Not Too Big to Jail: Why Eliot Spitzer Is Wall Street's Worst Nightmare

By Ellen Brown
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Before Eliot Spitzer's infamous resignation as governor of New York in March 2008, he was one of our fiercest champions against Wall Street corruption, in a state that had some of the toughest legislation for controlling the banks. It may not be a coincidence that the revelation of his indiscretions with a high-priced call girl came less than a month after he published a bold editorial in the Washington Post titled "Predatory Lenders' Partner in Crime: How the Bush Administration Stopped the States from Stepping in to Help Consumers." The editorial exposed the collusion between the Treasury, the Federal Reserve and Wall Street in deregulating the banks in the guise of regulating them, by taking regulatory power away from the states. It was an issue of the federal government versus the states, with the Feds representing the banks and the states representing consumers.

Five years later, Spitzer has set out to take some of that local regulatory power back, in his run for New York City comptroller. Mounting the attack against him, however, are not just Wall Street banks but women's groups opposed to this apparent endorsement of the exploitation of women. On August 17th, the New York Post endorsed Spitzer's opponent and ran a scathing cover story attempting to embarrass Spitzer based on the single issue of his personal life.

Lynn Parramore, who considers herself a feminist, countered in an August 8th Huffington Post article that it is likely to be in the best interests of the very women who are opposing him to forgive and move on. His stand for women's reproductive rights and other feminist issues is actually quite strong, and his role as Wall Street watchdog protected women from predatory financial practices. As New York Attorney General, he was known as the "Sheriff of Wall Street." He is one of the few people with not only the insight and experience to expose Wall Street corruption but the courage to go after the perpetrators.

Targeted for Take-down

The February 2008 Washington Post article that preceded Spitzer's political travails was written when the state attorneys general were being preempted by the Federal Reserve as watchdogs of the banks. Critics called it a case of the fox guarding the hen house. Spitzer wrote:

> Several years ago, state attorneys general and others involved in consumer protection began to notice a marked increase in a range of predatory lending practices by mortgage lenders. . . . These and other practices, we noticed, were having a devastating effect on home buyers. In addition, the widespread nature of these practices, if left unchecked, threatened our financial markets.

> Even though predatory lending was becoming a national problem, the Bush administration looked the other way and did nothing to protect American homeowners. In fact, the government chose instead to align itself with the banks that were victimizing consumers. . . . [A]s New York attorney general, I joined with colleagues in the other 49 states in attempting to fill the void left by the federal government. . . .
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> Not only did the Bush administration do nothing to protect consumers, it embarked on an aggressive and unprecedented campaign to prevent states from protecting their residents from the very problems to which the federal government was turning a blind eye. . . . The administration accomplished this feat through an obscure federal agency called the Office of the Comptroller of the Currency (OCC). . . . In 2003, during the height of the predatory lending crisis, the OCC invoked a clause from the 1863 National Bank Act to issue formal opinions preempting all state predatory lending laws, thereby rendering them inoperative. The OCC also promulgated new rules that prevented states from enforcing any of their own consumer protection laws against national banks. The federal government's actions were so egregious and so unprecedented that all 50 state attorneys general, and all 50 state banking superintendents, actively fought the new rules. But the unanimous opposition of the 50 states did not deter, or even slow, the Bush administration in its goal of protecting the banks. In fact, when my office opened an investigation of possible discrimination in mortgage lending by a number of banks, the OCC filed a federal lawsuit to stop the investigation.

Less than a month after publishing this editorial, Spitzer had been exposed, disgraced, and was out of office. Greg Palast pointed to the fact that Spitzer was the single politician standing in the way of a $200 billion windfall from the Federal Reserve, guaranteeing the toxic mortgage-backed securities of the same banking predators that were responsible for the subprime debacle. While the Federal Reserve was trying to bail them out, Spitzer was trying to regulate them, bringing suit on behalf of consumers.[3] But he was quickly silenced, and any state attorneys general who might get similar ideas in the future would be blocked by the federal "oversight" then being imposed on state regulation.

A Rooster to Guard the Hen House

In a July 2013 article titled "Why Eliot Spitzer's Return Terrifies Big Finance," Thomas Ferguson, Professor of Political Science at the University of Massachusetts and a senior fellow at the Roosevelt Institute, wrote of Spitzer's bid for comptroller:

> Suddenly, the Masters of the Universe were staring at their worst nightmare: the prospect of a comeback by **the only major politician in the U.S. whose deeds — and not simply words —prove that he does not think corporate titans are too big to jail.**
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> **Who,** when the Justice Department, Congress, and the Securities and Exchange Commission all defaulted in the wake of a tidal wave of financial frauds, creatively used New York State's Martin Act to go where they wouldn't and subpoena emails and corporate records of the malefactors of great wealth, winning convictions and big settlements.
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> **Who** in 2005, as New York State Attorney General, actually sued AIG instead of thinking up ways to hand it billions of dollars of taxpayers' money. . . .
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> **And who in 2013 with business as usual once again the order of the day, is promising to review how the Comptroller's Office, which**

> **controls New York City's vast pension funds, does business with Wall Street and corporate America.**

Yves Smith, writing on her blog *Naked Capitalism* on July 25th, expanded on this threat. She noted that private equity [PE] investment managers had persuaded their clients that their limited partnership agreements [LPAs] were a form of "trade secret," and that nobody was looking closely at whether PE firms were complying with the fee and expense provisions of their agreements:

> Public pension fund investors have almost universally acceded to the demands of PE firms to exempt the LPAs and cash flow reports from state FOIA laws, which keeps the eyes of the press and the public off the documents.
>
> . . . However, **the New York City Comptroller has access to this critical information.** Hence the freakout at the prospect that Spitzer might get the job.

Hence also the $1.5 million ad campaign against Spitzer brought by a coalition of business leaders, labor unions and women's groups.

The Issues that Matter to Women

On July 10th, the head of the local chapter of a national women's advocacy groupasked a small gathering outside City Hall:

> Do we want an elected official who has broken the law and who has participated in sustaining an industry that we all know has a long history of exploiting women and girls?

The speaker lumped Spitzer with Anthony Weiner, who is running for mayor after sending out sexually explicit tweets, and Vito Lopez, who is running for City Council after resigning from the Assembly over sexual harassment allegations. She asked whether these men would address the issues that matter to women, "or are they just going to see us as objects?"

Sexual exploitation is an issue that matters to women, but the best way to save women from the sort of desperation that leads to exploitation is to keep them out of ruinous debt. Wall Street fraud, corruption and abuse have caused millions of homeowners to lose their homes and have tipped cities toward bankruptcy; and Spitzer is one of the brave few who has exposed and attempted to prosecute those predatory practices. As comptroller, he could make more information available to the public concerning the companies in which public pension funds are invested, look out for exploitive fees, insist on plain English reporting of derivatives exposure, and take steps to ensure that nurses and teachers are not being financially exploited. He can monitor contracts and business dealings and help protect the city from the kinds of rip-off schemes that deplete city funds for education, infrastructure, and the social safety nets that women, particularly, rely on.

In a December 2011 article in *Slate* titled "We Own Wall Street," Spitzer argued that bad corporate behavior could be stopped by a political movement uniting shareholders, pension funds and mutual funds – the actual owners of the corporations – who could then take coordinated action demanding transparency and accountability.

This is the sort of creative thinking that will be needed if we the people are to take back our power from Wall Street and the corporatocracy. We need a mass movement, coordinated action, and leaders who can organize it; and Eliot Spitzer is one of the few people in a position to play that role who have the experience, vision and courage to carry it through.

Ellen Brown *is an attorney, president of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. In The Public Bank Solution, her latest book, she explores successful public banking models historically and globally. Her websites are http://WebofDebt.com, http://PublicBankSolution.com, andhttp://PublicBankingInstitute.org.*

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