From the Senate: Obama Is a Liar

This question, edited for EIR*, was submitted to LaRouche's June 26 webcast from a U.S. Senator's office. It provides an inside view of the White House role in getting the financial "reform" bill that Wall Street wanted. The question was read by moderator Debra Freeman.*

"Mr. LaRouche, I think it's very important that the people who are listening to your webcast understand exactly what occurred in the Conference Committee that produced this legislation. Because what is right now in the press is disinformation. Because despite the overwhelming revulsion of the U.S. population to the bailout of Wall Street and of the banks, and despite the fact that our President said, repeatedly, that he would veto any measure that did not include reining in derivatives, the fact is, that exactly the opposite has occurred. And in fact, I do very much regret to report that it seems that the President is a liar.

"First of all, Senator Levin was employed to introduce the so-called 'Volcker Rule' as a subsitute for a different amendment, which was the re-introduction of Glass-Steagall, as you well know. Now, Glass-Steagall was, without question, preferable, and the Volcker Rule was flawed. But, President Obama opposed Glass-Steagall, and claimed to have supported the Volcker Rule. But, even with all of its flaws, the fact is, that the Volcker Rule, originally, as Senator Levin introduced it, banned banks from using their own taxpayer-backed cash to speculate in the financial markets.

"And as everyone does know, the Federal government stands behind bank deposits, and banks have access to cheap funds from the Federal Reserve. And former Federal Reserve Chairman Paul Volcker argued that the banks should not be allowed to use that subsidy to speculate. And presumably, President Obama supported that.

"However, on Thursday afternoon, the Senate conferees confirmed that their so-called compromise was that the banks could invest up to 3% of their tangible common equity in hedge funds, and private equity firms. (Tangible common equity is considered the strongest form of bank capital, and it is basically comprised of shareholder equity.) That was bad enough, but a few hours later, that proposal was amended further, after lobbying by both the Administration and Wall Street. The adjustment changed the metric from tangible common equity, to what's called Tier One capital.

"Bankers and banks have a lot more Tier One capital, than they have tangible common equity. So changing the requirement to this weaker form, allowed banks to invest even more of their cash in hedge funds and private equity funds. This was also enthusiastically endorsed on the House side, by Barney Frank.

"Now, this is a complicated issue, obviously, for the average citizen. So just to make it clear, I want to give you a couple of examples of what this means in practice.

"Using JP Morgan Chase, which is the nation's largest bank, by virture of their assets, let's look at this. JP Morgan Chase reports assets of more than $2.1 trillion. The bank would be able to invest an additional 40% of its cash, or an extra $1.1 billion, for a total of $4 billion in the activities that Volcker supposedly wanted to prohibit banks from engaging in, according to this new legislation.

"For the Bank of America, which is the nation's largest bank, with more than $2.3 trillion in supposed assets, the change—the so-called tightening under this Volcker Rule—allows that firm to invest more than $4.8 billion in hedge funds and private equity funds, which is an increase of 80% over what they currently have invested.

"Morgan Stanley can invest $1.4 billion, which represents a 58% increase.

"Goldman Sachs can invest $1.9 billion. That's an increase of just 10%, but we all know that Goldman Sachs is in trouble.

"This was strongly opposed by various members of the Committee, but they were ignored.

"On the question of derivatives, which is an area that the population is much more familiar with, and which President Obama has talked about repeatedly, Sen. Blanche Lincoln had a proposal that would have compelled the nation's big banks to move their swap dealing units, which deal and trade in a type of financial derivative product, into a separately capitalized institution, within the larger bank holding company. The affected firms collectively would have to raise tens of billions of dollars to protect their swap desks in case their bets went bad. Or, and this would be preferable, they could disband the activity altogether.

"According to Wall Street, such a measure would threaten U.S. banks and make it difficult for them to compete with foreign banks. This is absolutely not true. The nation's largest domestic banks control the swap markets in the U.S., and they do so by a very large majority. . . ."

The questioner is saying that if Lincoln's proposal had been left in there, it would, at the very least, mean that, if these bets went sour, taxpayers would be saved from having to move in to prop up the banks, just as they did in 2008.

And she adds, that a Glass-Steagall proposal would do what Blanche Lincoln's proposal did not do, which is that it would deal with the already existing derivatives. But, she says, be that as it may, Lincoln's measure was important enough, that three regional Federal Reserve presidents, in a very unusual move, came out and supported it.

However, she reports, at midnight on Friday [June 25], Collin Peterson came out and announced that he believed that a deal had been made on Blanche Lincoln's measure, which he described as a "divisive" measure.

"I think it's important to point out to people—because really, the American people have the right to know this—that, during these extraordinary all-night negotiations, despite the fact that you had three Federal Reserve presidents supporting Blanche Lincoln's bill, the Fed's Board of Governors, led by the nation's central banker, Ben Bernanke, along with FDIC Chairman Sheila Baer and Treasury Secretary Tim Geithner, joined with the nation's largest banks in spending all night with the joint Conference Committee.

"It seemed to be a great contradiction: *If the President of the United States said he would veto any legislation that did not rein in derivatives, then why did he send half of the White House to Capitol Hill to make sure that those derivatives were not reined in?* And, in fact, although the negotiations were not public, the announcement now is. Rather than banks being forced to spin off their swap desks, they would be allowed, Collin Peterson announced, to keep those units, dealing with the biggest part of all derivatives trading.

"My question to you is really a very simple one. . . . How do you think we should proceed?. . ."