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The Hightower LOWDOWN

Edited by Jim Hightower and Phillip Frazer ◆ Vol.11 No.7 ◆ July 2009

"The banks are still the most powerful lobby on Capitol Hill. They frankly own the place."

— SEN. DICK DURBIN (D-Illinois), April 30, 2009, after banking-industry lobbying blitz killed his bill to help bankrupt homeowners reduce their mortgage debt.

Where's the audacity? Where's the hope?

Obama's reform plan is to "watch" Wall Street rather than restructure it

OUT IN WEST TEXAS, an oxymoronic weather phenomenon known as a "dry rainstorm" often occurs. It's particularly tough on farmers. These storms build with all of the tell-tale signs of a downpour headed toward the farmers' fields—dark clouds on the horizon and lightning that flares like a pinball machine, followed by the promising clap and rumble of rolling thunder. But then—no rain. The clouds, lightning, and thunder blow right over the area, yet they deliver not one drop of the nurturing water the farmers are desperate to have.

This hard experience is why you'll sometimes hear farm folks use a cautionary expression when others have high expectations that something good is about to happen. "I hope so," they'll say, "but remember—thunder ain't rain."

All of America just had a dry rainstorm sweep across it from out of Washington. On June 17, in response to the unbridled Wall Street greed that has crashed our economy, the Obamicans revealed their long-awaited plan to rein in those rapacious banking beasts. Obama himself trumpeted the plan as "a sweeping overhaul of the financial regulatory system. A transformation on a scale not seen since the reforms that followed the Great Depression."

Then came the actual rollout of proposed actions. So much thunder, so little rain.

Where's Roosevelt?

Rather than undertaking a fundamental restructuring of today's rickety regulatory approach and apparatus, the plan accepts the system as it is and attempts to make Wall Street more stable and responsible by, in essence, watching it more closely.

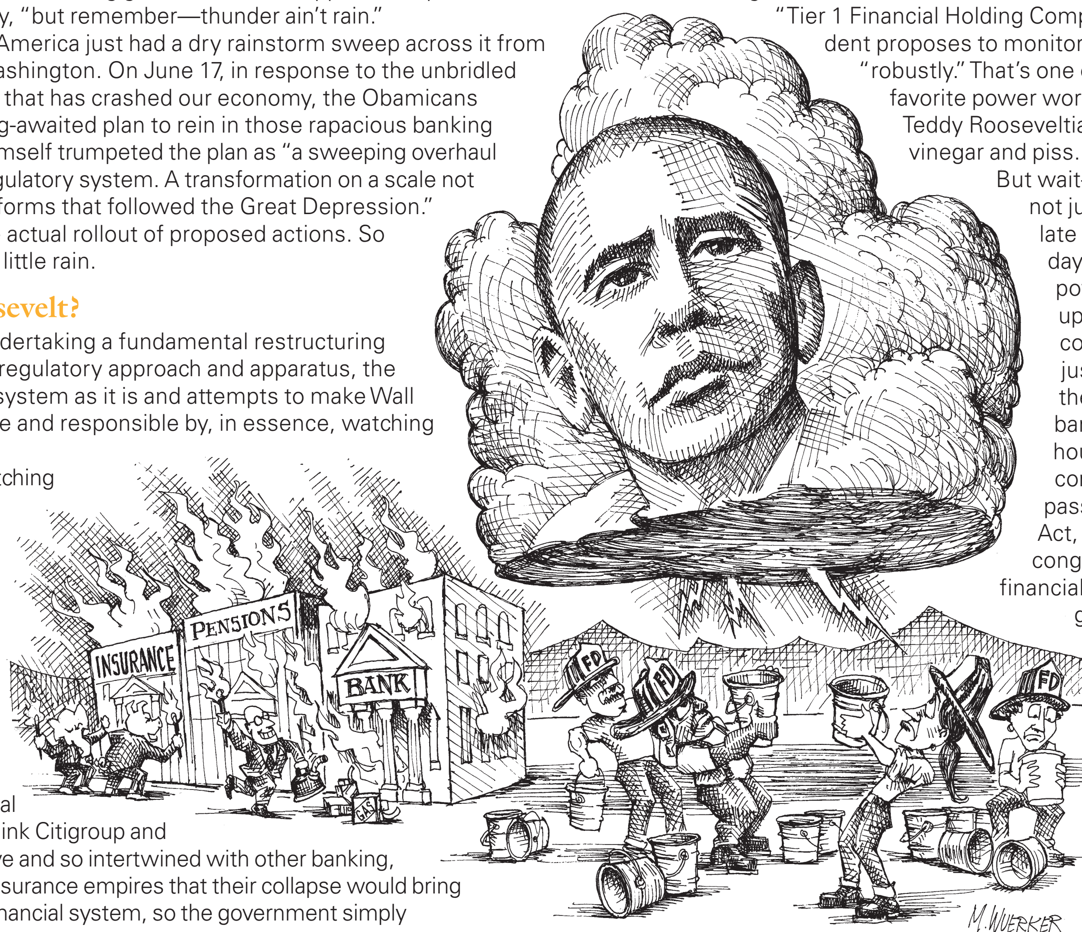
It's not that watching is bad, but that it's so…well, passive. And meek. And feeble.

The plan starts with a fundamental mistake: It continues the disastrous "too-big-to-fail" concept—the notion that certain financial conglomerates (think Citigroup and AIG) are so massive and so intertwined with other banking, investment, and insurance empires that their collapse would bring down the whole financial system, so the government simply cannot allow them to collapse. This means that we taxpayers guarantee the survival of these behemoths, no matter how badly they perform.

Such dangerous entities are referred to in Obama's plan as "Tier 1 Financial Holding Companies," and the president proposes to monitor and regulate them "robustly." That's one of Washington's favorite power words, suggesting a Teddy Rooseveltian machismo, full of vinegar and piss.

But wait—the Bull Moose did not just monitor and regulate the huge trusts of his day. He busted their power by breaking them up! Likewise, Teddy's cousin, Franklin, didn't just try to watch over the intertwinings among banks, investment houses, and insurance companies. In 1933 he passed the Glass-Steagall Act, which banned the conglomeration of these financial functions under single corporate roofs.

(This ban served America well until 1999, when Sen. Phil Gramm and the Clinton administration conspired to lift it at the behest of the CEO of Citigroup, who was orchestrating



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WHO SAYS WE DON'T NEED UNIONS?

The National Transportation Safety Board has issued its official review of "The Miracle On The Hudson"—the US Airways flight in New York that struck a flock of geese, lost all power, and was forced to land in the Hudson River last January.

NTSB's analysis confirms what we learned from news reports at the time—Captain Chesley "Sully" Sullenberger and the rest of the crew on Flight 1549 performed marvelously in the face of looming disaster, saving the lives of 150 horrified passengers by landing the jet intact and quickly evacuating it. Their performance has been hailed with such phrases as "stoic," "nearly flawless," and "heroic."

But another laudatory term should be applied to them as well: "union." Practically everyone involved in averting this disaster was a union-trained professional. Captain Sully himself is not only a member of the Airline Pilots Association, but also served on its national governing committee and is APA's former safety chairman. Indeed, he and his union have had to fight airline chieftains who've tried to cut back on the safety-training programs.

Likewise, the flight attendants who so expeditiously moved everyone off the plane are members of their union, the Association of Flight Attendants, which also stresses safety. The ferry crews that zipped right up to the wings to rescue passengers—they're in the Seafarers International Union, which gives them the safety courses that enabled them to respond as they did. The cops, firefighters, and air-traffic controllers also performed marvelously—all are union-trained.

the merger of Citibank, Solomon Brothers, and Travelers Insurance into one entity—a conglomerate that has since fallen to pieces and made us taxpayers underwrite $351 billion in federal government support.)

To sanction the idea that a mere corporation is too big to fail is to concede that a private, for-profit interest can be bigger than We the People. For our leaders to bow before the altar of corporate supremacy is outrageously craven, for they are allowing an avaricious financial elite to control us, rather than vice versa.

Such an anti-democratic concentration of power is not something to regulate, but to eliminate. As we've now learned the hard way, the executives, lawyers, and lobbyists of outsized Wall Street outfits are creative geniuses *(veritable Houdinis!)* when it comes to escaping even the most robust of regulatory bindings—and they will escape Obama's bindings as well.

By definition, too big to fail is too big. No country should tolerate any group amassing this destructive level of power, especially banks, which are self-serving private vessels through which our nation's credit flows—the very lifeblood of our economy. The starting point for restraining Wall Street greed, then, is to reduce these grasping financial entities to manageable size. But Obama's reforms don't go near this necessity, as though he fears offending the beast. Where's the Roosevelt in that?

While his proposed regulations do have a broad sweep, their impact on Wall Street's behavior is minimized by several odd exclusions, including:

Derivatives. These are the risky, exotic, unregulated, almost-incomprehensible pieces of financial paper that investment bankers have created out of nothing more substantial than fairy dust. During the last ten years, trillions of dollars from hedge funds and other pockets of spectacular wealth poured into these investments, including truckloads of money that went into derivatives based largely on the fantasy that housing prices only go up. This worked magically for a while, generating unbelievable profits for both the banks and the investors—until the housing bubble burst and the fairy dust exploded, bringing Wall Street and the rest of us down.

The flimsiest and most dangerous of these derivatives (the ones that are traded in absolute secrecy and that have the potential to create the kind of nuclear economic fallout we're presently suffering) should simply be outlawed. Amazingly, though, Obama didn't even bring them under his "robust" regulatory regime. Instead, his plan cavalierly turns these destructive speculative creations loose on the world again, with only the lightest of public-disclosure requirements.

Our society either bans or heavily regulates outright gambling, because of the financial damage such games can do to people. But here's a form of unlimited gambling —a multi-trillion-dollar crapshoot—that we've just seen wreak enormous damage on our whole economy, yet Obama is letting the game continue.

In fact, speculation in derivatives is so akin to gambling that Congress felt it necessary in 1999 to exempt these dicey investments from America's antigambling laws!

Were they not exempted, it is likely that some local, state, or federal prosecutors would go after certain derivative investment funds as being illicit gambling schemes. Tellingly, Obama's reforms do not remove this gambling exemption.

Rating agencies. Investors are supposed to get a measure of confidence and protection from agencies that are empowered to evaluate the creditworthiness of particular stocks and bonds. The agencies award a rating to each stock or bond, ranging from AAA (the most solid) to D (the shakiest). Although the term "agencies" implies impartial public authorities, these entities are part of a private, for-profit industry that is dominated by just two firms, Moody's and Standard & Poor's.

And their performance has been poor indeed, contributing to our present financial crisis by consistently slapping their happy-face, triple-A seal of approval on mortgage-based derivatives that turned out to be worthless. One reason for the generous dispensation of AAA ratings is a built-in conflict of interest called "issuer pays." This bit of Wall Street-speak means that a company issuing stocks, bonds, or other securities pays a handsome fee to Moody's or S&P to do the evaluation and give it a rating. Yes, it has all the integrity of a book reviewer collecting fees from authors.

While Obama's package vaguely urges rating agencies to establish methods for "managing and disclosing conflicts of interests," it continues to wink at the issuer-pays system. As a result, the way these agencies operate will not change.

Executive pay. Here's the ignition point that sparks Wall Street flimflammery: Because their own ridiculous pay is based on raking in the biggest fees and quickest profits possible, top bankers push themselves and those under them to develop the wildest, most convoluted investment scams imaginable—and ethics be damned. Obama put his finger on it when he prefaced his reforms by referring to Wall Street's "culture of irresponsibility." Preaching from the presidential pulpit, he rightly denounced the Street's skewed system of incentives: "Executive compensation—unmoored from long-term performance or even reality—rewarded recklessness rather than responsibility," he thundered.

Amen.

But then, nothing. The administration that required tens of thousands of America's autoworkers to take a major hit on pay and benefits as the price of bailing out Chrysler and GM has let the multimillionaire bankers who wrecked our economy off with a little scolding. Instead of caps on Wall Street's robber-baron pay levels,

Do Something!

For more information, check out the following websites:

People are not merely complaining about Washington's meekness toward Wall Street's greed and destructiveness—they're organizing for changes that are more bold, comprehensive, and effective. Here are a couple of groups leading the way:

- **A New Way Forward.** A web-based activist network funded by young people who're outraged by Wall Street's rapacious greed and Washington's timid response. Using netroots tactics, A New Way Forward allows ordinary people to organize protests, teach-ins, house parties, and other means to have a serious discussion about "too big to fail" and to rally support for decentralizing the financial system. Contact ANWF at *http://www.anewway forward.org.*
- **Americans for Financial Reform.** A broad coalition of some 200 national and state organizations—including groups representing consumers, labor, low-income folks, seniors, small business, students, and taxpayers. Led by Heather Booth, a veteran organizer of citizen coalitions for effective action, AFA is pushing aggressively for real reform of our financial system, ranging from Wall Street restructuring to local campaigns to stop the greedheaded policies of particular banks. Contact AFA at *http://ourfinancialsecurity.org* or 202-588-7715.
- **Open Government.** If you want to let Obama know directly what you think of his Wall Street policies and to urge him to toughen his approach, contact his White House website *http://whitehouse.gov/contact* or call 202-456-1111.

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the White House issued guidelines that it *hopes* will encourage corporate boards to reward long-term executive performance rather than quickie gains. The Obamicans also say they *hope* Congress will pass a law allowing shareholders (i.e., the actual owners of the banks) to vote on executive pay—but the White House says this should not be a binding vote. You could practically hear Wall Street snickering.

The worst move

Having infuriated many of us by allowing the greedheaded Wall Street bankers who caused our financial crisis to keep their royally paid jobs, the Obama team now proposes an even more infuriating move. They're insisting that the starring role in the president's "bold" new financial regulatory scheme should go to the federal agency that already has a statutory duty to rein in the above-mentioned greedheads but has deliberately refused to do so for the past couple of decades. What a great idea—the bankers who failed us would be overseen by the regulators who failed us.

The agency designated by the White House to become SuperCop of our nation's entire financial network is the inscrutable Federal Reserve System. Known to insiders simply as "the Fed" (and barely known at all to outsiders), it acts as our country's central bank. This means it controls America's monetary policy (interest-rate levels, etc.), supposedly assures the soundness of our banking system, and serves as lender of last resort in times of trouble (e.g., now). Over the years, the Fed has not been our friend –unless you're a big banker or rich investor.

You might naturally assume that an agency endowed with such powerful governmental functions would be in public hands. But no—the Fed is fundamentally a private entity! Yes, unlike nearly every rational nation, control over America's money supply and banks is largely entrusted to private interests—specifically, bankers.

The Fed operates a network of 12 regional banks and 25 branches. It prints and distributes our money (check your bills—they're labeled "Federal Reserve Notes"). It also runs a nationwide payment system, acts as a depository for private banks, and serves as banker to the Treasury Department. The Fed's policies and regulatory functions are carried out by the regional banks, which are private. Their shares are owned by—guess who?—the financial firms they "oversee." Cozy. Board members of the regional banks, as well as the seven-member board of governors for the national body, routinely hail from Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, Wachovia, and other powerhouses purportedly regulated by the system. Cozier still.

Technically, the Fed's board of governors is part of the federal government, but the system itself operates separately. While the president appoints the seven board members, they get 14-year staggered terms, are not accountable to the White House for their actions, are not dependent on Congress for appropriations, and are allowed to make decisions in secret. There's practically no media coverage of the Fed, so the people have little knowledge of it. Even if folks knew about it, however, commoners are not allowed to have any voice in its decisions. As investigative journalist Bill Greider puts it in his latest book, *Come Home, America*, "[The] Federal Reserve governs our lives as assuredly as the politicians in Congress or the White House do, but without the inconvenience of facing elections."

In effect, the Fed is a private government—of, by, and for the moneyed elites. For the past 30 years, it has, as Greider concludes, "favored wealth over wage income, creditors over debtors, capital over labor, financial investors over producers... [and] the few over the many."

The Fed's powerful chairmen in this period have used the "mystique" of the secretive, sphinxlike institution to bamboozle Washington and the media into **(1)** approving the deregulation pipedreams of top bankers; **(2)** allowing our local banks to be swallowed into aloof, unmanageable megabanks; (3) okaying the transformation of Wall Street into a bazaar of gimmicky, indecipherable financial transactions; **(4**) blindly fawning over the avarice and arrogance of the "Wizards" of Wall Street; and **(5)** bailing out the failed wizards with handouts, loans, guarantees, and knuckleheaded investments that add up to more than $10.5 trillion in Fed funds that we taxpayers are obligated to pay back.

Why should we reward this gang of goof-ups by giving their private "Club Fed" even more power over us?

Timothy Geithner, Obama's treasury chief, says, well, the authority to monitor and prevent system-wide troubles in the financial sector needs to be in one place. Fine, but the Fed? "I do not believe there is a plausible alternative," snapped Geithner to dubious senators last month. What about the call in Congress for a "council of regulators" that would have a concern broader than the welfare of bankers? No go, said Obama's man, sniffing that "you cannot convene a committee to put out a fire."

Cute line, but not true. In fact, a firefighting crew is a committee, with different members handling the

THE BATTLE OF COAL RIVER VALLEY

"You've got to stand for something," sings John Mellencamp, "or you're gonna fall for anything."

Folks in West Virginia's Coal River Valley are no longer falling for the long litany of lies they've gotten from coal-company executives and-bought-off politicians. The corporate elites of the state have literally been destroying mountains, forests, streams, wildlife, livelihoods, human health, and whole communities in Appalachia by using a brutal form of coal mining called "mountaintop removal."

For years, people here have tried the usual political and legal channels to stop this corporate assault —yet it continues. So people are now putting themselves on the line.

In May, at three mountaintop removal sites, protesters carried out nonviolent civil-disobedience actions, and 17 were jailed. Two women, for example, donned hazmat suits and respirators and boated onto the Brushy Fork impoundment—an 8-billion -gallon lake of poisonous coal-slurry waste. Having unfurled a floating, 60-foot banner reading "No More Toxic Sludge," they were arrested for—get this—littering! How can you litter a toxic-waste dump?

Though the charges against the protesters are misdemeanors, state judges demanded that each one post a punitive bail of $2,000 cash, rather than the usual step of posting much cheaper bonds. Contrast these bail rates with the meager $1,800 fine that one of the coal giants paid when its slurry lake broke, poisoning 14 miles of river.

King Coal may think it owns West Virginia, but the people are in revolt. To connect with this growing movement, go to *www.ohvec.org.*

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HAVE YOU DRIVEN A GEELY LATELY?

What are we going to be driving a few years from now? GM's in bankruptcy, Chrysler is now run by Fiat, and the future seems bleak for the whole U.S. auto industry. So, who'll be king of America's highways—Toyota, Honda... or maybe Geely?

Gee–who? Geely Automobile. It's one of China's largest auto manufacturers. Along with two other Chinese giants—BYD and Chery Automobile—Geely has big designs on the American market. This year, China is projected to displace Japan as the world's largest car producer. It already tops U.S. carmakers in sales.

Chinese cars are expected to arrive in the U.S. market just over a year from now, and rumors abound that the Chinese are already kicking the tires of Detroit's auto companies, with the intention of buying a piece of them, or, at today's bargain prices, buying out a company.

One reason for the sudden Chinese surge is that its industrial and political leaders have been planning for and investing in the future, while American car honchos were hunkered down in their Hummer strategy. Thus, China's fuel-efficiency standards already exceed the 35-miles-per-gallon average that Obama recently said U.S. cars must meet by 2016. A week after Obama set that goal, Chinese officials said their vehicles will average 42 miles a gallon by 2015.

Meanwhile, China's BYD Company has gotten the jump on the next level of fuel economy. It is now producing a mass-market plug-in electric car—well ahead of the release date of GM's Chevy Volt. Of course, that's assuming that GM's around to release anything new ever again.

truck, ladders, axes, water connections, and so on. For that matter, even the Fed is a committee, though it performs as a committee of arsonists.

Punking the president

Obama and Geithner seem to think that preventing future Wall Street excesses and crashes is a technocratic matter. In Geithner's own phrases, the problems can be addressed through "capital and liquidity requirements," "consolidated supervision," "harmonizing the regulation," and, of course, "robust reporting requirements." The White House is determined to be firm with the financial elite (yet flexible), bold (but measured), protective of the public (and also of Wall Street). No need for unpleasant confrontation. As Obama put it, "We seek a careful balance."

How gentlemanly. But this is not tiddlywinks. It's a game of power. At stake is this raw political question: *Who rules?*

Wall Street plays for keeps, measuring its success not only in the money it pockets, but also in the control it holds. This is not new. At the height of robber-baron power, such strongmen as J.P. Morgan and John D. Rockefeller considered themselves above mere political leaders. If they had a need to talk with the nation's president, they summoned that president to New York. The gentlemen of Wall Street constituted not just a separate power center, but, in their view, a superior one.

Whether he gets it or not, Obama is in exactly this same power struggle right now. And, so far, the barons are winning. Wall Street executives have failed their own investors and their country, but there they are, still at the helm of their banks, still calling the shots.

For example:

- **They got the White House and Congress** to give them the biggest bailout in history on the grounds that they would then make loans to our businesses and consumers. They didn't. But they were allowed to keep the money, and they've paid no price for duping Washington.
- **CEOs of Bank of America, Citigroup, Goldman Sachs, JPMorgan,** and other banks were vilified by the president and the public for taking millions of dollars in personal pay and perks even as their institutions failed, workers were fired, and taxpayers were bilked. But the bottom line is that Washington has done nothing to terminate this culture of executive entitlement.
- **The banks and the bankers failed,** but Obama-Geithner not only rescued them, but also are rescuing their too-big-to-fail dogma, thus guaranteeing more recklessness, more failures, and more bailouts.

With all due respect, the president is getting punked, and he doesn't even know it. His man Geithner has written a reform plan that effectively kowtows to Wall Street's barons, rather than confronting them. This is no surprise, for Geithner literally is Wall Street's puppy. As documented in an excellent profile by Jo Becker and Gretchen Morgenson in the *New York Times* (April 27, 2009), the treasury secretary has moved up Washington's career ladder by maintaining an unusually close relationship to the bankers, hedge-fund managers, and other financial chieftains whose work he's been charged with overseeing.

As head of the Federal Reserve's New York bank prior to being tapped by Obama, he went beyond the accepted business relationships between regulators and the regulated, cultivating close personal ties to the top executives of Citigroup, Goldman Sachs, JPMorgan Chase, and Morgan Stanley. In his jobs at the Fed and now at Treasury, Geithner was exactly what Wall Street wanted—one analyst describes his role as "a safe pair of hands, someone who is bright, intelligent, hardworking, but not someone who intends to reform the system root and branch."

By sticking with Geithner's "reform lite," Obama looks weak, as if he's afraid to make the financial powers mad, much less make them change. Technocracy and balance are nice, but they're pitifully inadequate in this power struggle. It's not like the president is constrained by a public pleading for moderation—a March 31 Zogby poll shows that only 6% of Americans support the bailout, while a majority favors stopping the giveaway, even if that means some banks tank. This is a historic moral clash between the people's interest and a handful of financial elites who caused a national disaster. Ordinary folks are dismayed by the meekness, asking, "Why aren't we busting the bastards?"

When FDR, a man of substantial inherited wealth, took on Wall Street in the 1930s, he was called a traitor to his class. Asked how he felt about this, he retorted, "I welcome their hatred."

The good news today is that many grassroots groups and many in Congress are eager to earn Wall Street's hatred by seriously restructuring America's greed-centered financial system. See our **DO SOMETHING** box to join the effort.

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