Presidential candidates speak on housing and credit crises

Clinton, Obama, McCain defer to Wall Street

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After months of virtual silence on the collapse of the speculative binge on Wall Street that has plunged the US economy into recession, all three major US presidential candidates delivered speeches this week on the housing and credit crises.

Last week's failure of Bear Stearns and the government-underwritten buyout of the investment bank by JPMorgan Chase, which evoked widespread comparisons to the financial breakdown that ushered in the Great Depression, was the precipitant factor that obliged Democrats Hillary Clinton and Barack Obama, and Republican John McCain to address the turmoil on Wall Street.

Among the Democratic candidates, in particular, specific electoral calculations also played a role. The next major primary election takes place on April 22 in Pennsylvania, an industrial state that has been devastated by plant closures and badly impacted by the epidemic of home foreclosures. Pennsylvania's foreclosure rate increased by 19 percent over the past two years, according to RealtyTrac, a company that monitors foreclosures.

That it took a near-meltdown of the US financial system to prod the candidates to address the panic gripping financial markets is itself politically significant. Clive Crook devoted an entire column in the March 24 *Financial Times* (a British, not American, newspaper) to the reticence of the US presidential contenders. He wrote: "The separation of presidential politics from the troubles assailing the US economy is now verging on the surreal. With banks collapsing, the dollar reeling, the Federal Reserve making up new rules as it goes and observers discussing a new Great Depression, the presidential candidates are still on scripts they wrote a year ago."

The Democratic Congress has to date held no serious hearings and launched no significant investigations into what is widely acknowledged to be the biggest financial scandal since the Second World War, involving reckless speculation, accounting fraud and predatory lending practices on an unprecedented scale by the country's biggest commercial and investment banks, mortgage companies, hedge funds and private equity firms. The years of vastly inflated securities prices and outright gambling on unregulated "derivative" markets generated the multi-million and even billion-dollar compensation packages enjoyed by Wall Street CEOs and big investors.

Now, while working class and middle class families across the country face the threat of losing their homes and seeing their life savings destroyed, the Federal Reserve Board is handing out hundreds of billions of dollars in cheap loans to the banks and finance houses, in return for mortgage-backed securities and other dubious assets that cannot be sold on the market. The Bush administration rejects any "bailout" of distressed home owners, while the Democrats propose palliatives that provide no serious answer to the social devastation, and leave Wall Street off the hook.

The speeches given this week by senators Clinton, Obama and McCain all demonstrate, notwithstanding certain policy differences, the subservience of all three candidates and both major parties to the US financial elite.

New York Senator Clinton spoke Monday in Philadelphia and outlined her plan to address the housing and financial crises. Her relationship to Wall Street was perhaps best summed up by her proposal for an Emergency Working Group on Foreclosures, to be headed by "a distinguished non-partisan group of economic leaders like Alan Greenspan, Robert Rubin, and Paul Volcker."

Greenspan, the chairman of the Federal Reserve Board during the Bill Clinton administration, is a "free market" advocate of financial deregulation and admirer of Ayn Rand. He fostered the creation of the housing and credit bubbles that have now burst by repeatedly cutting interest rates, and rejected proposals by one of the Fed governors that the US central bank more closely monitor subprime mortgage lenders.

Robert Rubin was CEO of Goldman Sachs, the biggest Wall Street investment bank, before becoming Clinton's treasury secretary. (He now holds a top management position at Citigroup). Rubin spearheaded the 1999 repeal of the Glass-Steagall Act, a cornerstone of federal banking regulation since its enactment at the height of the Great Depression.

Glass-Steagall established a legal wall between commercial (i.e., depository) banks and investment banks, authorizing the Federal Reserve to regulate and impose capital and liquidity requirements on the commercial banks. Its repeal facilitated many of the speculative practices that contributed to the present financial disaster.

Paul Volcker was appointed chairman of the Federal Reserve by Democratic President Jimmy Carter in 1979 and jacked up interest rates in order to precipitate a severe recession and sharp rise in unemployment. As Fed chairman under Ronald Reagan, he helped preside over a brutal offensive against the working class that took the form of union-busting, cuts in social spending, tax breaks for the wealthy and more sweeping deregulation of big business. These policies set in motion the redistribution of wealth from the bottom to the top that continues to the present, and has produced unprecedented levels of social inequality.

Clinton sought to present herself as an advocate for working families, but she was careful not to alienate her Wall Street supporters and campaign contributors. According to the Center for Responsive Politics, she has raised $6.6 million from individual donors and political action committees associated with the securities and investment industry, just a shade less than the $6.7 million raised by Illinois Senator Obama. (McCain, the presumptive Republican candidate, has raised just under $3 million from the financial sector).

"We've given Bear Stearns a $30 billion lifeline," she said. "We've given their creditors, their lenders, their customers and those associated with them the same lifeline. We are now lending billions of dollars a day to help Wall Street banks that aren't regulated, that are not held accountable. How can you tell a family about to lose their home that there's nothing we can do to help them?"

This attempt at a populist appeal was not a denunciation of the

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government bailout of the banks. Both her campaign and that of Obama have endorsed the measures taken by the Fed to rescue Wall Street.

It would be generous to even label as “minimal” the actual measures proposed by Clinton. She endorsed proposals being drafted by Massachusetts Congressman Barney Frank, the Democratic chairman of the House Financial Services Committee, and Christopher Dodd, the Democratic chairman of the Senate Banking Committee, that would allocate $10 billion to back between $300 billion and $400 billion in government guarantees to encourage mortgage companies and banks to write down the principal on failing subprime mortgages and sell them at auction to other investors, so that the mortgages could be refinanced on less onerous terms.

The overriding aim of this plan is to avert an even deeper financial crisis and prop up the banks by ending the decline in home prices, which is causing mounting bank write-downs of mortgage-backed securities.

Were such a proposal to be enacted—which is unlikely since it is opposed by the Bush administration and most congressional Republicans—it would aid only a fraction of the millions of families facing the prospect of foreclosure. In the first place, it is voluntary, with no compulsion on mortgage lenders. Secondly, many subprime borrowers would not qualify for the program, including those—perhaps as much as a half of the total—who have taken out home equity loans in addition to their mortgages.

It would, moreover, provide an opportunity for banks and investment houses to reap a windfall from the purchase, at a substantial discount, of home loans that would be guaranteed against default by the federal government.

Clinton also suggested that the federal government be prepared to purchase failing subprime loans outright if mere government guarantees did not stem the foreclosure crisis.

Clinton repeated her previous calls for a 90-day moratorium on foreclosures and a five-year freeze on subprime interest rates. She backed Democratic legislation that would allow bankruptcy judges to amend the terms of mortgages, called for a $30 billion package that would provide grants and loans to localities to acquire foreclosed properties, and a $10 billion expansion of the Mortgage Revenue Bond Program.

To gain some perspective on the paltry amounts proposed to address a social crisis enveloping millions of American families, it should be noted that the Fed has already offered close to a trillion dollars in discounted loans to the banks and investment houses, that the US government pays out well over $400 billion a year in interest on the national debt to banks and big investors, and that the Iraq war is costing, according to most estimates, $144 billion annually.

Clinton did not broach the subject of regulatory reform or legal accountability for Wall Street executives.

McCain spoke Tuesday before a group of Hispanic businessmen in Santa Ana, California. He rejected any government intervention to aid distressed homeowners, saying, “It is not the duty of government to bail out and reward those who act irresponsibly, whether they are big banks or small borrowers.”

Upholding the tarnished “free market” mantras of the past several decades, he said the government should intervene “based solely on preventing systemic risk,” and called for even more deregulation of the banking system, advocating the removal of “tax, accounting and regulatory hurdles for banks to raise capital.”

Obama gave a speech Thursday at Cooper Union in Manhattan before a select Wall Street audience. He was warmly introduced by New York Major Michael Bloomberg, a multi-billionaire financial media mogul. The Illinois senator in turn praised Bloomberg for his “extraordinary leadership.” He recognized Paul Volcker, who has endorsed his campaign, and William Donaldson, former Securities and Exchange Commission chairman.

Obama focused his remarks on a call for financial regulatory reform, while taking care to declare his reverence for the American “free market” and declaring, “I do not believe that government should stand in the way of innovation, or turn back the clock to an older era of regulation.”

He called for the Federal Reserve Board to be given regulatory powers to monitor investment banks, now that it has ended the long-standing rule that limited direct Fed lending to commercial banks only. He also advocated more oversight of credit-rating agencies and requiring stronger capital requirements for complex financial instruments like mortgage-backed securities.

Obama’s speech reflected the position of sections of the US financial establishment that consider the existing largely deregulated environment dangerously inadequate to deal with globalized financial markets and the proliferation of entirely unregulated forms of speculation. At the same time, his speech was an implicit attack on the policies of the Bill Clinton administration, which presided over the repeal of Glass-Steagall and encouraged rampant speculation.

On specific measures to address the housing crisis, he largely echoed the proposals of Hillary Clinton, endorsing the Frank-Dodd plan, supporting the ability of bankruptcy judges to alter mortgage terms, calling for $30 billion in aid to financially stressed homeowners, and proposing a $10 billion allocation to help families modify their home loans.

Like Clinton, he invoked the Fed bailout of the banks to turn a populist phase, without actually opposing the massive government aid to Wall Street. “If we can extend a hand to banks on Wall Street, we can extend a hand to Americans who are struggling,” he declared.

At the same time, he joined with McCain in putting much of the onus for the crisis on ordinary working people, declaring that he agreed with McCain that the government should “do nothing to protect borrowers and lenders who’ve made bad decisions or taken on excessive risk.”

The core of his speech was the assertion that the present crisis is the result of excesses and aberrations which “distorted” the “free market that has been the engine of America’s progress.” He put forward the notion of an identity of interests between the financial aristocracy and the American people, saying that Americans must renew “that common interest between Wall Street and Main Street that is the key to our success.”

He demonstrated his own identity of interests with Wall Street by following his speech with a fundraising lunch at the Manhattan offices of Credit Suisse, the multinational investment bank. Seats cost $1,000 to $2,300.

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