

Obama reassures Wall Street on bank regulation bill

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23 April 2010

President Barack Obama went to lower Manhattan Thursday to deliver a message to Wall Street: Your profits and bonuses will not be disturbed by the regulatory overhaul making its way through Congress.

In a deferential speech pitched to top bankers in the Cooper Union audience, Obama urged what he called the “titans of industry” to call off their lobbyists and “join us” in passing his so-called reform. The subtext was that the White House and congressional Democrats had already removed most of the provisions to which the bankers objected, and were prepared to go even further in accommodating them.

The speech came less than a week after the Securities and Exchange Commission (SEC) indicted Goldman Sachs, the most profitable Wall Street bank, for defrauding its clients in order to cash in on—and encourage—the collapse of the subprime housing market in 2007. Obama did not mention the indictment. Nor did he suggest that what he called a “failure of responsibility” on Wall Street included criminal activities.

Among those in the audience to whom Obama appealed was Lloyd Blankfein, the CEO of Goldman, who attended the event to underscore his contempt and defiance of the SEC.

It was also a week in which the top five banks reported combined profits of more than \$15 billion for the first three months of 2010—a huge increase over the previous year.

As the Goldman indictment makes clear, these profits are bound up with rampant fraud that helped crash the

financial system—driving millions in the US and around the world into unemployment and poverty—followed by trillions of dollars in taxpayer bailouts and virtually free credit from the Federal Reserve.

Obama took pains to affirm his obeisance to capitalism. “I believe in the power of the free market,” he declared. “I believe in a strong financial sector ...” To reassure Wall Street that his financial overhaul would not impose serious restrictions, he said, “We do not have to choose between markets that are unfettered by even modest protections against crisis, or markets that are stymied by onerous rules that suppress enterprise and innovation.”

There was no suggestion that a single banker or trader should be held accountable for the social catastrophe he helped create. Yet less than two months ago, addressing the US Chamber of Commerce, Obama hailed the mass firing of teachers in an impoverished school district in Rhode Island as a positive educational “reform” measure. “There’s got to be a sense of accountability,” Obama said.

With complete cynicism, Obama and congressional Democrats, with the assistance of the media, are presenting their regulatory proposals as a sweeping reform comparable to the banking measures implemented by the Roosevelt administration in the Great Depression.

In reality, the Senate measure, like the bill passed last December by the House of Representatives, proposes certain marginal changes in the way government agencies monitor financial firms, but does nothing to reverse the deregulation of banking carried out over the past three decades, which dismantled the restrictions

imposed during the 1930s. It introduces no structural reforms to limit, let alone ban, the speculative practices that have become central to the accumulation of profit and personal wealth by the American ruling class.

Obama and the congressional Democrats have rejected capping executive pay or banning credit default swaps, collateralized debt obligations, structured investment vehicles and other exotic forms of speculation that played a major role in the financial crash and global recession. Provisions to regulate derivatives markets, a major source of profits for the top Wall Street banks, are loaded with loopholes and exemptions. A financial consumer protection body will have no power over 98 percent of banks or any car dealerships, and will be subject to a Federal Reserve veto.

The most important innovation in the House and Senate bills is the establishment of a procedure for the government to wind down large financial firms, including insurance companies and other non-bank entities, whose failure could trigger a systemic collapse. This is being billed as an end to “too-big-to-fail” financial companies and a guarantee against future taxpayer-funded bailouts.

It is nothing of the kind. The proposal would institutionalize government rescue operations to protect the interests of bank executives, shareholders and creditors and the wealth of the financial elite as a whole, ultimately at public expense. It is designed to keep the banking system in private hands while preparing for the inevitable consequences of allowing the banks and big investors to continue “business as usual,” i.e., another financial crisis on the order of the crash of 2008.

In his speech on Thursday, Obama declared that “a vote for reform is a vote to put a stop to taxpayer-funded bailouts.” This is a lie. The administration-backed bill passed by the House would give the Federal Deposit Insurance Corporation, with the consent of the treasury secretary and the Federal Reserve, the power to “extend credit or guarantee obligations ... to prevent financial instability during times of severe economic distress.” This amounts to a blank check to use taxpayer funds for future bailouts.

Obama has continued Bush administration policies that, far from reining in Wall Street, have strengthened the power of the biggest financial firms. The share of

all banking industry assets held by the top 10 banks rose to 58 percent in 2009, from 44 percent in 2000 and 24 percent in 1990.

Nothing other than a license for Wall Street to continue stealing from the American people could possibly emerge from a political system dominated by an all-powerful financial aristocracy and awash in corruption and bribery. The financial industry has to date spent \$455 million to lobby Congress on the financial overhaul.

The securities and investment industry has thus far handed out \$34 million for the 2010 election cycle. Goldman Sachs is the second biggest corporate donor to political campaigns, after AT&T. Since 1989, the bank’s political action committee and employees have given \$31.6 million in campaign contributions, two-thirds of the total to Democratic candidates.

The financial industry funded Obama’s presidential election campaign to the amount of \$15 million. Goldman was Obama’s single biggest donor, giving nearly \$1 million.

One indication of the ties between Wall Street and the White House: Gregg Craig, who until January was Obama’s White House counsel, has been hired by Goldman Sachs to defend the firm against the SEC indictment.

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