

Straight Talk on the Financial Crisis

**An OpEdNews.com Article, a My.BarackObama.com Blog Entry, and
An E-Mail to Progressive Activists**

September 27, 2008

Family and friends,

The current financial crisis is indeed grave, having resulted in the nation's largest bank failure (Washington Mutual) and taken down the nation's largest insurance company (AIG) and mortgage holders (Fannie Mae and Freddie Mac) as well as three of the top investment houses (Bear Stearns, Lehman Bros., and Merrill Lynch) and threatening countless more failures both here and abroad—in particular, there are hundreds of trillions of dollars tied up in bad securities in the interconnected international finance system; and most disturbingly, no one knows how much they are really worth, since no one wants to buy them. The credit system has frozen up; and without free-flowing credit, businesses go out of business.

Because this crisis is threatening the existence of banks and businesses it is threatening the life savings and jobs of millions of people in the United States and abroad. It is not an exaggeration for this to be called by so many the gravest financial crisis since the Great Depression.

And the causes of the current problem are much the same as those of the Great Depression. As my late father had been saying since the Reagan

administration, as more and more of the New Deal safeguards set up under FDR and the Democratic Congress in the '30s were being torn down, we ran more and more risk of having a big financial collapse, as he lived through, in desperate conditions, during the Depression. So it's worth our while to look back briefly and see what worked and what went terribly wrong.

In the Roaring Twenties, the Republicans, under Presidents Harding, Coolidge, and Hoover, deregulated business. Although the economy did roar for a while, it eventually went bust, as the stock market crashed and banks and businesses failed, wiping out life savings and throwing millions of people out of work. Republican fixes did little if anything to help. The people demanded new leadership.

FDR and the Democrats in Congress instituted reforms with the New Deal, including regulations that saved the American banking system and, thus, American capitalism. Key among these regulations was the Glass-Steagall Act (which we're hearing a lot of these days) ...

http://en.wikipedia.org/wiki/Glass-Steagall_Act

... which established the Federal Deposit Insurance Corporation (The FDIC, which so

many of us rely upon to safeguard our money) and also provisions that gave the Federal Reserve oversight authority over savings accounts and also a prohibition over bank holding companies owning other financial institutions (so too many eggs wouldn't be in too few baskets, many of which had just gone bust).

The New Deal reforms became an accepted part of American financial life for decades. In the post-War years, for the first time in history—which had had many depressions, although none so "great" as that in the '30s—Americans came to think of money in the bank as safe and secure as "money in the bank."

Perhaps we grew complacent or just wanted to take more risk or were just hoodwinked, but big money interests—who never wanted so much government control over their business—eventually convinced voters and their elected representatives that the New Deal regulations were just too restrictive. Starting in the 1980s, the New Deal regulations over the financial industry were dismantled ... ultimately with disastrous consequences.

In 1980 the Depository Institutions Deregulation and Monetary Control Act was enacted, loosening up some federal controls over savings and loans.

In 1982 the Garn-St. Germain Depository Institutions Act was enacted, deregulating the Savings and Loan industry ...

http://en.wikipedia.org/wiki/Garn-St._Germain_Depository_Institutions_Act

By the late 1980s, ravaged by excesses and greed—sometimes criminally fraudulent (as with the Keating Five scandal, involving five senators, including Sen. John McCain) but often just the consequence of inadequate regulation—the Savings and Loan industry crashed, bringing on the recession that would hurt millions of Americans and put the first Pres. Bush out of office. If the S&L industry were to have collapsed further it would have done even worse damage to the economy as a whole, so the taxpayers bailed out the S&Ls, at a cost of over \$100 billion.

But somehow deregulation continued to be a popular theme. The mantra was still as Reagan had proclaimed in his first inaugural address: "The government is not the solution to our problem; government is the problem."

Replacing Geo. H. W. Bush was Bill Clinton, who "felt our pain" but—as a "New Democrat," a "centrist"—continued to advance the cause of deregulation; and in that, he found plenty of allies in both parties. The huge campaign contributions that the financial industry lavished upon politicians in both political parties undoubtedly had much to do with bipartisan support for deregulation; but also, increasing prosperity—as the business cycle turned and tax dollars were redistributed by the Democratic president and Congress from the wealthy into the hands of the growing middle class—convinced all-too-many Americans to "drink the Kool Aid" of deregulation.

And like the deregulation of the electricity market here in California, which had bipartisan

support, other deregulation schemes from that era would blow up in everyone's faces and cost hundreds of billions of dollars (and counting).

1999 was the key year. Then-Sen. Phil Gramm led the fight for what the financial industry had wanted ever since the New Deal: repeal of the Glass-Steagal Act, regulating the banking industry. Gramm and two other Republican senators wrote the Gramm-Leach-Bliley Act ...

http://en.wikipedia.org/wiki/Gramm-Leach-Bliley_Act

On first vote in the Senate it passed, but along largely partisan lines (GOP in favor, Dems opposed); in the House it passed by a wide majority. After Republican senators added language strengthening the Community Reinvestment Act, helping those in disadvantaged communities, and provisions protecting privacy, Democratic senators supported the bill, which then passed both houses almost unanimously. President Clinton signed the bill into law in November 1999.

Not surprisingly, Sen. McCain voted for the Gramm-Leach-Bliley Act. Remember, that act repealed the Glass-Steagal Act's barrier to banks owning stock brokerages and insurance companies—such mergers in the '20s had produced the Great Depression of the '30s—and also remember that the co-author of the Gramm-Leach-Bliley Act was then-Sen. Phil Gramm, who recently wrote Sen. McCain's economic plan and who has been the "odds on" favorite to be a President McCain's Treasury Secretary ... at least until Gramm called everyday Americans

complaining about the current economic condition "whiners."

Likewise, in 2000, Gramm pushed for and McCain voted for (and yes, "centrist" Clinton signed into law) the Commodity Futures Modernization Act, which made legal the mortgage "swaps" we hear so much about today—at the core of our financial meltdown and uncertainty—which distanced the originator of loans from the ultimate holder of loans. Bad loans came to be held by financial institutions all around the world, representing those hundreds of trillions of dollars at risk now.

Given that Gramm pushed through—and McCain voted for—the laws that more than any others deregulated the financial industry and led to our current financial crisis, do we really want a President McCain and a Treasury Secretary Gramm? Could we even afford them?

<http://thinkprogress.org/2008/09/16/krugman-on-gramm/>

For as bad as it is—and may not get better anytime soon, no matter what we do—things can always be a whole lot worse.

My dad, who saw all this coming as the New Deal safeguards were being torn down, grew up dirt poor during the Depression. I don't think the average American today can even imagine what it would be like to live in a world where food and clothing, let alone shelter and medical care, were almost luxury items.

As we can see, by looking at the historical record, both Democrats and Republicans have been responsible for the deregulation in the '80s and '90s that produced the current crisis, similar to—although much larger than—the S&L crisis almost twenty years ago.

But look at what is happening now. The Bush Bail-Out plan—favored by big financial institutions—called for a blank check to be given to Bush's Treasury Secretary. But wasn't it lack of oversight that led to this whole disaster? The Bush Bail-Out plan did not provide any means for the taxpayers to be rewarded for taking on the risk of buying up all these "toxic" loans. Nor did the Bush Bail-Out plan provide help for "Main Street"—everyday Americans losing their homes because they have been conned by banks etc. into getting in over their head—the Bush plan provided help only for "Wall Street" (True, we must prop them and big business up—their fall would threaten everyone's life savings and jobs—but there are people losing their homes right now to also consider). And the Bush Bail-Out plan did not put any limits on executive compensation at the very firms the taxpayers will be propping up.

Although Democrats during the Clinton years—representing the then-popular mood for deregulation, started under Reagan—did not do the right thing, the Democrats today—under the leadership of Sen. Christopher Dodd, chair of the Senate Banking Committee, and Rep. Barney Frank, chair of the House Financial Services Committee—are rewriting the Bail-Out plan to include all the provisions it omitted; and now wiser for the bad experience—like Americans

during the Depression—the public at large seems to now recognize that there is indeed a role for government in regulating the excesses of the financial industry: According to the polls, most Americans are favoring the congressional plan over the Bush plan ...

<http://www.gallup.com/poll/110746/Americans-Favor-Congressional-Action-Crisis.aspx>

So now Democrats are acting like real Democrats—in a tradition going back to the days of FDR—and not like "Republican Lite"—what too much of the 1990s "New Democrats" "centrist" approach was. And I give a lot of the credit to Barack Obama for inspiring Democrats—and independents and open-minded Republicans—to stand up straight! Obama's message from Day One has been about how we everyday people can overcome powerful interests by standing up and standing together. That is how Americans have always overcome adversity, both at home and abroad.

By the way, there are some stories going around on Fox News, in spam, etc. about how much support Fannie Mae has had from Obama, the Congressional Black Caucus, and Democrats overall and how much campaign money they have received from Fannie Mae. Some of these nasty innuendos have been debunked ...

http://voices.washingtonpost.com/fact-checker/2008/09/obamas_fannie_mae_connection.html

And even Sen. McCain and other Republicans have not been "above" taking money from Fannie or Freddie ...

<http://www.opensecrets.org/news/2008/09/update-fannie-mae-and-freddie.html>

But in general, it is no surprise that Fannie Mae has been staunchly supported by the Democratic Party since it was established—also part of the New Deal—to help everyday people, and not just the well-to-do, own homes ...

http://en.wikipedia.org/wiki/Fannie_mae

Over the decades, Fannie Mae and Freddie Mac have helped the American middle class grow bigger than it has ever been. And Democrats have resisted calls by Republicans to tamper with Fannie Mae, as the GOP has also tried from the outset to privatize or otherwise dismantle that other New Deal program that has helped millions, Social Security. Nonetheless, Fannie Mae did also fall victim to the deregulation and corruption that crippled the lending industry at large. As outlined above, Democrats were partly to blame for deregulation in the '90s; but again, deregulation has been the tradition of the GOP since the Roaring Twenties through the 1980s, led by Ronald Reagan, and 1990s, led by Phil Gramm, and even today.

So knowing where the Democrats today stand on the financial crisis—rewriting the Bush plan to include safeguards for taxpayers and homeowners and calling for more, not less, regulation of the financial industry—we might

well ask where does Sen. McCain stand on the issue of regulation.

Well, on the very day Lehman Bros. and Merrill Lynch were falling, McCain said, "The fundamentals of our economy are strong" ...

<http://www.youtube.com/watch?v=e4KY39jLdu4>

... almost verbatim what failed GOP Pres. Herbert Hoover said as the stock market was crashing ...

<http://thinkprogress.org/2008/09/17/mccain-channels-hoover/>

And the following weekend McCain said, "I think the deregulation was probably helpful to the growth of our economy" ...

<http://thinkprogress.org/2008/09/21/mccain-deregulation/>

But in truth, it is difficult to know where McCain actually does stand on any issue. Although he has carefully cultivated the reputation of a "straight talker," the record shows he has committed almost countless flip flops on major issues—to appease the fundamentalists in the Republican primaries or the general voters in the general election or just whatever the polls indicate is the mood swing of the day—all of which has been thoroughly documented, as by these books ...

Free Ride: John McCain and the Media, by Media Matters for America's David Brock & Paul

Waldman

(<http://mediamattersaction.org/freeride/>)

and *The Real McCain: Why Conservatives Don't Trust Him. Why Independents Shouldn't*,
by Cliff Schecter

(<http://www.realmccainbook.com/>)

... and in this video that's been viewed millions of times on YouTube ...

<http://bravenewfilms.org/blog/468-the-real-mccain>

And then there is this brief but striking piece ABC News assembled of McCain's almost daily—or even hourly—flip flops on the current financial crisis and deregulation ...

<http://www.youtube.com/watch?v=wWI35eNnDOW>

In stark contrast, Barack Obama—who was not in the senate back in the '90s, when the major deregulation legislation was being passed—has been consistently speaking out in favor of increased regulation over the reckless financial markets and for increased help for everyday homeowners and for stimulus of the economy in general: His most noted speech on the subject was back in March of this year, months before the current crisis erupted ...

<http://my.barackobama.com/page/community/post/samgrahamfelsen/gGBNsq>

While McCain's position has been changing day by day, Obama's position has remained the same

...

http://my.barackobama.com/page/s/econprinciples?source=20080923_BO_I_P

... exactly what the Democrats in Congress have taken leadership in drafting, rewriting the Bush Bail-Out plan, and what the American people want and deserve.

Our current financial crisis—the gravest since the Great Depression, not just taking down Fannie Mae and Lehman Bros. and Merrill Lynch and one of the biggest banks and the biggest insurance company in the country but also threatening the entire financial foundation of the international economy—is a direct result of the deregulation of the financial industry back in the late 1990s, led by Sen. Phil Gramm—who went on to recently write candidate McCain's economic plan—and supported by Democrats like President Clinton, a "New Democrat" who won office as a "centrist," carrying on the then-popular Reagan legacy of deregulating industry. But the high-rolling times, like in the Roaring Twenties, have come to an end, as American households, businesses, and government are in record debt, much of which is now "toxic," freezing up credit needed by businesses and, thus, threatening not only the life savings but also the livelihoods of millions of families in the United States and beyond.

The only way to overcome such powerful forces is for everyday people to stand up and stand together and demand that our government do

what is necessary to protect and secure our finances and well-being. For all our very-real concerns—we're not "whining," Mr. Gramm—that has been the message of Barack Obama since day one and why he is leading a movement more popular than any we've seen in a great long while. As he says, this election really isn't about him or McCain, it's about us.

The challenge and the nation are ours. I hope that we rise to the occasion and together put aside the failed policies of deregulation and other excesses that have led our nation to the most unequal distribution of wealth and power since the Great Depression. I have faith that we "common people" will use our common sense and set things straight again. The consequences of the alternative are unimaginable.