CORRUPTION USA: How Wall Street Paid For Its Own Funeral

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> WASHINGTON, Mar 4 (IPS) - A new report says that Wall Street has only itself to blame for the misguided deregulation that led to the current deepening financial crisis. Issued Wednesday by Essential Information and the Consumer Education Foundation, the report documents billions of dollars spent by the financial sector on what would eventually be their own downfall.

The 231-page report, "Sold Out: How Wall Street and Washington Betrayed America," shows that the financial sector invested more than 5 billion dollars on purchasing political influence in Washington over the past decade, with as many as 3,000 lobbyists winning deregulation and other policy decisions that led directly to the current financial collapse.

"The report details, step-by-step, how Washington systematically sold out to Wall Street," said Harvey Rosenfield, president of the California-based non-profit organisation Consumer Education Foundation.

"Depression-era programmes that would have prevented the financial meltdown that began last year were dismantled, and the warnings of those who foresaw disaster were drowned in an ocean of political money," he said. "Americans were betrayed, and we are paying a high price - trillions of dollars - for that betrayal."

According to the report, government regulators, Congress and the executive branch have, on a bipartisan basis, spent the past three decades steadily eroding the regulatory system that restrained the financial sector from acting on its own worst tendencies.

From 1998-2008, Wall Street investment firms, commercial banks, hedge funds, real estate companies and insurance conglomerates made political contributions totalling 1.725 billion dollars and spent another 3.4 billion on lobbyists - a financial juggernaut aimed at undercutting federal regulation.

"Congress and the Executive Branch responded to the legal bribes from the financial sector, rolling back common-sense standards, barring honest regulators from issuing rules to address emerging problems and trashing enforcement efforts," said Robert Weissman of Essential Information and the lead author of the report.

"The progressive erosion of regulatory restraining walls led to a flood of bad loans, and a tsunami of bad bets based on those bad loans," he said. "Now, there is wreckage across the financial landscape."

The report documents a dozen distinct deregulatory moves that, in concert, led to the financial meltdown.

For example, the "rise of the culture of recklessness" was aided by the repeal of the Glass-Steagall Act. The Financial Services Modernisation Act of 1999 formally repealed the 1933 statute and related laws, which prohibited commercial banks from offering investment banking and insurance services. Erasing them from the books helped create the conditions in which banks invested monies from checking and savings accounts into creative financial instruments such as mortgage-backed securities and credit default swaps - investment gambles that rocked the financial markets in 2008.

The report also said that banking regulators retained authority to crack down on predatory lending abuses, which would have protected homeowners and lessened the current financial crisis if the regulators hadn't "sat on their hands." The Federal Reserve took just three formal actions against subprime lenders from 2002 to 2007. The Office of Comptroller of the Currency, which has authority over almost 1,800 banks, took three consumer-protection enforcement actions from 2004 to 2006.

Another deregulatory federal law that benefited mortgage lenders at the expense of the public deals with assignee liability. It states that with limited exceptions, only the original mortgage lender is liable for any predatory and illegal features of a mortgage - even if the mortgage is transferred to another party.

The report points out that this arrangement effectively immunised acquirers of the mortgage ("assignees") for any problems with the initial loan, and relieved them of any duty to investigate the terms of the loan. Wall Street interests could purchase, bundle and securitise subprime loans, including many with pernicious, predatory terms, without fear of liability for illegal loan terms.

The arrangement left victimised borrowers with no cause of action against anyone but the original lender, and typically with no defences against being foreclosed upon.

Other misdeeds that led to the financial crisis include prohibitions on regulating financial derivatives; a voluntary regulation scheme for big investment banks; and the repeal of regulatory barriers between commercial banks and investment banks.

The report presents data on financial firms' campaign contributions and disclosed lobbying investments, which supports its claim that "political decisions were influenced by political expenditures and extraordinary lobbying," as Weissman put it.

For example, securities firms invested more than 504 million dollars in campaign contributions, and an additional 576 million dollars in lobbying, while commercial banks spent more than 154 million dollars on campaign contributions and invested 383 million dollars in officially registered lobbying.

Individual firms spent tens of millions of dollars each. During the decade-long period Goldman Sachs spent more than 46 million dollars on political influence buying; Citigroup spent more than 108 million; and the now defunct Merrill Lynch spent more than 68 million dollars.

According to the report, the financial contributions were bipartisan: about 55 percent of the political donations went to Republicans and 45 percent to Democrats, primarily reflecting the balance of power over the decade. Democrats took just more than half of the Wall Street's 2008 election cycle contributions.

The financial sector also bolstered its political strength by placing Wall Street expatriates in top regulatory positions, including the post of Treasury Secretary held by two former Goldman Sachs chairs, Robert Rubin and Henry Paulson.

Financial firms employed a legion of lobbyists - maintaining nearly 3,000 separate lobbyists in 2007 alone. Insurance companies had 1,219 lobbyists working for them; Real estate interests hired 1,142.

These firms drew heavily from former government officials in choosing their lobbyists. Surveying 20 leading financial firms, the report found that 142 of the lobbyists they employed from 1998-2008 were previously high-ranking officials or employees in the executive branch or Congress.

"It’s very important to identify the causes of the crisis if we are to fix it and prevent it from occurring again," Weissman told IPS, speaking to the report’s relevance.

He adds that one of the ways through which many deregulatory moves were justified was the claim that they facilitated "financial innovation - a buzz word on Wall Street and Washington."

"Our review suggests that while there may be some innovations that are socially beneficial, in general (financial innovation has served as) a code word for complexity," he explained. "It has been a means for Wall St. to confuse consumers and investors, extract money from them and the overall economy, and build up a house of cards that has now tumbled down to disastrous effects."

The report calls on Congress to adopt the view that Wall Street has no legitimate seat at the table. "This time, legislating must be to control Wall Street, not further Wall Street’s control," it says.

"The first substantive recommendation we make is to undue the deregulatory decisions that we have profiled," said Weissman.

Other recommendations include prohibiting some forms of financial instruments, as well as a financial transaction tax to slow down speculation and curb the turbulence in the markets.

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