Obama’s bank regulation plan: A free pass for Wall Street

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President Barack Obama on Wednesday announced what he called “a sweeping overhaul of the financial regulatory system, a transformation on a scale not seen since the reforms that followed the Great Depression.”

The reality behind the rhetoric was indicated by the reaction on Wall Street. The stock market responded with a shrug, with the Dow and the S&P 500 finishing slightly down and the Nasdaq ending with a modest gain. Had there been anything in the proposals outlined by Obama that suggested a serious crackdown on the fraudulent practices that precipitated the present crisis, one can be certain the market would have reacted with a massive selloff.

The insiders knew they had nothing to fear. The plan Obama presented was in all essentials formulated by Wall Street lobbyists and CEOs.

The *New York Times* on Wednesday described the process by which the plan was drafted: “In the last two weeks alone, the administration has heard from top executives from Goldman Sachs, MetLife, Allstate, JPMorgan Chase, Credit Suisse, Citigroup, Barclays, UBS, Deutsche Bank, Morgan Stanley, Travelers, Prudential and Wells Fargo, among others. Administration officials also discussed the president’s plan with the top lobbyists at major financial trade associations in Washington.”

The officials with whom the bankers consulted are themselves Wall Street insiders, headed by two protégés of former Goldman Sachs and Citigroup executive Robert Rubin—Treasury Secretary Timothy Geithner and the director of Obama’s National Economic Council, Lawrence Summers. The former was president of the Federal Reserve Bank of New York before becoming Obama’s treasury secretary, and the latter was treasury secretary under Bill Clinton. They played major roles in lifting regulations and facilitating the orgy of speculation that ended with the Great Crash of 2008.

The plan outlined by Obama calls for enhanced powers for the Federal Reserve to oversee big financial firms, both bank and non-bank companies; higher capital reserve and liquidity requirements; minimal government oversight of some hedge funds; a privately-run clearinghouse for some forms of derivative trading; and a requirement that lenders retain a small stake in loans they sell to the banks to be turned into securities.

All of these requirements can be easily circumvented by the banks. Moreover, the political forces responsible for enforcing them are bound hand and foot to Wall Street.

The panoply of existing federal regulatory agencies is for the most part to remain in place. Obama made much of the creation of a new body, the Consumer Financial Protection Agency, which he said would protect consumers against predatory practices by mortgage lenders and credit card companies. However, this agency will have no new powers beyond those previously spread out among other agencies.

The centerpiece of the plan is a proposal to allow the Fed and the Federal Deposit Insurance Corporation to seize and wind down big banks and non-bank financial firms whose failure would pose a “systemic threat.” This is considered necessary precisely because none of the other proposals challenge the ability of banks, hedge funds, insurance companies and other financial firms to engage in speculative practices that are certain, at some future point, to threaten another financial collapse. It amounts to the institutionalization of taxpayer bailouts of the financial system, in place of the ad hoc methods employed in the present crisis.

Obama’s speech was a typical performance—populist gestures and verbal wrist-slaps for the bankers combined with paeans to capitalism and the free market.

He cited as “significant contributors” to the crisis the failure of government regulators and “abuse and excess” on Wall Street. He spoke of the proliferation of complex financial instruments, such as asset-backed securities, that generated “easy money” but were “built on a pile of sand.” Executive compensation, he said, “rewarded recklessness rather than responsibility.”

What he called “systematic and systemic abuse” and “the failure of the entire system” had inflicted “terrible pain in the lives of ordinary Americans,” with “retirees who’ve lost much of their life savings, families devastated by job losses, small businesses forced to shut their doors.”

“Millions of Americans,” he continued, “who’ve worked hard and behaved responsibly have seen their life dreams eroded by the irresponsibility of others and by the failure of their government to provide adequate oversight. Our entire economy has been undermined by that failure.”

Having painted a picture of a corrupt economic system that preyed upon the people and caused suffering and social devastation, he moved on to the business at hand—keeping the system going and the profits flowing.

He hastened to reassure his most important audience, Wall Street, declaring, “I’ve always been a strong believer in the power of the free market. It has been and will remain the engine of America’s progress... I believe that our role is not to disparage wealth, but to expand its reach.”

This was a signal to those who have benefitted from plunging the country and the world into economic disaster that they will continue to benefit, and will face no consequences for their crimes. When all is said and done, they will make more money than ever.

Indeed, the *New York Times* published an article on Monday entitled, “In Banks, Return of the Big Bonus.” It began, “The stage is set for the return of supersize banker bonuses,” and went on to speak of “headline bonuses of $10 million or more” for Wall Street bankers and traders.

The comparison of Obama’s plan to the regulatory reforms of the 1930s is specious. In the depths of the Depression, Roosevelt imposed significant structural reforms to rein in the banks and save American capitalism from the threat of social revolution. A cornerstone of these reforms was the Glass-Steagall Act of 1933, which erected a barrier between commercial banks and investment banks.

Glass-Steagall was repealed in 1999, during the Clinton administration. That was a milestone in the deregulation of the banks. It was part of a process, stretching back to the early 1980s, in which the US ruling elite has turned increasingly to financial manipulation to generate profit and personal wealth, while dismantling huge sections of industry and waging relentless war against the jobs and wages of the working class.

The result has been a colossal growth of social inequality and the emergence of a financial oligarchy that dominates the political life of the country. Both parties are at the beck and call of Wall Street, and are incapable of enacting any measures to rein in its plundering of the social wealth.

Obama and the Democratic-controlled Congress have ruled out a return to Glass-Steagall. They have rejected capping executive pay. Nor is there any suggestion of closing down the casino for credit default swaps, collateralized debt obligations, structured investment vehicles and other exotic forms of speculation that played a major role in the financial crash.

Far from limiting the size and power of the big banks, the government has used the crisis to encourage a further consolidation of the banking system. As a result of the disappearance of Bear Stearns, Lehman Brothers, Merrill Lynch, Wachovia and Washington Mutual—to name just the biggest bank failures—the four largest US banks today account for 70 percent of the country’s bank assets, as compared to less than 50 percent at the end of 2000. This process of consolidation will accelerate under Obama’s regulatory scheme.

The premise of Obama’s plan is a lie. The crisis is not fundamentally the result of mistakes or malfeasance on the part of bankers and government regulators—as plentiful and destructive as they were. It represents the failure of the system to which Obama pays homage—capitalism.

There is no solution outside of socialist measures—beginning with the nationalization of the banks under the democratic control of the working population—to break the back of the financial oligarchy and reorganize economic life in accordance with social needs, not private profit. That requires the development of an independent political movement of the working class in opposition to the Obama administration and both parties of big business.

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