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Larry Summers, Tim Geithner and Wall Street's ownership of government

The individuals Obama chose to be his top economics officials embody exactly the corruption he repeatedly vowed to end.

Glenn Greenwald

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White House officials yesterday released their personal financial disclosure forms, and included in the millions of dollars which top Obama economics adviser Larry Summers made from Wall Street in 2008 is [this detail](#):

Lawrence H. Summers, one of President Obama's top economic advisers, collected roughly \$5.2 million in compensation from hedge fund D.E. Shaw over the past year and was paid more than \$2.7 million in speaking fees by several troubled Wall Street firms and other organizations. . . .

Financial institutions including JP Morgan Chase, Citigroup, Goldman Sachs, Lehman Brothers and Merrill Lynch paid Summers for speaking appearances in 2008. Fees ranged from \$45,000 for a Nov. 12 Merrill Lynch appearance to **\$135,000 for an April 16 visit to Goldman Sachs**, according to his disclosure form.

That's \$135,000 paid by Goldman Sachs to Summers -- for a one-day visit. And the payment was made at a time -- in April, 2008 -- when everyone assumed that the next President would either be Barack Obama or Hillary Clinton and that Larry Summers would therefore become exactly what he now is: the most influential financial official in the U.S. Government (and the \$45,000 Merrill Lynch payment came 8 days **after Obama's election**). Goldman would not be able to make a one-day \$135,000 payment to Summers now that he is Obama's top economics adviser, but doing so a few months beforehand was obviously something about which neither parties felt any compunction. It's basically an advanced bribe. And it's paying off in spades. And none of it seemed to bother Obama in the slightest when he first strongly considered naming Summers as Treasury Secretary and then named him his top economics adviser instead (thereby avoiding the need for Senate confirmation), knowing that Summers would exert great influence in determining who benefited from the government's response to the financial crisis.

Last night, former Reagan-era S&L regulator and current University of Missouri Professor Bill Black was on *Bill Moyers' Journal* and detailed the magnitude of what he called the on-going massive fraud, the role Tim Geithner played in it before being promoted to Treasury Secretary (where he continues to abet it), and -- most amazingly of all -- the crusade led by Alan Greenspan, former Goldman CEO Robert Rubin ([Geithner's mentor](#)) and Larry Summers in the late 1990s to block the efforts of top regulators (especially Brooksley Born, head of the Commodities Futures Trading Commission) to regulate the exact financial derivatives market that became the principal cause of the global financial crisis. To get a sense for how deep and massive is the on-going fraud and the key role played in it by key Obama officials, I highly recommend watching that Black interview (it can be seen [here](#) and the transcript is [here](#)).

This article from *Stanford Magazine* -- an absolutely amazing read -- details how Summers, Rubin and Greenspan led the way in blocking any regulatory efforts of the derivatives market whatsoever on the ground that the financial industry and its lobbyists were objecting:

As chairperson of the CFTC, Born advocated reining in the huge and growing market for financial derivatives. . . . One type of derivative—known as a credit-default swap—has been a key contributor to the economy’s recent unraveling. . . .

Back in the 1990s, however, Born’s proposal stirred an almost visceral response from other regulators in the Clinton administration, as well as members of Congress and lobbyists. . . . But even the modest proposal got a vituperative response. The dozen or so large banks that wrote most of the OTC derivative contracts saw the move as a threat to a major profit center. Greenspan and his deregulation-minded brain trust saw no need to upset the status quo. The sheer act of contemplating regulation, they maintained, would cause widespread chaos in markets around the world.

Born recalls taking a phone call from Lawrence Summers, then Rubin’s top deputy at the Treasury Department, complaining about the proposal, and mentioning that he was taking heat from industry lobbyists. . . . The debate came to a head April 21, 1998. In a Treasury Department meeting of a presidential working group that included Born and the other top regulators, Greenspan and Rubin took turns attempting to change her mind. Rubin took the lead, she recalls.

“I was told by the secretary of the treasury that the CFTC had no jurisdiction, and for that reason and that reason alone, we should not go forward,” Born says. . . . “It seemed totally inexplicable to me,” Born says of the seeming disinterest her counterparts showed in how the markets were operating. “It was as though the other financial regulators were saying, ‘We don’t want to know.’”

She formally launched the proposal on May 7, and within hours, Greenspan, Rubin and Levitt issued a joint statement condemning Born and the CFTC, expressing “grave concern about this action and its possible consequences.” They announced a plan to ask for legislation to stop the CFTC in its tracks.

Rubin, Summers and Greenspan succeeded in inducing Congress -- funded, of course, by these same financial firms -- to enact legislation blocking the CFTC from regulating these derivative markets. More amazingly still, the CFTC, headed back then by Born, is [now headed by Obama appointee Gary Gensler](#), a former Goldman Sachs executive (naturally) who was as instrumental as anyone in blocking any regulations of those derivative markets (and then enriched himself by feeding on those unregulated markets).

Just think about how this works. People like Rubin, Summers and Gensler shuffle back and forth from the public to the private sector and back again, repeatedly switching places with their GOP counterparts in this endless public/private sector looting. When in government, they ensure that the laws and regulations are written to redound directly to the benefit of a handful of Wall St. firms, literally abolishing all safeguards and allowing them to pillage and steal. Then, when out of government, they return to those very firms and collect millions upon millions of dollars, profits made possible by the laws and regulations they implemented when in government. Then, when their party returns to power, they return back to government, where they continue to use their influence to ensure that the oligarchical circle that rewards them so massively is protected and advanced. This corruption is so tawdry and transparent -- and it has fueled and continues to fuel a fraud so enormous and destructive as to be unprecedented in both size and audacity -- that it is mystifying that it is not provoking more mass public rage.

All of that leads to things like this, from [today's Washington Post](#):

The Obama administration is engineering its new bailout initiatives in a way that it believes will allow firms benefiting from the programs to avoid restrictions imposed by Congress, including limits on lavish executive pay, according to government officials. . . .

The administration believes it can sidestep the rules because, in many cases, it has decided not to provide federal aid directly to financial companies, the sources said. Instead, the government has set up special entities that act as middlemen, channeling the bailout funds to the firms and, via this two-step process, stripping away the requirement that the restrictions be imposed, according to officials. . . .

In one program, designed to restart small-business lending, President Obama's officials are planning to set up a middleman called a special-purpose vehicle -- a term made notorious during the Enron scandal -- or another type of entity to evade the congressional mandates, sources familiar with the matter said.

If that isn't illegal, it is as close to it as one can get. And it is a blatant attempt by the White House to brush aside -- circumvent and violate -- the spirit if not the letter of Congressional restrictions on executive pay for TARP-receiving firms. It was Obama, in the wake of various scandals over profligate spending by TARP firms, who pretended to ride the wave of populist anger and to lead the way in demanding limits on compensation. And ever since his flamboyant announcement, Obama -- adopting the same approach that seems to drive him in most other areas -- has taken one step after the next to gut and render irrelevant the very compensation limits he publicly pretended to champion (thereafter [dishonestly blaming Chris Dodd for doing so](#) and virtually destroying Dodd's political career). And the winners -- as always -- are the same Wall St. firms that caused the crisis in the first place while enriching and otherwise co-opting the very individuals Obama chose to be his top financial officials.

Worse still, what is happening here is an exact analog to what is happening in the realm of Bush war crimes -- the Obama administration's first priority is to protect the wrongdoers and criminals by ensuring that the criminality remains secret. Here is how Black explained it last night:

Black: Geithner is charging, is covering up. Just like Paulson did before him. Geithner is publicly saying that it's going to take \$2 trillion — a trillion is a thousand billion — \$2 trillion taxpayer dollars to deal with this problem. But they're allowing all the banks to report that they're not only solvent, but fully capitalized. Both statements can't be true. It can't be that they need \$2 trillion, because they have masses losses, and that they're fine.

These are all people who have failed. Paulson failed, Geithner failed. They were all promoted because they failed, not because...

Moyers: What do you mean?

Black: Well, Geithner has, was one of our nation's top regulators, during the entire subprime scandal, that I just described. He took absolutely no effective action. He gave no warning. He did nothing in response to the FBI warning that there was an epidemic of fraud. All this pig in the poke stuff happened under him. So, in his phrase about legacy assets. Well he's a failed legacy regulator. . . .

The Great Depression, we said, "Hey, we have to learn the facts. What caused this disaster, so that we can take steps, like pass the Glass-Steagall law, that will prevent future disasters?" **Where's our investigation?**

What would happen if after a plane crashes, we said, "Oh, we don't want to look in the past. We want to be forward looking. Many people might have been, you know, we don't want to pass blame. No. We have a nonpartisan, skilled inquiry. We spend lots of money on, get really bright people. And we find out, to the best of our ability, what caused every single major plane crash in America. And because of that, aviation has an extraordinarily good safety record. We ought to follow the same policies in the financial sphere. We have to find out what caused the disasters, or we will keep reliving them. . . .

Moyers: Yeah. Are you saying that Timothy Geithner, the Secretary of the Treasury, and others in the administration, with the banks, are engaged in a cover up to keep us from knowing what went wrong?

Black: Absolutely.

Moyers: You are.

Black: Absolutely, because they are scared to death. . . . What we're doing with -- no, Treasury and both administrations. The Bush administration and now the Obama administration kept secret from us what was being done with AIG. AIG was being used secretly to bail out favored banks like UBS and like Goldman Sachs. Secretary Paulson's firm, that he had come from being CEO. It got the largest amount of money. \$12.9 billion. And they didn't want us to know that. And it was only Congressional pressure, and not Congressional pressure, by the way, on Geithner, but Congressional pressure on AIG.

Where Congress said, "We will not give you a single penny more unless we know who received the money." And, you know, when he was Treasury Secretary, Paulson created a recommendation group to tell Treasury what they ought to do with AIG. And he put Goldman Sachs on it.

Moyers: Even though Goldman Sachs had a big vested stake.

Black: Massive stake. And even though he had just been CEO of Goldman Sachs before becoming Treasury Secretary. Now, in most stages in American history, that would be a scandal of such proportions that he wouldn't be allowed in civilized society.

This is exactly what former IMF Chief Economist Simon Johnson warned about in [his vital Atlantic article](#): "that **the finance industry has effectively captured our government** -- a state of affairs that more typically describes emerging markets, and is at the center of many emerging-market crises." This is the key passage where Johnson described the hallmark of how corrupt oligarchies that cause financial crises then attempt to deal with the fallout:

Squeezing the oligarchs, though, is seldom the strategy of choice among emerging-market governments. Quite the contrary: at the outset of the crisis, **the oligarchs are usually among the first to get extra help from the government, such as preferential access to foreign currency, or maybe a nice tax break**, or—here's a classic Kremlin bailout technique -- **the assumption of private debt obligations by the government**. Under duress, generosity toward old friends takes many innovative forms. Meanwhile, needing to squeeze someone, most emerging-market governments look first to ordinary working folk—**at least until the riots grow too large**. . . .

As much as he campaigned against anything, Obama railed against precisely this sort of incestuous, profoundly corrupt control by narrow private interests of the Government, yet he has chosen to empower the very individuals who most embody that corruption. And the results are exactly what one would expect them to be.

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I was on the Moyers program last night after the Black interview -- along with Amy Goodman -- discussing the media's role in this establishment corruption (that segment can be viewed [here](#)), and yesterday morning I was on C-SPAN's *Washington Journal* with the primary topic being this blatant, sleazy oligarchical control of both the Executive and legislative branches (which can be seen [here](#)).

UPDATE: Just to get a sense for how propagandistic, sycophantic and fact-free are the most extreme Obama

worshippers in our "journalist" class, consider [this recent article from *The New Republic's* Noam Scheiber](#) in which he [urged](#) the White House to "free its economic oracle" -- Summers -- and defended and praised Summers on the ground that "**his exposure to Wall Street over the years has been limited.**" As [Jonathan Schwarz asks](#), citing the massive compensation on which Summers engorged himself by feeding at the Wall Street trough last year: "I wonder what would have constituted 'significant' exposure to Wall Street? Maybe if he'd worked for D.E. Shaw full time? (Amazingly, Summers was paid \$5.2 million for a part-time position.)"

-- Glenn Greenwald

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