

The MF Global collapse, the Democratic Party and Wall Street

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The collapse last week of US broker-dealer MF Global has put the spotlight on the parasitic speculation and outright criminality that are at the heart of the US financial system. It has also provided a text book example of the corrupt and incestuous relationship between the American financial aristocracy and both the political system in general and the Democratic Party in particular.

Facing a run on its holdings, a collapse in its stock, and credit downgrades of its debt to junk status, the Wall Street investment firm with \$41 billion in assets filed for Chapter 11 bankruptcy protection on October 31.

A last ditch bid to find a buyer for MF Global fell through when regulators discovered that \$633 million in clients' money had gone missing. It is suspected that the company, headed by former Goldman Sachs CEO and one-time Democratic senator and governor of New Jersey Jon Corzine, moved money out of client accounts in an attempt to meet margin calls from its creditors. It is a crime for a firm to use clients' money to trade on its own account, let alone to pay off its debts.

Multiple investigations have been launched by federal financial regulators, along with criminal probes by the FBI and the US attorney for Manhattan. Last Friday, after having hired a prominent criminal lawyer, Corzine resigned his post as chairman and CEO of MF Global.

The collapse of the firm, the eighth biggest bankruptcy in US history, was the first major corporate failure resulting from the European debt crisis. It demonstrates that nothing has been done since the Wall Street crash three years ago to rein in the speculative activities of financial firms. The same practices that led to the global recession continue unabated.

Several months after taking control of the firm in

March of 2010, Corzine began making enormous bets with borrowed funds that the sovereign debt of countries such as Spain and Italy would not collapse. He placed a single bet of \$6.3 billion—six times MF Global's capital—on risky European state bonds, driving his firm's leverage (its assets to capital) to a ratio of 40 to 1.

When MF Global reported a second quarter loss of nearly \$190 million due to the worsening of the European debt crisis, investor confidence in the company collapsed.

The disaster has also shown that along with the reckless speculative practices, the obscene levels of executive compensation are intact. In his 18 months as head of MF Global, Corzine pocketed \$14.25 million in total compensation.

The 64-year-old banker-politician personifies the intimate ties that bind the Democratic Party to Wall Street. Leading Democratic officials, including nominal "liberals" like Corzine, pass seamlessly between the corporate boardroom and government office. They enrich themselves to the tune of millions by engaging in financial manipulation and swindling and then oversee legislation supposedly designed to regulate these very activities.

Corzine was CEO of Goldman Sachs from 1994 to 1999, precisely the period when the dismantling of corporate and banking regulations—which had begun under the Democrat Carter and expanded under the Republicans Reagan and the elder Bush—was completed under the Democrat Clinton. Corzine left his Wall Street post with a reported fortune of \$400 million. He proceeded to spend \$62 million of it to get himself elected US senator from New Jersey.

In 2005 Corzine spent another \$38 million of his own money to win election as governor of New Jersey. As

governor, he imposed brutal cuts in health care, pensions, higher education and aid to the cities, as well as slashing 5,000 state jobs. As a result, he lost his reelection bid in 2009 to right-wing Republican Chris Christie, who has expanded the assault on New Jersey workers.

When Corzine returned to Wall Street the following year he was given royal treatment by government regulators. The president of the Federal Reserve Bank of New York, William Dudley, another Goldman Sachs veteran, gave MF Global entry into the exclusive and lucrative club of “primary dealers”—financial firms chosen to market US Treasury securities. This was despite MF Global’s relatively small size and the fact that it had been fined \$10 million one year before as a result of a trading scandal.

When MF Global’s primary regulator, the Commodity Futures Trading Commission (CFTC), moved to impose stricter limits on broker-dealers’ use of clients’ funds, especially to invest in foreign sovereign debt, Corzine lobbied personally against the regulation. Earlier this year, Gary Gensler, the head of the CFTC, suspended implementation of the new rules.

Gensler is another Goldman Sachs graduate, having worked with Corzine at the firm for 18 years, rising to become co-head of finance before leaving in 1997. Gensler has been forced to recuse himself from the CFTC investigation into the MF Global collapse.

Corzine also exemplifies the seamless ties between Wall Street and the Obama administration. A major fundraiser for Obama’s reelection campaign, the now-disgraced banker-politician hosted the president’s first fund-raising event at his Fifth Avenue apartment overlooking Central Park. He was expected by many to be named treasury secretary in a second Obama term.

Corzine is but one of many figures in or around an administration loaded with Wall Street multi-millionaires. Obama’s former White House chief of staff Rahm Emanuel joined his administration after taking time out from Democratic Party politics to earn millions as an investment banker in Chicago. He was replaced by Clinton-era Commerce Secretary William Daley, who left his post as a top executive at JPMorgan Chase to head up White House operations.

Others include Ron Bloom, a member of Obama’s auto task force and then chief adviser on manufacturing, and Steven Rattner, the financier

chosen to head the auto task force. Rattner was later forced to step down after being indicted for making payoffs to obtain contracts with New York State pension funds.

Corzine’s troubles will complicate the cynical attempts by Obama and the Democrats to appropriate the anti-Wall Street anger expressed in the Occupy movement and channel it behind the Obama reelection campaign. What, in fact, the MF Global saga and Corzine’s career demonstrate is that the fight against social inequality, poverty and corporate domination of the government is a fight against the Obama administration and both parties of the financial-corporate elite.

It requires the independent mobilization of the working class in a struggle to put an end to capitalism and establish socialism.

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