



*“But the banks are made of marble
with a guard at every door,
and the vaults are stuffed with silver
that the workers sweated for.”*

So go the lyrics to the old protest song lamenting the stranglehold that the finance industry had on the rest of us. Not much has changed, except that today, due to their own greed, incompetence and arrogance, many banks are looking to restuff their empty vaults with our “silver.”

Democratic Socialists of America believes that the bank rescue plan recently announced by Treasury Secretary Timothy Geithner falls far short of what is needed. Specifically, it fails to call for the nationalization of major insolvent banks, despite the fact that such disparate voices as former Federal Reserve Chair Alan Greenspan, Nobel Prize-winning economist Paul Krugman, Sen. Lindsey Graham (R-SC), Sen. Chris Dodd (D-CT) and *The New York Times* have either called for nationalization or have acknowledged that it might be necessary.

We were led to believe that the Administration’s bank bailout plan would be big and bold. Instead, it has turned out to be bitsy and bland. It sounds awfully like Paulson redux — more cash for the banks, purchase of toxic assets (dressed up with some wishful thinking about sharing the load with private investors — the same investors whose confidence in the plan was shown by a 350-point drop in the Dow as the plan was announced) and expansion of an existing program aimed at financing consumer loans.

As Secretary Geithner acknowledged when he announced the plan, many Americans no longer trust the banks and their executives that “helped cause the crisis,” but the Administration plan does nothing to address that unease. Instead of controlling the operations of these banks, the new bailout merely “urges”

them to use their new-found funds to loosen credit. Instead of dealing with executive compensation in a meaningful manner, the \$500,000 pay cap applies only to the very top management tier. Instead of requiring bank shareholders to risk losing at least part of their holdings as the price for government assistance, this latest boondoggle protects their holdings while taxpayers take the risks.

The Administration has now made it clear that failing banks (those that do not pass the “stress test”) can expect to be rewarded with more taxpayers’ dollars pumped into their vaults without fear that private ownership will be imperiled or incompetent (or worse) management will be replaced. At best, the taxpayers become minority shareholders without power, control or authority.

The American public is right. There is every reason to fear continued control of the banking system by those who have directed it until now. They are absolutely correct when they question the wisdom of allowing financial institutions to remain in the same private hands that steered our economic course over the past twenty years. They are right to question the necessity of propping up banks that are in reality insolvent without a meaningful and controlling ownership interest by the public.

The one “big and bold” idea that makes sense in these circumstances is the one whose name dare not be spoken: nationalization.

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Unfortunately, the word “nationalization” seems to strike fear into the hearts of many Americans despite the fact that we have done it before and are doing it now on a small scale. During the New Deal, the government bought shares in 6,000 banks in order to keep them afloat. In 1988 and the early nineties, insolvent Savings & Loan associations were seized by the government and placed under the control of the newly created Resolution Trust Corporation under legislation

signed by President George H.W. Bush. Since January 1, 2009, more than a dozen smaller banks have been taken over by the FDIC. Nationalization of large banks has been done successfully in modern, Western democracies. In the early nineties, Sweden nationalized some of its largest banks and reprivatized them several years later, after they were cleansed of worthless assets.

Instead of shaking in their boots over the prospect of government ownership and operation, the large banks should welcome that rescue. The bank owners (the shareholders) have already lost more than 90% of the value of their holdings. While they may enhance a bank’s liquidity, repeated capital injections by Washington, do nothing to convince the markets that their assets are worth more than their liabilities.

As the *New York Times* said, “Americans have a visceral horror of the word nationalization. So call it restructuring or majority ownership. Or call it the taxpayers’ due after pouring in hundreds of billions of dollars in capital and guarantees and standing ready to pour in hundreds of billions more. We increasingly believe it is the least bad solution to a truly desperate situation.”

The FDIC should take immediate control of all the insolvent banks. The government could then work a deal with each insolvent bank’s creditors and other stakeholders, own and operate the bank and seek an orderly disposition of its toxic assets before offering the cleansed, re-sized operation to bidders who meet carefully defined criteria for fiscal stability and management acumen.

We are paying already; the Obama plan envisions the expenditure of more than \$1 trillion dollars (on top of the \$350 billion already spent) to funnel

more money to the banks and to acquire the bad assets. We should get something for it. Temporary government ownership and management of large insolvent banks gives the taxpayer-citizens protection, a voice in management and a hand in setting financial policy while holding and disposing of illiquid assets in a careful and rational manner. And when the time comes to return these institutions to private hands, we can find more capable stewards of our collective wealth than those who got us where we are today.

This fear of nationalization is stoked by the very same forces that have created and hold worthless “assets” that are the core of the current financial crisis.

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