How Wall Street Won the Election Long Before The First Vote Was Cast

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Before the campaign contributors lavished billions of dollars on their favorite candidate; and long after they toast their winner or drink to forget their loser, Wall Street was already primed to continue its reign over the economy.

For, after three debates (well, four), when it comes to banking, finance, and the ongoing subsidization of Wall Street, both presidential candidates and their parties' attitudes toward the banking sector is similar – i.e. it must be preserved – as is – at all costs, rhetoric to the contrary, aside.

Obama hasn't brought 'sweeping reform' upon the Establishment Banks, nor does Romney need to exude deregulatory babble, because nothing structurally substantive has been done to harness the biggest banks of the financial sector, enabled, as they are, by entities from the SEC to the Fed to the Treasury Department to the White House.

In addition, though much is made of each candidates' tax plans, and the related math that doesn't add up (for both presidential candidates), the bottom line is, Obama hasn't explained exactly WHY there's $5 trillion more in debt during his presidency, nor has Romney explained HOW to get a $5 trillion savings.

For the record, both missed, or don't get, that nearly 32% of that Treasury debt is reserved (in excess) at the Fed, floating the banking system that supposedly doesn't need help. The 'worst economic period since the Great Depression' barely produced a short-fall of an approximate average of $200 billion in personal and corporate tax revenues per year, according to federal data [3].)

Consider that the amount of tax revenue since 2008, has dropped for individual income contributions from $1.15 trillion in 2008 to $915 billion in 2009, to $899 billion in 2010, then risen to $1.1 trillion in 2011. Corporate tax contributions have dropped (by more of course) from $304 billion in 2008 to $138 billion in 2009 to $191 billion in 2010, to $181 billion in 2011. Thus, at most, we can consider to have lost $420 billion in individual revenue and $402 billion in corporate revenue, or $822 billion from 2009 on. The Fed has, in addition, held on average of $1.6 trillion Treasuries in excess reserves. That, plus $822 billion equals $2.42 trillion, add on the other $900 billion of Fed held mortgage securities, and you get $3.32 trillion, NOT $5 trillion, and most to float banks.

The most consistent political platform is that big finance trumps main street economics, and the needs of the banking sector trump those of the population. We have a national policy condoning zero-interest-rate policy (ZIRP) as somehow job-creative. (Fed Funds rates dropped to 0% by the end of 2008 [4], where they have remained since.)

We are left with a regulatory policy of pretend. Rather than re-instating Glass-Steagall to divide commercial from investment banking and insurance activity, thereby removing the platform of government (or public) supported speculation and expansion, props leaders that pretend linguistic tweaks are a match for financial might. We have no leader that will take on Jamie Dimon, Chairman of the country's largest bank, JPM Chase, who can devote 15% of the capital of JPM Chase, which remains backstopped by customer deposit insurance, to bet on the direction of potential corporate defaults, and slide by two Congressional investigations like walks in the park.

Pillars of Collusion

A few months ago, Paul Craig Roberts and I co-wrote an article about the LIBOR [5] scandal; the crux of which, was lost on most of the media. That is; the banks, the Fed, and the Treasury Department knew banks were manipulating rates lower to artificially support the prices of hemorrhaging assets and debt securities. But no one in Washington complained, because they were in on it; because it made the over-arching problem of debt-manufacturing and bloating the Fed's balance sheet to subsidize a banking industry at the expense of national economic health, evaporate in the ether of delusion.

In the same vein, the Fed announced QE3, the unlimited version – the Fed would buy $40 billion a month of mortgage-backed securities from banks. Why – if the recession is supposedly over and the housing market has supposedly bottomed out – would this be necessary?

Simple. If the Fed is buying securities, it's because the banks can't sell them anywhere else. And because banks still need to get rid of these mortgage assets, they won't lend again or refinance loans at faster rates, thereby sharing their advantage for cheaper money, as anyone trying to even refinance a mortgage has discovered. Thus, Banks simply aren't 'healthy', not withstanding their $1.53 trillion [6] of excess reserves (earning interest), and nearly $900 billion in mortgage backed securities parked at the Fed. The open-ended QE program is merely perpetuating the illusion that as long as bank assets get marked higher (through artificial buyers, zero percent interest rates, or not having to mark them to market), everything is fine.

Meanwhile, Washington coddles and subsidizes the biggest banks – not to encourage lending, not to encourage saving, and not to better the country, but to contain harsh truths about how badly banks played, and are still playing, the nation.

The SEC's Role

According to the SEC's own report card [7] on "Enforcement Actions: Addressing Misconduct that led to or arose from the Financial Crisis": the SEC has levied charges against 112 entities and individuals, of which 55 were CEOs, CFOs, and other Senior Corporate Officers.

In terms of fines; the SEC 'ordered or agreed to' $1.4 billion of penalties, $460 million of disgorgement and prejudgment interest, and $355 million of "Additional Monetary Relief Obtained for Harmed Investors. That's a grand total of $2.2 billion of fines. (The Department of Justice dismissed additional charges or punitive moves.)

Goldman, Sachs received the largest fine, of $550 million, taking no responsibility (in SEC-speak, "neither confirming nor denying' any wrongdoing) for packaging CDOs on behalf of one client, which supported their prevailing trading position, and pushing them on investors without disclosing that information, which would have materially changed pricing and attractiveness. (The DOJ found nothing else to charge Goldman with, apparently not considering misleading investors, fraud.)

Obama-appointed SEC head, Mary Shapiro, originally settled with Bank of America for a friendly $34 million, until Judge Rakoff quintupled the fine to $150 million, for misleading shareholders during its Fed-approved, Treasury department pushed, acquisition of Merrill Lynch, regarding bonus compensation. (Merrill's $3.6 billion of bonuses were paid before the year-end of 2008, while TARP and other subsidies were utilized). Still embroiled in ongoing lawsuits related to its Countrywide acquisition, Bank of America agreed to an additional $601.5 million in one non-SEC settlement, and $2.43 billion in another relating to those Merrill bonuses. Likewise, Wells Fargo agreed to pay $590 million for its fall-2008 acquisition of Wachovia's foul loans and securities. These are small prices to pay to grow your asset and customer base.

Citigroup agreed to pay $285 million to the SEC to settle charges of misleading investors and betting against them, in the sale of one (one!) $1 billion CDO. Judge Rakoff rejected the settlement, but Citigroup is appealing. So is its friend, the SEC. Outside of that, Citigroup agreed to an additional $590 million to settle a shareholder CDO lawsuit, denying wrongdoing.

JPM Chase agreed to a $153.5 million SEC fine relating to one (one!) CDO. Outside of Washington, it agreed to a $100 million settlement for hiking credit card fees, and a $150 million settlement for a lawsuit filed by the American Federation of Television and Radio Artists retirement fund and other investors, over losses from its purchase of JPM's Sigma Finance Hedge Fund, when it used to be rated 'AAA.'

There you have it. No one did anything wrong. The total of $2.2 billion in SEC fines, and about $4.4 billion in outside lawsuits is paltry. Consider that for the same period (since 2007), total Wall Street bonuses topped $679 billion [8], or nearly 309 times as much as the SEC fines, and 154 times as much as all the settlements.

The SEC & Dodd Frank Dance

The SEC embarked upon 90 actions, divided into 15 categories, related to the Dodd-Frank Act that amount to proposing or adopting rules with loopholes galore, and creating reports that summarize things we know. Some of the obvious categories, like asset backed related products or derivatives, don't even include CDOs, which got the lion's share of SEC fines and DOJ indifference.

Rather than tightening regulations on the most egregious financial product culprits; insurance swaps, such as the credit default swaps imbedded in CDOs, the SEC loosened them. It did so by approving an order making many of the Exchange Act requirements not applicable to security-based swaps [9]. In one new post-Dodd-Frank order, it stated, a "product will not be considered a swap or security-based swap if ,,, it falls within the category of…insurance, including against default on individual residential mortgages." Thus, credit default swaps, considered insurance since their inception, warrant no special attention in the grand land of sweeping reform.

The credit ratings category includes 20 items proposed, requested, or adopted. Under things accomplished, the SEC gave a report to Congress that basically says that the majority of rating agency business is paid for by issuers (which we knew), and proclaims (I kid you not) that a security is rated "investment grade" if it is rated "investment grade" by at least one rating agency. Further inspection of SEC self-labeled accomplishments provides no more confidence, that anything has, or will, change for the safer.

The White House & Congress

Yet, the Obama White House wants us to believe that Dodd-Frank was 'sweeping reform.' Romney and the Republicans are up and arms over it, simply because it exists and sounds like regulation, and Democrats defensively portray its effectiveness.

Ignore them both and ask yourself the relevant questions. Are the big banks bigger? Yes. Can they still make markets and keep crappy securities on their books, as long as they want, while formulating them into more complicated securities, buoyed by QE measures and ZIRP? Yes. Do they have to evaluate their positions in real world terms so we know what's really going on? No.

Then, there's the Volcker Rule which equates spinning off private equity desks or moving them into asset management arms, with regulatory progress. If it could be fashioned to prohibit all speculative trading or connected securities creation on the backbone of FDIC-insured deposits, it might work, but then you'd have Glass-Steagall, which is the only form of regulatoin that will truly protect us from banking-spawned crisis.

Meanwhile, banks can still make markets and trade in everything they were doing before as long as they say it's on behalf of a client. This was the entire problem during the pre-crisis period. The implosion of piles of toxic assets based on shaky loans or other assets didn't result from private equity trading or even from isolating trading of any bank's own books (except in cases like that of Bear Stearns' hedge funds), but from federally subsidized, highly risky, ridiculously leveraged, assets engineered under the guise of 'bespoke' customer requests or market making related 'demand.'

When the Banking Act was passed in 1933, even Republican millionaire bankers, like the head of Chase, Winthrop Aldrich, understood that reducing systemic risk might even help them in the long run, and publicly supported it. Today, Jamie Dimon shuns all forms of separation or regulation, and neither political party dares interfere.

But things worked out for Dimon. JPM Chase's board (of which he is Chairman) approved his $23 million 2011 compensation package (the top bank CEO package), despite disclosure of a $2 billion (now about $6 billion) loss in the infamous Whale Trade. He banked $20.8 million in 2010, the highest paid bank CEO [10] that year, too. In 2009, Dimon made $1.32 million, publicly, but really bagged $16 million worth of stock and options. He made $19.7 million in total compensation for 2008, and $34 million for 2007. Still a New York Fed, Class A director, he's proven himself to be untouchable.

Yet, the kinds of deals that were so problematic are creeping back. According to Asset Backed Alert, JPM Chase was the top asset-baked security (ABS) issuer for the first half of 2012, lead managing $66 billion of US ABS deals.

In addition, according to Asset Back Alert, US public ABS deal volume rose 92.8% for the second half of 2012 vs. 2011, while issuance of US prime MBS (high quality deals) fell

50.6%. [Overall CDO issuance rose 50.2%] [11]. (Citigroup is the lead issuer (up 552%.))

ZIRP's hidden losses

According to a comprehensive analysis of data compiled from regulatory documents by Bill Moreland and his team at my new favorite website, www.bankregdata.com [12], some really scary numbers pop out. Here's the kicker: ZIRP costs citizens and disproportionately helps the biggest banks, by about $120 billion a year.

Between 2005 and 2007, US commercial banks held approximately $6.97 trillion of interest bearing customer deposits. During the past two quarters, they held an average of $7.31 trillion. During that first period, when fed funds rates averaged 4.5%, banks paid their customers an average of $39.6 billion of interest per quarter. More recently, with ZIRP, they paid an average of $8.9 billion in interest per quarter, or nearly 77% LESS. In dollar terms – that's about $30.7 billion less per quarter, or $123 billion less per year.

Since ZIRP kicked into gear in 2008, banks have saved nearly $486 billion in interest payments. Average salary and compensation increased by approximately 23%. Dividend payments declined by 14.05%.

The biggest banks are the biggest takers. Consider JPM Chase's cut. Although its deposits disproportionately increased by 46% from 2007 (pre ZIRP and helped by the acquisition of Washington Mutual) to 2012, its interest expenses declined by nearly 89%. From 2004 to 2007, Chase paid out $34.4 billion in interest to its deposit customers. From 2008 to mid-2012, it paid out $3.4 billion. JPM Chase's ratio of interest paid to deposits of .27% is the lowest of the big four banks, that on average pay less than smaller banks anyway.

The percentage of JPM Chase's assets comprised of loans and leases is lower at 36.04% compared to its peers' percentage of 52.4%. Its trading portion of assets is higher, as 14.78% vs. 6.88% for its peers, and 4.23% for all banks.

Looking Ahead

To recap: savers, borrowers, and the economy are still losing money due to the preservation of the illusion of bank health. More critically, the big banks grew through acquisitions and the ongoing closures of smaller local banks that provided better banking terms to citizens. The big banks have more assets and deposits, on which they are over-valuing prices, and paying less interest than before, due to a combination of Fed and Treasury blessed mergers in late 2008, QE and ZIRP. Yet, we're supposed to believe this situation will somehow manifest a more solid and productive economy.

Meanwhile, past faulty securities and loans will fester until their transfer to the Fed is complete or they mature, while new ones take their place. This will inevitably lead to more of a clampdown on loans for productive purposes and further economic degradation and instability. Financial policy trumps economic policy. Banks trump citizens, and absent severe reconstruction of the banking system, the cycle will absolutely, unequivocally continue.

Notes

[1] http://www.alternet.org
[2] http://www.alternet.org/authors/nomi-prins

[3] http://www.whitehouse.gov/omb/budget/Historicals
[4] http://www.neworkfed.org/markets/statistics/dlyrates/fedrate.html
[5] http://www.nomiprins.com/thoughts/2012/7/15/the-real-libor-scandal-by-paul-craig-robert-nomi-prins.html
[6] http://www.federalreserve.gov/releases/h3/current/h3.htm
[7] http://www.sec.gov/spotlight/enf-actions-fc.shtml
[8] http://osc.state.ny.us/press/releases/feb12/wall-street-bonus-chart-2011.pdf
[9] http://www.sec.gov/news/press/2011/2011-141.htm
[10] http://money.cnn.com/galleries/2011/news/companies/1109/gallery.highest_paid_bank_ceos/index.html
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