The Bailout Lie Exposed: Financial "Big Boys" Never Intended To Lend Out Their Windfall

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In a nationally televised speech on September 24, George W. Bush said in support of the proposed bailout plan that it was meant to "help American consumers and businessmen get credit to meet their daily needs and to create jobs."

The Bailout Lie Exposed

Bush's story was subsequently peddled by the Ministry of Information: the more than 700 billion handed over by the Treasury and the Fed to the financial oligarchy will be used to enable banks to resume lending to strapped households and businesses, thereby enabling the economy to regain healthy rates of growth and households and businesses to elude the prospect of extended debt peonage.

But astute observers knew full well that there can be no "regaining" of robust growth rates that had already disappeared with the onset of Reagan/Thatcher neoliberalism. And reflating the housing bubble by encouraging already maxed-out working people and small businesses to dig themselves into a deeper debt grave seems like a recipe for heightening economic catastrophe. But not to worry: the bad guys were not chimps after all. They had no intention of using the proceeds of the giveaway to lend to anyone. We can thank the New York Times's surprisingly intrepid economics reporter Joe Nocera for this revelation.

In an unexpected adventure in extra-curricular empiricism, Nocera reported in Saturday's NYT that he was able to gain access to a recording of an employee-only October 17 conference call by a top (unnamed) executive of JPMorgan Chase, the beneficiary of $25 billion of federal largesse.

At one point in the conference one participant asked whether the $25 billion will "change our strategic lending policy." The executive then proceeded to spill the beans: "What we do think, it will help us to be a little bit more active on the acquisition side or opportunistic side for some banks who are still struugling." Translation: "Say what? Lend to folks up to their ears in debt already?! Do we look like morons?? You know as well as I that breakneck financial consolidation has been the name of the game since the early nineties. So have leveraged buyouts. Only the latter are normally accomplished with private money. Now we get to leverage bank acquisitions with public money! Is this a deal or is this a deal?"

The executive assures his questioner that JPMC's voracious appetite for gobbling up debt hawkers was not sated by its recent government-backed digestion of two major competitors: "And I would not assume that we are done on the acquisition side just because of the Washington Mutual and Bear Stearns mergers. I think that there are going to be some great opportunities for us to grow in this environment, and I think we have an opportunity to use that $25 billion in that way, and obviously depending on whether recession turns into depression or what happens in the future, you know, we have that as a backstop." Moments later the exec speaks openly about Morgan's intentions regarding loans: "We would think that loan volume will continue to go down as we continue to tighten credit to fully reflect the high cost of pricing on the loan side."

Was all this taking place behind Paulson's back? Not at all. In fact, we have decisive evidence that Paulson's stated rationale for the bailout was sheer mendacity. There was virtually no mention in the mainstream press of Paulson's move earlier this month to promote the further concentration of bank wealth. He enacted a new multi-billion-dollar tax break allowing an acquiring bank to immediately deduct any losses on the books of the acquired bank. The message is not lost on the Times's Nocera: "It is starting to appear as if …. Treasury wants banks to acquire each other and is using its power to inject capital to force a new and wrenching round of bank consolidation."

As venal as this may make Paulson and the political decision makers –most of whom are full aware of the real rationale of the bailout- appear, no one may accuse them of inconsistency. The bailout conveniently imposes no lending requirements on the banks.

The Ongoing Consolidation of Wealth As A Capitalist Tradition

What we are witnessing is the working out in the financial sector of a structural tendency of capitalism that became evident in the middle of the nineteenth century. I refer to the gradual but inexorable diminution of competition in major markets. Initially, the reduction of competition happens as a normal outcome of the developmental dynamics of economic growth. Firms in a given industry grow at different rates; some firms grow faster than others. Larger firms produce on a larger scale, thus enabling reductions in per-unit costs which in turn gives the larger firm a competitive advantage vis-à-vis smaller-scale higher-cost producers. Some of the latter fail and are absorbed by the bigger winners, conferring on them greater market access, higher profits and still greater competitive advantage. When very large firms reach the point of becoming household names, with established relations with suppliers and more effective marketing capabilities, they thereby create barriers to entry into the industry. Competition is further reduced. And the winners love it.

Capitalists hate and fear competition, which if left "free" would force them to price-compete themselves to subsistence level profits. How could it not occur to them to consciously devise arrangements designed to limit competition? Adam Smith detected this tendency in the late eighteenth century. "People in the same trade seldom meet together," he wrote in The Wealth of Nations, "… but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." Toward the end of the nineteenth century capitalists had the presence of mind to form "combinations" with the conscious goal of controlling competition by coordinating policies. Fixing prices, setting production quota and dividing markets were the most common methods. First there was the "gentleman's agreement," then the pool, the cartel, the trust and finally the merger, which has become in the post-War period the typical means of consolidating more and more wealth in fewer and fewer hands.

Since the early 1970s industrial investment has declined, and financial investment has risen, as a share of total business investment. Accordingly bank mergers have, from 1973 to the present, risen, and (non-financial) corporate mergers declined, as a share of all mergers. By the 1990s the pace of bank mergers had gone haywire. Paulson and his buddies have devised a plunder agenda that has long been in preparation, but could hardly be imposed in normal conditions. It has now been made possible by the crisis generated by the financial community's own shenanigans.

In the decanting phase of the current crisis, a few mega-banks will come to dominate U.S. finance with historically unparalleled market power. Economic austerity will be visited upon workers, students, small businesses and yes, even upon a few former industrial giants. (Think of the auto companies.) What would an Obama administration's response be to the plummeting fortunes of working people?

Obama-Biden's Heads-Up: The Coming Assault On Ordinary Folks

Joe Biden's recent Seattle speech to a group of Democratic insiders and fundraisers frankly announced the candidates' apparently eager anticipation of an international crisis which would require Obama to prove his mettle. These remarks have received well deserved attention, but there has been virtually nothing in the press about the implications of Biden's remarks for Obama's domestic policies.

Biden spoke about two major issues -the economic/financial crisis and the wars in Iraq and Afghanistan- in connection with what he predicted would be widespread popular hostility to an Obama administration's policies. "[Obama]'s going to need you to use your influence, your influence within the community, to stand with him", Biden told his audience, "Because it's not going to be apparent initially, it's not going to be apparent that we're right…There are going to be a lot of you who want to go, 'Whoa, wait a minute, yo, whoa, whoa, I didn't know about that decision.' Because if you think the decision is sound when they're made, which I believe you will when they're made, they're not likely to be as popular as they are sound. Because if they're popular, they're probably not sound…. I promise you, you all are going to be sitting here a year from now going, 'Oh my God, why are they there in the polls, why is the polling so down, why is this thing so tough?' We're going to have to make some incredibly tough decisions in the first two years."

Note Biden's implied contempt for the rabble: "if they're popular, they're probably not sound." Biden is warning his well-heeled audience that an Obama administration's response to both foreign and domestic crisis will appall not only the unwashed masses, but the hipoisie as well.

The domestic policies in question are of course the extensive social cutbacks that the administration will want to foist upon a working population already devastated by what will certainly be the effects of deepening recession accompanied by ongoing financial meltdown: soaring unemployment, threats to remaining employment, mounting homelessness, declining wages and both actual and impending bankruptcies. It is an Obama administration's indifference to these afflictions that will provoke much of the widespread opposition that Biden anticipates.

The New York Times's October 23 endorsement of Obama reflects elite enthusiasm for his anti-New-Deal neoliberalism. The Times quotes selected remarks from Obama's acceptance speech at the Democratic National Convention. The selections are revealing. "Government cannot solve all our problems, but what it should do is…protect us from harm and provide every child a decent education; keep our water clean and our toys safe; invest in new schools and new roads and new science and technology.” Reaganism pure and simple: guaranteed right to health care, no; safe toys, yes. The Times also praises Obama for his calls for “shared sacrifice and social responsibility”, well established code words for resignation to austerity and cuts in social spending.

Don’t be surprised if Wall Street’s new main man soon becomes the guy Main Street loves to hate.

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