

Wall Street, Obama administration conspire to block financial regulation

Barry Grey
4 June 2009

In the guise of enhanced regulation, the Obama administration is working with major Wall Street banks to sanction a continuation of the speculative practices that precipitated the financial meltdown and deepest economic slump since the Great Depression.

Treasury Secretary Timothy Geithner has, according to a detailed exposé published June 1 by the *New York Times*, adopted a proposal drawn up by a group of big Wall Street firms for new regulations on the lucrative trade in derivatives such as credit default swaps. Geithner headed the New York Federal Reserve Bank and played a key role in the Bush administration's bank bailout program before being named to his present post by Obama. His recently issued proposal on derivatives regulation, in opposition to measures backed by certain corporate interests, such as agribusiness firms and the congressmen who represent them, would exempt most trading in credit default swaps from any serious public exposure or government regulation.

Credit default swaps are contracts agreed to between corporations in which the seller insures the buyer against the default of specific corporate bonds or securities. The transactions are "over the counter," i.e., arrived at privately without being listed on any public exchange. Since the passage of a law in 2000 supported and signed by then-Democratic President Bill Clinton, they have been unregulated.

The 2000 law sparked an explosive growth of this form of financial gambling. According to the *Times*, "The market now represents transactions with a face value of \$600 trillion, up from \$88 trillion a decade ago. JPMorgan, the largest dealer of over-the-counter derivatives, earned \$5 billion trading them in 2008, according to Reuters, making them one of its most

profitable businesses."

Trading in credit default swaps played a major role in the subprime mortgage bubble that imploded in August of 2007, leading to the financial crash of 2008. The collapse of insurance giant American International Group, which has to date received \$170 billion in government funds, was the result of the firm's massive holdings in credit default swaps tied to subprime mortgage-backed securities and other dubious assets. AIG bet that the underlying mortgages would not default. It lost its bet and was required to come up with huge amounts of cash as collateral, which it did not have.

AIG's imminent failure threatened to bankrupt thousands of "counterparty" banks and other financial firms around the world, provoking a panic that was stanching only by the infusion of hundreds of billions of taxpayer funds into its coffers and those of scores of other financial firms.

The *Times* reports that in November of 2008, only a month after receiving billions of dollars in government cash infusions, the nine biggest participants in the derivatives market—including JPMorgan Chase, Goldman Sachs, Citigroup and Bank of America—set up a lobbying organization, the CDS Dealers Consortium, to counter calls for serious regulation of credit default swaps and other forms of derivatives speculation.

The new lobby hired a "longtime Washington power broker" who had helped push through the 2000 law, Edward J. Rosen, a partner at the law firm Cleary Gottlieb Steen & Hamilton. The *Times* reports that it has obtained a copy of a confidential memo drafted by Rosen in February that was "shared with the Treasury Department and leaders on Capitol Hill" and played "a pivotal role in shaping the debate over derivatives regulation."

According to the *Times*, Rosen opposed that derivatives be traded on open exchanges, akin to stock markets, and instead argued that they should be traded through “clearinghouses” that would be run by private firms closely affiliated with the banks. He further proposed that the derivatives trade continue to be overseen by the Federal Reserve Board, which has a long record of giving the banks free rein to engage in this form of speculation.

Moreover, he argued that a special dispensation be given to so-called “customized” derivatives, a vague term that encompasses most credit default swaps, which would shield them from public scrutiny or government regulation.

The *Times* article indicates that all of these suggestions were incorporated into the proposal for “increased” oversight released by Geithner. The newspaper notes that Treasury officials “say that their proposal was arrived at independently...” But the article makes clear that the Obama administration’s plan for derivatives was basically drafted by the big Wall Street banks.

The article further reports that the big banks’ clearinghouse firm of choice is ICE US Trust, “an entity closely affiliated with banks that are also members of Mr. Rosen’s group, the CDS Consortium.” The Obama administration also favors this firm, according to the *Times*. Citing Brad Hintz, a brokerage firm analyst at Bernstein Research, the article states, “ICE seems to be the clearinghouse of choice, especially among policy makers in Washington.”

Senator Tom Harkin of Iowa, a state with large agribusiness interests that are pressing for tougher regulation of derivatives, is quoted as saying, “The swaps and derivatives people are all over the place up here. ... A lot of money is on the line.”

The article also quotes Collin C. Peterson, a Minnesota Democrat and the chairman of the House Agriculture Committee, who is sponsoring a bill that would bar derivatives trading in a clearinghouse, such as ICE, regulated by the New York Federal Reserve. He calls the New York Fed, Geithner’s former home, “a tool of the big banks” which “wouldn’t do much” to regulate credit default swaps or other derivatives.

Peterson is blunt about the domination of Congress by Wall Street. “The banks run the place,” he says. “I will tell you what the problem is—they give three times

more ~~proposals~~ than the next biggest group. It’s huge the amount of money they put into politics.”

The article provides some figures: “Through their political action committees and their own employees, securities and investment firms gave \$152 million in political contributions from 2007 to 2008, according to the most recent Federal Election Commission data.

“The top five companies—Goldman Sachs, Citigroup, JPMorgan Chase, Bank of America and Credit Suisse—gave \$22.7 million and spent more than \$25 million on lobbying activities in that period, according to election data compiled by the Center for Responsive Politics.

“All five companies are members of the CDS Dealers Consortium, the lobbying group formed in November.”

The *Times* quotes Yra Harris, an independent commodities trader, who sums up the situation as follows: “The banks want to go back to business as usual—and then some. And they have a lot of audacity now that everyone has bailed them out. But we have to begin with the premise that Wall Street doesn’t want transparency because more transparency means less immediate profits.”

The instrument through which the banks are resuming at full throttle the criminal methods that have brought the US and world economy to its knees and inflicted growing social misery on the working class, is the Obama administration.



To contact the WSWs and the Socialist Equality Party visit:

wsws.org/contact