Another toothless bank “reform” from Obama

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Flanked by former Federal Reserve Chairman Paul Volcker, President Obama on Thursday announced new proposals that he claimed would limit the ability of the major banks to profit from risky speculative investments.

The brief appearance before the press corps, replete with bank-bashing demagogy, was a transparent effort to give his persona a populist gloss, two days after the Democrats suffered a humiliating defeat in the Massachusetts Senate election to fill the vacancy left by the death of Edward Kennedy.

Obama was vague on the precise content of the regulations he was proposing, which he said would complement the bank regulatory overhaul passed last December by the House of Representatives. That bill, drafted in close consultation between the White House, Congressional Democrats and Wall Street CEOs and further diluted after heavy lobbying by the banks, does nothing to limit, let alone end, the unregulated “shadow” banking system that played a major role in bringing the US and global financial system to the brink of collapse.

Obama specifically denounced commercial banks making use of government support to engage in speculative trading on their own behalf—a practice known as proprietary trading.

He suggested that he wanted to revive some aspects of the separation between commercial and investment banking that was a cornerstone of the bank reform laid down by the 1933 Glass-Steagall Act. The law was repealed in 1999 during the Clinton administration. Clinton’s treasury secretary at the time, Lawrence Summers, is now Obama’s chief economic adviser.

The announcement, hastily organized, was little more than a public relations stunt, designed to placate mounting popular anger over the administration’s subservience to Wall Street and its refusal to take any measures to address the jobs crisis and growing social distress. Obama is well aware that any measures that might seriously rein in the banks will be blocked in Congress or watered down to the point of irrelevance. He and his political advisers calculated that a populist gesture would, in practice, commit his administration to nothing.

He demonstratively did not call for breaking up the banking giants--such as JPMorgan and Goldman Sachs--which have grown bigger and more powerful as a result of the administration’s policies.

The presence of Volcker underscored the cynicism of the announcement. In recent months Volcker, the chairman of Obama’s Economic Recovery Advisory Board, has been publicly calling for measures to limit proprietary trading and other speculative practices by commercial banks, i.e., institutions that hold the deposits of ordinary people and are therefore afforded special protections by the Federal Reserve Board and the Federal Deposit Insurance Corporation. Of the major banks, these include JPMorgan Chase, Citigroup, Bank of America and Wells Fargo.

For months, Volcker has been ignored or ridiculed by Obama administration officials for suggesting even a partial return to the limits on bank speculation imposed under Glass-Steagall. Now, in the wake of the political disaster suffered by the Democrats in Massachusetts, he has been brought forward to demonstrate the supposed “toughness” of Obama toward Wall Street.

Volcker, however, is hardly a fortuitous choice to symbolize the administration’s newfound determination to defend the public against the bankers. As Fed chairman from 1979, under Jimmy Carter, to 1987, under Ronald Reagan, he engineered a deep recession by raising interest rates as high as 20 percent. This was the centerpiece of an offensive against the working class that employed mass unemployment to beat back its militant opposition and impose wage cuts, attacks on benefits and speedup across the economy.

Volcker publicly supported the unionbusting and strikebreaking that characterized the 1980s, carried out with the collusion of the AFL-CIO. He famously declared that Reagan’s busting of the 1981 PATCO air traffic controllers’ strike and outlawing of the union was his greatest contribution to reining in inflation.

Acknowledging that the financial system is “still operating under the same rules that led to its near-collapse,” Obama declared that “never again will the American taxpayer be held hostage by a bank that is too big to fail.”

He continued: “We simply cannot accept a system in which hedge funds or private equity firms inside banks can place huge, risky bets that are subsidized by taxpayers and that could pose a conflict of interest. And we cannot accept a system in which shareholders make money on these operations if the bank wins, but taxpayers foot the bill if the bank loses.”

Such statements have no credibility coming from a president who has presided over a vast expansion of the multi-trillion-dollar bailout of the banks and has opposed any restraints on bankers’ pay. If the banks are “still operating under the same rules” as before the crash of 2008, that is because his administration has refused to change the rules.

Obama’s phony bank-bashing was for public consumption. Next Tuesday, Treasury Secretary Timothy Geithner, who as president of the Federal Reserve Bank of New York played a key role in the bank bailout, will meet behind closed doors with more than 40 chief executives of financial institutions to reassure them and give them the real dope on Obama’s proposals.

Wall Street struck back at the mere suggestion of new regulations, driving down bank stocks and ending the trading day with the Dow down 213 points.