Financial Meltdown: U.S. Treasury Regulatory Reform Proposals: Hapless, Helpless, Hopeless

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The U.S. Department of the Treasury was the big loser in 2003 when the Bush Administration sped legislation through Congress to enact the Department of Homeland Security after 9/11. Stripped of its law enforcement components—the Secret Service; the Bureau of Alcohol, Tobacco, and Firearms; and the Customs Service—Treasury became what my colleagues at work began to call "IRS and the Seven Dwarves."

The Dwarves were of two categories: a) Operational—the Bureau of Engraving and Printing which prints Federal Reserve Notes; the U.S. Mint which stamps out coins; the Financial Management Service, in charge of payments, collections, and accounting; and the Bureau of the Public Debt which markets Treasury bills, notes, and other debt instruments; and b) Regulatory—the Office of the Comptroller of the Currency which regulates national banks; the Office of Thrift Supervision, left over from the Reagan-era S&L fiasco; and the Alcohol and Tobacco Tax and Trade Bureau, the remnants of BATF.

In the five years since the Department was gutted, there have been two Secretaries of the Treasury to succeed Paul O'Neill, President George W. Bush's first appointee who was fired for being insufficiently gung-ho about the Iraq War and for having reservations about the skyrocketing federal deficits after Congress approved Bush's tax cuts for the rich.

These two Secretaries have been: a) John W. Snow, former CEO of the CSX railroad, who served for three years during which Treasury was flailing about to find an identity after being stripped of much of its budget and personnel, including large numbers of senior employees in the Office of the Secretary; and b) Henry M. Paulson, Jr., CEO of Goldman Sachs, evidently named by Bush to ensure that Treasury was and would remain hapless, helpless, and hopeless in dealing with the predatory Wall Street financial magnates who were bringing on the worst economic crisis since the Great Depression.

What have been Treasury's priorities during this time? One thing is that under both Snow and Paulson, the Office of the Comptroller of the Currency has been blocking attempts by state governments to prevent the scandalous abuses by the mortgage lenders who helped cause the subprime debacle and the bursting of the housing bubble.

A month before he resigned after being outed by leaks from an FBI investigation of his use of prostitutes, New York governor Eliot Spitzer wrote: "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." ("Predatory Lenders' Partner in Crime: How the Bush Administration Stopped the States from Stepping in to Help Consumers," by Eliot Spitzer, *Washington Post*, February 18, 2008.)

More recently, Treasury under Paulson has been in the forefront of the Bush Administration's economic warfare against Iran. ("Day of Infamy: The March 20, 2008 U.S. Declaration of War on Iran" by John McGlynn, *Global Research*, March 24, 2008.)

Then last week on Saturday, March 29, 2008, the *New York Times* printed the executive summary of a Treasury report that has been in the works for a couple of years with the title: "A Blueprint for Regulatory Reform: A Report from the Treasury Department on Ways to Improve Oversight of the Financial Services Sector."

Already Congress is balking at the report, as well they should. In fact implementation of this report would ensure that the federal government's executive branch will continue to do nothing to stand in the way of the conspiracy of the international financiers to complete their takeover of the world economy. For this conspiracy to succeed, passivity on the part of the U.S. government's financial watchdogs is essential. The Treasury plan would assure that these watchdogs remain fast asleep. ("Is an International Financial Conspiracy Driving World Events?" by Richard C. Cook, *Global Research*, March 27, 2008.)

In typical mind-numbing but pretentious bureaucratic prose, the report starts by stating: "The mission of the Department of the Treasury focuses on promoting economic growth and stability in the United States. Critical to this mission is a sound and competitive financial services industry grounded in robust consumer protection and stable and innovative markets."

Obviously, if this is Treasury's mission, it has failed miserably. Economic growth in the U.S. has been confined mainly to the gargantuan deregulated financial industry, the huge supranational corporate cartels such as Walmart and Exxon-Mobil, and the military-industrial-police-security complex which increasingly dominates national life and the economy in the post-9/11 world. While Paulson, Bush, and Federal Reserve Chairman Ben Bernanke fiddle, Rome burns—according to one poll, 89 percent of Americans say we are now in a recession.

Meanwhile, the real incomes of workers in the physical economy continue to decline. Economic stability in the U.S. is ancient history, at least for people who need to work for a living—income security hasn't been this bad since the 1930s. The financial industry itself is neither sound nor competitive, with a handful of giants—including Goldman Sachs, Paulson's former employer—having gone berserk in their haste to leverage the never-ending housing, commercial real estate, equity, hedge fund, and derivative bubbles upon which they themselves have grown fat through interest, commissions, fees, defaults, and foreclosures. Meanwhile, the consumers who should be protected by the government, not set up as victims of highway robbery, have been crushed by the worst burden of individual and household debt in history.

But before you get too indignant at the people at Treasury who wrote the nonsense in their report, reflect on the fact that these GS-14s and 15s who live in and around Washington, D.C., can themselves barely make ends meet, even with spouses who are working full-time, in the face of incredibly overpriced housing and skyrocketing inflation in every sector except those reported in the official government cost-of-living indexes.

Also reflect on the fact that while the Treasury Department was once the bastion of Roosevelt's New Deal economic miracle, today it is little more than a tax collector in the government's fruitless pursuit of the out-of-control national debt. In the 1930s Treasury and the Federal Reserve worked closely together under a regime of low interest rates and steady infrastructure spending to help create the strongest economy in the world. But starting in the early 1950s the Federal Reserve—i.e., the bankers—broke ranks and began raising interest rates as a prelude to today's monetarist disaster where the financiers rule all. Now, Treasury's new regulatory proposals are designed to continue the bankers' reign of error behind a smokescreen of bureaucratic jargon and organizational box-shuffling that the Bush administration obviously hopes will portray an illusion of control.

Turning now to the regulatory proposals themselves, one thing the plan proposes is to realign and rename a handful of regulatory agencies, including consolidating the Securities Exchange Commission and the Commodity Futures Trading Commission. This would be done on the time-honored government principle of when you don't know what to do, reorganize. As reported by the *New York Times*, the plan would actually weaken the SEC and replace some of its functions with industry self-regulation.

Under the heading of locking-the-barn-door-after-the-horse-has-escaped, the plan would create a new Mortgage Origination Commission (MOC) which would, among other brilliant innovations, set "minimum educational requirements" for mortgage lenders.

The plan would also implement a federal takeover of insurance regulation now carried out by the states through creation of an Office of Insurance Oversight (OIO). This would allow the Wall Street financiers to complete their control over the vast amount of funds available for investment from the insurance industry and ensure them one-stop-shopping at Treasury in their lobbying endeavors. The plan's one concession to consumers and ordinary investors would be to create a new agency to regulate "business conduct," the CBRA (get it?—Cobra!).

You can be sure that in order to justify their existence, the reorganized agencies, as well as such new ones as the MOC and OIO, will issue a plethora of new regulations that will have the net effect of constricting credit for the average person, because the underlying judgment of frowning officialdom is that the cause of the current housing crisis is how easy financiers made it for ordinary people who had the audacity to want to purchase homes. By contrast, the plan would assure that such "innovations" as those by which the lenders themselves have been famously packaging and re-selling mortgages and other debt instruments as investment securities will continue unimpeded.

The new regulatory requirements that will further suffocate the consumer at the tail end of the lending process will also add to home closing costs which will be defrayed, including interest, through higher mortgage payments. The additional government bureaucrats hired to carry out these plans will be compensated through more taxes and increased government borrowing. Note too that interest on mortgage loans is on the rise, even with the Federal Reserve lowering the prime rate, because mortgages are tied to the 10-year Treasury bond whose value is slipping with the erosion of the dollar against foreign currencies. Translated, all this means that fewer people will be able to borrow and only then at higher costs.

And since nothing is being done by the government to help ordinary people get better jobs, theirs having been shipped overseas by the corporate cartels set loose to come and go as they please by both the Clinton and Bush administrations, the Treasury plan and its costs will take us even further than we are now from real “economic growth and stability.” If you add all this to the fact that the Democratic Congress, even under recession conditions, is proposing new across-the-board taxes even for middle class earners, you realize that government economic policy today is in the hands of either lunatics or crooks.

But the real meat of the Treasury plan involves the Federal Reserve, with the report calling for new “a market stability regulator” and the Federal Reserve being designated to play the part. The report states that, “The Federal Reserve should assume this role in the optimal framework given its traditional central bank role of promoting overall macroeconomic stability.” The report, which consists almost entirely of assertions rather than facts, doesn’t mention the dismal history in recent decades of the creating and bursting of financial bubbles, where the Federal Reserve has not brought about macroeconomic stability at all. In fact it’s done the opposite.

The report continues: “As is the case today, important elements of the Federal Reserve’s market stability role would be conducted through the implementation of monetary policy and the provision of liquidity to the financial system. In addition, the Federal Reserve should be provided with a different, yet critically important regulatory role and broad powers focusing on the overall financial system…In terms of its recast regulatory role focusing on systemic risk, the Federal Reserve should have the responsibility and authority to gather appropriate information, disclose information, collaborate with the other regulators on rule writing, and take corrective actions when necessary in the interest of overall financial market stability.”

Of course “financial market stability” would mean anything the Federal Reserve says it means. “Stability” in this context means to protect the status and wealth of the ones who already have it; i.e., the financiers. And because of the priority the financial system has gained over the producing economy, the Federal Reserve would become the de facto overseer of the entire economic life of the nation.

Finally, the plan specifically authorizes the Federal Reserve to continue as it has been doing in recent months in bailing out failing high risk investment lenders like Bear Stearns. The Treasury report calls this “market stability discount window lending.” The only criterion the Federal Reserve would have to apply to exercise this power would be if it detected an “overall threat to financial system stability.”

And to whom would the Federal Reserve be accountable for its awesome new powers? Well, the Treasury report does not mention accountability for what is already the most secretive of institutions. The Federal Reserve, which describes itself as “independent within the government,” is really accountable to no one, though its chairman pays a visit to Congress once a quarter to utter some generalities.

And I can say personally that while I was working for Treasury, relations with the Federal Reserve were a constant source of frustration due to its arrogance and its unchallenged attitude that federal laws and regulations requiring transparency and fair dealing simply did not apply to it.

In reality, the Federal Reserve, which legally is owned by its member banks, is accountable only to the international financial elite that is engaged in trying to take over the world by every overt and covert means possible.

Let's be blunt. Under a just and rational system, the Federal Reserve would be abolished—at least as a bank-of-issue, where virtually the entire money supply of the nation consists of bank-created debt. The interest from this debt is really what drives price inflation which has been made much worse under the monetarist philosophy. The Federal Reserve should not be in the business of "making money." Let it continue to do what it does best—process financial exchanges and paperwork. But that's all.

What the Treasury Department really should be authorized by the president and Congress to do is take over the U.S. monetary system and create a new one based on the real productive values of the nation. Credit should be treated as a public utility, not the plaything of financial plutocrats. Much existing debt should simply be canceled through a new, humane bankruptcy law, and a system involving payments to individuals through a basic income guarantee and a national dividend should be implemented. ("An Emergency Program of Monetary Reform for the United States," by Richard C. Cook, *Global Research*, April 26, 2007.)

In other words, economic healing should start at the grassroots level and be built from the ground up through individual and family income security, along with new investment in public and private infrastructure as well as in small business and family farming. The system presided over by the Federal Reserve and its bosses in the financial oligarchy, is, by contrast, engaged in the deliberate top-down enslavement of most of the population to ever-increasing financial exploitation and debt. The ultimate goal of the oligarchy may even be to conquer the entire planet through war, expropriation of resources, and contrived famine. ("Is an International Financial Conspiracy Driving World Events?" op.cit.)

It is time for the Treasury Department to regain its sea legs and begin to recall its proper role as the national anchor of growth and stability which its mission statement says it should have but which it gave up on decades ago. It is not too early for Henry Paulson to start packing his bags, because after November, if there is any justice left in the world, we will have a new Democratic president to appoint Paulson's successor. If the American republic is to survive, this person must be in the front lines of a war against the organized power of the international financial elite which the current leadership of the Treasury Department has not just run away from but which it has enabled and abetted every step of the way.

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