Total capitulation by US Federal Reserve on bank regulation

Nick Beams
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The would-be reformers of the capitalist financial system, who maintain its destructive effects as seen in the 2008 crisis and subsequently can be overcome by state regulation, have been delivered a blunt message this week: finance capital rules, OK!

It came in the form of an announcement by the US Federal Reserve that proposed regulations to increase the capital banks must hold to cover losses and avert the need for government-organised bailouts had been severely gutted in the face of a major campaign by the banks and their political representatives.

The proposed regulations had their origins in the financial crisis of 2008 when the global system came close to a complete collapse. A committee established by the Bank for International Settlements based in the Swiss city of Basel drew up a series of rules to cover the world's banks. But in 2017 they recognised that loopholes remained and sought to close them.

In the US the case for tighter regulation was reinforced by the banking crisis of March 2023 when three significant banks went under requiring a bailout organised by the Fed and other government authorities to prevent it spreading to the entire financial system.

In July last year the Fed official in charge of regulation, Michael Barr, issued a new series of standards to which the major banks had to comply. This involved increasing the amount of capital the banks had to hold to be able to deal with potential losses.

The standards brought furious opposition from the banks. But Barr appeared to be standing firm in the wake of the March debacle.

"Some industry representatives claim that inadequate capital had nothing to do with those bank failures," he said. "I disagree."

But 14 months on it was a different story. Barr announced on Tuesday that the key element of the proposal, known as Basel III Endgame, had been halved. Instead of a capital requirement of 19 percent, the rate was cut to 9 percent.

For the six largest US banks this meant freeing up around $100 billion for profitable investment. Under the new proposal they would now be required to add around $80 billion to capital, compared to $180 billion. In addition, it was decided that the new rules would not apply to banks with less than $250 billion—a not inconsiderable portion of the US banking system.

Other proposed regulations were also scrapped. Among them banks will now be able to use their own models to assess market risks, one of their key demands, equivalent to putting the fox in charge of the henhouse, as the saying goes.

There was no doubt about the size of the win by the financial oligarchs and the success of their campaign spearheaded by JPMorgan Chase CEO Jamie Dimon among others. He said the previously proposed regulations would make the banks uninvestable.

Jaret Seiberg, a research analyst at TD Cowen, told the *Financial Times* (FT) the Fed decision was a "significant win for the biggest banks."

A former Fed lawyer, now at the University of Michigan, Jeremy Kress, told the FT: "This is not a middle-ground re-proposal. On nearly every point of contention, this is a capitulation to the banks."

In a statement on the Fed decision, so-called "progressive" Massachusetts Senator Elizabeth Warren said it was a "Wall Street giveaway, increasing the risk of a future financial crisis and keeping taxpayers on the hook for bailouts. After years of needless delay, rather than bolstering the security of the financial system, the Fed caved in to the lobbying of big bank executives."

But this self-styled "capitalist to the bone" did not acknowledge that the Fed's capitulation, entirely

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predictable, exposed the delusion she continually promotes, in order to burnish her “left” credentials, that the financial system can somehow be regulated to act in the public interest.

As if to underline the extent of the Fed’s backdown, Barr decided to eat crow. The regulators had changed their initial proposals after the “feedback” provided by the banking industry.

“Life gives you ample opportunity to learn and relearn the lesson of humility,” he said.

And having gone down on his knees, Barr signalled there may be further obeisance, as the “reproposal” was an “interim step” and would be submitted for further public comment—that is more objections by the banks—before a final decision was made.

The so-called “feedback” by the banks on the last proposals was an orchestrated campaign costing tens of millions of dollars, maybe more.

According to a report in the FT in March: “By the end of 2023, big banks, their industry groups and other interested parties had hired 486 federal lobbyists to press their case to lawmakers, according to a Reuters analysis of data from the anti-lobbying association, Open Secrets.”

It was the industry’s “biggest lobbying effort since the global financial crisis” when the banks opposed any regulations after their speculation and in some cases outright criminal activity had created the biggest financial disaster since the Great Depression, leading to major job losses, the repossession of homes and considerable impoverishment for working-class families.

And the campaign enjoyed considerable success in the Congress, once characterised by Mark Twain as “the best that money can buy,” with representatives from both sides of the political aisle lending their support to the banks’ objections.

There was also support from within the Fed as chair Jerome Powell indicated he was amenable to a revision of the proposed regulations.

The campaign was not confined to Congress. Billboards were placed along highways and even at Washington’s Ronald Reagan National Airport denouncing the new regulations. There was discussion of having an advertising slot at the 2024 Super Bowl to warn of the dire consequences for the American people if they went through.

There are two political lessons to be drawn from this experience. First, the enormous power of finance capital and its domination over every aspect of the economic and political system.

And second, the complete unviability of “reformist” solutions which leave it intact, and the necessity of a socialist program based on the taking of the financial system into public ownership under democratic control.

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