Ten years since the 2008 bank bailout

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Ten years ago today, the US Congress and the Bush administration initiated the largest bank bailout in human history.

With the passage of the Emergency Economic Stabilization Act of 2008, which created the Troubled Asset Relief Program (TARP), the US Treasury was authorized to spend some $700 billion to purchase "troubled assets" from leading Wall Street banks. This was to be merely a down payment, with total support from the US government, largely overseen by the Obama administration, figuring in the trillions.

The passage of TARP was the initial response of the American ruling class to the crisis brought on by the collapse of the US housing bubble, itself the outcome of decades of increasing speculation and financialization. Major banks and financial institutions had made billions through the fraudulent marketing and packaging of subprime mortgages. When the manic and lucrative party came to an end, they held trillions of dollars of essentially worthless ("troubled") assets.

In public statements, leading figures of the American ruling elite issued dire warnings about the consequences if the government did not immediately intervene to save the banks. All the resources of society had to be pressed into bailing out the financial system. No expense could be spared, and no questions asked.

While the 2008 crisis was rooted in fundamental contradictions of American and world capitalism, deliberate decisions were made to create the best conditions for a massive transfer of wealth to the ruling elite.

The immediate cause of the financial meltdown in the fall of 2008 was the collapse of investment bank Lehman Brothers, which sent shockwaves throughout the global economy. In his memoir, Timothy Geithner, then president of the New York Fed and later Obama's treasury secretary, outlined the calculations of the actors centrally involved in the crisis.

"Even in a world where we somehow rescued Lehman," Geithner wrote, "and then still went ahead and rescued [insurance giant] AIG, we would not have eliminated the fundamental factors driving the crisis. The economy was collapsing, and the financial system would have kept lurching toward disaster—undercapitalized, overleveraged, still burdened by mortgage assets the markets wouldn't touch, still under threat of a broader run. *It took the fall of Lehman and the impending collapse of AIG to persuade President Bush and [Treasury Secretary] Hank [Paulson] to seek legislative authority to try to repair the entire system.*" [italics added]

That is, the American financial system was insolvent, choked with trillions of dollars in speculative bets gone bad. It was necessary to create the conditions in which previously unimaginable and massively unpopular decisions could be rammed through, in which these bets could simply be taken over by the American government.

Following the collapse of Lehman Brothers, Chairman of the Federal Reserve Ben Bernanke and Paulson summoned leading lawmakers to a meeting in which they laid out the demands of the banks—the Troubled Asset Relief Program. Congressional Democrats, including Charles Schumer, Christopher Dodd and Barney Frank, took a leading role in promoting this scheme.

Republican presidential candidate John McCain, who had briefly taken the lead in the polls over Democrat Barack Obama in early September, was sharply reprimanded by Paulson and Bernanke for his unwillingness to clearly endorse the proposed bailout. "McCain … seemed unwilling to work actively for a solution," Bernanke complained in his memoir. Paulson, for his part, accused McCain of "slinging populist rhetoric on the campaign trail, excoriating Wall Street, talking about protecting taxpayers, and using the word bailout."

The Republican Paulson was far more impressed with Obama. "There didn't seem to be 'politics' or maneuvering in Obama's approach to me," Paulson later wrote. "He wanted to avoid doing anything publicly—or privately—that would damage our efforts to stabilize the markets."

Indeed, it was Obama's intervention that secured the passage of TARP, and he in turn became the favored candidate of Wall Street, helping him secure the presidency in November 2008. Over the course of the next eight years, Obama, who had been marketed as the candidate of "change" and "hope," would oversee a historically unprecedented transfer of wealth from the working class to the rich.

In a clear signal to Wall Street that the bailout would continue and expand, Obama appointed Geithner as his treasury secretary on January 26, 2009. In the face of mounting popular opposition and often heated debates within the federal government, the two men prevailed in every case in ensuring that the response to the economic crisis would directly align with the demands of Wall Street.

Despite announcing a multi-billion-dollar program to prevent foreclosures, the Obama White House ensured that it spread out home foreclosures in such a way as to minimize losses for the banks, while doing nothing to help ordinary people stay in their homes.

Even as former Fed chair Alan Greenspan warned that "it may be necessary to temporarily nationalize some banks in order to facilitate a swift and orderly restructuring," Obama made it clear that nothing of the sort would happen, declaring, "We've got big private capital markets and ultimately that's going to be the key to getting credit flowing again."

When, on March 16, 2009, the financial insurance giant AIG announced that its financial products unit would pay out $165 million in bonuses, Obama publicly expressed his outrage and privately allowed the company to make the payouts, despite the fact that the American government was in effect the company's majority shareholder.

The Obama administration ensured that not a single individual responsible for a crisis that caused untold misery around the world was held accountable for their criminal actions. No CEOs were fired from bailed-out firms, let alone hauled off to jail.

The logical corollary to the bailout of Wall Street was the assault on the jobs and living conditions of the working class. While the banks were bailed out, Geithner made clear that there would be no federal support to states and municipalities facing financial crises. This paved the way for a wave of austerity, including the 2013 bankruptcy of Detroit, which slashed the pensions of municipal workers and sold off city assets to billionaire speculators.

In the 2009 restructuring of the auto industry, the Obama White House predicated federal assistance to the Big Three auto makers on the expansion of the two-tier wage system and mass layoffs, setting the standard for a wave of pay cuts and labor casualization that swept through the entire American economy. This was made possible by the suppression of working class struggle by the corporatist trade unions.

The social suffering created by the crisis and its aftermath remains almost impossible to calculate, expressing itself in forms as diverse as the crisis of public education, the opioid epidemic, the fall in life expectancy, and a persistent rise in suicide.

The outcome of these policies is as was intended. The Dow Jones Industrial Average has more than tripled since 2009, propped up by a new financial bubble created by the Federal Reserve's four trillion dollars in quantitative easing. The ruling class is richer than ever. Yet none of the contradictions that produced the 2008 crisis have been resolved. They have merely been recreated on a higher level.

In March 2009, David North, the chairman of the *World Socialist Web Site* editorial board wrote, "The most essential feature of a historically significant crisis is that it leads to a situation where the major class forces within the affected country (and countries) are compelled to formulate and adopt an independent position in relationship to the crisis. That is, they are driven to advance a solution to the crisis in which their own social needs and interests are expressed."

In their response to the 2008 financial crisis, Bernanke, Geithner, Paulson, Bush and Obama all spoke for the ruling class. Their actions were repeated in different forms by capitalist ruling elites throughout the world. They are being continued and escalated under the Trump administration, while the Democrats are doing everything they can to suppress and divert opposition.

The working class has yet to articulate in a politically organized and conscious manner its independent interests in response to the crisis that erupted in 2008. This year, however, has seen the initial expressions of the growth of class struggle internationally. In their struggles, workers must draw the lessons of the 2008 crash, which has discredited the capitalist system in the eyes of billions of people all over the world and created a mass audience for socialism.

In the coming struggles, the greatest political task will be to imbue the response of the working class with the same determination of the ruling class, the corrupt and decadent oligarchy that extracts its riches from the labor of the great mass of humanity. A political leadership must be built to organize the struggles of the working class in a revolutionary socialist movement against the capitalist system.