

Can Obama Stop Casino Capitalism?

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The recent JPMorgan scandal where billions of dollars were lost in risky bets has re-ignited the move to properly regulate the U.S. banking system.

Among those asking for new regulations is Robert Reich, former labor secretary to Bill Clinton. Recently Reich made a plea of sorts to President Obama, whom he wishes would take the commonsense approach to bank regulation by re-installing the depression-era regulation, the Glass-Steagall Act.

Reich's first sentence places him among those who naively hope that Obama would listen to reason and act boldly, instead of merely putting forth populist catch phrases while obsequiously serving corporations:

"I wish President Obama would draw the obvious connection between Bain Capital and JPMorgan Chase."

This quote alone proves that Obama's vilifying of Mitt Romney's former business venture is hypocritical, since Obama has been simultaneously protecting and praising JPMorgan. Obama's populist-style attacks on Mitt Romney are cynical election campaigning.

Reich's article also points out Obama's incredible lack of action against the banks that happened during the post financial crisis, assuring that such a crisis will emerge yet again, as the recent JPMorgan scandal has foreshadowed:

"As a practical matter, the Volcker Rule [Obama's still incomplete regulation attempt] is hopeless. It was intended to be Glass-Steagall lite — a more nuanced version of the original Depression-era law that separated commercial from investment banking. But JPMorgan has proven that any nuance — any exception — will be stretched beyond recognition by the big banks."

Reich goes on to admonish the banking system's dominance of the economic system in general, partially the result of the lack of financial regulations:

"It's the substitution of casino capitalism for real capitalism, the dominance of the betting parlor over the real business of America, financial innovation rather than product innovation. It's been terrible for the American economy and for our democracy."

What Reich fails to mention is that he worked directly under a Democratic President, Bill Clinton, who helped tear down key aspects of the financial regulations that Reich hopes to reconstruct, including first and foremost the Glass-Steagall Act. Jimmy Carter, too, helped weaken banking regulations that encouraged the boom of the big banks.

The question that must be asked, then, is why did the Republicans and Democrats alike take turns at undermining banking regulation over the course of decades? And why do they both continue to agree — in varying degrees — that reconstructing the original regulatory policies would be undesirable?

The answer is that the version of capitalism that Reich would like to see cannot be re-created by regulation alone; the idyllic capitalism that Reich waxes nostalgia about has evolved into what we have now: an economy dominated by the highly profitable but volatile financial institutions while manufacturing has migrated to other countries in search of a higher rate of profit.

The capitalists, then, insured themselves that they would have a profitable place to invest their money. The billionaire Warren Buffett, for example, recently invested \$5 billion in Goldman Sachs with a guaranteed annual rate of return of [10 percent](#) . The U.S. banking system is one of the few U.S. industries that competes well internationally, and is propped up — as we saw by the bank bailouts — by the U.S. government itself. The industry is now so rich and powerful that it routinely reinforces and expands its power by the purchase of lobbyists and congressmen, not to mention presidential candidates.

The number of politicians calling for real banking reform are insignificant. The banking industry has captured Congress and regulators alike. The banking oligarchy is so intertwined with the political and economic establishment at this point that real regulatory change cannot happen until the system itself is transformed from below, by a powerful social movement. Pleading to politicians to fix so-called Casino Capitalism is increasingly naive, and Reich should know better.

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