

Wall Street on the Offensive

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Bolstered by the policies of the Obama administration, Wall Street is waging a political offensive to shed the minimal limits on executive pay that were tied to government bailout funds and to further weaken regulations on the banks' speculative practices.

This week, the Federal Reserve Board and the Treasury Department are expected to give the OK for many of the biggest banks to pay back the billions of dollars in cash infusions they received last October under the \$700 billion Troubled Asset Relief Program (TARP).

The banks' rush to repay the taxpayer handouts has nothing to do with altruism or a desire to make restitution for the disaster they have inflicted on society by gambling on subprime mortgages and other semi-criminal activities. They are eager to repay the money in order to escape restrictions on executive pay as well as other requirements, such as limits on dividends and stock repurchases.

By repaying the TARP money, moreover, the banks will save billions of dollars they would otherwise have to pay the government in the form of dividends on the preferred shares they gave the Treasury in return for the cash infusions. And having repaid the TARP money, they will be in a stronger position to get back to "business as usual," i.e., making exorbitant profits by speculating with borrowed funds.

The TARP cash comprises only a relatively small part of the government subsidies that have flowed to Wall Street. These include hundreds of billions of dollars in government guarantees on the banks' debt, virtually interest-free loans from the Federal Reserve, Fed purchases of mortgage-backed securities, and other government programs designed to prop up the financial markets. The total commitment in public funds for these efforts runs into the trillions of dollars.

Among the firms expected to receive approval to repay their TARP funds are many, if not all, of the nine companies that were deemed by the Obama administration to have sufficient capital to withstand a deeper recession in the so-called bank "stress tests," the results of which were announced a month ago. They include JPMorgan Chase, Goldman Sachs, American Express, US Bancorp, State Street, and Bank of New York Mellon.

The stress tests were rigged by the Fed and the Treasury to give the 19 largest banks and financial firms a clean bill of health. The administration presented a picture that understates the critical state of the banks' finances so as to justify keeping them in private hands, boost investor confidence and the banks' share prices, and provide a rationale for foregoing tougher bank regulation.

In the run-up to the stress test results, the Obama administration intervened repeatedly to

reassure the markets that it would do nothing to challenge the property or wealth of the financial elite. Obama and his treasury secretary, Timothy Geithner, repeatedly declared their support for capitalism and private ownership of the banks. They intervened to block congressional legislation that would have imposed a tax surcharge on bonuses awarded by bailed-out firms. They laid out detailed plans to use government funds to enable the banks to offload their bad debts. And their Auto Task Force, run by investment bankers, made clear that it would force Chrysler and General Motors into bankruptcy in order slash the jobs and wages of auto workers, setting a precedent for similar attacks on every section of the working class.

They declared in advance that they would not allow any of the banks being tested to fail, making clear that there was no limit to the taxpayer bailout of the financial industry.

The result has been a run-up of stock prices, 34 percent overall since early March, with financial stocks surging even higher. One key index shows large-bank stocks rising 87 percent.

JP Morgan stock has jumped 118 percent. Bank of America shares are up 263 percent. Its CEO, Kenneth Lewis, has made a tidy profit of over \$2 million on 400,000 shares he bought earlier this year.

Investors are rushing to buy up stock offerings by the banks, even though they continue to hold an estimated \$1 trillion in toxic mortgages on their balance sheets. The Wall Street Journal reported on June 3, "Money is pouring in so fast that surprised bankers can hardly believe it, especially since most investors didn't want to go near financial stocks just three months ago, even though they were nearly 40 percent cheaper."

As Richard Bove, an analyst at Rochdale Research, put it in a note to clients last week, the banking industry is on the verge of a "golden age."

What is the basis for this surge in investor enthusiasm for bank stocks? It is the government's assurance that it will cover the banks' bad gambling debts, dollar for dollar.

The Journal quoted William Mutterperl, a Wall Street lawyer and former vice chairman at PNC Financial Services Group, as saying, "I'm an optimist by nature, but it's perplexing because there are still problems out there. No one has suggested foreclosures are going down, and I don't think anyone is saying loan quality is getting any better."

Analysts at Moody's Investors Service warned last Tuesday that US banks could lose \$640 billion through next year. "In such a scenario, absent continuation, and likely deepening, of US government capital and liquidity support programs for the banking industry, numerous banks would be insolvent," the Moody's analysts wrote.

The Obama administration's good offices have encouraged the big banks to launch a multi-front offensive to block any measures that would limit their profit-making, and to weaken already existing regulations.

Last February, for example, financial firms and banking organizations launched a multi-million-dollar lobbying drive to change mark-to-market accounting rules that forced banks to report losses or write-downs totaling \$175 billion in 2008. Mark-to-market essentially requires banks to value their assets according to prevailing market prices. The banks have

balked at this standard, demanding instead the right to assign their own values to their bad debts, using “internal models.”

With the aid of \$286,000 in campaign donations to the 33 members of a key House subcommittee, the Fair Value Coalition, the lobby group set up by the banks, succeeded in getting the industry rule-making body, the Financial Accounting Standards Board, or FASB, to give the banks immense latitude in suspending mark-to-market rules.

The Wall Street Journal on June 3 published an investigative report detailing the banks’ use of campaign fund bribes and other monies to get their way. The Journal reported that the banking coalition spent a total of \$27.6 million in the first quarter of 2009 on its lobbying effort.

It focused its drive on a House Financial Services subcommittee chaired by Rep. Paul Kanjorski, a Pennsylvania Democrat. Kanjorski received \$18,500 from Fair Value Coalition members in the first quarter. Over the past two years, Kanjorski has received \$704,000 in contributions from banking and insurance companies, the third-highest among members of Congress.

Barney Frank of Massachusetts, the Democratic chairman of the Financial Services Committee, received \$8,500 from the coalition.

Kanjorski and other recipients of the bankers’ largess from both parties grilled the head of FASB, Robert Herz, at a committee hearing on March 12, demanding that he expedite a review of mark-to-market rules and threatening him with a bill to broaden government oversight of his board if he failed to comply.

Herz got the message, and on April 12, in advance of the stress test results and early enough to enable the banks to pad their first-quarter financial reports, FASB announced the changes demanded by the lawmakers.

According to the Journal, the American Bankers Association was the biggest contributor to the campaign funds of committee members in the weeks before the March 12 hearing. The newspaper quotes ABA President Edward Yingling as boasting, “We worked that hearing. We told people that the hearing should be used to talk about the big problems with ‘mark to market,’ and you had 20 straight members of Congress, one after another, turn to FASB and say, ‘Fix it.’”

The Journal notes: “The change helped turn around investor sentiment on banks.... Wells Fargo & Co. said the change increased its capital by \$4.4 billion in the first quarter. Citigroup Inc. said the change added \$413 million to first-quarter earnings.” The newspaper cites a tax and accounting analyst, who estimates that the accounting changes will increase bank earnings in the second quarter by an average of 7 percent.

The Journal quotes Lynn Turner, the former chief accountant of the Securities and Exchange Commission and a former FASB member, as saying “he doesn’t think the banking industry will be satisfied until mark to market accounting is dismantled completely. ‘Despite efforts by FASB to give ground to the banks, enough is never enough, he says.”

On a separate front, the World Socialist Web Site reported in a June 4 article on the campaign by the banks, organized in another lobbying group called the CDS Dealers Consortium, to block any serious regulation of derivatives, such as credit default swaps,

which played a major role in the collapse of the financial system last year. The Obama administration has essentially adopted the proposals for regulation of derivatives drawn up by the banking group and secretly distributed to the Treasury Department and congressional leaders. (See: [“Wall Street, Obama administration conspire to block financial regulation”](#))

Then there is the report in the June 4 New York Times that the Federal Deposit Insurance Corporation (FDIC) has scrapped a central plank in the Obama’s administration bank rescue plan because it could not get the banks to participate. The scheme, dubbed the Legacy Loan Program, was part of the administration’s Public-Private Investment Program, designed to enable the banks to offload their bad loans and asset-backed securities.

Under the “legacy loan” plan, the FDIC was to finance private investment firms, virtually guaranteeing them double-digit profits, if they agreed to buy failed mortgages and other toxic loans from the banks at inflated prices. However, the banks have refused to participate, because even at the rigged prices under the scheme they would still have to accept some losses on their bad debts.

Finally, the Wall Street Journal reported June 4 that the banks have launched a lobbying drive to block an accounting rule, slated to take effect next year, that would force them to bring some of their off-balance-sheet investments back onto their books. The rule would apply to hundreds of billions of dollars in financial vehicles through which the banks packaged and sold off loans to other investors.

The vehicles are Enron-style gimmicks by which the banks evade accounting rules requiring them to maintain sufficient capital to back their speculative bets. “Here we go again,” the former SEC chief accountant Lynn Turner told the Journal. “They will get out their checkbooks and go to [Capitol] Hill.”

Despite having plunged the US and world economy into the deepest recession since the 1930s, the banks are demonstrating their controlling influence over Congress and the federal government more openly than ever. As a result, their stock is soaring, their profits are mounting, and top executives are relishing the prospect of salaries and bonuses that will exceed the huge compensation packages that preceded the financial crash.

The diametrically opposed trajectory of Wall Street’s fortunes and those of the broad mass of the people, who are reeling from depression levels of unemployment, home foreclosures and wage cuts, exposes the class divide that dominates all aspects of American social and political life.

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