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Obama’s Bank Bailout: Bush’s Plan Resurrected

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To reintroduce an unpopular idea by a different name is a classic trick of politicians. Obama has done precisely this in unveiling his bank bailout plan.

In a desperate attempt to distance himself from Bush, the Obama administration has added some complicated economic terms packaged into a system he simply calls the “bad bank.” The essence of the plan, however, is exactly what Bush originally proposed.

Although the details are fuzzy, simply put, U.S. taxpayers could have to pay up to $2.5 trillion more to buy the garbage loans that the banks accumulated, saving them from bankruptcy, while maintaining the same greedy shareholders and inept managers that drove the banks to ruin in the first place.

To distinguish this plan from Bush’s, Obama will force taxpayers to pay trillions to private firms so that they can purchase the junk debt. Of course this changes nothing.

Bush originally shelved this plan and instead opted towards investing (owning) directly in the banks, while purposely choosing to have no decision making power.

The result is well known: bank executives did whatever they wanted to with taxpayer money, such as holding lavish banquets and paying millions to management — all the while making no new loans and now pleading for more money.

The public was rightly outraged, and demands came from all corners of society for something to be done. Leading economists such as Joseph Stiglitz (Colombia University) and Paul Krugman (The New York Times) advocated that the government should assert ownership over the amounts injected into the banks, since “a takeover is preferable to leaving firms in the hands of those who have so badly mismanaged them.” (New York Times, February 7, 2009)

More importantly, by nationalizing the banks, the government could actually decide what to do with the money, such as “unfreezing” the credit market — the alleged goal of the past and present bailouts. The shareholders and management could be quickly done away with, and the money could be put to work on socially useful projects, such as helping finance social works projects, giving people low or no interest loans to buy houses, finance their education, or to payoff predatory credit card bills, etc.

Instead, Obama “will urge banks to increase their lending, and possibly provide some incentives, [but] it will not dictate to the banks how they should spend the billions of dollars in new government money.” (The New York Times February 10, 2009)

Oddly, while announcing his toothless plan to the public, Obama's Treasury Secretary had the gall to add some populist rhetoric in referring to Bush's bank bailout: "The spectacle of huge amounts of taxpayer money being provided to the same institutions that helped cause the crisis, with limited transparency and oversight, added to the public distrust."

Exactly! But now the exact same thing is being done. Instead, as The New York Times points out:

"… the plan largely repeats the Bush administration's approach of deferring to many of the same companies and executives who had peddled risky loans and investments at the heart of the crisis and failed to foresee many of the problems plaguing the markets." (The New York Times February 10, 2009)

Why is this? Why did Obama ignore the common sense advice of nationalization, which would have saved him the embarrassment of giving trillions of taxpayer money to the already-hated bank owners?

The answer is simple: Obama completely shares Bush's perspective on the free market (capitalism), meaning that private individuals should run our economy and be accountable to no one but themselves. Never mind that these individuals need trillions of dollars of taxpayer money — they should be left alone to do what they like.

For such hardened believers in the market economy, nationalization is considered a cardinal sin, for it destroys the myth that the "invisible hand" of the market solves all our problems, and instead shows another way: that a government's economy can be put to work towards socially useful activities, and not simply to profit a small group of billionaires.

Above all, the free-market believer fears that, if the banks are nationalized, people might also demand that other sectors of the economy be put under public control, completely removing the need for shareholders in the first place, the same people who benefit tremendously from bank bailouts.

Some analysts are predicting that once the Obama administration reviews the balance sheets of the banks that are to receive bailout money — which is one aspect of Obama's plan — the government will realize these banks are beyond insolvent (bankrupt) and will need to be nationalized anyway.

In this case, the banks would likely be nationalized just long enough for them to be cleaned up and sold to private investors, with the public receiving little if any benefit. Nationalization alone is not a progressive concept. What matters most are the reasons behind it and, more importantly, who benefits.

A common sense conclusion must be drawn from Obama's bailout experience. Millions of people rightly concluded that Bush's policies were written with the banks and other corporations first in mind, and the rest of us second, if at all. This conclusion must now be extended to Obama, who has shown us in blatant form who is thinking up his polices.

To address the steadily worsening economic crisis, serious measures are desperately needed that will benefit working people, who need jobs, health care, and a moratorium on home foreclosures. The government hand outs to the big corporations have utterly failed; not one cent more need be given.

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