

One year after the financial crash

Obama goes cap in hand to Wall Street

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On the anniversary of the collapse of Lehman Brothers and the onset of the greatest global economic crisis since the Great Depression, President Barack Obama came to Wall Street Monday to plead with the bankers not to block his proposals for marginal changes in financial regulations.

The spectacle of the elected chief executive as supplicant in the citadel of finance capital, while not surprising, was nevertheless a degrading sight. What had been billed as Obama's challenge to the financial elite only underscored the subservience of his administration and every other branch of the government to Wall Street.

Speaking at Federal Hall, only a few steps from the New York Stock Exchange, Obama outlined his regulatory proposals, which have stalled in Congress since their release in June in large part because of opposition from many of the 150 bankers, traders and financial executives who were assembled to hear his speech.

Despite the fact that they and their peers have profited immensely from the multi-trillion-dollar bailout engineered by Obama and his predecessor, they gave his remarks a decidedly cold reception, applauding only once during his 30-minute speech.

In what was meant to give the appearance of a stern rebuke, Obama declared, "I want everybody here to hear my words. We will not go back to the days of reckless behavior and unchecked excess at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

Wall Street took these words with the huge grain of salt they merit. The bankers and speculators who precipitated the crisis know full well that everything the Obama administration has done since taking office has been directed toward protecting their wealth and power and offloading their bad gambling debts onto the American people. They long since took the measure of the man, who, in any event, they helped place in office with tens of millions of dollars in campaign funds.

And they correctly took Obama's announcement last month that he was reappointing Ben Bernanke as Federal Reserve chairman as a signal that they had nothing to fear from his administration in the future.

Following the speech, Goldman Sachs President Gary Cohn gave the president a verbal pat on the head, saying, "I thought he did a good job," adding that he struck "the right tone."

Wall Street gave a collective shrug to the speech. Down at its start, the markets rallied in its aftermath to register a modest gain—continuing a stunning rally led by financial stocks that has seen the S&P 500 index rise by 54 percent since last March.

As a number of articles on the anniversary of the financial crash of September 2008 have noted, nothing of substance has changed in the practices of the banks and finance houses in the intervening year. Rather, the administration's policies have strengthened the grip of the largest financial institutions on the economy, enabling them to resume the same type of speculative activities that led to the crash.

Not a single significant restriction has been imposed on the banks that were bailed out with taxpayer money. Bank profits are once again rising and executive pay is soaring, in some cases, such as at Goldman Sachs, hitting record levels.

In fact, the underlying crisis and instability of the financial system has been heightened by the government's measures. The disappearance of Lehman Brothers, Merrill Lynch, Bear Stearns, Washington Mutual, Wachovia and other large institutions has given the biggest banks even greater control over the market, and since it is now established that these firms are "too big to fail," they have a de facto license to speculate at will, secure in the knowledge that should they run into trouble, they will be bailed out by the government.

Joseph Stiglitz, the Nobel Prize-winning former chief economist at the World Bank, said Sunday, "In the US and many other countries, the too-big-to-fail banks have become even bigger. The problems are worse than they were in 2007 before the crisis."

An article in the *New York Times* on Friday began, "One year after the collapse of Lehman Brothers, the surprise is not how much has changed in the financial industry, but how little." It went on to cite economists who, pointing to the massive amount of bank debt assumed by the government, warn that the industry's systemic risks "could cause an even bigger crisis—in years not decades. Next time, they say, the credit of the United States government may be at risk."

In his speech, Obama alluded vaguely to "some in the financial industry who are misreading the moment. Instead of learning the lessons of Lehman and the crisis from which we are still recovering,

they are choosing to ignore them.” However, he made no mention of the bumper profits being recorded by bailed out banks or the huge compensation packages which executives are awarding themselves.

Having opposed any limits on executive pay, the most Obama could suggest is that the banks accept his token proposal to allow shareholders a non-binding vote on executive bonuses.

The ethos of the financial aristocracy whom Obama was addressing was summed up by Kian Abouhossein, an analyst at JPMorgan Chase in London, who told the *New York Times*, “I don’t know anyone on Wall Street who goes to work every day thinking of anything but how to increase their bonus.”

The web site *Politico* pointed out that Robert Benmosche, the new CEO of American International Group (AIG), the insurance giant that was at the center of the financial meltdown and which has received \$183 billion in government handouts, “recently showed off his palatial estate on the Adriatic Coast in Croatia—the one with 12 bathrooms, Italian tiles, and 18th century French tapestry, and a well-stocked wine cellar. (‘Every bathroom is like a piece of art,’ he told Reuters. ‘Women go wild when they walk in here.’)” Benmosche’s compensation package for 2009 is estimated at \$9 million.

This is the parasitic social layer which exercises the decisive voice in government policy. Nothing that Obama said on Monday suggests that any member of this oligarchy will be held accountable for the fraud and illegality that helped plunge the world into a crisis that continues to wreak havoc on hundreds of millions of people in the US and around the world.

On the contrary, Obama took care to balance his verbal wrist-slaps with paeans to the capitalist market. He declared, “I’ve always been a strong believer in the power of the free market. I believe that jobs are best created not by government but by businesses and entrepreneurs willing to take a risk on a good idea. I believe that the role of government is not to disparage wealth, but to expand its reach; not to stifle markets, but to provide the ground rules and level playing field that helps to make them more vibrant.”

He went further, implicating the American people in an economic catastrophe for which they bear no responsibility and whose victims they are. “The crisis was not just the result of decisions made by the mightiest of financial firms,” he declared. “It was also the result of decisions made by ordinary Americans to open credit cards and take on mortgages.”

He returned to this theme to proclaim that the crisis was a “failure of responsibility that led homebuyers and derivative traders alike to take reckless risks they couldn’t afford. It was a collective failure of responsibility in Washington, on Wall Street and across America...”

Obama linked his demand for “collective responsibility” with a pledge to impose austerity measures on the American people. He promised his well-heeled audience that he would put the country “on a secure fiscal footing” by “cutting programs that don’t work.” He reiterated that his plan to slash health care for the working class, in the name of “reform,” would “not add a dime to the deficit.”

Obama characterized his regulatory proposals as “the most ambitious overhaul of the financial system since the Great Depression.” This is a fraud. He is proposing nothing approaching the structural reforms enacted under Franklin D. Roosevelt. On the contrary, he is opposing the restoration of any of the key elements of New Deal banking reforms that have been dismantled over the past three decades. This includes the Glass-Steagall ban on investment banking by commercial banks.

Instead, he is proposing a hodge-podge of minor measures which will do nothing to rein in the speculative activities of the banks and hedge funds. His Consumer Financial Protection Agency would merely establish a new agency to oversee consumer credit without giving it any powers beyond those presently spread out among a number of different regulators. In any event, this proposal is a dead letter because it is fiercely opposed by the banks.

His proposal to regulate the vast, unregulated derivatives market—a key component of the so-called “shadow banking system”—has so many loopholes that even the *New York Times* complained in an editorial Monday that it is toothless.

The main features of his proposal would give the Federal Reserve greater power to oversee the financial markets and establish a new mechanism for bailing out failing financial institutions, including non-bank firms. The underlying premise is that no serious restrictions can be placed on the banks, so new rules must be put in place to deal with the next crisis.

Any regulatory “reform” that might emerge from Congress will be drafted by Wall Street lobbyists working behind the scenes with politicians bought and paid for with campaign contributions and other bribes. The Center for Responsive Politics recently reported that the financial industry, along with the insurance and real estate sectors, has already given more than \$50 million in campaign contributions so far this year. The financial industry has spent more than \$222 million lobbying Washington, where it deploys more than 2,300 lobbyists.

In the end, Obama was reduced to pleading with Wall Street to take its “obligation” to the country to heart and “embrace serious financial reform, not fight it.”



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