

"America's Best Political Newsletter" Out of Bounds Magazine

counterpunch

edited by alexander cockburn and jeffrey st.clair

The Guys Who Got It Wrong

Obama's Economic Brain Trust

By PAM MARTENS

Weekend Edition

April 2 – 4, 2010

America is held out to the world as a meritocracy. You work hard, you play by the rules, you make sound judgment calls, you succeed. That's the American dream. Right? That's what the President of the United States should exemplify in his actions. Right?

Then how does one explain the individuals who represent the abject failures of financial and regulatory theory chosen by the President to dominate the dialogue on financial reform. How does one reconcile President Obama appointing Lawrence Summers as head of the National Economic Council after Mr. Summers played a central role in rolling back the safeguards that led to the current financial crisis.

This is what Mr. Summers had to say at the November 12, 1999 signing ceremony for the Gramm-Leach-Bliley Act, the draconian legislation that repealed the Glass-Steagall Act and allowed commercial banks holding insured deposits to merge with investment banks, brokerage firms and insurance companies: the very same combinations that led to the 1929 stock market crash and ensuing Great Depression:

“Let me welcome you all here today for the signing of this historic legislation. With this bill, the American financial system takes a major step forward towards the 21st century, one that will benefit American consumers, business, and the national economy for many years to come...I believe we have all found the right framework for America's future financial system.”

Mr. Summers was wrong. This was not the “framework for America's future” but the framework for epic financial collapse. Why isn't Mr. Summers in an unemployment line along with the millions of Americans his bad judgment call put out of work.

Then there is Neal Wolin, confirmed by President Obama as Deputy Secretary of the Treasury on May 19, 2009. Writing in the San Francisco Chronicle on November 19, 2009, Robert Scheer had this to say about Wolin:

“Wolin, Geithner and Summers were all proteges of Robert Rubin, who, as Clinton's treasury secretary, was the grand author of the strategy of freeing Wall Street firms from their Depression-era constraints. It was Wolin who, at Rubin's behest, became a key force in drafting the Gramm-Leach-Bliley Act, which ended the barrier between investment and commercial banks and insurance companies, thus permitting the new financial behemoths to become too big to fail. Two stunning examples of such giants that had to be rescued with public funds are Citigroup bank, where Rubin went to ‘earn’ \$120 million after leaving the Clinton White House, and the Hartford Insurance Co., where Wolin landed after he left Treasury.”

Rounding out the list of those who got it wrong in the Clinton administration who have been brought back to get it wrong again in the Obama administration: Gary Gensler, one of those supporting the de-regulation of derivatives under Clinton, now head of the Commodity Futures Trading Commission under President Obama; Gene Sperling, thanked by Lawrence Summers in the opening remarks at the signing of the legislation to repeal the Glass-Steagall Act, now counselor to Treasury Secretary Tim Geithner; and, of course, Geithner himself, former President of the Federal Reserve Bank of New York who served under Robert Rubin and Lawrence Summers in Clinton's Treasury Department from 1999 to 2001.

Many Americans have suspected for some time that meritocracy has died an uncelebrated death and was quietly laid to rest in a paupers' graveyard. Many Americans also believe something has gone terribly wrong not just with our economic model but the moral compass that guides that economic model.

Today, authors of the book, “The Meritocracy Myth,” Stephen J. McNamee and Robert K. Miller have studied meritocracy patterns in America and concluded the following:

“To get ahead in America, it no doubt helps to be bright, shrewd, to work hard, and to have the right combination of attitudes that maximize success within given fields of endeavor. Playing by the rules, however, probably works to suppress prospects for economic success since those who play by the rules are more restricted in their opportunities to attain wealth and income than those who choose to ignore the rules.”

Without realizing it, McNamee and Miller have just unraveled the secret to the wealth gap and rising inequality in America: the memo that the rules can be ignored was only selectively distributed to Americans. I didn't get it; did you?

I can tell you for certain that the play-by-the-rules-waiver memo was selectively distributed leading up to the June 25 and June 26, 1998 public hearings at the Federal Reserve on usurping the role of the legislative branch of the government by letting the Federal Reserve decide if it would repeal the Glass-Steagall Act by permitting the merger of Travelers and Citicorp to form Citigroup.

Chuck Prince, the man who planned Citigroup CEO Sandy Weill's lavish birthday parties and was haplessly placed in the role of Citigroup CEO when Weill stepped down years later, testified as follows on June 25: "I do want to emphasize, however, that we do not seek and do not require any change in the law in order to consummate this merger."

Mr. Prince was a lawyer. Mr. Prince knew the above statement to be false. Mr. Prince had gotten the memo: playing by the rules restricts opportunities to attain wealth and income so shred the rules.

Matthew Lee, also a lawyer representing Inner City Press/Fair Finance Watch did not get the memo that legal ethics, the legislative branch, and the truth could all be ignored at a Federal hearing.

Mr. Lee testified as follows:

"...we think [the merger application] should be dismissed based on improper communications that have taken place between Travelers, Citicorp and the Federal Reserve Board. Prior to the deal even being announced and the application being submitted, not only did the two CEOs of the two institutions meet with Chairman Greenspan, we found that, in fact, there was very detailed preapproval sought for particular practices... We think it is tainted."

No one appearing on Panel 5 on June 25 had received the rules-waiver memo either. The fact that the merger was "illegal" was stated six times by four panel members. Mark Silverman of Citicorp-Travelers Watch, a coalition of community groups formed at that time to scrutinize the proposed merger, testified as follows:

"...the merger is illegal. The affiliation between Citibank, as a member bank of the Federal Reserve Board and Travelers' subsidiaries that are engaged principally in securities dealings is simply prohibited by the Glass-Steagall Act... If the Board approves this merger prior to any change in the law, Congress, pressured by Citigroup and concerned about the consequences of a forced divestiture, can enact one of the most embarrassingly blatant pieces of private-interest legislation in recent memory... the Board risks undermining the legitimacy of itself and the legislature.."

Hilary Botein, at the time Associate Director of the Neighborhood Economic Development Advocacy Project (NEDAP) said the Federal Reserve Board would "make a mockery of the regulatory process by allowing Citicorp and Travelers to brazenly violate existing law."

Sarah Ludwig, then Coordinator of the New York City Community Reinvestment Task Force stated that if the Federal Reserve signed off on the merger it would "constitute an affront to the public, and underscore that large and powerful corporations influence government decision making even to the point of obtaining approval on illegal transactions... Secondly, approving the application would constitute hideously unsound policy...."

Josh Zinner, a lawyer at the time with South Brooklyn Legal Services' Foreclosure Prevention Project, testified as follows:

“We represent low-income seniors who have been ripped off by high-rate finance companies... We haven’t heard any testimony today about Commercial Credit Corporation. This is an entity of Travelers Group... This type of high-rate lending that Commercial Credit does can often lead to foreclosure, if abusive, and, in fact, the Primerica Financial Services [also owned by Travelers] is selling Commercial Credit loans in the billions of dollars using this completely, loosely-regulated sales force with the same sort of A.O. Williams evangelical fervor. Again, the data shows, and this data will be submitted with a comment that Commercial Credit does high-rate lending in the same communities that Citibank has been redlining... the engine for marketing Commercial Credit loans is an unregulated pyramid scheme...”

Mr. Zinner could not have been more prescient. Commercial Credit changed its name to CitiFinancial and operates 2,000 storefronts across America bearing that angelic halo logo. But far from angelic, this is how a former Assistant Manager, Gail Kubinieć, said business was done in testimony to the FTC in July, 2001:

“At CitiFinancial, emphasis was placed on marketing new loans, particularly real estate loans (loans secured by a home mortgage), to present borrowers of CitiFinancial. Employees would receive quarterly incentives, called ‘Rocopoly Money,’ based on how many present borrowers they ‘renewed’ (refinanced) into new loans... Typically, employees would only state the total monthly payment amount in selling a proposed loan. Additional information, such as the interest rate, and the financed points and fees, closing costs, and ‘add-ons’ like credit insurance, were only disclosed when demanded by the borrower... It was also common practice to try to sell borrowers the largest loan possible... All CitiFinancial branch offices had quotas for the sale of credit insurance... Loans were typically presented to consumers with ‘100 per cent coverage,’ meaning that real estate loans were presented with at least credit life and disability already included, and personal loans were presented with at least credit life, disability, involuntary unemployment, and property insurance already included. When quoting the monthly payment, I frequently quoted the payment with coverages already included, telling the consumer only that it was ‘fully protected.’ This was a common practice used by employees at CitiFinancial... The pressure to sell coverages came from CitiFinancial’s Regional and District Managers. Each branch had monthly credit insurance sales goals to meet... If these goals were not met, the District Manager would call and put pressure on the Branch Manager to get the branch up to par.”

I tracked down Josh Zinner last week. He’s now Co-Director of the Neighborhood Economic Development Advocacy Project. I asked Mr. Zinner for his reflections on the state of financial reform today, given that Citigroup is now a financial ward of the American taxpayer. The day he responded, March 31, Citigroup had just sold a majority stake in Primerica common stock to the public.

Mr. Zinner states:

"Citi's sale of Primerica, long known for its aggressive marketing of junk financial products in low income communities, is a coda to the disastrous Citi-Travelers merger. Those who were working on the ground in low income communities at the time knew very well that this super-merger would only serve to perpetuate and institutionalize unfair financial practices, exemplified

by a two-tiered financial services system where poor people and people of color were paying far more for inferior financial products. The Citi-Travelers debacle should be a lesson that the financial services marketplace cannot police itself and that only strong and comprehensive financial regulation -- including an independent consumer financial protection agency and the return of Glass-Steagall firewalls -- can prevent the next financial meltdown."

I next turned to Matthew Lee of Inner City Press who has been tirelessly pursuing justice against Citigroup and its subprime subsidiaries since the merger. In 2004, Mr. Lee published a novel called "Predatory Bender: A Story of Subprime Finance." The story is built around a corporation called EmpiBank; its Chairman is Sandaford Vyle. It also has a storefront subprime lender called EmpiFinancial. The book is, of course, more poignant today than in 2004. It comes with a non-fiction, must-read afterward titled "Predatory Lending: Toxic Credit in the Inner City."

I asked Mr. Lee for his thoughts, given that even when Citigroup fails on its own hubris as testament that the public has spoken about its business model, it's resuscitated back to life by the government. Mr. Lee was as forthright as always:

"When Travelers met and swallowed Citicorp in 1998, the Federal Reserve didn't just approve an illegal merger -- it illegally pre-approved an illegal merger. Sandy Weill and John Reed and their lawyers got the green light from the Alan Greenspan Fed before even announcing the merger. The group I worked and work with, Inner City Press/Fair Finance Watch demanded all records of the meetings, but got only two cryptic letters, talking about the marriage of 'Red' and 'Blue.' [Travelers' logo was a red umbrella; Citicorp had a blue logo.] At the shareholders' meetings on the deal, my question to Sandy Weill resulted in a Citicorp official threatening to try to take away my law license. The Fed approved, and predatory lending took off. And now in the aftermath, even the Chris Dodd bill would house consumer protection inside the same Federal Reserve, a huge mistake. Red and Blue indeed..."

If financial behemoths collapse from hubris and corruption and lack of meritocracy, why wouldn't government administrations do the same? President Obama needs to sack the financial wizards who got it wrong and add the common sense folks who got it right.

This document is provided for "fair use" not-for-profit, educational purposes (and other related purposes). If you wish to use this copyrighted material for purposes of your own that go beyond "fair use," you must obtain permission from the copyright owner.