself 94 years old, vanished as an independent entity. It allowed itself to be sold for a song to Bank of America, under pressure from the US government, rather than face the same fate as Lehman Brothers.

One week earlier, the US government had taken over the state-sponsored mortgage-finance giants Freddie Mac and Fannie Mae, at a cost of \$200 billion in public funds.

On Tuesday, September 16, the government seized control of American International Group (AIG), the world's largest insurance firm and biggest dealer in credit default swaps. The Federal Reserve plowed \$85 billion into the firm to prevent it from collapsing and triggering a chain reaction of financial bankruptcies around the world.

Nine days later, on September 25, the government seized the savings and loan giant Washington Mutual and closed it down, carrying out the largest corporate bankruptcy in American history.

Credit markets across the globe froze, as banks refused to lend to one another, fearful of not being repaid. Stock markets crashed. Other, even bigger, titans of Wall Street, the City of London and other world financial centers were heading for collapse.

This was prevented only by the theft of hundreds of billions of dollars in taxpayer money and their transfer virtually free of charge and with no strings attached to the biggest Wall Street banks. This was sanctioned by Congress on October 3 in the form of the \$700 billion Troubled Asset Relief Program, or TARP.

Once the initial panic had subsided and the financial elite had been reassured that the Obama administration would focus its efforts on restoring its lost wealth and making it richer than ever, the pundits downplayed the fundamental character of the crisis, presenting it as a passing phenomenon. The WSWS explained, however, that the Wall Street crash of 2008 was a watershed event in the crisis of world capitalism of the magnitude of World War I, the Great Depression of the 1930s and World War II.

We are republishing here two articles, the first in edited form, posted on the *World Socialist Web Site* in the immediate aftermath of the Lehman collapse, as the tumultuous events were unfolding. These articles, "The Wall Street crisis and the failure of American capitalism," posted September 16, and "No to Wall Street bailout! The socialist answer to the financial crisis," posted September 22, speak for themselves. The analysis and political program advanced in these statements have been fully confirmed by the events of the succeeding five years.

They stand as a testament to the prescience and correctness of the perspective of the Socialist Equality Party and the International Committee of the Fourth International (ICFI), the world Trotskyist

movement. They reflect the granite theoretical and historical foundations upon which the WSWS is based, as well as the scientific nature of the world outlook and method of historical materialism, which guides its daily work.

The ICFI had been carefully following and analyzing the mounting crisis of world capitalism for decades, with particular intensity over the previous twenty years. We had identified the central role in the world crisis of the internal decay of American capitalism and the decline in the global economic position of the United States.

In 2007, the WSWS recognized that the collapse of the subprime housing market in the US presaged a major international financial and economic crisis. On January 11, 2008, the WSWS published a report by WSWS International Editorial Board Chairman David North that began: "2008 will be characterized by a significant intensification of the economic and political crisis of the world capitalist system. The turbulence in world financial markets is the expression of not merely a conjunctural downturn, but rather a profound systemic disorder which is already destabilizing international politics..." (See: "Notes on the political and economic crisis of the world capitalist system and the perspectives and tasks of the Socialist Equality Party")

On March 18, 2008, four days after the collapse of Wall Street investment bank Bear Stearns, the WSWS published a statement, "Shades of 1929: Bear Stearns collapse signals deepest crisis since Great Depression."

One year later, the WSWS published the first of two lectures by WSWS Editorial Board Chairman David North, "The capitalist crisis and the return of history," reviewing the historical origins of the economic crisis and its revolutionary implications. The second lecture, "The economic crisis and the resurgence of class conflict in the US," was published in May of 2009. These lectures are published in the pamphlet *The Economic Crisis & the Return of History*, available from Mehring Books.

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The Wall Street crisis and the failure of American capitalism

By Barry Grey
16 September 2008

The end of Lehman Brothers and Merrill Lynch, two of the largest Wall Street investment banks, one week after the government takeover of the mortgage finance giants Fannie Mae and Freddie Mac, marks a new stage in the convulsive crisis of American capitalism.

On Monday, global markets fell sharply in a sign of mounting panic and doubt over the stability of the entire US banking system. Throughout Europe stock markets plunged by as much as 4 percent.

The fall on Wall Street was even steeper, with the Dow Jones Industrial Average losing 504 points, or 4.42 percent. There is every indication that

the sell-off will intensify, with the full implications of the collapse of the two Wall Street banks as yet far from clear.

The immediate concern is the fate of American International Group (AIG), the world's largest insurance company, and Washington Mutual, the largest savings and loan bank in the US, both of which are teetering on bankruptcy.

The sudden demise of Lehman Brothers and Merrill Lynch has removed a huge amount of liquidity from the economy, as paper values built up over decades of speculation come crashing down. This is capital that is needed to finance business operations, and its elimination will inevitably depress economic activity, fueling unemployment and recession, further undermining home prices and consumer spending, and further weakening the balance sheets of already financially shaken banks.

A sea change is unfolding in the US and world economy that portends a catastrophe of dimensions not seen since the Great Depression of the 1930s.

The fall of icons of American capitalism such as 158-year-old Lehman Brothers and 94-year-old Merrill Lynch can only lead to the further discrediting of the "free market" ideology of the US ruling elite, as well as its political and economic system. The spectacle of giants of capitalism drowning in debt piled up over decades of reckless speculation must inevitably discredit the social class—the American capitalist class—which is responsible for the debacle.

The bromides that have been uttered by the official spokesmen for the government, the media, Wall Street and the political parties over the past year of mounting financial crisis have lost all credibility. The assurances that the latest government bailout will stabilize the situation, that the US banking system is "fundamentally sound," that the housing and credit markets are about to "turn the corner," etc., reassure no one.

On Monday, President Bush mouthed such phrases in a brief White House appearance. Treasury Secretary Henry Paulson at a White House press conference evaded questions about who was responsible for the financial disaster and instead declared that he was "focused on the future."

The presidential candidates, Republican John McCain and Democrat Barack Obama, made perfunctory statements that were remarkable only for their brevity and vacuity. What is widely acknowledged, even in ruling class circles, as the greatest financial crisis since the Great Depression is unfolding in the midst of a presidential election. But it barely rates a mention by either the Republican or Democratic candidate...

These events are signposts in the historic failure of American and world capitalism. For the working class, they mean a rapid growth of unemployment, poverty, homelessness and social misery. The government, Wall Street and both political parties will seek to place the burden for the consequences of their own greed and incompetence squarely on the backs of working people.

The collapse is devastating ever wider layers of the population, including those who have worked on Wall Street and received some of the financial benefits of the speculative boom. Some 26,000 Lehman employees are not only out of a job, with few prospects of finding similar employment elsewhere, but as owners of 25 percent of the company's stock they have lost a combined \$10 billion, wiping out their savings and retirement funds.

Tens of thousands of employees at Merrill Lynch and Bank of America will lose their jobs in the merger of the two firms, adding to the 110,000 jobs slashed in the US financial services industry over the past year.

The broader implications of the mounting financial crisis were signaled by Hewlett-Packard's announcement Monday that it was cutting 25,000 jobs.

Many of those who precipitated this economic disaster, on the other hand, will profit handsomely from the debris they have left behind. Hedge funds and other short-sellers, who bet on the collapse of corporations, are

even now speculating furiously on the demise of the remaining Wall Street firms, Morgan Stanley and Goldman Sachs, as well as big commercial banks such as Bank of America.

William Gross of the nation's largest bond fund, Pimco, took in \$1.7 billion last week by betting on—and publicly agitating for—a government takeover of Fannie Mae and Freddie Mac...

The events of the past two weeks demonstrate that the American financial aristocracy is plunging the entire country into bankruptcy. These events are themselves climactic moments in a protracted process.

For three decades, the "free market" has been elevated to the status of a secular religion in the US, with the capitalist market as its god and socialism as its devil. This period, under both Republican and Democratic administrations, has seen the wholesale dismantling of the productive base of the US economy, at the cost of millions of jobs and the living standards of the American working class.

In the name of the supposed infallibility of the market, the operations of big business have been deregulated, removing all legal restraints on corporate profit-making and fueling the accumulation of ever more obscene levels of wealth in the hands of a financial oligarchy. A vast process of social plunder has occurred, in which the wealth of the country has been redistributed from the bottom to the very top.

The scrapping of huge sections of industry and the immense growth of social inequality are the hallmarks of the historic decline of American capitalism. At the heart of this decay is the separation of the process of personal enrichment of the ruling elite from the material process of production.

The United States has become the world leader not in manufacturing technology or industrial power, but in financial speculation and parasitism. As Floyd Norris, the economics columnist of the *New York Times*, put it on Friday, "During recent years, Lehman—along with many competitors—went on a borrowing binge to buy assets with as little money down as possible."

By its very nature, the parasitism of American capitalism has generated corruption and criminality on an unprecedented scale. Wall Street CEOs have awarded themselves tens of millions and even billions in compensation, in an utterly irrational and socially destructive squandering of social resources for the benefit of private greed.

At the end of 2007, for example, the Lehman board awarded CEO Richard S. Fuld a compensation package worth more than \$40 million. According to Reda Associates, he can expect to collect \$63.3 million if he is terminated. In 2004, he paid \$13.75 million for an ocean-front home in Jupiter Island, Florida, adding to his other properties, including a home in Sun Valley, Idaho.

Joe Gregory, a former president of Lehman, used to travel to work in a helicopter. He recently put his 9,500-square-foot ocean-front home in Bridgehampton, New York on the market for \$32.5 million.

The *Financial Times* recently reported that compensation for major executives of the seven largest US banks totaled \$95 billion over the past three years, even as the banks recorded \$500 billion in losses.

The question of precisely who and what is to blame for the greatest economic disaster in more than three quarters of a century is something that will not and cannot be raised by any section of the political or media establishment.

Since the eruption of the current crisis, there have no been serious congressional hearings, no public investigations, no attempt to hold anyone accountable. Massive government interventions into the supposedly sacrosanct precincts of the "free market," for the purpose of bailing out giant Wall Street firms, including the biggest government takeover of corporate entities in US history, have been carried out without any public debate or significant opposition from either political party. This, while millions of Americans are losing their homes and their jobs as a result of predatory corporate practices!

Certain conclusions must be drawn from the crisis of the American economic and political system. There is no solution within the framework of the profit system. What is needed is a socialist program that places the needs of the people before the profits and personal fortunes of the ruling elite...

The only social force that can carry this out is the working class. It requires a clean break with the Democratic Party and the two-party system and the mobilization of the immense social power of the working class in its own party, on the basis of a revolutionary socialist program.

This is the program fought for by the Socialist Equality Party.

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No to Wall Street bailout! The socialist answer to the financial crisis

By the Socialist Equality Party National Committee
22 September 2008

The Socialist Equality Party and its presidential and vice presidential candidates, Jerome White and Bill Van Auken, unequivocally oppose the plan to bail out Wall Street with hundreds of billions of dollars of taxpayer funds announced by the Bush administration and embraced by Democratic presidential candidate Barack Obama and the Democratic congressional leadership.

The plan, which is being rushed through Congress for passage this week, is the response of the government and the entire political establishment to what is acknowledged to be the greatest economic crisis since the Wall Street crash of 1929. It calls for an unprecedented transfer of public funds to the major banks and the American financial elite at the expense of the broad mass of the people.

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.

None of the measures being carried out address the underlying causes of the financial meltdown, nor will they resolve the crisis. At most, they will only postpone the day of reckoning.

None of those who control the banks and finance houses are being held accountable, and not a penny is being provided to provide relief for millions of working class families who are losing their homes, their jobs, and their livelihoods as a result of the frenzied speculation that led to the crisis.

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.

The government has pegged the cost of the program—by which the US Treasury will purchase virtually worthless mortgage-backed assets from banks and other financial institutions—at \$700 billion. This sum already represents the biggest corporate bailout in world history. It is larger than the annual budget for Social Security and the combined annual outlay for Medicare and Medicaid. It has been estimated that such an expenditure translates to a cost for each US family of approximately \$10,000.

Combined with the stated cost of other corporate bailouts and related

outlays carried out over the past several weeks—\$200 billion in the government takeover of mortgage giants Fannie Mae and Freddie Mac, \$85 billion in the takeover of the insurance conglomerate American International Group (AIG), \$50 billion to insure money market funds, and \$200 billion in Treasury transfers to the Federal Reserve Board—the \$700 billion handout to the banks exceeds the total allotment for all discretionary spending, excluding the Pentagon, for fiscal year 2009.

In fact, the figure of \$700 billion is a huge underestimation of the ultimate cost of the Wall Street rescue plan. The *New York Times* noted Monday that the decision of the Bush administration to extend its purchase of securities to foreign-based banks that operate in the United States—carried out under pressure from global institutions that hold massive amounts of US debt—will substantially drive up the cost of the program.

The text of the four-page “Legislative Proposal for Treasury Authority to Purchase Mortgage-Related Assets,” published Saturday by the *New York Times*, reveals the profoundly antidemocratic and open-ended nature of the scheme.

The first provision establishes the unlimited and unilateral authority of the Treasury secretary, an unelected official, to order the use of taxpayer funds to purchase whatever “mortgage-related” securities, at whatever price, at whatever amount and from whatever financial institutions he chooses.

It states that the secretary—currently Henry Paulson, the multimillionaire former CEO of Goldman Sachs—is “authorized to purchase, and to make and fund commitments to purchase, on such terms and conditions as determined by the secretary, mortgage-related assets from any financial institution...”

This is followed by a provision stipulating that the Treasury secretary’s authority under the act is “without limitation.”

A further provision authorizes the Treasury secretary to enter into contracts with the banks “without regard to any other provision of law regarding public contracts.” In other words, to ignore established law concerning public contracts.

The proposal states that the government will designate “financial institutions” to operate the bailout program. This means that the government will hand over management of the program to some of the very corporations that are responsible for the crisis and which stand to profit directly or indirectly from the bailout.

Congress, under the proposal, will be relegated to receiving semi-annual reports from the Treasury Department. It will have no real power of oversight or control.

The proposal gives the Treasury secretary unchecked authority to resell assets the department has taken off of the hands of the banks. This means that the banks will profit on both ends of the deal—they will be relieved of massive debts and will then be able to buy back the securities at fire-sale prices after the housing market has restabilized.

The text states that the Treasury secretary’s authority to purchase mortgage-related assets will be limited to \$700 billion “at any one time.” In other words, he will be able to buy more worthless assets after having sold back some of those previously purchased—rendering the supposed \$700 billion limit fictitious.

Under “Termination of Authority,” the proposal declares a two-year limit, but includes certain exemptions that will, in practice, enable the Treasury to extend the duration of the program indefinitely.

The proposal calls for a \$700 billion increase in the statutory limit on the national debt, raising it to \$11.315 trillion.

It then defines “mortgage-related assets” so broadly as to potentially cover everything from trillions of dollars in bonds to the estimated \$62 trillion unregulated market in so-called “credit default swaps.”

Perhaps the most extraordinary provision reads as follows: “Decisions by the secretary pursuant to the authority of this act are non-reviewable

and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency.”

This flagrantly unconstitutional provision establishes the unelected Treasury secretary as a law unto himself, beyond the control or oversight of Congress, other executive agencies or the courts. Two things need to be said of this provision: It makes overt what is normally hidden behind the trappings of American democracy—that is, the dictatorship of finance capital—and it implicitly acknowledges that what is being proposed is a violation of law. Why else insist that no one be allowed to challenge it in court?

That Obama and the entire Democratic Party leadership have lined up to endorse this windfall for the richest people in the country explodes their pretensions to offering an alternative to Bush and McCain and underscores the total subordination of both parties to the financial elite.

The bailout plan, devised by and for the most powerful sections of the American capitalist class, exposes all of the lies and myths that have been promulgated to defend the profit system: the claim that multimillion-dollar paychecks for corporate executives, vast profits for speculators, and ever-widening social inequality are justified because the capitalists must be compensated for their “risk-taking”; the mantra that social problems cannot be solved by “throwing money” at them, and that, at any rate, there is no money for jobs, housing, health care or education; the constant invocations against “big government.”

It demonstrates the class character of the government and the policies and decisions it takes, and the existence, behind the trappings of democracy, of a plutocracy—the rule of the rich.

The real source of the financial crisis is not and cannot be discussed by any of the official institutions or any of the political representatives of big business, whether Republican or Democratic. It is the capitalist system itself, which has for decades sought to overcome its fundamental contradictions by engaging in ever more parasitic and fraudulent forms of financial manipulation—piling up debt while dismantling the productive infrastructure of society.

American capitalism has become the global leader in the creation of personal wealth for the ruling elite entirely separated from the creation of real value in the process of production. The current economic breakdown, which threatens the world’s people with catastrophe, is the inevitable result.

The alternative to the naked dictatorship of capital and the impoverishment of the working people is socialism. The Socialist Equality Party insists that if the resources of the American people must be mobilized to avert an economic catastrophe, then the American working people should assume control of the financial institutions and use them for the common good, not corporate profit and personal enrichment.

We propose that the major banks and financial institutions be nationalized and turned into public utilities, operated under the democratic control of the working population. The vast financial resources that they control must be used to provide decent education, housing, health care, retirement benefits and good-paying jobs for all.

This should be carried out without compensation to their former owners, while securing the deposits and savings of working people and small business owners.

The billions of dollars in social wealth diverted into the private accounts of speculators and bankers must be recovered, to be used for the expansion of social programs that benefit the masses.

There must be a public accounting of the fraud and corruption that have fueled the crisis, and those responsible must be held accountable, including by means of criminal prosecution.

The books of the major banks, financial firms, insurance companies and hedge funds must be opened to public examination, to lay bare illegal and socially destructive activity.

The Socialist Equality Party and its candidates for president and vice

president, Jerome White and Bill Van Auken, advocate the creation of a workers’ government—a government of, by and for the working class—to carry out emergency measures to resolve the crisis in the interests of working people, including a halt to all foreclosures and repossession of homes, the creation of millions of public works jobs, a ban on wage-cutting and layoffs, and an enormous expansion in public services.

We issue an urgent appeal to all those who oppose the bankrupting of society for the benefit of the financial elite, who wish to defend the interests of working people, and who see the need for a socialist alternative to the two parties of big business: Support the SEP election campaign and its candidates, Jerome White and Bill Van Auken. Join the Socialist Equality Party.



To contact the WSWS and the Socialist Equality Party visit:

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