

Curbing Wall Street

The Challenge

Decades of conservative deregulation allowed Wall Street to drive our economy off a cliff. Big banks pumped out trillions of dollars in predatory mortgage loans all over the country, creating a mountain of foreclosures and contributing to a financial crisis that eventually destroyed more than 8 million jobs. Then, after the banking system verged on collapse, the Bush administration—led by Treasury Secretary Hank Paulson, the former head of Goldman Sachs—secured a generous bailout for the biggest banks. What’s worse, the big banks were rescued, but not reformed, allowing them to go back to their old bonus-crazed ways. As Main Street struggles to recover, bankers are writing themselves record paychecks, while curbing loans that would help to create jobs.

The Argument

Wall Street still has a stranglehold on our economy, but progressives have had success this year in loosening that grip. Against unified Republican obstruction, Congress approved a bill creating a new regulator to protect consumers from outrageous bank abuses, and President Obama placed middle-class advocate Elizabeth Warren in charge of setting it up. That bill also included reforms that will increase oversight over the big banks.

But much remains to be done. Too-big-to-fail megabanks still dominate American finance. These Wall Street behemoths still have every incentive to take big risks. If their bets pay off, they score huge bonuses; if their bets backfire, they’ll stick taxpayers with the bill. Progressives will continue to push for restructuring the banks so that no financial institution is considered too big to fail, ensuring that

when Wall Streeters gamble, Main Streeters aren’t saddled with the losses.

That requires insuring regulatory agencies have both the resources and the mandate to go after fraud, deception and abuse of power. It means imposing a “Wall Street speculation tax”—a tax on financial transactions that will put a crimp on unbridled Wall Street casino-style trading and raise money that can be used to help rebuild the economy. And it means helping struggling homeowners stay in their homes by allowing judges to lower the principal on predatory mortgages—a measure that conservatives in Congress helped to block.

The Obstacles

Conservatives are standing in the way of real reform by protecting bankers and their bonuses. A total of 90 lawmakers on Capitol Hill voted to bail out Wall Street with no strings attached, but voted against Wall Street reform. In exchange for opposing efforts to keep consumers from getting ripped

Fast Facts

- ☑ After being bailed out by taxpayers, Wall Street bankers took in more than \$20 billion in bonuses for 2009.
- ☑ An American family is foreclosed on every 26 seconds. The rate is going up.
- ☑ Wall Street banks are even bigger than they were before the crisis. Three banks control 55 percent of the mortgage market.
- ☑ Conservative politicians are doing Wall Street’s dirty work—90 conservatives voted for the bailout and against reform—after raking in nearly \$50 million in campaign contributions from Wall Street for the 2010 elections.

off by misleading claims and deceitful practices, these lawmakers received over \$50 million in campaign contributions from Wall Street for the 2010 elections.

Meanwhile, Republican leaders have made repealing the Wall Street reform bill a top priority if they regain control of Congress. Even if they don't regain power, conservative lawmakers are already joining with banking lobbyists to hamstring regulators as they work to reset the playing field to make it more honest and fair.

Public Pulse

- ☑ 61 percent of respondents in a recent Gallup Poll supported Wall Street reform legislation passed by Congress, making it one of the most popular pieces of legislation passed in the past two years. The Wall Street bailout, by contrast, was the least popular piece of legislation, opposed by 61 percent of respondents.
- ☑ A Democracy Corps study found that advocating for the middle class while attacking Wall Street resonates more with voters than any other economic narrative.
- ☑ A tax on financial speculation is one of the most popular methods for reducing the budget deficit—even in polls conducted by such organizations as Peter G. Peterson's America Speaks initiative.

Progressive Solution

First, it's critical to hold big banks accountable. That's why we need regulations implementing the Wall Street reform bill that enable watchdogs to clamp down on behavior that puts the economy at risk—and that aren't dictated by Wall Street lobbyists. And we need a Congress ready to pass more reforms when needed to protect consumers and the general economy.

A "Wall Street speculation tax"—a tax on financial transactions—would take direct aim at outrageous bank bonuses and strengthen our economy. This tax can bring in up to \$100 billion a year that would pay for initiatives that benefit ordinary taxpayers and the general economy, money that shrinks the bonus pool for Big Finance and creates a safer economy.

We should also help struggling homeowners by reducing their debt burden so they can stay in their homes, reducing the foreclosures and home abandonment that is devastating too many of our neighborhoods. Changes in the bankruptcy code can give borrowers the debt relief they need to stay in their homes—and at no cost to taxpayers. The government can also buy troubled mortgages from banks at a discount by exercising its powers of eminent domain. That reduces the borrowers' debt burden, and the government can turn a profit by selling the modified loan to the private sector.

Information sources for this fact sheet and other resources are available at ourfuture.org/makingsense.