

# ECONOMY IN CRISIS



BEAR  
STEARNS



\$700 Billion



LEHMAN BROTHERS

We make home possible<sup>SM</sup>

***BAILOUT WORKING  
PEOPLE NOT WALL ST!***

**TIME TO ORGANIZE A FIGHTBACK**



# THE WALL STREET BAILOUT

## Bipartisan rip-off fails to solve crisis

By Ty Moore  
October 6th, 2008

After a week of economic and political turmoil, on Friday, October 3rd, Congress bowed down to Wall Street and passed the largest corporate welfare package in U.S. history. On top of the \$700 billion package, Democrats agreed to add another \$150 billion in tax cuts for the rich to secure more Republican support. Many lawmakers conceded this bill may only be the first installment in further attempts to make taxpayers and working people pay for Wall Street's enormous gambling debts.

Worse still, the bailout hasn't slowed the downward spiral of the global economy. Following the Friday vote, markets worldwide continued to tumble. On Monday the Dow plunged over 600 points, dipping below 10,000 for the first time in four years.

Over the weekend, credit markets went into deep freeze amid news of more bank failures in Europe. 159,000 jobs were lost in September, the worst month in five years. Meanwhile, as working people anticipate further economic pain, new reports show "consumer spending for the quarter will almost certainly shrink, the first quarterly decline in nearly two decades" (NYT, 10/6/08). For over a decade, debt-financed spending by American workers has been the lynchpin of the entire world economy, so this news, while not unexpected, represents another severe blow to economic confidence.

This economic crisis, the worst since 1929, is only in its opening stages. But it has already wreaked political and ideological havoc, severely undermining essential pillars of U.S. capitalism. Numerous commentators have declared the "end of free market ideology." For the Democrats and Republicans, the timing of this crisis – just weeks before the elections – could not have been worse. While economic anxiety is undermining support for McCain more than Obama, the \$850 billion Wall Street bailout exposed both parties as defenders of big business.

### Democrats exposed

The initial defeat of the bailout package in the House on September 29th was the byproduct of fierce public opposition. However, without a mass working-class political movement offering a clear alternative plan to confront the economic crisis, the ruling class was able to use fear of a depression to

rally enough votes in Congress to pass essentially the same bill four days later.

The bill contained no meaningful oversight for how Treasury Secretary Paulson could spend the \$700 billion. The proposed independent panel and Congressional oversight committee will consist of a small clique of Wall Street insiders vetted by Henry Paulson, himself a former CEO of Goldman Sachs. This is legalized corruption on a colossal scale.

In collusion with the Bush administration, House Democrats voted three to one for the bill, allowing right-wing Republicans to pose as principled defenders of "Main Street" by voting 108 to 91 against. Obama in particular used his authority with the Black Congressional Caucus and freshman Democrats to shore up support for the bill.

In recent weeks, many have paid grudging tribute to Marx's economic ideas. But the mid-week scenes of Congressional leaders huddled in the White House for closed-door strategy discussions with Bush, Obama and McCain provided new credence to Marx's famous explanation of capitalist government: "The Executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie."

### No solution

The Wall Street bailout does absolutely nothing to help families facing foreclosure from being kicked out of their homes. It does nothing to reverse declining wages and rising prices. There are not any provisions forcing the banks receiving the bailout to invest in job creation programs or any other economic initiative aimed at boosting working people's spending power. This bill was aimed solely at protecting the most rapacious, profit-hungry Wall Street capitalists and the financial system they use to exploit the rest of us.

As Michael Moore pointed out: "The richest 400 Americans -- that's right, just four hundred people -- own MORE than the bottom 150 million Americans combined. 400 rich Americans have got more stashed away than half the entire country! Their combined net worth is \$1.6 trillion. During the eight years of the Bush Administration, their wealth has increased by nearly \$700 billion -- the same amount that they are now demanding we give to them for the "bailout." Why don't they just spend the money they made under Bush to bail themselves out? They'd still have nearly a trillion dollars left over to spread amongst

themselves!"

House Speaker Nancy Pelosi led the charge to deceive U.S. workers, claiming that rather than protecting Dow Jones, the bill was passed "on behalf of Mr. and Mrs. Jones of Main Street." But even pro-capitalist economists acknowledge the bill is nothing more than a band aid on the open sores of a failing US economy.

### Credit freeze

While failure to pass the bailout would have caused even further panic among investors, so far it has not provided any real respite from economic bad news. This is because the economic crisis is rooted in the collapse of the housing bubble, which was the foundation for the explosion of cheap credit and the debt-financed boom of recent years. With living standards falling and unemployment rising, more workers are going to be unable to repay their mortgages. This crisis is only going to worsen.

Along with that has been the collapse of the speculative bubble in derivatives and other speculative investments. This is infecting the traditional banks and leading to a virtual standstill on credit markets, with banks refusing to lend to each other and other businesses at affordable rates. With workers and businesses unable to borrow money cheaply, the economy will slow even more, throwing the U.S. and world economy into a painful recession.

Giving more handouts to the rich and Wall Street will not turn the US economy around. It only lines the pockets of the rich and enables them to demand more cuts in wages and benefits from workers to pay off their massive debts.

Bailout Main Street, Not Wall Street! The events of recent weeks will drive home a crucial lesson for the most class-conscious workers and youth: big business and their two political parties are preparing more brutal attacks on working people to make us pay for their crisis. As every previous capitalist crisis has also confirmed, it will only be mass movements of working people, organized independently of big business and their political parties, that can offer a way out of the economic downturn.

Wall Street banks are the leading contributor to both Obama and McCain's campaigns, according to the Center for Responsive Politics. These are not philanthropic donations to the democratic process! They are calculated investments and these bankers expect a fat return. Now Obama, Mc-

Cain, Bush, and top Congressional leaders have delivered to their paymasters as never before.

We need our own political party that stands up for the millions, not the millionaires. A genuine party for working people would not accept any contributions from big business. It would prevent its elected officials from receiving more pay than the workers they represent, and hold them accountable to a pro-worker, antiwar, and environmentally sustainable program. Now more than ever, building such a mass workers' party is on the agenda. Especially

in the event of an Obama victory, millions will experience firsthand the pro-corporate betrayals of the Democratic Party.

A crucial task in the next month is to use the heightened political atmosphere of the elections to prepare the ground for building a working-class political alternative. This means boldly calling for a break from the two-party system, and urging the strongest possible protest vote against them. Socialist Alternative is calling for a vote for Ralph Nader, who is on the ballot in 45 states across the country and is actively campaigning against the Wall Street bailout

while putting forward a pro-worker, antiwar agenda.

The struggle in the electoral arena must be combined with building movements in our communities and workplaces against all attempts of big business to make working people pay for their crisis. We have just entered a new a volatile period in U.S. and world history. In the coming months and years, as capitalism fails to offer any solutions to the problems facing working people, increasing layers of humanity will begin to question this rotten system and open up to the idea of a socialist alternative.

# WHAT COULD \$700 BILLION BUY?

*(That's \$700,000,000,000)*

- **13 million children currently living in poverty in the U.S. could each get a check for \$53,800**
- **10 million unemployed U.S. workers could be given a job at \$35,000 a year for two years**
- **72 million homes with renewable electricity could be covered for ten years**
- **New Orleans and the Gulf Coast could be rebuilt three and a half times**
- **Out of pocket medical expense could be covered for every American for a year, with \$600 billion left over**
- **5 million jobs could be created as part of a massive program to develop renewable energy and end our dependence on oil ([www.apolloalliance.org](http://www.apolloalliance.org))**
- **Could provide 20 million people with Health Care for ten Years**
- **Could build 5.5 million Affordable Housing Units**
- **Could provide every working American a \$5,000 cash bonus**

# FOR A FIGHTBACK AGAINST CORPORATE SELLOUTS

Every time working people, unions or community groups demand better wages, benefits or social services, these corporate politicians have told us: "We can't afford it." Now the government is authorizing \$700 billion (possibly much more) to buy up the bad debts of Wall Street "banksters." This money should instead be used to guarantee healthcare, housing, childcare, education, and a living wage for everyone.

They claim bailing out the financial elite is necessary to prevent economic disaster for working people. In reality, this is the largest corporate welfare handout in U.S. History. Even the cheerleaders for the bailout acknowledge that it won't prevent millions of families losing their homes to foreclosures. They admit it won't stop rising unemployment and inflation.

This bailout plan has nothing to do with ensuring the economic security of

working people, and everything to do with propping up their system of exploitation and profiteering at our expense. Congressional Democrats are demanding nothing more than token reforms on Wall Street. Their promises to safeguard taxpayers are as empty as our wallets. The corporate politicians, including Obama and McCain, refuse to carry out a plan that will really benefit working people and the economy.

## An Alternative Plan that Represents the Interests of Working People

### **Make Corporate Criminals Pay for Their Corruption**

While this crisis is rooted in the fundamentals of the free market economy those that broke the few regulatory laws which still remain must be held accountable. When regular people break the law they are prosecuted. Health companies garnish the wages of workers to recover their inflated health care costs. This should apply to the investment swindlers. These criminal investors should not enjoy their yachts and multiple mansions while workers are thrown out of their homes because of investment fraud. A democratically run commission made of trade unionists, community groups and the public should investigate their criminal activity.

### **Stop Foreclosures! For a National Housing Plan**

The government should declare an emergency moratorium on home foreclosures, and renegotiate the debts of homeowners victimized by loan sharks. Home buyers who cannot meet their mortgage repayments should have the right to rent the property at an affordable social rent. Decisions regarding mortgage defaults, foreclosures, and home owners' rights in general, should not be taken by government officials or bankruptcy courts, but by popular, elected committees which will safeguard the rights of working people. For a nationally coordinated plan to ensure affordable housing for all, including rent control, housing subsidies, and a massive expansion of quality affordable housing.

### **Jobs Programs, Not Layoffs - Tax the Rich and Big Business**

The money is there to improve our lives and stop the economic downfall. Working people pay too much to the government, and corporations get bailouts while they evade taxes. Tax the rich to pay for a massive public works program that creates millions of living wage jobs and builds schools, hospitals, clean energy infrastructure, and other social needs.

### **Stop Inflation: Raise Wages and Cap Prices**

These massive bailouts for the banks, on top of hundreds of billions for the war and tax cuts for the rich, are being paid for by huge deficit spending, which erodes the value of wages. This, combined with price gouging and speculation on commodities like food and energy is causing inflation. We demand a living wage for all workers and indexing wages to rise with inflation, so that working people are not forced to pay for this crisis. Gas prices should be subject to price controls and capped at \$3 per gallon.

## Time to Organize the Fightback

The corporate politicians in Washington have no intention of implementing public ownership of the failing banking industry to be planned democratically in the interests of working people. They would fiercely oppose such a program. Even to the basic demands like preventing foreclosures they offer only lip service. Their primary focus is a bailout for Wall Street which some have called "socialism for the rich".

But the capitalist model is fundamentally flawed and even the biggest financial bailout in history will not stop a recession. This means there will be millions losing their homes, their jobs, facing wage cuts and budget cuts. The burden and hardship of this deepening recession will overwhelming be placed on working people. This is the beginning of the worst economic downturn most of us have ever seen in our lifetimes.

We have no choice but to organize a fightback. We need to build campaigns by organizing in our in our communities,

workplaces and schools. We need to organize campaigns that demand a moratorium on foreclosures, that fight against layoffs, that demand higher wages and guaranteed pensions, that call for taxing the rich to pay for necessary social services.

Conferences should be urgently organized in every major city around the country bringing together the labor movement, antiwar and community activists. The union movement has a tremendous opportunity to organize a working class resistance. Rank-and-file union workers need pressure their leadership to take up these issues, organize mass demonstrations and launch or join the fightback campaigns.

We must link these struggles together and build a mass movement to defend the living standards of ordinary working people and to demand an end to corporate welfare. Only organized struggle can stop this attack on workers. Only organized struggle can deliver real change.

### **A Real Democratic Plan for Housing, Banking, Healthcare and Energy**

Freddie, Fannie, Bear Stearns, and AIG have been either nationalized or given huge injections of public funds. But instead of capitalist nationalization which acts to save the rich, we call for socialist nationalization, with compensation based on need, and under working people's democratic control, so that the wealth of these institutions is used in the interests of the vast majority and not to line the pockets of the ruling class. The banks should provide cheap mortgages for personal home buyers, small business and small farmers serving the needs of local communities.

# THE GREAT IMPLOSION

## Capitalist Finance System Nears Melt-down

September 26, 2008

Editorial from *Socialism Today* #122

Over recent years, we have often been accused of being “catastrophists.” This is because we predicted that the debt-driven bubble economy, dominated by high-profit, high-risk finance capitalism, would at a certain point collapse, resulting in a serious downturn in the world economy. As a review of our articles will show, we have never proclaimed a “catastrophe” at every point, but have presented a careful, balanced analysis of each stage of development. And our analysis is now being amply borne out.

Unfortunately, some on the left succumbed to the idea that the world capitalist boom, based on accelerated globalization and ultra-free-market policies, could continue indefinitely. The events of recent weeks, following the collapse of the U.S. housing bubble and the severe repercussions of the subprime mortgage crisis, have completely changed the picture. Now the headlines in the serious capitalist press are “catastrophist.” “Capitalism in convulsion” read a headline in the *Financial Times* (9/20/08).

George Bush’s attempted multi-billion-dollar rescue of the financial system, wrote John Plender, is “at the cost of inflicting severe damage on the U.S. model of free-market capitalism.” (*Financial Times*, 9/20/08) After the government-financed bailouts and takeovers of Bear Stearns, Fannie Mae, Freddie Mac, American Insurance Group, etc, it has become commonplace to refer to the “socialization” or “nationalization” of financial institutions. In reality, the colossal debts of reckless, predatory finance capitalism are being offloaded onto the shoulders of the working class.

When U.S. Treasury Secretary Hank Paulson announced his \$700 billion Troubled Asset Rescue Program, the commentator Paul Krugman (a liberal Democrat) commented: “Comrade Paulson is taking over the commanding heights.” One financial trader, Bill Perkins, a free-marketeer, placed an ad in the *New York Times*. It shows Bush, Paulson, and Federal Reserve Chairman Ben Bernanke, the “new communists,” raising an American flag on the grave of “private enterprise” and “capitalism.” Perkins believes that failed banks should be allowed to collapse and not be bailed out at the taxpayers’ expense. “I think it’s a kind of trickle-down version of socialism or communism,” he said. “You

have the government nationalizing more institutions than Venezuela.” (*Guardian*, 9/25/08)

For a few days, however, Bush, Paulson, and Bernanke were facing the prospect of a new 1929-type crash of the financial system. If they allowed it to happen, as the Federal Reserve and the government did in 1929, it would threaten the survival of the capitalist system. From a capitalist standpoint, they had no choice but to intervene to try to stabilize the financial system. Whether Paulson’s package succeeds remains to be seen. There is a chain of crises that is far from played out.

Nevertheless, the accumulation of state-financed bailouts and de facto nationalizations, and now the \$700 billion rescue plan, is a shattering blow to the prestige of U.S. capitalism and the ideology of the free market.

Nationalization by the Bush regime, of course, does not mean real “socialism.” Their aim is to use the state’s resources, including a massive increase in public debt, to stabilize capitalism and prepare the ground for a recovery at a later date. The bill for the bailouts will be handed to the working class, who contribute the biggest share of taxes to the U.S. government. Moreover, millions of working-class families have been ensnared by crooked finance companies into the subprime mortgage trap, and many are now losing their homes. Millions will face unemployment and poverty wages as the financial crisis pushes the U.S. economy deeper into recession.

Real socialism would mean the taking over of the finance sector and the commanding heights of the economy by a government of the working class, to be run democratically under the control of those who produce the wealth. Democratic planning would replace the anarchy of the market. Production would be to meet the needs of society, not the profits of the few. Nevertheless, as Karl Marx and Friedrich Engels pointed out, even nationalization measures carried out by the capitalist state for its own ends demonstrate the redundancy of private ownership and the possibility of an alternative, more advanced economic system.

### **Domination of Finance Capital**

Many are now blaming the current crisis on the “greed” and “fear” of bankers, hedge fund managers, traders on financial markets, and so on. These people have

undoubtedly played a predatory, parasitic role. Their speculative activities have concentrated wealth and profits into the hands of a tiny, super-rich minority. Last year, for instance, the average chief executive in the finance sector gained an income 275 times that of an average worker. Their egotistical motives, however, are a symptom of the system, not the cause of developments.

Over the last 30 years, the capitalist class in the U.S., Britain, and elsewhere moved away from investing in productive activity, the production of goods and services required by the majority of people. They sought higher levels of profitability in the finance sector, both in the advanced capitalist countries and in China and other developing economies. The defeats of the working class in the 1980s, followed by the collapse of Stalinism in the Soviet Union and Eastern Europe, allowed the capitalist class to intensify the exploitation of the working class, especially in the neo-colonial countries of the underdeveloped world. The capitalist system as a whole became increasingly parasitic.

That was the basis on which the parasitic finance capitalism became dominant. It was allowed free scope by globalization and ultra-free-market (neo-liberal) policies. But the growth of grotesque inequality, with the worldwide reduction in the share of wealth taken by the working class, increasingly restricted the market for capitalism. The capitalist class, especially those operating on the Anglo-U.S. model, have sustained relatively high levels of growth on the basis of ever-growing volumes of debt. In 1980, global debt was approximately equal to global GDP. Since then, however, global debt has ballooned to over 3.5 times global output. At the same time, finance capitalism, the channel through which this debt is traded for profit, took around a third of capitalist profits.

This trend, as we have pointed out many times, was unsustainable. It was only a matter of time before the whole edifice collapsed. That is what is happening now. The shadow banking system, the network of unregulated investment banks, hedge funds, and the banks’ own off-balance-sheet vehicles, has imploded. The shadow network was developed to bypass the regulated commercial banks. But the major banks, which still form the core of the finance system, have not escaped the crisis of liquidity and capital availability. Derivatives, a whole array of exotic financial instruments that

were supposed to spread if not abolish risk, have indeed turned out to be “financial instruments of mass destruction,” as the old-fashioned financier Warren Buffett warned.

There will be a profound reaction in the U.S. and internationally to the capitalist crisis and the state bailout of rotten finance capital. Apart from the economic contradictions, the crisis will undoubtedly produce a monumental scandal of corrupt practices, fraud, and theft on an even bigger scale than the earlier Enron scandal. Workers will be forced to organize and fight against the effects of capitalist crisis. These events will create fertile ground for the growth of interest in genuine socialism and Marxism.

### **Countdown to Meltdown**

Events in September marked a new, critical stage of the crisis in the global finance system. The world was brought to the brink of a 1929-type collapse.

On September 7, the U.S. treasury was forced to step in and take over the direct running of Fannie Mae and Freddie Mac, the two giant government-sponsored mortgage providers. This followed the government intervention in July, when it guaranteed their \$5 trillion mortgage debt in return for shares in these institutions – in effect, a partial nationalization. Even that failed to stabilize these giants. Paulson’s “bazooka” had not proved enough to reassure foreign investors, particularly Asian central banks, which have been selling off Fannie and Freddie bonds. A complete takeover by the government, effectively nationalizing the institutions, was the only measure left.

Then (September 14-15), Lehman Brothers and Merrill Lynch, two of the five giant Wall Street investment banks, faced bankruptcy. Other Wall Street banks refused to intervene without a government undertaking to guarantee Lehman’s and Merrill’s toxic assets. Paulson and Bernanke refused. They had come under tremendous political pressure to avoid handing out any more taxpayers’ dollars. Moreover, free marketeers were demanding that they avoid creating further “moral hazard,” that is sending out another signal that reckless speculators would be protected from their own folly by the assurance of a government bailout. By refusing to back a government rescue of Lehman and Merrill, Paulson and Bernanke hoped to send a message that there would be no more Bear Stearns-type government-sponsored bailouts for failing banks. Lehman Brothers filed for bankruptcy, and Barclays International and other vultures began to cherry-pick the potentially profitable Lehman assets. Merrill Lynch, on the other hand, rushed to sell itself to the Bank of America, a deposit bank with much greater capital reserves.

Paulson and Bernanke, however, made a

monumental miscalculation. They thought they could draw a line, but their refusal to back a rescue of Lehman or Merrill triggered a general slump in bank shares. This signaled that a whole swath of banks were about to follow Lehman and Merrill into the dust. Among the most threatened were the two remaining investment banks, Morgan Stanley and Goldman Sachs. The whole “shadow banking system,” the unregulated, debt-financed, highly speculative network of investment banks and hedge funds, was imploding. Because of their multiple links with the major banks, which also operated off-balance-sheet investment vehicles, the investment banks threatened to bring down many other institutions. If Paulson and Bernanke had backed a rescue of Lehman and Merrill, it would not have stopped the rot (as the subsequent bankruptcy of Washington Mutual shows), but by standing back as Lehman and Merrill sank, they accelerated the pace of the banking crisis.

The failure of Lehman and Merrill had an immediate knock-on effect on the short-term money market. Money market funds, used by the banks to finance their short-term borrowing, have usually been regarded as almost as safe as cash. A key aspect of the credit crunch was the seizing up of this short-term money market, as banks hoarded cash and avoided making any potentially risky loans to other banks. Despite the Federal Reserve’s drastic interest rate cuts, the inter-bank lending rate, usually fractionally higher than the Fed’s rate, has soared to an unprecedented level. Reeling under the impact of the Lehman and Merrill bankruptcies, the severe credit crunch turned into a complete paralysis of this vital money market.

The Federal Reserve, cooperating with other major central banks, was forced to pump \$180 billion into the global banking system (on this occasion, currency swaps - dollars for euros, pounds, etc). In the following few days, they pumped in another \$100 billion into the system, and the central banks of Britain and Japan and the European Central Bank also pumped in additional liquidity. Moreover, the Fed and other central banks agreed to accept a wider range of securities as collateral for the loans, including shares, company bonds, etc - in other words, much more risky assets than the government bonds they had previously insisted on. (Since then, more liquidity in the form of short-term loans has been pumped in by central banks.)

Paulson had allowed Lehman and Merrill to collapse, but faced with the possible collapse of a giant insurance company, American Insurance Group (AIG), the government was forced to step in. The AIG crisis was triggered by the downgrading of its security status by a rating agency. This threatened to trigger a run on AIG’s shares,

thus further depleting its capital reserves. The problem was not with AIG’s massive insurance business in the U.S., Europe, and Asia. The crisis arose from its involvement in the shadow banking system through its worldwide business in credit default swaps, a form of insurance used to guarantee the investment grade status of a wide range of securities (mortgage-backed securities, company bonds, municipal bonds, etc). AIG had issued \$447 billion of such insurance (including \$300 billion to European institutions).

The downgrading of AIG’s credit status automatically meant a downgrading of securities insured by AIG-issued credit default swaps. This would, in turn, create problems for any finance house using AIG-insured securities as collateral for their own borrowing. In other words, a collapse of AIG would mean a huge increase in the quantity of toxic debt in the global finance system. The losses would be absolutely staggering (one estimate is that it would mean at least \$180 billion for the global financial sector). At the same time, AIG’s collapse would also mean the collapse of its worldwide insurance business. To avoid a catastrophic crash, Paulson was forced to step in by guaranteeing \$85 billion of AIG assets in return for preference shares in the insurance company.

During the critical week September 15-19, world stock exchanges plunged. The government bailout of AIG failed to stabilize share markets. At the same time, the price of oil, which had been tending to fall over recent weeks, began to rise – probably due to a panicky buying of oil futures. Paulson and Bernanke evidently realized that they were faced with a stark 1929 situation. If they stood aside, there would undoubtedly be a collapse of the global finance system that, in turn, would provoke a major slump in the world capitalist economy. Having learned the lessons of the 1929 crash, when the Federal Reserve and the U.S. government stood aside and allowed the financial dominoes to collapse, Paulson and Bernanke decided that they had no choice but to step in to save the capitalist system.

On September 19, Paulson announced his Troubled Asset Relief Program (Tarp), a \$700 billion “plan” to place a floor under collapsing financial institutions and stabilize the U.S. and world banking system. Paulson’s announcement averted a global crash, at least for the time being. But it is really a palliative measure that will not in itself overcome the credit crunch and the paralysis of the banking system.

As we go to press, there is news of the bankruptcy of Washington Mutual, the biggest bank failure in U.S. history. WaMu was seized by the regulator (September 25) and sold to JPMorgan Chase.

## Paulson's Package

After the crisis with Lehman Brothers and Merrill Lynch and the seizing up of the short-term money market (despite continuing massive injections of liquidity by the Federal Reserve and other central banks), Paulson was forced to announce (September 18) a rescue package, the Tarp. Without giving any details, Paulson proposed to spend \$700 billion of taxpayers' money to establish a toxic waste dump for the unsalable securities still on the books of financial institutions.

A reported \$500 billion of losses have already been written off, but some estimates put remaining securities from the housing market at a further \$1 trillion. Global stock exchanges immediately revived following Paulson's announcement. Almost immediately, however, congressional leaders, both Democrat and Republican, began to protest at the sweeping character of Paulson's rescue plan and the extraordinary powers that he was claiming as treasury secretary.

Paulson proposed that the treasury secretary should be given (initially for two years) unlimited powers to buy securities from anyone at any price according to his discretion. Moreover, he was claiming immunity from any kind of action by courts or administrative agencies of the government. Initially, he proposed buying the securities from U.S. banks only, but soon widened this to include the U.S. subsidiaries of foreign banks.

If this were accepted by Congress, Paulson would be the most powerful treasury secretary in U.S. history. On its cover, Newsweek dubbed him "King Henry." In effect, the treasury secretary would become the economic executive of U.S. capitalism with no oversight (merely reporting to Congress twice a year), a rival source of power to the presidency itself.

Like Bush after 9/11, Paulson, backed by Bernanke, is attempting to use the threat of global financial collapse to get rapid congressional approval of his proposals without a thorough discussion of their content. Paulson, for instance, is demanding the package should be "clean," meaning that it should not be encumbered by any proposals such as the government acquisition of shares in exchange for buying toxic debt, or limits on the remuneration of bankers, or relief to homeowners facing foreclosure. Keen to bail out bankrupt banks, Paulson brutally rejects the legitimate claims of home-buyers.

Paulson is proposing to pay something near the face value of toxic securities, over 60 cents on the dollar as opposed to their current market value of 20 or 30 cents. Moreover, a variety of banks, finance houses, and other companies are lobbying to widen the scope of the rescue. For instance, there are demands for municipal bonds,

credit card debt, and car-purchase debt to be included. Wall Street firms are already looking forward to the fees they hope to collect from being drawn in to administer the operations of Paulson's program.

It is hardly surprising, then, that the heads of finance companies are enthusiastic about Paulson's proposals. However, some free-market Republicans have vehemently denounced the plan as the "socialization of debt." Senator Jim Bunning, a Republican from Kentucky, proclaimed: "The free market for all intents and purposes is dead in America." He said that Paulson's plan would "take Wall Street's pain and spread it to the taxpayers... It's financial socialism, and it's un-American."

Democratic leaders, on the other hand, are demanding measures to help distressed homeowners. Paulson has rejected this demand on the grounds that the bundles of toxic securities are too complex to allow the reduction of individual homeowners' payments. "The banking and securities industries... are fighting the change with all their might, as they did when it came up with the housing bill that was adopted in July." (International Herald Tribune, 9/24/08)

Paulson's current proposal is completely different from the measure used to rescue the savings and loans banks (thrifts) in the early 1990s. At that time, the U.S. government effectively nationalized the failing thrifts and sold off their remaining assets over a period before returning the thrifts to private ownership. The robust growth of the economy after 1994 restored the value of mortgaged property and allowed the government to recover part of the cost of the rescue.

A similar measure was taken by the Swedish government after the collapse of the housing bubble in 1991-92. The government nationalized a large section of the Swedish banking sector, cutting out the shareholders of these failed institutions, and, subsequently again, any salable assets were sold off and the banks were later returned to the private sector. The rescue, however, cost about 4% of Sweden's gross domestic product (though some of this was recovered over time). The U.S. capitalist class, however, would undoubtedly strongly resist full-scale nationalization of the U.S. banking sector.

The current Paulson rescue proposal, costing around \$700 billion, is the equivalent of about 5% of GDP. However, Paulson has no intention of taking over the failed U.S. banks, merely bailing them out by buying up their toxic debts, thus allowing them to replenish their capital and carry on as usual. Paulson is not even demanding shares in the banks in return for buying their bad debt.

Will Paulson get congressional approval

for his package? Given the strength of congressional opposition, there is likely to be some delay and Paulson may be forced to accept some modifications, particularly to the extraordinary, unchecked powers he is claiming. However, faced with the threat of further falls in financial markets and the possibility of new convulsions, it seems likely that Congress will accept the package in one form or another before dispersing for the November elections.

## A Socialist Alternative

Paulson claims that people do not care who owns the banks. Millions of homeowners, however, will care that the government is using taxpayers' money to bail out the banks that have sold and securitized toxic mortgages while millions are facing penal interest rates and the threat of foreclosure. In fact, millions of Americans are already incensed at Paulson's plan.

Community organizations, unions, and all those who defend the interests of working people should demand that, instead of the nationalization of finance capital's toxic assets and bad debts, the banks and financial institutions (insurance companies, hedge funds, etc) should be nationalized and run in a democratically planned way under workers' control and management. Compensation for small shareholders and depositors should be on the basis of need only.

The banking sector should be run to promote the interests of industries providing goods and services needed by the majority of the population, not funding the speculative activities of a hyper-rich minority of financiers. The banks should provide cheap mortgages for personal home buyers (with a ceiling to exclude luxury houses for the wealthy). They should also provide cheap credit to small businesses and small farmers serving the needs of local communities.

Such measures, of course, would for many raise the question of ownership and control of wider sectors of the economy and the need for democratic planning to replace the anarchy of the market and the naked pursuit of personal profit. The U.S. government, for instance, is currently considering a package of state-guaranteed loans to the big auto companies - Ford, Chrysler, and GM. These corporations are in deep crisis and should also be taken over and run under democratic workers' control and management to meet the needs of society.

Unions and community groups should totally oppose all foreclosures. Where dodgy mortgages have been sold through fraud or deception, they should be cancelled. Home buyers who cannot meet their mortgage repayments should have the right to rent the property at an affordable, social rent. Where, through foreclosures and the bankruptcy of builders and property

companies, there are empty houses, state and municipal government should take over unoccupied homes and rent them out at affordable rents. Decisions regarding mortgage defaults, foreclosures, and home owners' rights in general should be taken not by government officials or bankruptcy courts but by popular, elected committees that will safeguard the rights of working people.

### **A New Period**

If passed by Congress, Paulson's package, probably with some modifications, may avert a financial crash. There will still be serious wrangles over the detailed measures to be implemented. However, the rescue plan will not in itself revive the finance sector. The U.S. housing crisis, the root of the credit crunch, is far from over. Huge losses in the financial sector mean that the credit crunch will continue for years, even if the toxic waste is taken over by the government.

The rescue of the finance sector will not avert a recession in the U.S. economy, which is already gathering pace. Moreover, the U.S. slowdown, combined with financial crises in many other economies, is pushing the world towards an economic downturn. There is now a sharp recession in the European economies. Japan, after a weak recovery in recent years, has once again lapsed into zero growth. China, still seen as a dynamo of the world economy, is expected to slow down from 11-12% growth to around 8% during 2008. Though 8% is relatively high, this would have serious effects within China, economically and politically.

The underlying crisis of capitalist production and profitability has been postponed several times since the 1980s through a series of financial bubbles that have fuelled debt-based consumer spending in the U.S. and elsewhere (driving the production of cheap goods in China and other low-cost economies). But now is the time of reckoning. The collapse of the extreme

debt mountain almost certainly means a prolonged period of weak growth in the world capitalist economy. Undoubtedly, there will still be an economic cycle, but it is not likely that there will be a return to the kind of global boom that was experienced between 2001-07.

The recent phase of accelerated globalization and unfettered neo-liberal policies is drawing to a close and an entirely new period of developments is opening. Massive state intervention in the finance sector has wider implications for trade, international currency flows, and industrial policy. There will be even deeper tensions between the major capitalist powers. Prolonged stagnation, punctuated by weak recoveries and renewed recession, will provoke social crises and mighty political struggles. The economic crisis of capitalism is also an ideological and political crisis, and this unavoidably places Marxism back on the political agenda.

# WALL STREET AND THE DEMOCRATS

By Tony Wilsdon

As the US financial system has teetered on the brink of collapse, many people are focusing the blame on the Bush administration, and saying the crisis is a result of 8 years of Republican rule. However, the truth is that both Democrats and Republicans are responsible for this crisis.

Reckless investing habits are endemic to capitalism, which is a system that rewards those who can make a profit in the most ruthless way. Periodic financial bubbles and their subsequent crashes are results of periods of investor excess. The last crash we saw was in 1929 which followed the speculative binge of the 1920s. We are back in a similar situation today.

One key piece of legislation that was introduced to stabilize the system in the 1930s was the Glass-Steagall Act. Then, as now, the US financial system was in major crisis, threatening the function of capitalism. Under this law, introduced by Roosevelt in 1933, a firewall was placed between banks, insurance companies and investment companies (that sell and buy shares). A company was restricted to only one of these activities. In this way commercial banks were separated from investment banks. Over the objection of the banks, Roosevelt stepped in to save capitalism.

Ever since the events of the 1930s the big banks and the super rich have been chomping at the bit to get the Glass-Steagall Act repealed. This pressure grew most intense in the 1990s, as big banks demanded a piece of financial speculative boom of the 1990s.

Democratic President Bill Clinton had entrusted his economic policy to Treasury Secretary Robert Rubin. The plan was to raise the ships of Wall Street, and then hope that the rest of the economy would follow. NAFTA, GATT and the WTO were free policy agreements passed by Clinton to boost big business and investors.

The Clinton Administration continued the policy of deregulation of industries begun by Democratic President Jimmy Carter. The policy of investing in more jobs for workers, a key promise in

his election campaign, was jettisoned. Not surprisingly, while the rich got fabulously rich, out of 22.5 million jobs created while he was in office, over half paid under \$7 an hour.

The banking, insurance and brokerage industries began to launch a huge five year campaign to pressure both Republican and Democratic Party elected officials to repeal Glass-Steagall. \$300 million was spent in 1997 and 1998 alone.

Treasury Secretary Rubin showed the willingness of the Clinton Administration to go along. He stated: "The banking industry is fundamentally different from what it was two decades ago, let alone in 1933...U.S. banks generally engage in a broader range of securities activities abroad than is permitted domestically...Even domestically, the separation of investment banking and commercial banking envisioned by Glass-Steagall has eroded significantly."

In 1999, President Clinton rewarded Wall Street by signing the Financial Services Modernization Act. This act swept away all the restrictions of Glass-Steagall Act. This bill passed both houses with a bipartisan majority. This opened up a further explosion of mergers in the finance industry, and set off a further speculative binge that can be directly linked to the implosion of the last few weeks.

In a headline, The Wall Street Journal shouted: "Finally, 1929 Begins to Fade." The present collapse of the financial markets is a sharp reminder that things haven't changed so much. This headline of the Wall Street Journal exposes the narrow-minded self-pursuit of profit that lies behind the free market rhetoric that we are told every day.

The Wall Street Journal went on to predict: "With the stroke of the president's pen, investment firms like Merrill Lynch & Co and banks like Bank of America are expected to be on the prowl for acquisitions." True to their word, this opened up a massive explosion of mergers in the finance industry, and set off a further speculative binge that is directly linked to the implosion of the last few weeks. This was followed

up by the free market policies of the Bush Administration from 2000-2008.

President Clinton described it in this way: "Glass-Steagall is no longer appropriate for our economy. This was good for the industrial age. The (1999) Financial Modernization Bill is the key to rising paycheck and great security for ordinary Americans." Tell that to the millions of workers whose lives are being shattered due to speculation by the rich.

The Clinton Administration was no friend to working class people. A New York Times article on August 6, 1996 stated, "In almost every instance, [Clinton] took the route most favored by Wall Street, business executives and conventional economists, not ones that ordinary people might have favored and that almost certainly would have been easier to defend politically."

At a time when Obama has built his campaign at least \$13.4 million in donations from Wall Street and investment firms, it is important that we learn the lesson about the Democratic Party and where its allegiances lie. When asked if he would restore Glass-Steagall, Obama stated: "Well, no. The argument is not to go back to the regulatory framework of the 1930's because, as I said, the financial markets have changed substantially." It should be noted that three of Obama's top six contributors include Goldman Sachs, J.P. Morgan and Citigroup.

John McCain has funded his campaign from the same rich investors. Despite his attempt to present himself as serving the national interest and to be "above" party affiliation, John McCain has consistently opposed all regulation of industry, and is not a friend of working class people.

By catering to the interests of rich investors, and letting the forces of unfettered capitalism run rampant, both Republicans and Democrats are responsible for this financial collapse and the developing recession. They have both proved to be loyal defenders of Wall Street and protectors of corporate interests.



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