The BLACK CoMMentator

Commentary, analysis and investigations on issues affecting African Americans
www.blackcommentator.com

September 25, 2008 - Issue 292

Contents of Issue Menu
Click Here

Home

McCain's Deregulated Chickens Are Coming Home To Roost

By Paul Rockwell
Black**C**ommentator.com **Guest Commentator**

Click on the back button of your browser to return to non printer friendly page of this article

Click here to get helpful hints for viewing and printing this printer friendly plain text page

The deregulation of the financial industry is the primary cause of the latest Wall Street crash, an economic debacle that has befallen not only our nation, but European and Asian markets as well.

John McCain bears grave responsibility for the financial anarchy of our times. For twenty-seven years, through debt-producing Reagonomics - especially deregulation - he promoted corporate permissiveness, a culture that included risky speculation, debt-financed mergers, leveraged buy-outs, export of American jobs, quick profit-taking, and the inevitable cry from Wall Street for public bailouts when the casino goes broke.

From the beginning of his political career as an orthodox Republican, McCain has denigrated the wise teachings of Franklin Delano Roosevelt: that unregulated free markets are inherently rapacious and unstable, that war ultimately means higher taxes, and that excessive unpaid debt becomes a balloon so inflated it eventually explodes.

The unfettered free market - the economic Frankenstein that stalks our land today - was conceived in the test tube of Reaganomics in the early '80s. John McCain helped to destroy one of the greatest economic achievements in American history, the savings and loan system established during the New Deal. For over 50 years, American thrifts were the envy of the world. They occupied a hallowed place in the U.S. economy, immortalized by Jimmy Stewart in "It's A Wonderful Life". The New Deal financial system made home ownership affordable for millions and millions of working class Americans, families of modest means. GIs returning from war got low-interest loans on the GI Bill, loans that were safe and secure. Protected by strict financial regulations and federal scrutiny, small, locally insured banks spawned an emerging middle class through 30-year fixed-rate mortgages. These thrifts, which lasted until the Reagan '80s, became the engine of homebuilding throughout America.

When savings and loans concentrated on home loans, they were the bedrock of stability. Between 1945 and 1981, there were no more than 262 bank failures, an average of 11 per year.

Then something went wrong. Reaganomics took over Washington. On October 15, 1982, President Reagan stepped through the French doors of the Oval Office, sat down, and signed the infamous Garn-St.Germain Act, which deregulated the savings and loan industry. The safety barriers between speculators and thrifts were taken down. In order to "get government off the backs of business," Reagan laid off hundreds of regulators, and soon the wolves of high finance mingled freely with the sheep of mainstream America. McCain and the Republicans (and far too many Democrats) cheered the liberated market. The party began. But within less than two years, America's deregulated thrifts began to crash. Between 1983 and 1987, as a direct result of McCain-backed deregulation, there were 481 bank failures. Hundreds more followed, as American thrifts were sucked down into the vortex of greed and speculation.

Deregulation essentially gave banks and speculators a license to gamble with other people's savings. There were more savings and loan bankruptcies under Reagan than at any time since the Depression. Nearly 1600 U.S. banks were in trouble when Bush stepped into Reagan's shoes. When the casino crashed, the financiers forced the public to cover their losses, and McCain played both sides. For years he railed against government interference in the free market. Now, suddenly, he reversed himself, supporting the biggest handout, the biggest public works program, the biggest bailout in American history. McCain wanted it both ways: He wanted unregulated corporations to privatize their profits in the good years, only to socialize the costs when times were hard.

McCain's Direct Involvement in the S&L Debacle

Even if we disregard McCain's free market ideology, John McCain was deeply involved - personally involved - in the savings and loan catastrophe. The "Keating Five" scandal is well-documented in a host of books: how McCain received thousands of dollars from Charles Keating, owner of Lincoln Savings; how the McCain family, even his baby sitter, traveled freely on Keating's gold-inlaid jets, how they took vacations at Keating's lavish villa in the Bahamas; and - most important - how McCain (with four other Senators) pressured federal regulators to go easy on Keating's failing thrift, Lincoln Savings and Loan. The fall of Lincoln cost taxpayers $2.5 billion, part of the estimated $300 billion bailout for the entire S&L industry.

One fateful meeting between five Senators and government regulators is now a matter of record. Detailed notes, a memorandum called "The Five Senators' meeting," appears in the appendix of *Inside Job: The Looting of America's Savings and Loans*, by Stephen Pizzo, Mary Fricker, and Paul Muolo.

It was an unusual meeting, behind closed doors. No aides were present. The Senators wanted regulations lifted, especially limits on direct investments in land. At a time when Lincoln - like hundreds of other deregulated thrifts - was drowning in risk and fraud, McCain believed that Lincoln was a viable institution. He overlooked the violations of regulatory guidelines, the absence of credit reports on borrowers, the warning from one regulator that "Lincoln is a ticking bomb." Like the lead-up to the war in Iraq, facts did not matter.

Upset by the sheer sleaziness of the meeting, Edwin Gray, Chairman of the Federal Home Loan Bank Board, wrote an angry letter to John McCain after the meeting: "I have never been asked until this meeting with you and your colleagues - by any United States Senator - to withdraw a regulation for any reason, particularly on behalf of a friend, and especially in the privacy of a Senatorial office."

Three of McCain's colleagues went to jail, but McCain was a war hero and suffered nothing more than a stiff reprimand. To his credit, McCain did reform some of his ways by promoting partial campaign finance reform. But the free-market ideologue learned nothing substantial from the savings and loan debacle itself. He never made a break from the risky and destructive policies of deregulation.

By denying government any significant role in economic planning, by preventing government from determining the direction of investment in accordance with the common good, McCain placed our economic future in the hands of financiers and speculators who sought short-term profits at the expense of long-range financial and social stability.

Gramm's Deregulation of Energy

McCain continued to roll back government involvement in the economic life of the nation throughout the '90s. In 1998 the financial services industry successfully pressured Congress to repeal the Glass-Steagall Act, a New Deal statute that separated commercial banking, investment bonds, and insurance. Glass-Steagall reduced the risk of bank failures. However, even after the savings and loan debacle in which McCain himself was implicated, McCain remained an avid deregulator, like a permissive parent who gives drunken teenagers the keys to the car.

Phil Gramm, a former co-chair of McCain's presidential campaign, played a crucial role in the 1998 deregulation binge. Gramm was Enron's legislative ally. He received $34,000 in contributions from Enron, and his wife served on the Board of Directors at Enron as well. Gramm inserted a pro-Enron provision in the Financial Services Act of 1998, exempting energy trading from regulation. The ink was hardly dry when Gramm's bill spawned economic disaster in California. Free of regulation, Enron deliberately created an energy shortage in California, causing statewide blackouts. Through blackmail, Enron jacked up energy prices and put the people of California into a multi-billion dollar debt.

The Gramm story is not a question of guilt by association. Gramm and McCain acted as a team. And they share the same deregulation agenda, in Gramm's own words, "to protect financial institutions from over-regulation."

Now McCain's deregulated chickens are coming home to roost - on us. Today, there is only one candidate who believes that public regulation of finance is alone capable of changing the ominous direction in which our country is headed. His name is Obama.

Click here to comment on this article
or see what others are saying in the
The BlackCommentator Readers' Corner Blog

BlackCommentator.com *Guest Commentator, Paul Rockwell, is a national columnist and formerly an assistant professor of philosophy at Midwestern University. He lives in the San Francisco Bay Area. He can be reached at Click here to contact Mr. Rockwell.*

Contents of Issue Menu
Click Here

Home

Click Here To
CONTRIBUTE TO bc NOW

Click Here To
CONTACT bc

Your comments are always welcome.

eMail re-print notice

If you send us an eMail message we may publish all or part of it, unless you tell us it is not for publication. You may also request that we withhold your name.

Thank you very much for your readership.