Wall Street Under Obama: Bigger and Riskier

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After the financial levees broke and the crumbling banks ushered in the economic crisis, angry people clamored for drastic change in the financial system. Obama reflected these feelings well, at times using radical rhetoric to denounce the banking titans. What he promised was deep regulatory change so that such a crisis "would never happen again."

Like every other promise of substance, Obama's pledge to "rein in" the banks has fallen by the wayside; the well-timed rhetoric smoothed over public tensions and now business is back to usual. The New York Times remarks:

> "Backstopped by huge federal guarantees [the bank bailouts], the biggest banks have restructured only around the edges…pay is already returning to pre-crash levels, topped by the 30,000 employees of Goldman Sachs, who are on track to earn an average of $700,000 this year… Executives at most big banks have kept their jobs." (September 11, 2009).

Not only are the same people who helped destroy the economy still in their immensely powerful positions, but their power has increased. The Economist explains:

> "Far from ceding ground, the big banks have grown even bigger, aided by government-brokered mergers. Rules have been bent or broken … nearly half of American mortgages made in the first half of the year came from Wells Fargo, which took over Wachovia, or BofA, which swallowed Countrywide."

And: "America's leading banks were too big to fail before the crisis. Now they are bigger still." (September 10, 2009).

The super banks that emerged from the wreckage are still participating in the same ultra-risky financial gambling that ruined the lives of countless people. In fact, the banks' bad behavior has been incredibly reinforced, since the profit-induced gambling that led to their failure resulted in taxpayer bailouts that were equally profitable.

The economist, Nassim Taleb, warned "that the system has grown riskier since last fall. The extensive government support that began after Lehman collapsed will lead investors to assume that governments will always prevent major banks from collapsing." (New York Times, September 11, 2009).

The same article concluded that "The banks will keep the profits when their bets pay off, while taxpayers will swallow the losses when the bets go bad and threaten the system."

Obama is treating financial regulation in the same manner he confronted health care: radical language was used to please public opinion with little action attached. The financial system is similar to health care in another way as well, prompting Obama into minimal action: Just like skyrocketing health care costs cut into the profits of many corporations, the shoddy financial system is a threat to corporations in general. This is the reason that some kind of reform is being pursued by the White House.

The problem is that Obama crammed Wall Street executives into every crevice of his administration, while Congress, too, is inundated with lobbying (legal bribes) from the big banks. Any change, therefore, is difficult. The New York Times notes:

"The Obama administration has proposed regulatory changes, but even their backers say they face a difficult road in Congress. For now, banks still sell and trade unregulated derivatives, despite their role in last fall's chaos. Radical changes like pay caps or restrictions on bank size face overwhelming resistance. Even minor changes, like requiring banks to disclose more about the derivatives they own, are far from certain." (September 11, 2009; emphasis added).

Internationally, bank regulation is a hot-button issue. The junk stocks sold abroad by U.S. corporations amounted to tens of trillions of dollars, and infected the economies everywhere while making select corporations inside certain nations — the U.S. and England — immensely profitable.

The G-20 is set to meet in Pittsburgh this month to discuss the issue. Germany and France want drastic change, since their banks are far less powerful. These nations' "leaders said they want the G-20 to limit the size of banks and tighten capital rules." (Bloomberg, September 2, 2009). This measure will obviously be denied by England and the U.S., where banks have grown in size and continue to profit immensely from lax rules.

Although the world's closely linked economies would benefit from cooperation over financial regulation, it is the conflicting interests of powerful corporations inside these countries that will make true reform impossible. Or, as the managing director of the Institute of International Finance put it, "We're in a tug of war between national political pressures and the desire to coordinate" (Bloomberg, September 2, 2009).

The G-20, therefore, will likely publish a vague statement about cooperation around financial regulation, while behind the scenes conflicts will erupt between France and Germany vs. the U.S. and England.

Obama's short time in office has taught a valuable lesson to millions of people: the Democrats rank equal with the Republicans when it comes to aiding and abetting the super wealthy, who feel equally comfortable aligning themselves with either party. To them, campaign donations and lobbying are foolproof, profitable investments.

The Democrats will continue to bail out banks when the occasion arises; indeed, the amount of money the Federal Reserve continues to lavish on them is secret information. Labor and community groups must organize a stop to the bailouts, while demanding that all the bailout money is to be paid back. Banks unable to pay back the money should be put into foreclosure and taken over as public utilities, to be used to rebuild the country's infrastructure, providing jobs and reasonable loans to those who need them. Such ideas can help provide the impetus to finally break the corporate two-party system, so that the interests of workers can finally find an expression in politics. Withdrawing the union's support of the Democrats is the first step toward making this a reality.

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