

US lawmakers used privileged information to cash in on latest round of bank bailouts

Barry Grey
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A common feature of the pervasive corruption of capitalist politics and politicians in America is the practice of using privileged information to make stock trades, particularly in the midst of the recurring crises that beset Wall Street. In such matters, as in passing laws to ban strikes by rail workers and impose contracts rejected by the workers, bipartisanship prevails.

Last month's government bailout of rich depositors at Silicon Valley Bank and Signature Bank, the second and third biggest bank failures in US history, is no exception.

On Monday, the *Wall Street Journal*, citing recent legally required disclosures, reported that three House members, two Republicans and one Democrat, two of whom were directly involved in secret bailout talks, made substantial trades in bank stocks in the initial days of the crisis. According to the *Journal's* own investigation, New York Republican Rep. Nicole Malliotakis and Oregon Democratic Rep. Earl Blumenauer made trades that marked "the latest instance of congressional stock trading intersecting with official business."

Malliotakis bought stock in New York Community Bankcorp (NYCB) on March 17, two days before the Federal Deposit Insurance Corp. announced that Flagstar Bank, a subsidiary of NYCB, would take on Signature's deposits. Signature, headquartered in New York City, had been placed in receivership by New York regulators on March 12.

Just days before she bought the stock, Malliotakis issued a statement (March 13) on her Twitter account in which she boasted of working closely with federal and state officials to address the failure of Signature.

"Both last night and this morning I have been meeting with the Federal Reserve, U.S. Department of Treasury, Governor [Kathy] Hochul and New York State Department of Financial Services Superintendent Adrienne Harris to discuss the closure of Signature Bank," she wrote, adding, "I have been assured all depositors will be made whole through the Deposit Insurance Fund which is made up of contributions from all member banks, not taxpayer funds."

Malliotakis bought \$1,001 to \$15,000 in NYBC stock on March 17. The day after the March 19 announcement that NYBC's Flagstar subsidiary would acquire Signature's deposits, NYBC stock rose 32 percent, landing the

congresswoman a tidy profit.

Rep. Malliotakis's disclosure said the stock purchase was made by her spouse, a common excuse given by politicians who are involved in insider trading. Unfortunately for the congresswoman, she is unmarried. A spokeswoman said that was an error and the report would be updated.

Democratic Congressman Blumenauer, first elected in 1996, is a member of the House Ways and Means Committee and a senior member of the Budget Committee. He reported trades in bank stocks that he carried out even as he was co-sponsoring a bill to strengthen restrictions on financial companies in the wake of the bank failures.

Blumenauer reported selling between \$1,001 and \$15,000 in Bank of America stock on March 9, as panic spread and shares of the big banks plunged. That was one day before federal regulators announced they had taken control of Silicon Valley Bank. By selling when he did, Blumenauer avoided a massive loss in his Bank of America holdings. A week after he sold the stock, its price was down 5 percent.

On March 20, as the banking industry continued to totter, Blumenauer sold between \$1,001 and \$15,000 in First Republic Bank. On that day, the bank's stock closed down 47 percent after the *Wall Street Journal* reported that a number of big US banks were in discussions about new efforts to stabilize First Republic.

A spokeswoman for the congressman said the trade was made by his wife and he was unaware of it at the time.

Rep. John Curtis (Republican from Utah) reported selling \$1,001 to \$15,000 in Bank of America stock on March 16. That day, four major banks, including Bank of America, announced that they would deposit \$30 billion in First Republic. On the same day, Curtis sold \$1,001 to \$15,000 in First Republic stock, according to his recent disclosure. The following day, the bank's stock closed down 33 percent. Curtis' timely stock dump saved him a great deal of money.

Curtis' disclosure says both stocks were traded by a joint fund with his spouse.

There are no legal restrictions on lawmakers trading in stocks or bonds, outside of a requirement that they disclose any trades within 45 days. It is highly likely that further disclosures will reveal sales of bank stocks during the first weeks of the banking

crisis by more lawmakers from both parties. Proposed bills to ban or restrict stock sales by federal legislators have failed to even come up for a vote.

There is nothing new in the latest round of insider trading and profiteering by lawmakers from bank failures, stock market panics and gargantuan government bailouts of the financial aristocracy. At the start of the COVID-19 pandemic in the early weeks of 2020, legislators from both parties who were given classified briefings on the virulence of the coronavirus and the impending health catastrophe it would cause lied to the public and minimized the danger from the government's refusal to take necessary public health measures. At the same time, they sold shares before the spreading pandemic led to a freeze in the US Treasury bond market and a collapse in stock prices.

At least four senators, including the chairman of the Senate Intelligence Committee, Republican Richard Burr, and the ranking member of the Senate Judiciary Committee, Democrat Dianne Feinstein, sold millions of dollars worth of stock after a classified briefing on January 24, 2020 warning of the "emerging public threat."

In addition to Feinstein and Burr, Republican senators James Inhofe of Oklahoma, who also sits on the Intelligence Committee, and Kelly Loeffler of Georgia sold off large amounts of stock. In all cases, the senators completed the sale of their stock well before the Dow Jones Industrial Average dropped nearly 10,000 points beginning February 21.

Burr faced federal investigations over stock sales of some \$1.7 million in February 2020 while sitting on committees that received detailed briefings on the pandemic. The investigations were later closed without any action being taken.

Multimillionaire Dianne Feinstein and her husband, billionaire investment banker Richard Blum, reported in Feinstein's Senate disclosures the sale of between \$1.5 and \$6 million worth of California biotech company Allogene Therapeutics stock between January 31 and February 18. Feinstein pleaded ignorance of the seven-figure sales, stating on Twitter that she "held all assets in a blind trust of which I have no control." She further declared that she "had no input" into any decisions her husband made.

During the 2008 financial crisis and bank bailout, members of Congress from both parties on committees tasked with overseeing the banking industry dumped or bought stocks for their personal profit even as they allocated \$700 billion in taxpayer money to rescue the banks and authorized the Federal Reserve to pump trillions more into the financial markets.

No such largess was given to the eight million Americans who lost their jobs and the 10 million who lost their homes and life savings. Instead autoworkers had their pay cut in half, their cost of living adjustments ended and their pensions gutted.

In August of 2009, the Britannica ProCom.org website published a report on "Potential Congressional Insider Trading during 2008 Bank Bailout." It listed six House members—four Democrats and two Republicans—who made large trades in the

stock of banks they were supposedly regulating.

Last September, the *New York Times* published an investigatory report headlined "Stock Trades Reported by Nearly a Fifth of Congress Show Possible Conflicts." Among the findings:

- From 2019 to 2021, 97 lawmakers or their family members bought or sold financial assets in industries that could be affected by their legislative committee work.

- Over the three-year period, more than 3,700 trades reported by lawmakers from both parties posed potential conflicts of interest.

- Thirteen lawmakers, including members of the House oversight panel, reported that they or immediate family members had bought or sold shares of companies that were under investigation by their committees between 2019 and 2021, encompassing years in which Democrats controlled the House and control of the Senate swung from Republicans to Democrats.

- Forty-four of the 50 members of Congress who were most active in the markets bought or sold securities in companies over which their committee assignments could give them knowledge or influence.

The 97 members identified in the *Times*' analysis did not include then-House Speaker Nancy Pelosi. Her disclosure filings were not flagged because she did not sit on any legislative committees. However, her multi-millionaire husband, Paul Pelosi, reported buying and selling between \$25 million and \$81 million worth of stocks, options and other financial assets between 2019 and 2021, according to Nancy Pelosi's filings. Among them were investments in companies like Alphabet, the parent company of Google, that are regularly the subject of congressional and regulatory scrutiny.

One example of insider trading given in the *Times* report is worth citing. The disclosure statement of Rep. Alan Lowenthal, Democrat of California, said that his wife sold Boeing shares on March 5, 2020—one day before a House committee on which he sits released damning findings on the company's handling of its 737 Max jet, which had been involved in two fatal crashes that led to a total of 346 deaths.



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