Wall Street's War

Congress looked serious about finance reform – until America's biggest banks unleashed an army of 2,000 paid lobbyists

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It's early May in Washington, and something very weird is in the air. As Chris Dodd, Harry Reid and the rest of the compulsive dealmakers in the Senate barrel toward the finish line of the Restoring American Financial Stability Act – the massive, year-in-the-making effort to clean up the Wall Street crime swamp – word starts to spread on Capitol Hill that somebody forgot to kill the important reforms in the bill. As of the first week in May, the legislation still contains aggressive measures that could cost once-indomitable behemoths like Goldman Sachs and JP Morgan Chase tens of billions of dollars. Somehow, the bill has escaped the usual Senate-whorehouse orgy of mutual back-scratching, fine-print compromises and freeway-wide loopholes that screw any chance of meaningful change.

The real shocker is a thing known among Senate insiders as "716." This section of an amendment would force America's banking giants to either forgo their access to the public teat they receive through the Federal Reserve's discount window, or give up the insanely risky, casino-style bets they've been making on derivatives. That means no more pawning off predatory interest-rate swaps on suckers in Greece, no more gathering balls of subprime shit into incomprehensible debt deals, no more getting idiot bookies like AIG to wrap the crappy mortgages in phony insurance. In short, 716 would take a chain saw to one of Wall Street's most lucrative profit centers: Five of America's biggest banks (Goldman, JP Morgan, Bank of America, Morgan Stanley and Citigroup) raked in some $30 billion in over-the-counter derivatives last year. By some estimates, more than half of JP Morgan's trading revenue between 2006 and 2008 came from such derivatives. If 716 goes through, it would be a veritable Hiroshima to the era of greed.

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"When I first heard about 716, I thought, 'This is never gonna fly,'" says Adam White, a derivatives expert who has been among the most vocal advocates for reform. When I speak to him early in May, he sounds slightly befuddled, like he can't believe his good fortune. "It's funny," he says. "We keep waiting for the watering-down to take place – but we keep getting to the next hurdle, and it's still staying strong."

In the weeks leading up to the vote on the reform bill, I hear one variation or another on this same theme from Senate insiders: that the usual process of chipping away at key legislation is not taking place with its customary dispatch, despite a full-court press by Wall Street. The financial-services industry has reportedly flooded the Capitol with more than 2,000 paid lobbyists; even veteran members are stunned by the intensity of the blitz. "They're trying everything," says Sen. Sherrod Brown, a Democrat from Ohio. Wall Street's army is especially imposing given that the main (really, the only) progressive coalition working the other side of the aisle, Americans for Financial Reform, has been in existence less than a year – and has just 60 unpaid "volunteer" lobbyists working the Senate halls.

Read Taibbi's original scathing Wall Street investigation, "The Great Bubble Machine."

The companies with the most at stake are particularly well-connected. The lobbying campaign for Goldman Sachs, for instance, is being headed up by a former top staffer for Rep. Barney Frank, Michael Paese, who is coordinating some 14 different lobbying firms to fight on Goldman's behalf. The bank is also represented by Capitol Hill heavyweights like former House majority leader Dick Gephardt and former Reagan chief of staff Ken Duberstein. All told, there are at least 40 ex-staffers of the Senate Banking Committee – and even one former senator, Trent Lott – lobbying on behalf of Wall Street. Until the final weeks of the reform debate, however, it seemed that all these insiders were facing the prospect of a rare defeat – and they weren't pleased. One lobbyist even complained to The Washington Post that the bill was being debated out in the open, on the Senate floor, instead of in a smoky backroom. "They've got to get this thing off the floor and into a reasonable, behind-the-scenes" discussion, he groused. "Let's have a few wise fathers sit around the table in some quiet room" to work it out.

As it neared the finish line, the Restoring American Financial Stability Act was almost unprecedentedly broad in scope, in some ways surpassing even the health care bill in size and societal impact. It would rein in $600 trillion in derivatives, create a giant new federal agency to protect financial consumers, open up the books of the Federal Reserve for the first time in history and perhaps even break up the so-called "Too Big to Fail" giants on Wall Street. The recent history of the U.S. Congress suggests that it was almost a given that they would fuck up this one real shot at slaying the dragon of corruption that has been slowly devouring not just our economy but our whole way of life over the past 20 years. Yet with just weeks left in the nearly year-long process at hammering out this huge new law, the bad guys were still on the run. Even the senators themselves seemed surprised at what assholes they weren't being. This new baby of theirs, finance reform, was going to be that one rare kid who made it out of the filth and the crime of the hood for everybody to be proud of.

Then reality set in.

Picture the Restoring American Financial Stability Act as a vast conflict being fought on multiple fronts, with the tiny but enormously influential Wall Street lobby on one side and pretty much everyone else on the planet on the other. To be precise, think World War II – with some battles won by long marches and brutal campaigns of attrition, others by blitzkrieg attacks, still more decided by espionage and clandestine movements. Time after time, at the last moment, the Wall Street axis has turned seemingly lost positions into surprise victories or, at worst, bitterly fought stalemates. The only way to accurately convey the scale of Wall Street's ingenious comeback is to sketch out all the crazy, last-minute shifts on each of the war's four major fronts.

FRONT #1

Auditing the Fed

The most successful of the reform gambits was probably the audit-the-Fed movement led by Sen. Bernie Sanders, the independent from Vermont. For nearly a century, the Federal Reserve has been, within our borders, a nation unto itself – with vast powers to shape the economy and no real limits to its authority beyond the president's ability to appoint its chairman. In the bubble era it has been transformed into a kind of automatic bailout mechanism, helping Wall Street drink itself sober by flooding big banks with cheap money after the collapse of each speculative boom. But suddenly, with both the Huffington Post crowd and the Tea Party raising their pitchforks in outrage, Sanders managed to pass – by a vote of 96-0 – an amendment to force the Fed to open its books to congressional scrutiny.

If Alan Greenspan and Ben Bernanke don't take that 96-0 vote as a kick-to-the-groin testament to the staggering unpopularity of the Fed, they should. When 96 senators agree on something, they're usually affirming their devotion to the flag or commemorating the death of Mother Teresa. But as it turns out, the more than $2 trillion in loans that the Fed handed out in secret after the 2008 meltdown is something that both the left and the right have no problem banding together to piss on. One of the most bizarre alliances of the bailout era took place when Sanders, a democratic socialist, and Sen. Jim DeMint, a hardcore conservative from South Carolina, went on the CNBC show hosted by crazy supply-sider Larry Kudlow – and all three found themselves in complete agreement on the need to force Fed loans into the open. "People who come from very different places agree that it ought not to be done in secret, that the Fed isn't Skull and Bones," says Michael Briggs, an aide to Sanders.

Matt Taibbi uncovers how the nation's biggest banks are ripping off American cities with the same predatory deals that brought down Greece.

The Sanders amendment, if it survives in conference, will lead to some delicious disclosures. Almost exactly a year ago, Sanders questioned Bernanke at a Senate-budget hearing, asking him to name the banks that had been bailed out by the Fed. "Will you tell the American people to whom you lent 2.2 trillion of their dollars?" Sanders demanded.

After a little hemming and hawing, a bored-looking Bernanke – Time magazine's 2009 Person of the Year, by the way – bluntly said, "No." It would be "counterproductive," he explained, if clients and investors learned that these poor banks were broke enough to need a public handout.

Bernanke's performance that day so rankled Sanders that he wrote up his amendment specifically to bring the Fed's goblin-in-chief to heel. The new law will force Bernanke to post the identity of loan recipients on the Fed's website for all to see. It also mandates that the Government Accountability Office investigate potential conflicts of interest that took place during the bailout, such as the presence of Goldman CEO Lloyd Blankfein in the room during the negotiations of the AIG bailout, which led to Goldman's receiving $13 billion of public money via the rescue.

Taibbi reveals how the government's case against Goldman Sachs barely begins to target the depths of Wall Street's criminal sleeze.

The Sanders amendment was perhaps the headline victory to date in the ongoing War for Finance Reform, but even this battle entailed some heavy casualties. Sanders had originally filed an amendment that was much closer to a House version pressed by libertarian hero Ron Paul, one that would have permanently opened the Fed's books to Congress. But as the Senate crawled closer to a vote, the Sanders camp began to hear that the Obama administration opposed the bill, fearing it would give Congress too much day-to-day involvement in Fed policy. "The White House was saying how wonderful transparency is, but they still had 'concerns,' "Briggs says. "Within a couple hours, those concerns were being worked out."

The end result was a deal that restricted the audit to a one-time shot: Congress could only examine Fed loans made after December 2007. Once the audit was complete, the Fed's books would once again be sealed forever from public scrutiny. Sen. David Vitter, a Democrat from Louisiana, countered with an amendment to permanently open up the Fed's books, but it was shot down by a vote of 62-37. In one of the most absurd and indefensible retreats of the war, a decisive majority of senators voted to deny themselves the power to audit the Federal Reserve on behalf of the American people. When it comes to protecting the world's wealthiest banks from public scrutiny, it turns out, Democrats and Republicans have no trouble achieving bipartisanship.

FRONT #2

Protecting Consumers

The biggest no-brainer of finance reform was supposed to be the Consumer Financial Protection Bureau. The idea was simple: create a federal agency whose sole mission would be to make sure that financial lenders don't rape their customers with defective products, unjust fees and other fine-print nightmares familiar to any American with a credit card. In theory, the CFPB would rein in predatory lending by barring lenders from making loans they know that borrowers won't be able to pay back, either because of hidden fees or ballooning payments.

Wall Street knew it would be impossible to lobby Congress on this issue by taking the angle of "We're a rapacious megabank that would like to keep skull-fucking to death our customers using incomprehensible and predatory loans." So it came up with another strategy – one that deployed some of the most inspired nonsense ever seen on the Hill. The all-powerful lobbying arm of the U.S. Chamber of Commerce, which has been fierce in its representation of Wall Street's interests throughout the War for Finance Reform, cued up a $3 million ad campaign implying that the CFPB, instead of targeting asshole bankers in flashy suits and hair gel, would – and this isn't a joke – target your local butcher, making it hard for him to lend you the money to buy meat. That's right: The ads featured shots of a squat butcher with his arms folded, standing in front of a big pile of meat. "The economy has made it tough on this local butcher's customers," the ad reads. "So he lets some of them run a tab and pay the bill over time to make ends meet. But now Washington wants to make it tougher on everyone." After insisting – falsely – that this kindly butcher would be subject to the new consumer protection bureau, the ad warns that the CFPB "would also have the ability to collect information about his customers' financial accounts and take away many of their financial choices."

Sitting in the Senate chamber one afternoon not long before the vote, I even heard Sen. Mike Enzi, an impressively shameless Republican from Wyoming, insist that the CFPB would mean that "anyone who has ever paid for dental care in installments could be facing the prospect of paying for dental care upfront." Other anti-reform ads claimed that everyone from cabinetmakers to electricians would be hounded by the new agency – even though the CFPB's mandate explicitly excludes merchants who are "not engaged significantly in offering or providing consumer financial products or services."

The CFPB was always a pretty good bet to pass in some form. Just as pushing through anything that could plausibly be called “health care reform” was a political priority for the Obama administration, creating a new agency with the words “consumer protection” in the title was destined from the start to be the signature effort of the finance bill, which is otherwise mostly a mishmash of highly technical new regulations. But that didn’t stop leading Democrats from doing what they could to chisel away at the thing. Throughout the process, Chris Dodd, the influential chairman of the Senate Banking Committee, has set new standards for reptilian disingenuousness – playing the role of stern banker-buster while taking millions in Wall Street contributions. Dodd worked overtime trying to craft a “bipartisan” bill with the Republican minority – in particular with Sen. Richard Shelby, the ranking Republican on the committee. With his dyed hair, porcine trunk and fleshy, powdery-white face, Shelby recalls an elderly sumo wrestler in drag. I happened to be in the Senate on the day that Shelby proposed a substitute amendment that would have stuffed the CFPB into the FDIC, effectively scaling back its power and independence. Throughout the debate, I was struck by the way that Dodd and his huge black caterpillar eyebrows kept crossing the aisle to whisper in Shelby’s ear. During these huddles, Dodd would gently pat Shelby’s back or hold his arm; it was like watching a love scene in a Japanese monster movie.

Shelby’s amendment was ultimately defeated by a vote of 61-37 – but he and Dodd still reached a number of important compromises that significantly watered down the CFPB. The idea was to rack up as many exemptions as possible for favored industries, all of which had contributed generously to their favorite senators. By mid-May, Republicans and Democrats had quietly agreed to full or partial “carve-outs” for banks with less than $10 billion in deposits, as well as for check-cashers and other sleazy payday lenders. As the bill headed toward a vote, there was also a furious fight to exempt auto dealers from anti-predatory regulations – a loophole already approved by the House – even though car loans are the second-largest source of borrowing for Americans, after home mortgages. The purview of the CFPB, in essence, was being limited to megabanks and mortgage lenders. That’s a major victory in the war against Wall Street, but it will be hard to be too impressed if Congress can’t even find a way to vote for consumer protection against used-car salesmen.

FRONT #3

Ending “Too Big to Fail”

Perhaps the fiercest fight of all over finance reform involved a part of the bill called “resolution authority” – also known as, “The next time an AIG or a Lehman Brothers goes belly up, do we bail the fuckers out? And if so, with whose money?” In its original form, the bill answered these crucial questions by requiring that banks contribute to a $50 billion fund that could be used to aid failing financial institutions. The fund was hardly a cure-all – $50 billion “wouldn’t even be enough to bail out Citigroup’s prop-trading desk,” as one industry analyst observed – but it at least established a precedent that banks should pay for their own bailouts, instead of simply snatching money from taxpayers.

The fund had been established after a fierce battle last fall, when Democrats in the House beat back a seemingly insane proposal backed by the Obama administration that would have paid for bailouts by borrowing from taxpayers and recouping the money from Wall Street later on, by means of a mysterious, convoluted process. That heroic stand in the House, which was marked by long nights of ferocious negotiations, was wiped out in one fell swoop on May 5th, after Dodd and Shelby huddled up in another of their monster-love sessions and hammered out a deal to strip the bailout fund from the bill. The surprise rollback was introduced by the Senate leadership late on a Wednesday and voted on three hours later. Just like that, taxpayers were back to fronting the nation's biggest banks the money when they find themselves in financial trouble.

One day after the Shelby-Dodd wipeout, another key reform got massacred. This was the "Too Big to Fail" amendment put forward by two reform-minded freshmen, Sens. Ted Kaufman of Delaware and Sherrod Brown of Ohio. The measure would have mandated the automatic breakup of any bank that held more than 10 percent of all insured deposits, or had at risk more than two percent of America's GDP. The amendment was just the kind of common-sense, loophole-proof, no-bullshit legislation that, sadly, almost never passes in the modern Senate.

Brown is an interesting character. Whenever I talk to him, I often forget he's a U.S. senator; he feels more like a dude you met on an Amtrak train and struck up a conversation with. He remains the only member of Congress I've ever met who took off his shoes and socks in the middle of an interview. But when I catch up with him in an anteroom outside the Senate chamber on the day his and Kaufman's amendment ends up being voted on, he seems harried and tense, like a man waiting for bad news in a hospital lobby. In recent weeks, he confides, he has found himself facing both barrels of the banking lobby.

"There are 1,500 bank lobbyists in this town, and they're coming by all the time," he says. "And it's not just the lobbyists. When the bank lobbyist from Columbus comes by, he brings 28 bankers with him."

At the moment, though, Brown has a more pressing problem. He and Kaufman are both making themselves conspicuous in the Senate chamber, and the reason why is illustrative of the looniness of Senate procedure. Unlike in the House, where a rules committee decides in advance which amendments will be brought to a vote, senators have no orderly, dependable way of knowing if or when their proposals will get voted on. Instead, they're at the mercy of a strange and nebulous process that requires them to badger the leadership, who have the sole discretion of deciding which amendments go to a vote. So Brown is reduced to hanging around the Senate floor and trying to get a committee chair like Chris Dodd to put Too Big to Fail to a vote before other amendments use up all the time allotted for debate. It's not unlike fighting a crowd of pissed-off airport passengers for a single seat on an overbooked flight – you're completely at the mercy of the snippy airline rep behind the desk.

Near the end of the day, to Brown's surprise, Dodd actually allows his amendment to go to a vote. In the end, however, the proposal to break up the nation's riskiest banks gets walloped 61-33, with an astonishing 27 Democrats – including key banking committee heavyweights like Dodd and Chuck Schumer of New York – joining forces to defeat it. After the debate, Kaufman, a gregarious and aggressive advocate of finance reform, seems oddly unfazed that his fellow Democrats blew the best chance in a generation to corral the great banking monsters of Wall Street. "For some of them, it was just a bridge too far," he says. "There's an old saying: Never invest in anything you don't understand." Given the bizarre standards of the Senate bureaucracy, Kaufman considers it a victory just to have gotten his amendment into the woodshed for an ass-whipping.

I encounter that same "just glad to be here" vibe from Sen. Jeff Merkley, a Democrat from Oregon who co-authored one of the handful of genuinely balls-out reforms in the entire bill. The Merkley-Levin amendment couldn't have been more important; it called for restoring part of the Glass-Steagall Act, the Depression-era law that prevented commercial banks, investment houses and insurance companies from merging. The repeal of Glass-Steagall in 1999 paved the way for the creation of the Too-Big-to-Fail monsters like Citigroup, who drove the global economy into a ditch over the past 10 years.

Merkley-Levin was the Senate version of the "Volcker Rule," a proposal put forward by former Fed chief and Obama adviser Paul Volcker, that would prevent commercial banks from engaging in the kind of speculative, proprietary trading that helped trigger the financial crisis. When I meet with Merkley, he is in the same position as Brown and Kaufman, waiting anxiously for a chance to get his amendment voted on, with no idea of when or if that might happen. A vote – even if it means defeat – is all he's hoping for. When I ask if he's excited about the prospect of restoring a historic piece of legislation like Glass-Steagall, he smiles faintly. "I'm not saying I'm real optimistic," he says.

In the end, Merkley is forced to resort to the senatorial equivalent of gate-crashing: He attaches his amendment to the sordid proposal to exempt auto dealers from the CFPB, which has already been approved for a vote. That Merkley has to invoke an arcane procedural stunt just to get such a vital reform a vote is a testament to how convoluted American democracy looks by the time it reaches the Senate floor.

As with the whittled-down victories over the Fed audit and the Consumer Finance Protection Bureau – and the brutal defeat of Too Big to Fail – the stalling over the Volcker Rule underscores the basic dynamic of the Senate. With deals cut via backroom consensus, and leaders like Reid and Dodd tightly controlling which amendments go to a vote, the system allows a few powerful members whose doors are permanently open to lobbyists to pilot the entire process from beginning to end. One Democratic aide grumbles to me that he had no access to the negotiations for months, while a Wall Street lobbyist he knows could arrange an audience with the leadership. The whole show is carefully orchestrated from start to finish; no genuinely tough amendment with a shot at being approved receives an honest up-or-down vote. "It's all kind of a fake debate," the aide says.

FRONT #4

Reining in Derivatives

When all the backroom obfuscation doesn't work, of course, there is always one last route in Congress to killing reform: the fine print. And never has an amendment been fine-printed to death as skillfully as the proposal to reform derivatives.

Imagine a world where there's no New York Stock Exchange, no NASDAQ or Nikkei: no open exchanges at all, and all stocks traded in the dark. Nobody has a clue how much a share of IBM costs or how many of them are being traded. In that world, the giant broker-dealer who trades thousands of IBM shares a day, and who knows which of its big clients are selling what and when, will have a hell of a lot more information than the day-trader schmuck sitting at home in his underwear, guessing at the prices of stocks via the Internet.

That world exists. It's called the over-the-counter derivatives market. Five of the country's biggest banks, the Goldmans and JP Morgans and Morgan Stanleys, account for more than 90 percent of the market, where swaps of all shapes and sizes are traded more or less completely in the dark. If you want to know how Greece finds itself bankrupted by swaps, or some town in Alabama overpaid by $93 million for deals to fund a sewer system, this is the explanation: Nobody outside a handful of big swap dealers really has a clue about how much any of this shit costs, which means they can rip off their customers at will.

This insane outgrowth of jungle capitalism has spun completely out of control since 2000, when Congress deregulated the derivatives market. That market is now roughly 100 times bigger than the federal budget and 20 times larger than both the stock market and the GDP. Unregulated derivative deals sank AIG, Lehman Brothers and Greece, and helped blow up the global economy in 2008. Reining in derivatives is the key battle in the War for Finance Reform. Without regulation of this critical market, Wall Street could explode another mushroom cloud of nuclear leverage and risk over the planet at any time.

The basic pillar of derivatives reform is simple: From now on, instead of trading in the dark, most derivatives would have to be traded on open exchanges and "cleared" through a third party. Last fall, Wall Street lobbyists succeeded at watering down the clearing requirement by pushing through a series of exemptions for "end-users" – that is, anyone who uses derivatives to hedge a legitimate business risk, like an airline buying swaps as a hedge against fluctuations in jet-fuel prices. But the House then took it even further, expanding the exemption to include anyone who wants to hedge against balance-sheet risk. Since every company has a balance sheet, including giant insurers like AIG and hedge funds that gamble in derivatives, the giant loophole now covered pretty much everyone except a few megabanks. This was regulation with a finger crossed behind its back.

When it came time for the Senate to do its version, however, the lobbyists were in for a surprise. Sen. Blanche Lincoln of Arkansas – best known as one of the few Democrats to vote for Bush's tax cuts – suddenly got religion and closed the loophole. Facing a tough primary battle against an opponent who was vowing to crack down on Wall Street, Lincoln tweaked the language so derivatives reform would apply to any greedy financial company that makes billions trading risky swaps in the dark.

Republicans went apeshit, pulling the same tactics they tried to gut the Consumer Finance Protection Bureau. Sen. Enzi, back at the lectern after his failed attempt to claim that the CFPB was a government plot to control the orthodontics industry, barked to the Senate gallery that Lincoln's proposal would harm not millionaire swap dealers at JP Morgan and Goldman Sachs, but "a wheat-grower in Wyoming." Unmoved by such goofy rhetoric, the Senate shot down an asinine Republican amendment that would have overturned Lincoln's reform by a vote of 59-39.

Then reform advocates started reading the fine print of the Lincoln deal, and realized that all those Wall Street lobbyists had really been earning their money.

That same day the GOP amendment failed, the derivatives expert Adam White was at his home in Georgia, poring over a "redline" version of the Lincoln amendment, in which changes to the bill are tracked in bold. When he came to a key passage on page 570, he saw that it had a single line through it, meaning it had been removed. The line read, "Except as provided in paragraph (3), it shall be unlawful to enter into a swap that is required to be cleared unless such swap shall be submitted for clearing."

Translation: It was no longer illegal to trade many uncleared swaps. Wall Street would be free to go on trading these monstrosities by the gazillions, largely in the dark. "Regulators can't say any longer if you don't clear it, it's illegal," says White.

Once he noticed that giant loophole, White went back and found a host of other curlicues in the text that collectively cut the balls out of the Lincoln amendment. On page 574, a new section was added denying the Commodity Futures Trading Commission the power to force clearinghouses to accept swaps for clearing. On page 706, two lines were added making it impossible for buyers who get sold an uncleared swap to void the deal. Taken altogether, the changes amount to what White describes as a "Trojan Horse" amendment: hundreds of pages of rigid rules about clearing swaps, with a few cleverly concealed clauses that make blowing off those rules no big deal. Michael Greenberger, a former official with the Commodity Futures Trading Commission who has been fighting for derivatives reform, describes the textual trickery as a "circle of doom. Despite the pages and pages of regulations, violating them is risk-free."

On May 18th, as the clock ran out on the deadline to file amendments, reform-minded Democrats staged a concerted push to close the loopholes. But when Sen. Maria Cantwell of Washington offered a proposal to eliminate the "Trojan Horse" sham, Reid tried to slam the door on her and everyone else working to strengthen reform. The majority leader called for a vote to end debate – a move that would squelch any remaining amendments. This extraordinary decision to cut off discussion of our one, best shot at revamping the rules of modern American finance was made, at least in part, to enable senators to get home for Memorial Day weekend.

But then something truly unexpected took place. Cantwell revolted, joined by Sen. Russ Feingold of Wisconsin. That left Reid in the perverse position of having to convince three Republicans to come over to his side to silence a member of his own party. On May 20th, Reid got the votes he needed to kill the debate. A few hours later, the Senate passed the bill, loopholes and all, by a vote of 59-39.

In a heartwarming demonstration of the Senate's truly bipartisan support for Wall Street, Sen. Sam Brownback – a Republican from Kansas – stepped in to help Democrats kill one of the bill's most vital reforms. At the last minute, Brownback mysteriously withdrew his amendment to exempt auto dealers from regulation by the CFPB – a maneuver that prevented the Merkley-Levin ban on speculative trading, which was attached to Brownback's amendment, from even being voted on. That was good news for car buyers, but bad news for the global economy. Senators may enjoy scolding Goldman Sachs in public hearings, but when it comes time to vote, they'll pick Wall Street over Detroit every time.

The rushed vote also meant that the Democratic leadership wasn't able to gut 716, the amazingly aggressive section of Lincoln's amendment that would cut off taxpayer money to big banks that gamble on risky derivatives. Not that they didn't try. With just three minutes to go before the deadline, Dodd had filed a hilarious amendment that would have delayed the ban on derivatives for two years – and empowered a new nine-member panel to unilaterally kill it. Sitting on the panel would be Bernanke, Treasury Secretary Tim Geithner and FDIC chief Sheila Bair, all of whom violently opposed 716.

Dodd was forced to withdraw his amendment after Wall Street complained that even this stall-and-kill tactic would create too much "uncertainty" in the market. That left 716 still alive for the moment – but even its staunchest supporters expected the leadership to find some way to gut it in conference, especially since President Obama personally opposes the measure. "Treasury and the White House are in full-court mode, assuring everybody that this will be fixed," says Greenberger. "And when they say fixed, that means killed."

Whatever the final outcome, the War for Finance Reform serves as a sweeping demonstration of how power in the Senate can be easily concentrated in the hands of just a few people. Senators in the majority party – Brown, Kaufman, Merkley, even a committee chairman like Lincoln – took a back seat to Reid and Dodd, who tinkered with amendments on all four fronts of the war just enough to keep many of them from having real teeth. "They're working to come up with a bill that Wall Street can live with, which by definition makes it a bad bill," one Democratic aide explained in the final, frantic days of negotiation.

On the plus side, the bill will rein in some forms of predatory lending, and contains a historic decision to audit the Fed. But the larger, more important stuff – breaking up banks that grow Too Big to Fail, requiring financial giants to pay upfront for their own bailouts, forcing the derivatives market into the light of day – probably won't happen in any meaningful way. The Senate is designed to function as a kind of ongoing negotiation between public sentiment and large financial interests, an endless tug of war in which senators maneuver to strike a delicate mathematical balance between votes and access to campaign cash. The problem is that sometimes, when things get really broken, the very concept of a middle ground between real people and corrupt special interests becomes a grotesque fallacy. In times like this, we need our politicians not to bridge a gap but to choose sides and fight. In this historic battle over finance reform, when we had a once-in-a-generation chance to halt the worst abuses on Wall Street, many senators made the right choice. In the end, however, the ones who mattered most picked wrong – and a war that once looked winnable will continue to drag on for years, creating more havoc and destroying more lives before it is over.

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