

Obama's banker-friendly financial overhaul

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In the wake of a financial meltdown that precipitated the deepest recession since the 1930s, the Obama administration and Democratic congressional leaders are working to institute regulatory changes that avoid any serious constraints on Wall Street banks and financial institutions.

The so-called legislative process itself is a mockery of democracy. An army of financial industry lobbyists is at work wining and dining key legislators, whose elections were funded by millions in campaign contributions from banks, insurance companies, hedge funds, etc. Wall Street lawyers are helping draft the details of regulatory bills in closed-door meetings, while Obama and his top economic advisers—many of whom are former investment bankers and all of whom are longstanding proponents of bank deregulation—confer with the CEOs of the most powerful firms.

The guiding premise of the enterprise is that the capitalist “free market” must at all costs be safeguarded, along with the personal fortunes of the financial oligarchy. Flowing from this, the informing notion behind the proposed changes is to allow the banks to return to business as usual, recouping their gambling losses at the expense of this and future generations of working people, while setting in place mechanisms for the government to more effectively manage the next financial debacle.

On Thursday, Treasury Secretary Timothy Geithner testified before the Financial Services Committee of the House of Representatives in support of a bill jointly sponsored by the White House and committee Chairman Barney Frank (Democrat of Massachusetts). The bill would give the Treasury and the Federal Reserve Board so-called “resolution authority” to order the seizure of a major financial firm whose failure would destabilize the financial system.

The idea is to prevent the type of panic that accompanied the collapse of Lehman Brothers in September of 2008. Geithner, Frank and the White House are selling the bill as a boon to taxpayers. It is supposedly

an alternative to the multibillion-dollar bailouts at taxpayer expense that followed last year's crash.

In fact, the proposal would give the executive branch and the Fed unlimited powers, without the need for congressional consent, to allocate taxpayer money to prevent the failure of a major commercial or investment bank, insurance firm (such as AIG) or other financial company by placing the firm in receivership. Supposedly, the seized firm's shareholders and unsecured creditors would take large losses, the firm's top management would be sacked, and the firm's assets would be sold off to investors.

The cost of the rescue, according to the bill, would be repaid through fees levied on other banks with more than \$10 billion in assets (around 120 banks). However, these fees would be assessed over an indefinite period, while the taxpayers would pay the bill upfront.

One provision of the bill which has garnered little comment either by its official proponents or the media would give the Federal Deposit Insurance Corporation, with the consent of the treasury secretary and the Fed, the power to “extend credit or guarantee obligations ... to prevent financial instability during times of severe economic distress.”

This amounts to a blank check to use public funds to bail out Wall Street. What is actually being proposed is the replacement of the ad hoc bailouts that characterized the past year with an institutionalized mechanism for looting the public purse for the benefit of the financial aristocracy.

Little wonder that Jamie Dimon, the CEO of JPMorgan Chase, has broadly endorsed the administration's bank “reform.” He told a conference in New York this week that “we need a resolution mechanism so that the system isn't destroyed.” Dimon knows full well that such a law will expand the profits of the big banks by making their borrowing costs cheaper, far outstripping any fees they might be required to pay in the event of a government seizure of a major firm.

There are those within the financial and political

establishment who are warning that the administration's policies are enhancing the power of the biggest banks and making an even greater financial disaster all but inevitable. Asked by CNN on October 21 whether the administration's regulatory changes will avert another financial meltdown, Neil Barofsky, the special inspector general of the Treasury's Troubled Asset Relief Program (TAPR), said:

"I think actually what's changed is in the other direction. These banks that were too big to fail are now bigger. Government has sponsored and supported several mergers that made them larger... The idea that the government is not going to let these banks fail, which was implicit a year ago, is now explicit.

"So, if anything, not only has there not been any meaningful regulatory reform to make it less likely, in a lot of ways, the government has made such problems more likely. Potentially, we could be in more danger now than we were a year ago."

Paul Volcker, the former Fed chairman who heads Obama's Economic Recovery Advisory Board, is evidently alarmed. He has been publicly calling for the reinstatement of the legal wall between commercial banking and investment banking that was a cornerstone of the Depression-era bank reforms instituted by Franklin D. Roosevelt. Under the Glass-Steagall Act of 1933, commercial banks—which take deposits from ordinary consumers—were banned from owning and trading risky securities, the very practice that brought the biggest banks to the brink of collapse in 2008.

This would mean breaking up such behemoths as JPMorgan Chase, Citigroup, Bank of America and Wells Fargo. Volcker has no support within the Obama administration. Wall Street is adamantly opposed to such a reform, as are Obama's top economic advisers. The director of the White House's National Economic Council, Lawrence Summers, pushed through the repeal of Glass-Steagall in 1999 when he was treasury secretary in the Clinton administration.

Daniel Tarullo, a Fed governor appointed by Obama, last week dismissed Volcker's proposal as "more of a provocative idea than a proposal."

As for the claims that the public will not be forced to pay for the government "resolution" of major financial firms facing collapse, their worth can be judged by looking at the other major planks of the administration's financial regulatory plan.

Frank's Financial Services Committee this month passed a bill on derivatives—the unregulated \$592 trillion

market in complex and murky financial contracts that led to the collapse of AIG—which exempts from government oversight a huge portion of such deals, including so-called "customized" credit default swaps and derivatives contracts of non-financial companies. It also places the management of "standard" derivatives in the hands of privately owned clearinghouses closely aligned to the big Wall Street banks.

The Consumer Financial Protection Agency bill passed by Frank's committee, nominally establishing a new agency to police consumer lending fraud and abuse, exempts 98 percent of the nation's banks as well as car dealerships from oversight, and allows the federal government to override state consumer protection laws that are tougher than federal regulations.

All of these loopholes were inserted at the behest of bank lobbyists.

Then there are the sham bank pay restraints announced last week by Obama's "pay czar," Kenneth Feinberg. Not only do these rules apply only to the 25 highest-paid executives and employees of seven companies still holding TARP money, including just two banks, they apply only for November and December of this year. And the limits in cash salaries and bonuses imposed by Feinberg are to be largely offset by stock issued to the affected multimillionaires.

The *Wall Street Journal* published an analysis Wednesday showing that Feinberg actually increased the base salaries of 89 of the 136 people under his remit, raising their average regular salaries to \$438,000, an average increase of 14 percent. At Citigroup, which is 34 percent owned by the US government, Feinberg agreed to more than double salaries for 13 of the 21 employees, upping them by an average of \$202,000.

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