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The anticlimax

The much anticipated US finance regulatory bill, passed at the end of last month, is a compromise between government regulators and Wall Street, writes George Blecher. As for solving the even more pressing problems of the US economy, the bill offers no new solutions.

It takes a good deal of selective reading to see it, but the US economic picture isn't looking quite as rosy as the end–of–recession optimists maintain, and it seems like it's getting worse. According to the US Census Bureau, the market for new housing is the worst that it's been since 1963, when they started keeping records. Homeowners are abandoning their houses and apartments by the thousands because they can't pay their mortgages. Eighty–three US banks have failed this year, more than double last year's rate. And then there's the continuing oil leak in the Gulf of Mexico, which has put thousands of people out of work.

All this doesn't seem to influence the behaviour of corporate America, which continues to create an atmosphere of suspicion and resentment. In April, a coal mine in West Virginia exploded, killing scores of miners –– and immediately questions were raised about whether the owners had been collecting piles of violations and bribing inspectors to overlook them.

In May, the Justice Department announced that the major investment house Goldman Sachs, Big Daddy to half the Obama administration and the one bank that seemed impervious to the economic downturn, was going to be charged with fraud! According to the complaint, Goldman bankers concocted complicated bundles of bonds and mortgages that they themselves believed would become worthless; sold them to customers; and then devised other instruments to bet against them –– and sold these to other customers.

Recent investigation into the Gulf oil spill has demonstrated that even by industry standards BP was lax in its safety measures, and for years had a record of risky practices, including leaks in a corroded Alaskan pipeline in 2006, and an explosion the year before in Texas, which killed 15 workers and injured hundreds more.

In the midst of all this bad news –– and with a minimum of fanfare –– the US Senate last month passed a financial regulatory bill touted by some as a complete overhaul of the US financial system. Unfortunately, it came as something of an anticlimax: the 1336 page bill not only makes it hard to see the forest for the trees, but it's unclear how effective it can be.

Some provisions are fairly straightforward. Two new government agencies will be created to keep an eye on various sides of the finance industry, and the government will have the power to take control of overextended banks, even the biggest ones, break them up and sell off their assets –– at no cost to the taxpayer, at least according to the bill. Most of the so–called "derivatives", those nasty insurance/mortgage packages that caused so many banks to fail, will now be sold in a public market where someone –– not clear who –– can monitor who buys and sells them.

But the big issue –– whether to copy the Glass–Steagall Act of 1933 and break up the banks into commercial and saving units –– resolved itself, as usually happens in these cases, in an uneasy compromise. While Congress tried to reconcile the Senate and House versions of the bill, finance industry lobbyists worked furiously to find ways around the so–called Volcker rule, which prohibits banks from using their own money to make speculative investments. The final result allowed "limited participation" by the banks in hedge funds and other fast–money instruments.

It's not an encouraging picture. As the government tried to regulate, the financial sector once again squirmed and wriggled. As a professor at the University of San Diego put it recently, "Wall Street has always been very skilled at getting around rules, and this law will be no exception. Once you open up the door just a crack, Wall Street shoves the door open and runs right through it."

The most distressing recent economic news has to do with unemployment. The national unemployment rate remains over 10%, with no sign of improvement. A recent article in the *New York Times*[1] presented some troubling statistics:

*While the national unemployment average is about 10%, among African–Americans it is up to 17%.

*As of December 2009, median white wealth dropped 34% to $94 600, while median black wealth dropped 77%, to a scant $2100!

According to the article, the economic gains made by African–Americans during the last two decades have been virtually wiped out: in Memphis, for example, black people are back to 1990 levels of wealth. Even more disturbing was a recent report cited by liberal columnist Paul Krugman from the Paris–based OECD (Organization for Economic Cooperation and Development) in which they called on governments to cut spending and raise bank interest rates for at least the next 18 months.

It's a sentiment that one hears on both sides of the Atlantic, and if followed it will mean a continued high rate of unemployment. So the finance regulatory bill, while it mandates that government pay more attention to the excesses of business, doesn't offer any new solutions to a pressing problem: the growing divide between rich and poor.

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1 "Decades of Economic Gains Vanish for Blacks in Memphis," May 30.

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