

Wither Wall Street

By Ralph Nader
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Soon after the passage in 1999 of the Clinton-Rubin-Summers-P. Graham deregulation of the financial industry, I boarded a US Air flight to Boston and discovered none other than then-Secretary of the Treasury Lawrence Summers a few seats away. He was speaking loudly and constantly on his cell phone. When the plane took off he invited me to sit by him and talk.

After reviewing the contents of this Citibank-friendly new law called the Financial Modernization Act—I asked him: “Do you think the big banks have too much power?”

He paused for a few seconds and replied: “Not Yet.” Intrigued by his two word answer, I noted the rejection of modest pro-consumer provisions, adding that now that the banks had had their round, wasn't it time for the consumers to have their own round soon?

He allowed that such an expectation was not unreasonable and that he was willing to meet with some seasoned consumer advocates and go over such an agenda. We sent him an agenda, and met with Mr. Summers and his staff. Unfortunately, neither his boss, Bill Clinton, nor the Congress were in any mood to revisit this heavily lobbied federal deregulation law and reconsider the blocked consumer rights.

The rest is unfolding, tragic history. The law abolished the Glass-Steagall Act which separated commercial banking from investment banking. This opened the floodgates for unwise mergers, acquisitions and other unregulated risky financial instruments. Laced with limitless greed, casino capitalism ran wild, tanking economies here and abroad.

One champion of this market fundamentalism was Alan Greenspan, then chairman of the Federal Reserve. Last October before a House Committee, Greenspan admitted he was mistaken and expressed astonishment at how corporations could not even safeguard their own self-interest from going over steep speculative cliffs.

Greenspan and Summers were deemed “brilliant” by the press and most of Congress. Summers' predecessor at Treasury—Robert Rubin—was also a charter member of the Oracles—those larger-than-life men who just knew that the unfettered market and giant financial conglomerates would be the one-stop shopping mart consumers were assumed to be craving.

Now the world knows that these men belong to the “oops oligarchy” that bails itself out while it lets the companies collapse into the handcuffed arms of Uncle Sam and bridled taxpayers who have to pay for unconditional megabailouts. Instead of the Wall Street crooks being convicted and imprisoned, they have fled the jurisdiction with their self-determined compensation. Corporate crime pays, while pensions and mutual fund savings evaporate. Now comes the next stage of the Washington rescue effort in a variety of stimulus packages which every vendor group imaginable wants a piece of these days. When trillions are offered, many come running.

As the public focus is on how much, when and where all this money should be spent, there are very serious consequences to be foreseen and forestalled. First, consider how much more concentrated corporate power is occurring. Forced or willing mergers, acquisitions and panic takeovers of big banks by bigger banks along with bankruptcies of companies further reduce what is left of quality competition for consumer benefit.

Remember the anti-trust laws. Obama needs to be their champion. The fallout from the Wall Street binge is likely to lead to a country run by an even smaller handful of monopolistic global goliaths.

In the stampede for stimulus legislation, there is a foreboding feeling on Capitol Hill that there is no proposal on the table to pay for it other than by the children and grandchildren. Just the opposite is raining down on them. Everybody including the private equity gamblers, Las Vegas casinos and Hollywood studios along with the banks and auto companies are looking for tax breaks.

So with the economy deteriorating and taxes being cut, where is the enormous money coming from? From borrowing and from printing money. So look out for big time inflation and decline in the dollar's value vis-à-vis other currencies.

In all the hundreds of pages of stimulus bills, there is nothing that would facilitate the banding together of consumers and investors into strong advocacy groups. We have long proposed Financial Consumer Associations, privately and voluntarily funded through inserts in the monthly statements of financial firms.

If this bailout—stimulus—Wall Street funny money waste, fraud and abuse sounds confusing, that is because it is. A brand new paperback “Why Wall Street Can't Be Fixed and How to Replace It: Agenda For a New Economy” by long-time corporate critic, David C. Korten will explain some of the wheeling and dealing.

You don't have to agree with all or many of Korten's nostrums. Just read Part II—The Case For Eliminating Wall Street. He considers three central questions:

First, do Wall Street Institutions do anything so vital for the national interest that they justify trillions of dollars to save them from the consequences of their own excess?

Second, is it possible that the whole Wall Street edifice is built on an illusion of phantom wealth that carries deadly economic, social, and environmental consequences for the larger society?

Third, are there other ways to provide needed financial services with greater results and at lesser cost?