GLASS-STEAGALL WOULD STOP SPECULATION

Geithner Runs Protection Racket for Goldman Sachs

by Paul Gallagher

May 2—One of the leading U.S. Senate advocates of restoring the Glass-Steagall Banking Act denounced Obama's Treasury Secretary Timothy Geithner on April 30, for declaring a huge chunk of financial derivatives off-limits to regulation. The bipartisan Glass-Steagall reinstatement bill, co-sponsored by Sen. Maria Cantwell (D-Wash.) and Sen. John McCain (R-Ariz.), had been forced off the Senate floor by the White House in August 2010 when it appeared to have the votes to pass as part of the "Wall Street Reform Act." Now, on Geithner's sudden move April 29 to protect $30 trillion in foreign-exchange-swap derivatives from regulation, Cantwell said, "I can't believe the first decision the administration would make to carry out Dodd-Frank would be an anti-transparency decision. The idea that the foreign exchange markets are not at risk is preposterous—we now know that they required multi-trillion-dollar bailouts. Anytime you have a lack of transparency, there is potential for abuse."

The global Federal Reserve bank bailout these derivatives triggered in late 2008, to which Cantwell referred, was $5 trillion in U.S. dollars printed and pumped out to foreign central banks, to provide to international banks playing the foreign exchange, or "ForEx" markets, which had frozen up. As Sen. Bernie Sanders' (I-Vt.) legislation forced the Fed to admit, this was one of the largest chunks of the vast $16-17 trillion in bailout loans extended to banks by the Fed during the crash in 2008, and rolled over many times since then. Geithner's April 29 announcement, which claimed that foreign exchange markets were so liquid and stable they needed no regulation, was a flat-out lie, aimed to protect the cohorts of Goldman Sachs. It showed how dead set against Glass-Steagall the Obama White House is.

If FDR's 1933 Glass-Steagall Law were reinstated, such bailout protection of investment-bank-type speculation would be impossible, and bank insurance and protection would be limited to commercial depository banking and lending, period. The credit of the United States, now crippled by the vast bailouts and subsequent austerity drives against government, would be restored. And Geithner and the British puppet President would be finished.

Saving Goldman Sachs

Geithner's move prevented the Commodity Futures Trading Commission (CFTC) from even attempting to regulate this derivatives mess, the destructive legacy of the elimination of fixed currency exchange rates in 1971, when the British wrecked FDR's Bretton Woods system. In particular, Geithner was protecting Goldman Sachs. Former CFTC top official and University of Maryland professor Michael Greenberger commented that these ForEx derivatives are among Wall Street's most profitable speculative operations, and made $2.2 billion in trading revenue for Goldman in *one quarter*

White House Photo/Pete Souza

Treasury Secretary Tim Geithner announced, incredibly, that foreign exchange markets are so liquid and stable that they need no regulation—a sign of just how dead set the White House is against restoring the Glass-Steagall Law. Geithner and the President are shown here, discussing fiscal policy on April 9.

of 2010. Greenberger also noted wryly that if Wall Street gave out Academy Awards, Geithner would be "best supporting regulator" every year.

Geithner was trying to protect this most influential and notorious of speculative investment firms, just when it had been the central target of attack in an exhaustive, two-year investigative report of the 2007-08 financial crash, released April 13 by the Senate Permanent Subcommittee on Investigations. This subcommittee is chaired by Sen. Carl Levin (D-Mich.), who held blistering "Pecora Commission-type" hearings in April 2010, exposing Goldman's subprime mortgage manipulations.

Levin said of Goldman, in the new report: "Using e-mails, memos and other internal documents, this report tells the inside story of an economic assault that cost millions of Americans their jobs and homes, while wiping out investors, good businesses, and markets. High risk lending, regulatory failures, inflated credit ratings, and Wall Street firms engaging in massive conflicts of interest, contaminated the U.S. financial system with toxic mortgages and undermined public trust in U.S. markets."

Two other things are striking about the Subcommittee investigation. Its assault on Goldman Sachs (and on the bought-and-paid-for credit rating agency S&P, now arrogantly trying to downgrade U.S. sovereign credit) was publicly backed by Republican conservatives: ranking member Sen. Tom Coburn (Okla.), and Tea Party Senators Scott Brown (Mass.) and Rand Paul (Ky.). As one blogger exclaimed, "Liberals and Tea Party Senators demand: 'Bring me the head of Goldman Sachs.'"

And secondly, the report clearly backed restoring Glass-Steagall: "Under the Glass-Steagall Act of 1933, certain types of financial institutions had been prohibited from commingling their services. For example, with limited exceptions, only broker-dealers could provide brokerage services; only banks could offer banking; and only insurers could offer insurance. One reason for keeping the sectors separate was to ensure that banks with federally insured deposits did not engage in the type of high risk activities that might be the bread and butter of a broker-dealer or commodities trader. . . .

"Glass-Steagall was repealed in 1999, after which the barriers between banks, broker-dealers, and insurance firms fell. U.S. financial institutions not only began offering a mix of financial services, but also intensified their proprietary trading activities. . . . The expanded set of financial services investment banks were allowed to offer also contributed to the multiple and significant conflicts of interest that arose between some investment banks and their clients during the financial crisis.

"Investment banks were a major driving force behind the structured finance products that provided a steady stream of funding for lenders to originate high risk, poor quality loans and that magnified risk throughout the U.S. financial system. The investment banks that engineered, sold, traded, and profited from mortgage-related structured finance products were a major cause of the financial crisis."

The Committee meant, above all, Goldman Sachs, and asked Attorney General Eric Holder to begin criminal proceedings against the firm which had "misled its clients, misled the public, and lied to Congress," while helping build a gigantic global debt bubble and trigger its crash.

Shades of 1999

Geithner's Treasury, leaping to the defense of the likes of Goldman Sachs, directly echoed the 1999 claims of Fed chairman Alan Greenspan, Sen. Phil Gramm (R-Tex.), and the other destroyers of Glass-Steagall then. Gramm said that energy derivatives (Enron) and commodity futures and derivatives (Goldman) should be completely deregulated, because they were "liquid, self-regulating markets"; Greenspan repeatedly insisted to Congress that investment banks and hedge funds were better "regulators" of debt securities and debt securitizers—particularly mortgage securitizers—than were government regulators.

Treasury said the same about ForEx swaps on April 29: The market was "highly transparent, liquid and efficient. Fixed terms of shorter duration, physical exchange of currency and an existing well-functioning settlement process means there is no need to drag the instruments into a more restrictive regime. Central clearing requirements ... could actually jeopardize practices in the foreign exchange swaps and forwards market that help limit risk and ensure that it functions effectively."

But this "liquid, efficient" market froze after the Lehman Brothers bankruptcy in September 2008. Banks internationally could not obtain dollars, and the Fed had to pump *$5.4 trillion* into foreign central banks to prevent a collapse. The securities repo market, another touted "short-term, highly liquid" (and unregulated) market, also blew up at about the same time.

Senator Levin joined Senator Cantwell, and also Sen. Tom Harkin (D-Iowa) in sharply criticizing Geithner's move. Levin said on May 1, "I have concerns that his proposed exemption relies on current industry practices that are inadequate and could be changed by the industry unless the exemption is conditioned upon their remaining in place."

CFTC chairman Gary Gensler warned in 2010 of precisely that: Investment banks, hedge funds, etc. would "change their practices," if foreign-exchange derivatives were exempted from regulation. They would disguise tens of trillions of other derivatives as ForEx swaps—child's play to these financial predators—protecting much of the $600 trillion-$1 quadrillion derivatives market from regulation, and protecting themselves from being thrown out in the cold by Glass-Steagall.

250 Million More Are Hungry

Another very serious charge against Goldman Sachs appeared in *Foreign Policy* magazine for April, which published a review of the ten-year history of the Goldman Sachs Commodity Index (GSCI). This is an investment vehicle for banks and speculative funds, which—with its recent imitators like the Deutsche Bank Commodity Index—has progressively generated a devastating hyperinflation in food staples.

This was made possible when energy and food commodity futures/derivatives were completely deregulated in 1999 (by the enemies of Glass-Steagall), meaning that any bank or large fund could put an unlimited amount of "investment" into "long-only" bets on future food prices. Goldman Sachs created the Index by which to do so. Such massive "up-only" bets drove prices ... up only.

The magazine puts the scale of this inflationary impact starkly: "In 2003, the commodities futures market still totalled a sleepy $13 billion.... But in the first 55 days of 2008, speculators poured $55 billion into commodity markets, and by July 2008, $318 billion was roiling these markets," primarily through Goldman's GSCI. The worldwide price of food in 2008 was up 80% over 2005; in early 2011 it is up 150% over late 2008. "Imaginary wheat dominates the price of real wheat, as speculators (traditionally one-fifth of the food commodity futures market) now outnumber bona-fide hedgers four-to-one."

And the consequence: "The average American, who spends roughly 8 to 12% of her weekly paycheck on food, did not immediately feel the crunch of rising costs. But for the roughly 2 billion people across the world who spend more than 50% of their income on food, the effects have been staggering: 250 million people joined the ranks of the hungry in 2008, bringing the total of the world's "food insecure" to a peak of 1 billion—a number never seen before." By early 2011, another 150 million on top of that were "officially hungry," and this was helping trigger mass strikes against governments throughout the Mideast, Africa, and South Asia.

This devastating inflation—and Goldman Sachs and the other speculators driving it—is what Timothy Geithner is defending, when he tries to insist on their right to speculate in unlimited, unregulated "dark" markets with derivatives.

Geithner's action is another indication that President Barack Obama and his British string-pullers would not be able to withstand the public upheaval that would accompany passage of a restored Glass-Steagall law through Congress.