

Bill 'Bubba Skirts' Clinton

2015. Acrylic on canvas, 20 x 24"

by
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Bill Clinton, the 42nd President of the United States.

Clinton came to office in 1993 and continued the “anti-government rhetoric [that] had become so fashionable” since the Reagan administration.¹ Clinton, a former governor of Arkansas, wanted to reassure Wall Street that he was on their side and did that by first appointing former Goldman Sachs executive Robert Rubin to the position of Assistant to the President for Economic Policy² and then later appointing him to be Secretary of the Treasury. “Rubin found an unlikely ally” in Clinton; the President also asked Alan Greenspan to remain at the Federal Reserve.³

As Timothy O'Brien of the New York Times noted, “Bob Rubin was Bill Clinton's emissary to Wall Street. Clinton placed great trust in Bob Rubin and Bob Rubin's view of financial markets and financial regulation.”⁴ Rubin then went on to populate “the Clinton administration with a network of free market true believers,” including Larry Summers.⁵ Rubin, Greenspan and Summers “formed their own pro-business, anti-regulation support group”⁶ known as “the President's Working Group”, which also included SEC Chairman Arthur Levitt.⁷

In 1996, Clinton appointed Brooksley Born to the Commodity Futures Trading Commission (CFTC). As noted by Joe Nocera of the New York time, “Born [was] a long-time securities lawyer. She [had] a stellar reputation. She [had] been around the block. She [knew] her stuff.”⁸

Changes, though, in the financial system were under way; a bull market was on the run. At the end of 1996, Greenspan's Federal Reserve Board issued a decision allowing, “bank holding companies to own investment bank affiliates with up to 25 percent of their business in securities underwriting.”⁹

By the end of summer 1997, the Federal Reserve had eliminated restrictions that had been part of the 1987 and 1989 orders. The Federal Reserve Board claimed that, “the risks of underwriting had proven to be ‘manageable’.” The banks could now “acquire securities firms outright.”¹⁰

However, as Joe Nocera observed, Brooksley Born finds out that there is a world out there known as over the counter derivatives that are unregulated and no one knows what they are.¹¹ It was called a “black box” on Wall Street. According to Kelly Holland a former reporter for Businessweek, it was a market “not well understood”, rapidly growing and made up of “aggressive innovative players.”¹²

Brooksley Born wanted to regulate these Over-the-Counter (OTC) derivatives, which so outraged Rubin, Summers, Greenspan and Levitt, that Born became suspicious about what they were trying to hide.¹³ So she published a Concept Release about regulating OTC derivatives. Clinton's White House gang wanted to stop her. However, only Congress could do that, so hearings were set and Clinton's gang goes on the attack to discredit and humiliate her. Larry Summers claimed that, “[t]he [concept] release has cast a shadow of regulatory uncertainty over a thriving market.” Levitt said, “[t]he CFTC's action has and will bring, I believe, significant disruption to this important global market.” And Greenspan said, “[r]egulation that serves no useful purpose hinders the efficiency of markets to enlarge.” When a Representative asked her what she was trying to protect,

Born replied: "We're trying to protect the money of the American public, which is at risk in these markets."¹⁴

Congress chose not to heed Brooksley Born's warning and six weeks later her "warning became prophecy."¹⁵

Long Term Capital Management (LTCM), a hedge fund, was melting down. The fund "invented complex mathematical formulas and used derivatives to place their bets."¹⁶ The investors nor the regulators knew how the hedge fund worked, "[i]t was a completely secret process." LTCM was working with Wall Street's largest banks, "leveraging \$5 billion into more than \$1 trillion in derivatives."¹⁷ As Brooksley Born noted, "[a]ll these big banks hadn't done their homework. They didn't even know the extent of LTCM's exposures in the market, or the fact that all of the other OTC derivatives dealers had been lending to them, as well." Furthermore, she said, the regulators didn't know LTCM was on the verge of collapse, "[b]ecause we didn't have any information about the market."¹⁸

After four days the Fed pressured Wall Street banks to save LTCM.¹⁹

In the end, Greenspan told Congress, "I think it's very important for us not to introduce regulation for regulation's sake."²⁰ And Congress went along, "[t]here would be no new regulations of over-the-counter derivatives."²¹

As Michael Greenberger observed, it was now "an unregulated market, no transparency, no capital reserve requirements, no prohibition on fraud, no prohibition on manipulation, no regulation of intermediaries. All the fundamental templates that we learned from the Great Depression are needed to have markets function smoothly are gone."²²

Congress put a stop to Brooksley Born. She resigned.²³ "Again and again during the Clinton administration," noted Joe Nocera, "you see these examples of the top regulators basically saying, '[t]he market knows better than us, and we're going to let the market do it.'"

As *Frontline* noted, "the last two years of the Clinton administration were a heyday of deregulation. OTC derivatives were off limits. Banks were freed to make riskier investments. Wall Street was largely left to regulate itself."²⁴ That in turn would pave the way for the merger of Travelers insurance and Citicorp in 1998, which would lay the groundwork for the repeal of Glass-Steagall and the passing of the 1999 Financial Services Modernization Act, signed into law by Bill Clinton.

In the end, Bill Clinton became known for the Harry Truman quote, "If you want to live like a Republican, you better vote for the Democrats."²⁵ In other words be like Bill and just go along and everyone will get rich. And like Bill everyone did go along. However, as it turned out the only people who got rich were Bill Clinton, the cronies around him, and Wall Street.

Notes

1. *The Warning*, PBS Frontline, October 20, 2009 transcript p. 4.
2. Ibid., p. 5.]
3. Ibid.
4. Ibid.
5. Ibid.
6. Ibid.
7. Ibid., p. 12-13.
8. Ibid., p. 7.]

9. *The Long Demise of Glass-Steagall*, PBS Frontline, May 8, 2003.]
10. *Ibid.*
11. *The Warning*, p. 9.
12. *Ibid.*
13. *Ibid.*, p. 12.
14. *Ibid.*, pp. 15-16.
15. *Ibid.*, p. 16.
16. *Ibid.*, p. 17.
17. *Ibid.*
18. *Ibid.*, p. 18.
19. *Ibid.*, p. 19.
20. *Ibid.*, p. 20.
21. *Ibid.*
22. *Ibid.*
23. *Ibid.*
24. *Ibid.*
25. Bill Clinton, *My Life*, (Alfred A. Knopf, New York, 2004) p. 919.