10 Dirty Tricks Wall Street Con Artists Will Pull to Keep the Rip-offs Going

by Paul B. Farrell - WSJ via Alternet *Monday, Feb 23 2009, 8:08am*
international / social/political / other press

> America wants an economic recovery. A brand new bull. And nobody wants it more than Wall Street. It gets rich off bull markets. Yes, Warren Buffett may be buying, but the odds are against Wall Street now.

The financial sector's in the tank: Stocks are huge losers. Earnings stink. Bonuses are down. And if they ask for TARP money, CEO salaries get capped, there are no lavish conferences and you fly commercial -- very humbling for a big boss used to making a million bucks a week.

Still, Wall Street wants a new bull more than you do. Why? Bulls breed megapayoffs.

Yes, Wall Street's running a handicap race on a bad playing field, a rotten economy. Yes, the pressure's enormous. But if Wall Street wants to get its hands back in the magic cookie jar soon, it has no choice. It must get super-clever super-fast and jump-start a roaring new bull for the rest of America's 95 million investors, quickly. Get it? Wall Street must deliver a new bull market, fast and soon.

How? By hook or by crook. Whatever pragmatic or Machiavellian power plays work. Why? Wall Street's got huge incentives at the end of this rainbow: Citing Watson Wyatt, the Economist says money management is a golden goose, with $64 trillion managed by professionals at the peak of the last bull. Assuming Wall Street controlled a third for an average 2% fee, there's roughly $400 billion at stake.

So Wall Street's army of lobbyists will have to pull off some fancy tricks, many at odds with today's demands for "change" by the president and political reformers. But now's the time to act, with the new TARP rules and an $800 billion stimulus bonanza on the way.

Look beyond the bad news. Remember, Washington's run by 40,000 lobbyists not 537 elected politicians. I'm betting lobbyists will use the following tactics to neutralize activists and limit reforms. That way, behind the scenes Wall Street keeps control with its business-as-usual tactics, schemes, scams, hustles and wheeling and dealing. Here are the 10 "dirty tricks" Wall Street lobbyists likely will use to help jump-start a new bull market:

Gridlock helps the rich get richer

Sure, Wall Street bet on Obama and he won a big majority and mandate. But remember, Forbes 400 richest, CEOs and K-Street lobbyists as well as Wall Street insiders, all get richer when Washington's in gridlock. The GOP's stonewalling is already leading the way, so lobbyists start hedging bets, contributing to a partisan war and more gridlock. 2. No Glass-Steagall revival

From 1933 until 1999 the Glass-Steagall Act separated banking to avoid conflicts of interest: Investment banks are high-risk gamblers playing with other people's money, raising capital, trading, crafting merger deals and earning commissions. Commercial bankers have a fiduciary responsibility to conserve capital and minimize depositors' risk; they earn salaries. In 1999 Congress tore down that wall.

Citigroup merged the two, became a financial supermarket, and has since lost 90% of its stock value, contributing to the meltdown. Still, last year Morgan Stanley and Goldman Sachs became bank holding companies to engage in both businesses and get free TARP money. Reviving Glass-Steagall would hurt them, and delay a new bull.

Keep rating agencies 'official'

We know credit-rating agencies are Street puppets. They shield Wall Street from liability, and create an illusion of security for investors in a bull market. But they're paid by Wall Street to protect issuers, and totally failed to protect the investor. Writing in the Wall Street Journal, Michael Lewis and David Einhorn said: "The world is worse off for the existence of companies like Moody's and Standard & Poor's."

Ending the "official" role of rating agencies will prevent future meltdowns. Solution: Let investors or the public pay the bill. But Wall Street wants ratings as a shield in a bull, so they'll keep the agencies official.

Limit new derivative regulations, keep 'shadow banking' alive

Congress is holding hearings on regulating credit default swaps. That will impact the entire $683 trillion global "shadow banking system" for derivatives, enforcing transparency. True, CDS added to the meltdown by offering an illusion of insurance protection. But derivatives also generate hefty commissions in bull markets. So Wall Street lobbyists must minimize reforms and keep shadow banking alive and as much outside the jurisdiction of the Fed and Treasury as possible.

And don't worry about another meltdown. Once again, in good times, Wall Street wins. And in bad times, Main Street picks up the tab.

Offload toxic debt into a government-owned 'bad bank'

Yes, BusinessWeek is right, Bush's $350 billion "bailout is a bust," for the taxpayers, homeowners and local banks. But at least Wall Street got tons of cash and credit to stockpile for reserves, mergers, dividends, bonuses and other perks. Plus no transparency. What a deal.

Now it's crucial Wall Street keeps what it got, while cleaning up its balance sheets by dumping all the toxic trash into a government-owned "bad bank." Let the Treasury, Fed and taxpayers worry about recovering value, while Wall Street focuses on creating a new bull market that generates big salaries and bonuses again.

Support executive pay limits -- in public, anyway

Wall Street banks are cash cows for insiders. They get rich off huge client fees and commissions from Main Street investors. Goldman's boss got $54 million in 2006. The average compensation even in a crappy 2008 was better than a half million for insiders.

But the president shames insiders from the bully pulpit. Sen. Claire McCaskill calls insiders "idiots" and introduce a bill to limit executive pay. So Wall Street's lobbyists have their work cut out for them: Limit amounts, disclosures and enforcement, while launching a feel-good PR campaign showing a contrite face to Main Street -- at least till the smoke clears. The masses will forget once the new bull begins and the golden goose returns.

Create accounting standards loopholes

Forget all the campaign promises of ethical reform, transparency and sundry new executive orders attempting to erase Bush's footprint. America's new president has been creating loopholes that suggest a willingness to compromise, especially regarding lobbyists.

Equally important, accounting rules must be kept flexible, subject to interpretations favorable to business. The Washington Post reports that the International Accounting Standards Board recently bowed to political pressure, allowing Deutsche Bank to shift $32 billion in toxic assets so that a quarterly loss of $970 million magically became a $129 million profit. Wall Street should continue making campaign donations to politicians and keep alive this kind of "flexibility" enforcement behind the scenes.

No limitations on SEC hiring

One of Lewis and Einhorn's recommendations: "Close the revolving door between the SEC and Wall Street," or at least forbid staff from going to work on Wall Street for some period. Lobbyists will make sure this reform is DOA.

Lawyers take low paying SEC jobs knowing it's a combination graduate school, boot camp and executive search firm. Graduates get big bucks representing Wall Street before their old buddies at the SEC. And yes, staffers tend not to get too aggressive for fear of irritating possible future bosses.

But this is a Catch 22: Not only would Wall Street lose a steady supply of well-trained securities lawyers, but who'd want to work for the SEC?

Invest heavily in lobbying

A couple years ago the Washington Post called lobbying "Washington's biggest business." And those 40,000 lobbyists are still manipulating the new administration. They "can't hire people fast enough ... starting salaries have risen to about $300,000 a year for the best-connected aides" who squeeze megabucks out of the federal budget.

One lobbyist was paid an $11 million fee for delivering a $1.2 billion benefit to clients. Another: "There's unlimited business out there for us." They manipulate from the shadows, while PR firms manipulate publicly. They're in Wall Street's army to launch a new bull.

Major PR brainwashing: Yes, yes, a new bull is coming!

Yes, Wall Street, Corporate America and Washington have many huge issues: Costly wars, Social Security reform, health care for all, oil independence, alternative energies, global warming, to name a few. But the bottom line, the No. 1 priority is very simple: America needs a new bull market, and that means brainwashing the public with "good news" to renew confidence and trust.

Main Street investors must feel safe to follow Buffett's lead back into the market. In short, more PR hype and propaganda (so long as there's substance actually coming down the road). We know bull markets typically start a couple quarters before economic recovery, so there will be a dark period of skepticism, doubt and fear. But if Wall Street's confident about a new bull, it's time for their lobbyists and PR geniuses to tool up the brainwashing machine, and start "wagging the dog!"

http://www.alternet.org/story/128241
