Senate hearings on Wall Street crimes: The bankers rule

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Hearings held last week by two different Senate committees demonstrated the subordination of US regulators and Congress to the Wall Street banks. The hearings were held in the midst of fresh revelations of insider trading, the manipulation of markets and general lawlessness on the part of the largest American financial firms.

On Thursday and Friday, the Senate Permanent Subcommittee on Investigations held hearings on a report it released Wednesday documenting massive holdings of physical commodities by Goldman Sachs, JPMorgan Chase and Morgan Stanley, in some cases above legally prescribed limits. The report gave a detailed account of the banks' leveraging of these assets to manipulate the prices of aluminum, coal, oil and other basic goods.

On Friday, the Senate Banking Subcommittee on Financial Institutions and Consumer Protection questioned William C. Dudley, the president of the Federal Reserve Bank of New York, the chief federal regulator of the major US banks, on new evidence of the politically incestuous relations between the Fed and the financial firms it is supposed to police.

Both panels were exercises in political theater, with politicians lamely posturing as critics of Wall Street and defenders of "Main Street" and bank executives and the Fed's Dudley making little effort to conceal their contempt and indifference.

The subcommittee on investigations copiously documented in its 400-page report the near-stranglehold of major banks on key materials and their manipulation of prices to boost their speculative activities on commodities futures markets. It noted that the unprecedented holdings of the banks in physical commodities were the result of the lifting of prohibitions on such activities in the late 1990s and early 2000s, as part of the general lifting of regulations on banking and commodity trading. Its report mildly criticized the New York Fed for failing to rein in the banks' price-fixing and other conflicts of interest.

At the same time, the panel, headed by its Democratic chairman, Carl Levin, and the ranking Republican, John McCain, signaled that Wall Street had nothing to fear by not even calling the banks' top officials to testify.

The hearing held Friday by the subcommittee on financial institutions was, if anything, an even more stage-managed exercise. The Republicans on the subcommittee boycotted the event, and only five Democrats attended. The chairman of the subcommittee, Senator Sherrod Brown of Ohio, evidently felt he could make some political hay by posing as a critic of Dudley and the Fed.

The most demagogic performance at the hearing was turned in by Senator Elizabeth Warren of Massachusetts, who is generally described by the media as a "fierce critic" of Wall Street. The former head of a congressional panel set up to oversee the Troubled Asset Relief Program (TARP), the $700 billion taxpayer bailout of the banks put in place after the financial crash of September 2008, Warren has made a career of combining verbal rebukes of the banks with full support for the Obama administration's expansion of the bailout that was launched under President George W. Bush.

Brown and his fellow Democrats decided to call the hearing after *ProPublica* and the public radio program "This American Life" carried reports last September based on 46 hours of audio recordings made in early 2012 by Carmen Segarra, then an examiner on the New York Fed's monitoring team at Goldman Sachs. The tapes of internal discussions involving Segarra and her supervisors documented the efforts of the New York Fed to suppress criticisms of Goldman's practices.

Segarra was fired after she raised objections to a deal reached by Goldman with Spain's Banco Santander that even her supervisor called "legal but shady." In return for $40 million in fees, Goldman agreed to a transfer of shares Banco Santander held in its Brazilian subsidiary.

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Goldman would hold onto the shares for a few years and then return them.

The deal was designed to create the impression that Banco Santander's financial situation was more secure than it actually was. At the height of the banking crisis that had gripped Greece, Spain, Portugal, Italy and other euro zone member states, the European Banking Authority demanded that banks hold more capital to offset potential losses. As the *ProPublica* piece put it: "The [Goldman] deal would help Santander announce that it had reached its proper capital ratio six months ahead of the deadline."

Segarra filed suit against the New York Fed over her firing. The suit was recently dismissed by a judge, but she is appealing the decision. Segarra was in the audience at the Senate hearing with New York Fed President Dudley, but she was not invited to testify by the Democrats on the subcommittee. She released a statement saying she was "disappointed" at being snubbed.

On November 20, one day before the hearing with Dudley, the *New York Times* published a front-page article providing yet another example of the corrupt relationship between federal regulators, beginning with the New York Fed, and the major banks.

The article illustrated the notorious "revolving door" between the banks and government regulatory agencies, with regulators routinely parlaying their experience overseeing banks to land lucrative jobs on Wall Street advising the same banks on how to evade the law. The door also swings in the other direction, with bankers becoming top enforcement officers at the New York Fed, the Securities and Exchange Commission (SEC), the Federal Deposit Insurance Corporation (FDIC) and other US agencies.

The *Times* article dealt with a former New York Fed regulator who recently took a job at Goldman advising the bank and its clients how to circumvent what remains of federal banking regulations. The ex-Fed employee was recently provided confidential internal Federal Reserve documents by a former colleague who was still working at the New York Fed.

After the revelations surrounding the case of Segarra emerged in September, the Goldman employee was fired along with his supervisor, as was his former colleague at the New York Fed.

The Goldman supervisor, the *Times* reports, was once an adviser to Sheila Bair, the former head of the FDIC.

The total domination of government regulatory agencies by the banks—and the absurdity of all talk of reforming the financial system within the framework of capitalism—are underscored by New York Fed President Dudley himself. Prior to heading up the most important Federal Reserve branch, he worked for 21 years at Goldman Sachs, becoming a partner and the bank's chief economist.

His predecessor as president of the New York Fed played a key role in enabling Wall Street to organize the subprime mortgage Ponzi scheme that collapsed in 2007-2008, and then engineering, along with Fed Chairman Ben Bernanke and Treasury Secretary (and former Goldman CEO) Henry Paulson, the government bailout of the banks. President Obama appointed this individual, Timothy Geithner, as treasury secretary when he took office in 2009, sending the financial elite as clear a signal as possible that its interests would be protected by the new administration.

Geithner spent the next four years, until his retirement at the end of Obama's first term to become president of a Wall Street private equity firm, expanding the bailout to the tune of trillions of dollars and opposing any serious restrictions on the banks' speculative activities or the pay awarded to leading executives.

He was succeeded as treasury secretary by another banker, Jacob Lew, who made his fortune at Citigroup. Last year, Obama chose Mary Jo White as the new head of the SEC. White made millions as an attorney at the corporate law firm Debevoise & Plimpton, where she defended Wall Street executives, often against investigations by the SEC.

The record makes clear that Warren, Brown and other Democrats who occasionally posture as opponents of Wall Street are themselves complicit in the plundering of American society by the financial mafia.

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