

# Whose Wipeout? Whose Bailout?

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IS THIS WHAT 1931 looks like?

Years ago, we recall, two themes for popular cinema were people trapped in burning skyscrapers ("Towering Inferno") and market sharks engaged in financial manipulations ("Wall Street"). After September 11, 2001 the former disaster movie genre suddenly seemed much less fun, and we suspect that after September 2008 the spectacle of stock market crashes on the big screen may not be so entertaining either.

Anyway, you can't create dramatic fiction much more extreme than what Federal Reserve chair Ben Bernanke told Congressional leaders on the evening of September 18, that without immediate action "we might not have an economy on Monday." So what's happened - and what comes next? Elsewhere in this issue, Jack Rasmus looks at the realities of massive job losses and the unfolding recession; here we'll focus on the politics of the bankers' bailout.

What emerges clearly in the wake of this fall's stock market turmoil and credit paralysis is the disintegration of the Bush administration's remaining political credibility. This president's inability to deliver his own party's votes for the Congressional vote on the "financial rescue" bill showed how eagerly the American public - and the world - await the departure of this supremely arrogant, power-abusing and most spectacularly incompetent rogue regime.

The initial draft of the bailout - a fitting symbol of this regime's abuse of power - specified that the Secretary of the Treasury would act without any form of Congressional, agency or judicial oversight, and that any funds he chose to commit would be "considered to be appropriated" at the moment he spent them. This clause was to fiscal management as the PATRIOT Act is to the Bill of Rights, or Guantanamo and Abu Ghraib to the basic rules of human rights, or the invasion of Iraq to international law - an absolute negation of every principle by which Constitutional government is supposed to be controlled.

Who wrote that clause, we may never know. We do know that even after it was removed and some figleaf of oversight inserted, popular outrage from multiple directions doomed the first Congressional vote despite the pressure and arm-twisting from the leadership of both parties. The revised version with its 450 pages of tax cuts, increase in federal deposit insurance, and assorted quasi-reforms of corporate malpractice, passed on October 3. As Bismarck famously remarked in the 19<sup>th</sup> century, the making of sausages and laws should not be observed too closely.

Beyond the economic crisis itself, there's an equally important consequence of these events: The unquestioned financial supremacy and "sole global superpower" status of United States imperialism is over. And to that we say, as socialists and as defenders of democratic values: Good. It's about time. Empire is a bad deal for the peoples of the world and for the U.S. working class, neither of whom can afford it.

The United States remains of course the leading military colossus, the largest economy, the biggest importer of consumer goods and of foreign capital to cover our deficits, and the biggest exporter of agribusiness products as well as military technology and derivatives from subprime mortgages and

other toxic debt assets. This doesn't translate into "effective American leadership," however, especially when "victory in Iraq" remains a distant mirage, Afghanistan and Pakistan have become twin foreign policy disasters, and when Georgia's attempt to conquer South Ossetia has become a national tragedy for this U.S. ally and a debacle for U.S. influence on Russia's border.

Among other things, we think you can take that long-speculated scenario of the dead-end Bush regime and Israel attacking Iran off the table. The world capitalist economy couldn't handle it, and the air bases in Georgia that had been made available to Israel's air force to launch the assault are no longer secret or secure. Once again we say: Good. To that extent, the world is just a little bit safer - at least for the moment.

### The Bankers' Bailout

Returning to the issues of financial and credit markets, we've seen a classic case of how capitalist institutions work. Capitalism from its inception is a system of booms and bubbles and panics and busts. The capitalist market, on its own, leads to chaos and self-destruction at least as often as it tends toward "equilibrium." That's why some element of state regulation of the market and of large financial institutions has long been recognized to be essential.

As the financial system expanded globally as well as domestically in the 1990s, with vast amounts of money to be made, regulation of banking broke down on more than one level. The complexity of new financial instruments overwhelmed the ability of governments (or anyone else) even to know, let alone control, what kinds of assets and liabilities were rocketing around the international market. The breakdown was completed by the triumph of the ideological right wing, whereby rampant deregulation took down the longstanding firewalls separating commercial banks and lending institutions from giant investment banks.

The cultures of economics and politics are not insulated from each other. The climate of capitalist triumphalism following the collapse of the Soviet Union was a great enabler of both the religion of the "free market" and U.S. military supremacy. The wave of hysteria following 9/11 also gave the Bush gang a mandate for "remaking the Middle East" as an American lake, to be built on overwhelming U.S.-Israeli military supremacy without regard for any of the inconvenient realities of that region - least of all the catastrophe of Palestine. That same reality-free permissiveness pervaded the culture of the credit and financial markets, where fraudulently promoted subprime mortgages were issued to lenders who had no way of knowing what debt loads they were assuming.

The burst of the housing bubble has left the financial markets sitting on trillions of dollars of essentially fictitious value. There is no rational purpose served by pretending that either those homes or the mortgages on them held by the banks, let alone the "derivatives" based on packaging and re-selling them, are worth what their paper value says. A proper rescue program would begin with an immediate ban on foreclosures, followed by the government taking over and rewriting those mortgages to reflect the actual value of those properties - i.e. a 30-40% writeoff of their fictional paper values at the height of the housing bubble - and then putting a ceiling on families' monthly payments at something like 10-12% of household income.

Among other virtues, such a program would not only keep people in their homes but also, by reducing their payments, serve as a more effective economic stimulus than those one-time Treasury checks. Suppose the banks couldn't survive the disappearance of their fictional paper assets? In that case - put the banks under public control to serve people's needs. Those hundreds of billions of bank bailout bucks could fund jobs programs for a sustainable economy, and the single payer health care insurance program we desperately need!

The operating principle of a capitalist government's rescue plan is entirely different: Bail out the biggest banks ("too big to fail") by putting up taxpayers' money to purchase bank shares and "toxic assets" at above-market prices, while leaving most of those subprime-adjustable-rate loan victims to fend for themselves. The banks remain privatized, even though the government - having little choice

- is purchasing non-voting shares ("preferred stock") as a way of pumping in cash to keep them afloat.

Many commentators, both from the liberal left and from those on the free-market right who actually believe in their stated principles, denounced the Paulson-Bernanke plan for its blatant unfairness and for its "bailout of Wall Street and corporate fat cats." The initial stunning House of Representatives rejection was triggered by an outburst of populist anger, expressed from the grassroots both "right" and "left," and the profound weakness of the Republican and (to a lesser extent) Democratic leaderships to exercise political discipline.

The sweetened and larded-up bailout's passage reflects the ultimate "There is No Alternative" blackmail. Congress found itself caught between the rock, the population's hatred of bailing out the banks, and the hard place of a threatened fullscale collapse of credit markets. The TINA argument admittedly is powerful, given that the entire debate is trapped within the framework of how to "preserve the financial system" as it is, excluding the possibility of a different kind of system with a fundamentally new set of priorities. That alternative would be "socialism" for real - a possibility that is simultaneously the hope for humanity, and yet truly impossible in the absence of a massive working class and popular upsurge to fight for it.

### **What Next?**

We've discussed in recent issues of this magazine, as well as the current one, the complex and controversial linkages of the international credit crisis to the "real economy." For sure, we know that the bailout is not the end of this story. A stock market rally will not resolve the crises of credit and confidence, or the lack of transparency in financial institutions, that has seen such massive institutions - Merrill Lynch, Lehman Brothers, Fannie Mae and Freddie Mac, AIG, Washington Mutual, Wachovia!! - collapsing like so many jerry-rigged school buildings in the Chinese earthquake.

People facing the loss of their jobs or cuts in their wages are not going out to purchase homes, new cars, or even those expensive high-definition televisions that we need as the TV sets we now have go blank in yet another corporate-government ripoff. Those who do want to buy can't get credit, and business firms needing loans for new inventory and equipment renovation are caught in the same squeeze. State and local governments all over America are in budget deficits that they cannot overcome by themselves. There must be, at some point, a limit to the willingness of China and other foreign investors to buy up the U.S. Treasury's debts, for the continuing three-trillion dollar Iraq war on top of the bank bailout, while the dollar continues to decline.

The next administration, be it Obama or McCain - presumably with the Democrats controlling Congress - will take office facing a generalized crisis as deep in some ways as confronted Franklin Roosevelt in 1932. By this we don't mean a repeat of the Great Depression, but a tangled set of economic contradictions and problems of "global management" (in old-fashioned language, imperialism) of daunting complexity. Yet the new administration will have nothing like the tools at hand to craft a 21<sup>st</sup>-century New Deal - partly for objective reasons, but also because Obama and the Democrats never campaigned for such a mandate, despite that whole "change" mantra.

The small forces that make up the U.S. left today - weak and often marginal as we know we are - will need to focus our energies in rebuilding the social movements that can make a difference. Only then might there be a serious possibility of ending the U.S. grasp of empire, coming to terms with the real conditions of our society, demanding government action that throws a lifeline to the needy instead of the greedy, and yes, putting elements of a socialist alternative on the popular agenda.

## **The Editors**

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