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US Senate Rubber-Stamps the Dictatorship of the Big Banks

Obama's Wall Street "reform" bill passes

By Patrick Martin
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The US Senate's passage of the Obama administration's financial reform bill Thursday was hailed in the media and by official Washington as a landmark effort to curb the power of the big banks. But on Wall Street itself, the news was greeted with a mixture of dismissal and applause.

Bank stocks soared on Friday, with the share price of JP Morgan Chase, one of the biggest finance houses, surging 5.9 percent and helping drive the Dow Jones Industrial Average up 125 points. Other bank stocks rose sharply: Bank of America up 4.7 percent, Goldman Sachs up 3.3 percent, Morgan Stanley, Wells Fargo and Citigroup. The S&P financial sector index was up 3.6 percent overall.

The Wall Street Journal reported the rise in prices under the headline, "Financial Stocks Turn Higher After Senate Passes Reform Bill." CNNMoney.com titled its story, "Bank stocks rally on heels of Wall Street reform," noting that "major banks reacted positively to the reform's passage, and shares climbed in afternoon trading."

There is a striking and politically illuminating contrast between the market reaction and the populist phrases mouthed by Democratic politicians in Washington. Harry Reid, the Democrat majority leader in the Senate, boasted, "When this bill becomes law, the joyride on Wall Street will come to a screeching halt."

President Obama was more restrained, declaring, "Our goal is not to punish the banks but to protect the larger economy and the American people from the kind of upheavals that we've seen in the past few years." But he hailed the passage of the bill as a triumph over intensive lobbying by the major banks (who were among his biggest financial backers in the 2008 presidential campaign).

"When they couldn't kill it, they tried to water it down," he claimed, adding, "Taxpayers will never again be asked to foot the bill for Wall Street's mistakes. There will be no more taxpayer-funded bailouts. Period."

Obama met Friday with Senator Christopher Dodd, chairman of the Senate banking committee, and Representative Barney Frank, chairman of the House financial services committee, for the first discussion on how to square the Senate bill with the version that passed the House of Representatives late last year. A House-Senate conference committee will combine the two bills and the resulting legislation would by on the president's desk before July 4, Frank told the press.

Senate passage was assured by a vote early Thursday to close debate on the legislation and end a filibuster mounted by the near-unanimous Republican opposition. Three Republicans from New England—Scott Brown of Massachusetts and Olympia Snowe and Susan Collins of Maine—joined the Democrats on that vote, offsetting the two Democrats, Russell Feingold of Wisconsin and Maria Cantwell of Washington, who sought more restrictions on the banks.

The last obstacle was overcome with an agreement between the Democratic and Republican leaders to block a vote on an amendment by Democrats Carl Levin of Michigan and Jeff Merkley of Oregon that would have banned banks from engaging in high-risk trading with funds insured by the FDIC and from betting against the investments they sell to their own customers. Levin called that backroom deal "the most powerful evidence of the long arm of Wall Street reaching into this body."

Actually, the entire legislation could be described in that fashion. The Obama administration and congressional Democrats have indulged in occasional bouts of bank-bashing rhetoric—Reid declared the bill would protect Americans from "Wall Street greed that cost middle-class families their homes, their jobs and their retirement savings." But no bankers will go to jail, lose their jobs, suffer pay cuts or even be seriously inconvenienced, after the greatest financial collapse since the Great Depression.

The Wall Street casino will continue to play the dominant role in American capitalism. In the last two decades, under Democratic and Republican administrations alike, the big financial institutions have grown bigger and bigger, to the point where the six largest banks—Bank of America, JP Morgan Chase, Goldman Sachs, Morgan Stanley, Citibank and Wells Fargo—have tripled their share of US financial assets, now controlling more than 60 percent of the total.

There are no proposals for breaking up these giant financial monopolies, let alone bringing them under public control and ownership for the benefit of working people, the vast majority of the population. Instead, the bankers will be required to fill out a few more forms and observe a few new rules—requiring them merely to exercise their ingenuity and find new ways of swindling the people and plundering the public treasury.

The bill is 1,500 pages long, and the final text awaits detailed analysis. But the major provisions, as summarized in the financial press, include the following:

> • The establishment of a new systemic risk regulatory council, consisting of the heads of existing regulatory bodies, like the Federal Reserve, FDIC and Treasury, to do what all these agencies failed to two years ago—foresee and prevent a financial crash.
>
> • Giving the Federal Reserve authority to liquidate very large institutions, whether banks or non-bank financial firms like the failed AIG insurance company.
>
> • Increasing the capital requirements for major banks and similar financial institutions.
>
> • Establishing a new consumer financial protection bureau, a cosmetic effort to claim that the government will now defend working people against predatory lending practices like those notoriously employed in selling subprime mortgages. This agency will be part of the Fed, i.e., it will be run by proven defenders of the big banks.

- Requiring banks to retain at least a 5 percent interest in assets that they securitize, supposedly to insure that they don't simply peddle worthless securities to unsuspecting investors.

The Senate bill is slightly more restrictive of the banks than the House version, because its provisions were finalized against the backdrop of the mushrooming financial crisis in Greece and Europe as a whole. As a result, Senate Democrats felt they had to strike a more populist pose, particularly with the congressional elections less than six months away.

Accordingly, the Senate bill, but not the House version, provides for an audit of the funds provided to the banks through such bailout programs as TARP. The Senate bill would also require investment advisers for hedge funds with $100 million or more in assets to register with the Securities and Exchange Commission, and limit derivatives trading by most banks.

The Obama administration has attempted to curtail the more restrictive measures in both the House and Senate versions of the bill, clearly adopting the most pro-Wall Street position in the ongoing negotiations in Washington.

No sooner was the Senate vote conducted, than a media barrage was unleashed, hailing the legislation as an epic achievement. The language used by the television networks, news services and major daily newspapers was so uniform that it suggests prearrangement.

The legislation was "a sweeping Wall Street reform bill" (Reuters), "the most sweeping overhaul of financial regulations since the Great Depression" (ABC), "the most sweeping changes in government regulation of the nation's financial institutions since the Great Depression" (McClatchy), "the most sweeping rewrite of financial rules since the Great Depression" (Los Angeles Times), "the most extensive overhaul of financial-sector regulation since the 1930s" (Wall Street Journal), "the most sweeping regulatory overhaul since the aftermath of the Great Depression" (New York Times) and "the most profound remaking of financial regulations since the Great Depression" (Washington Post).

None of these corporate news outlets have bothered to explain why Wall Street reacted to the passage of this supposed landmark legislation with comparative indifference.

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