WHY WE CAN’T FIX WALL STREET

There are two articles out that provide the beginning of an explanation of why even good progressives like Dick Durbin and Barney Frank can’t fix our finance system.

Trade Organizations as a Wing of the Republican Party

First, there’s the smoking gun proof that—at a moment when big banks were preparing to negotiate with Dick Durbin on cramdown legislation—banking’s trade organization was attacking that cooperation in conjunction with Republicans. HuffPo’s Sam Stein has posted the email from Tanya Wheeless, president & CEO of Arizona Bankers Association.

> Subject: Cramdown Update
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> Hi All—
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> Just a quick update in case you were not aware. I’m sorry to say that Chase, Wells, and B of A have been working with Durbin on a cramdown compromise since last week. So far, none of the national trades are at the table. I’ve been told that ICBA is working on a press release to admonish them for trying to cut a deal. The good news is, they aren’t there yet. Apparently, they gave Durbin a wish list awhile back and in his desperation to get something, he’s given on most everything. Reid told Durbin he had until the end of recess to get something done, but it looks like Reid may be willing to wait a little longer if they’re at the table.
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> I have contacted the market presidents for each of the three banks and explained that in my humble opinion it’s a big mistake to cut a deal with Durbin and alienate our (in Arizona) Senator. I

> also told them that I thought this would drive a wedge in our industry. Kyl has pointedly told them not to make a deal with Durbin and then come looking to Republicans when they need help on something like regulatory restructuring or systemic risk regulation.I know the [sic] every state association will have to do what's best for its members, but I have told my largest three members that if they cut this deal, AzBA will fight them on it. They may be willing to alienate Republican leadership, but I'm not quite there yet.

This is the President of a trade association, bullying her largest members, to serve the command of John Kyl. (Arizona, of course, is one of the leading states for foreclosure rates, so Kyl is basically working directly against the interest of his constituents.) And, voila, we still don't have cramdown. Or, for that matter, regulatory reform (yet).

Hiding the Banks behind the Airplanes

Meanwhile, this Michael Hirsh article explaining how Barney Frank failed to close some loopholes in derivatives legislation describes Main Street companies fronting the lobbyist efforts of the banks—so basically Main Street appears to be fighting to keep the customized derivatives that their bankers charge them extra for.

> According to insiders and industry e-mails obtained by NEWSWEEK, the banks have sought to stay in the background and put their corporate customers—a who's who of American business, including Apple, Whirlpool, and John Deere—out in front of the campaign. "This is an orchestrated, well-funded effort by the banks to manipulate our legislation and leave no fingerprints," says a congressional staffer involved in drafting the legislation. The staffer, who would speak only on condition of

> anonymity, passed on to NEWSWEEK nine pages of proposed changes in the legislation intended to protect trading from open scrutiny—all of it on paper without a letterhead—that she says came from Goldman Sachs. Samuel Robinson, a spokesman for Goldman, says "it's not our document" but adds that Goldman has "an active and appropriate involvement in the process of government" and supports "sensible reform."
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> The financial industry has argued that curbs on derivatives don't hurt just Wall Street but also the corporations in Main Street America—the "end users" —that need them to hedge risks. Airlines, for example, use derivatives as protection against sudden gyrations in fuel costs by "swapping" interest-rate payments or currencies with other companies. No one doubts derivatives are useful for that. What upsets Wall Street critics is that the banks that sell these contracts to corporations prefer the derivatives to be privately negotiated off exchanges. The more custom-made and out of public sight a derivative is, the harder it is for investors—and regulators—to assess its fair value and real risk. This makes it easier for the banks to charge a large "spread" and earn big profits. "It's like the used-car market, except that it's even less transparent," says Adam White, a derivatives expert at White Knight Research in Atlanta. The banks deny critics' charges that they are keeping prices high; many end-user companies are willing to do the deals privately because they aren't required to post -capital to cover margins, as regulators would require.

All this, so Goldman Sachs can hide the influence it continues to have on federal legislation.

We’ve all gotten much better at unpacking the direct influence that industry has in DC. But these two stories show that the indirect influence is significant—and powerful.