Busting the Bankers' Club: Finance for the Rest of Us

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The Jekyll and Hyde of Finance

You might recall Robert Louis Stevenson's story, *The Strange Case of Dr. Jekyll and Mr. Hyde* (1886). It's the tale of a London detective who investigates a series of strange occurrences between his old friend Dr. Henry Jekyll and a murderous criminal named Edward Hyde. It is revealed at the end that Jekyll and Hyde are the same person, with Jekyll transforming into Hyde via a chemical concoction he takes to live out his darker urges.[i]

Strangely enough, economic history shows that our financial system has a Jekyll and Hyde quality to it: finance is an essential and highly productive part of our economic system; but the financial system can also be a source of stagnation, instability, inequality, and crisis. In fact, we do not need to look far to see the valuable roles that our financial system can play in our daily lives: we rely on it to get mortgages to buy a home, or for a loan to buy a car; many of us need to borrow to finance our college education; we use banks to hold our savings, and to provide checking accounts, ATM cards or cash to pay for stuff we want and need. In an emergency, we might need a short-term loan just to get by. For those of us who have the wherewithal to save, we rely on financial advisors and brokers to help us invest our funds in financial markets where stocks, bonds and other financial assets are bought and sold. We use financial institutions to store or invest our saving to pay for education for ourselves our kids, and to finance our retirement. Companies large and small need financing to build new factories, innovate with new equipment, or sometimes just to make it from the beginning of the month to the end. And governments - - municipal, state, and Federal – need to pay for big ticket investments that last a long time: schools, public housing, water infrastructure, roads, bridges, buildings, and to make the transition from fossil fuels to green energy.

This positive face of finance is crucial to the wellbeing of a modern capitalist economy like ours. But all too often, the destructive face of banking and financial markets takes over. The most dramatic example in recent years occurred when the world's bankers brought the global financial and economic system to its knees in 2007-2008. The economic and social costs of this Great Financial Crisis are mind numbingly large. In a careful, but conservative estimate of the costs to the US, economists from the Federal Reserve Bank of Dallas found that "The 2007-2009 financial crisis was associated with a huge loss of economic output and financial wealth, psychological and skill atrophy from extended unemployment, an increase in government intervention and other significant costs...We conservatively estimate that 40 to 90 percent of one year's output ($6 trillion to $14 trillion, the equivalent of $50,000 to $120,000 for every U.S. household) was forgone due to the 2007-2009 recession." Better Markets, a Washington think tank, came up with a similar a similar estimate.[ii]

To make matters worse, these costs were not shared equally among people and communities. Take for example the huge loss of wealth that families experienced because of the collapse of the housing bubble and stock market during the financial meltdown. According to a Pew Research Center analysis, because of the great financial crisis the wealth gaps between white, Black, and Hispanic people rose to record levels. More specifically, with the bursting of the housing market bubble in 2006 and the recession that followed from late 2007 – 2009, inflation adjusted median wealth fell by 66% among Hispanic households, 53% among Black households and just 16%

among white households. Following these declines, the typical Black household had just $5,677 net wealth (assets – debts) in 2009; the typical Hispanic household had $6,325 in net wealth, compared with the typical white household which had $113,149 in net wealth. The housing collapse associated with the financial crisis also affected different regions differently; and where the collapse was strongest, the recovery was weakest.[iii]

Moreover, in less dramatic fashion, on a day to day basis, many people, especially those in marginalized communities, have little or no access to cost effective financial services at all. And most others must pay high fees for the services they can purchase.

Why does the financial system have this two-faced nature? By doing a quick tour of some giants of economic thought we can see how economists have grappled with the Jekyll and Hyde of finance. We start with Josef Schumpeter, famous for coining the term *creative destruction* – now commonly called *"disruption"* -- and for praising the key role of the entrepreneur and innovation in forging economic progress. Schumpeter argued in his *Theory of Economic Development* that banks are a key institution that provides entrepreneurs with the financial resources they need to create new businesses, new technologies, and new innovations. He would have applauded today's venture capitalists who serve that function for America's high-tech "start-ups".

Alexander Gerschenkron, a Harvard economic historian, also cited the key importance of finance in the process of economic growth and development. In his famous 1962 article "Economic Backwardness in Historical Perspective," Gerschenkron argued that countries that developed after the lead countries of the UK and US, so-called “late developers”, needed to use financial institutions, such as investment banks, and government banks, to amass the wealth required to invest in advanced industrial production. For Gerschenkron, the process of economic development can be greatly aided by financial institutions and markets that gathers finance and allocates it for productive purposes. Gerschenkron used this framework to explain how France and Germany utilized their government and private investment banks to catch up with British industry in the late 19th and early 20th centuries.   MIT economist Alice Amsden , brought Gerschenkron’s story up to date in 2001 by showing the key role played by government development banks in combination with government-led industrial policy in the success stories of the “late, late developers”, such as South Korea, Taiwan and China in the late 20th century.[iv]

Thus, to these economists, financial institutions and markets play a key role in supporting economic growth and transformation.

Other economists have better grasped the dual nature of capitalist financial institutions and markets. Karl Marx saw the positive role that finance could play in capitalism by promoting capital investment in factories and equipment, the “accumulation process” as he called it. But he was also keenly aware of the Mr. Hyde of finance: Marx saw firsthand how the speculators and financiers in 19th century London created financial bubbles of dizzying heights which would eventually burst and bring the system to its knees.

John Maynard Keynes, the British economist who transformed the field of macroeconomics in the 1920’s and ‘30’s, was deeply ambivalent about finance. Like Gerschenkron, he noted the important role finance played in providing funds for modern industry. But at the same time, Keynes was an acute analyst of finance's role in helping to bring about the Great Depression, including its role in the stock market crash of 1929. Keynes was especially concerned about the negative role that financial "speculation" could have on the stability and effectiveness of the financial system. Generally, "speculation" is used to mean investing in the hope of reaping a short-term profit in an uncertain situation. Keynes meant something a bit more specific: financial investment in stocks, bonds, real estate or other financial assets, taken, not on the basis calculations of the profitability of the underlying business or activity, what Keynes called "enterprise", but rather based on the expectation that other investors going to bet on those particular financial assets. Keynes likened this process to a "beauty contest" based on photographs in British newspapers, where the winner was the contestant who chose the photograph chosen by the largest number of other contestants. To win, contestants would try to guess what the other contestants were going to guess. Any "objective" assessment of beauty – such as it was – became secondary or even irrelevant.

In other words, in deciding whether to buy Widget Inc.'s stock, investor Joe wouldn't care whether the company was profitable or had a good business plan, but only whether Tom, Dick and Harry were going to invest in it too. For, if they did, they would drive up Widget's stock price, allowing Joe to sell the stock and earn a hefty short-term capital gain. In this environment, Widgets Inc. would attract financing not because it had a good investment idea or a great product line, but because everybody thought everyone else believed it did. Hence, they would send financial resources, not necessarily to where they were the most productive, but where people thought they could get the biggest short-term bang for the buck.

Such speculation, according to Keynes, could lead to fads, fashions, and even to financial bubbles and crashes. Keynes understood that such financial speculation was common in capitalism, but he thought it could become a big problem if it got out of hand.

Keynes wrote in his transformative 1936 book *The General Theory*:

> "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done." [v]

US economist Hyman Minsky, a follower of Keynes, had plenty to say about financial markets gone bad. Minsky, largely ignored for most of his career by the mainstream of the economics profession, had been arguing for years that capitalist financial markets inherently cause bouts of instability and crisis. In his "theory of financial instability", Minsky argued that financial booms and busts result from bouts of investor optimism as the economy grows, only to be followed by waves of pessimism as the economy slowed and possibly crashed. When the great financial crisis of 2008 hit, John Cassidy of the *New Yorker* brought Minsky out of obscurity when he told readers that they were living through a "Minsky Moment" of great financial instability. Minsky argued that in such moments, the government would come in a bail-out the financial system – just as it did during the financial crisis – thereby causing the whole cycle of financial instability and government bail-out to start over again. Still, critical as Minsky was of the instability inducing dynamics of modern financial markets, he believed that finance, with all its destructive aspects, is still a necessary aspect of a thriving capitalist economy. Minsky well-understood the two faces of capitalist financial markets.

James Tobin highlighted another potential problem with capitalist financial markets. Tobin, a Nobel Laureate who taught at Yale from the 1950's until the 1980's, was a pioneering analyst of financial institutions and markets and spent much of career identifying their positive effects. In his later years, however, Tobin became skeptical about the efficiency and social value of late 20th century financial institutions and markets. His concern was not specifically about the occasional financial panics and crashes that afflicted capitalism, but rather, the costly inefficiency and day-to-day misallocation of our nations resources when the financial system became bloated. In particular, Tobin expressed concern that with the accelerating growth of the financial markets and institutions in the 1970's and 1980's "we are throwing more and more of our resources, including the cream of our youth, into financial activities remote from the production of goods and services, into activities that generate high private reward disproportionate to their social productivity."[vi] Note this was written in 1984 when the financial sector was much smaller than it became in the 21st century.

Tobin's warning about financial "activities that generate high private rewards", such as speculation, versus those that promote "social productivity" and provides benefits for many, is crucial for understanding the shortcomings of our modern financial system and what we can do to correct them.

All of these concerns about the negative face of finance have appeared in the foreground of economists' writings about finance. But there is an underground discussion as well that professional economists may feel uncomfortable with, but that is often at the forefront of the public's consciousness. I am referring here to the fact that financial activities are well known to be subject to corruption and manipulation. Economists have been wary of giving too much attention to these unsavory concerns, which they often see as aberrations of well meaning, if sometimes selfish, mistaken and even greedy, financiers.

But Nobel Prize winners George Akerlof and Paul Romer broke this silence among mainstream economists when they wrote a widely read article in 1993 “Looting: The Economic Underworld of Bankruptcy for Profit”, identifying conditions that lead bankers’ to strip their clients and banks of their assets, especially if they think they can get away with it. Their article nudged economists to analyze the range of corrupt and manipulative practices that financiers have used to separate people from the wealth. For example, the US government’s Securities and Exchange Commission lists almost a dozen of such practices, including Ponzi schemes, which the SEC defines as “an investment fraud that pays existing investors with funds collected from new investors. Ponzi scheme organizers often promise to invest your money and generate high returns with little or no risk. But in many Ponzi schemes, the fraudsters do not invest the money. Instead, they use it to pay those who invested earlier and may keep some for themselves. With little or no legitimate earnings, Ponzi schemes require a constant flow of new money to survive. When it becomes hard to recruit new investors, or when large numbers of existing investors cash out, these schemes tend to collapse. Ponzi schemes are named after Charles Ponzi, who duped investors in the 1920s with a postage stamp speculation scheme.”
https://www.investor.gov/protect-your-investments/fraud/types-fraud/ponzi-scheme Lawyer, economist and financial regulator elaborated on the idea of financial looting in his book *The Best Way to Rob a Bank is to Own One.*

Which Face of Finance Will Shine at Any Given Time?

The work of economic historian Charles Kindleberger offers us some clues into whether we will confront Mr. Jekyll or Mr. Hyde at any particular time. In his aptly titled book - *Manias, Panics and Crashes* - showed in meticulous detail how, on a global level over five centuries, financial crises have been what he called "a hardy perennial". Kindleberger showed that over a 500-year period, a major set of financial crisis occurred roughly every 7 years. Figure 1 from Carmen Reinhart and Kenneth Rogoff illustrates these periodic crisis for a more recent span of history.

Figure 1

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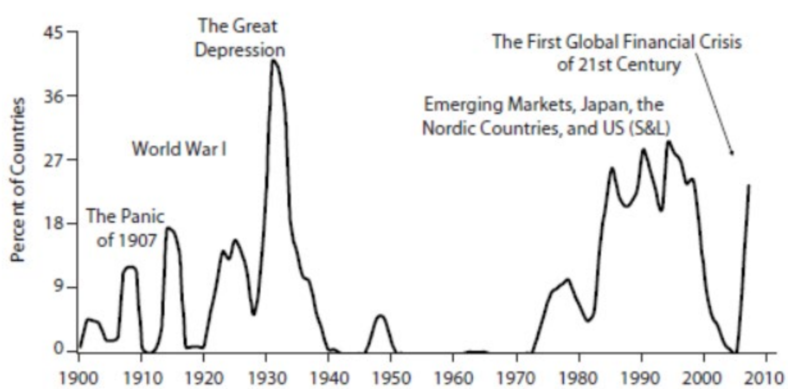

Figure 1. Proportion of countries with banking crises, 1900–2008, weighted by their share of world income. Source: Reinhart and Rogoff (2008).

The figure shows the percentage of the countries in the world that experienced banking crises each year, over more than 100 years, from 1900 – 2008. It clearly illustrates the crisis periods: 1907, WWI, the Great Depression of the 1930's, the developing country crises of the 1980s and 1990's, and, of course, the great financial meltdown of 2007 – 2008.[vii]

Two points stand out here. First, as Charles Kindleberger said, financial crises are, indeed, a hardy perennial of capitalism. The ups and downs of financial and banking crisis over the sweep of the last 100 years are breathtaking. But the second point is more intriguing: If you look at the long period between World War II and 1980, we see a long period of financial tranquility. This was a period of virtually no banking crises anywhere in the world. This was also a period of rapid economic growth, both in the United States, and in other countries including Europe and Japan.

Why did we have this period of relative financial calm and rapid economic growth? A central factor was the strong financial regulations that were implemented during Franklin Delano Roosevelt's (FDR's) New Deal in the 1930's, along with similar regulations in other parts of the world. These financial regulations greatly restricted the Dr. Hyde impulses of bankers, while, incentivizing more socially productive financial activity. To use Keynes' terms, these regulations encouraged investment in "enterprise" and limited "speculation".

A second, though less well-known factor, was also at play. Public banks and financial institutions, with a strong orientation toward serving social needs rather than toward maximizing private profit, played an important role in the US economy and abroad. For example, the New Deal financial reforms promoted "mission oriented" financial institutions to promote housing, small business, and state and local financing. A Postal Banking System was in place until the early 1950s. A public system of rural farm credit and domestic educational and housing support was also created, albeit, as I discuss below, in a highly racially discriminatory manner. In Europe, public financial institutions were dominant in many countries: banks were nationalized in France, and a system of regional public financial banks were set up in Germany, for example. [viii]

These publicly oriented financial institutions and services helped to allocate credit to socially productive areas – housing, education, small businesses, and infrastructure. They complemented the purely profit-driven capitalist financial institutions, providing important stabilizing and socially productive financial services. In short, these publicly oriented types of financial helped to counter-balance the Hyde face of private, for-profit finance.

To be sure, strong financial regulations and an important role for public financial institutions are only part of the explanation for the financially stable and relatively prosperous period following the Second World War. Other important aspects included a period of relative world peace, social protections and an effective welfare state in the US and Europe, strong labor unions and limitations on instability inducing flows of international capital, among other factors.[ix] Still, strong financial regulations and a significant presence of publicly oriented financial institutions who eschew the maximization of private profits, are key.

The puzzle, however, is this: If we know the main requirements for a socially productive financial system, then why don't we have one? The answer is that financial reform and reconstruction is blocked by powerful, private financial institutions, their CEO's and top management, and their major investors and owners who make much larger salaries, bonuses and profits when these banks and other financial institutions are lightly regulated and when they don't have to compete with publicly oriented financial institutions. These bankers wage a massive political fight against financial regulation and the promotion of publicly oriented financial institutions.

Since the 1980's, these bankers have been spectacularly successful in their political battles against regulation and reform. Not only have they succeeded in largely dismantling the tight financial regulations implemented by FDRs administration during the New Deal, they have also been able to ward off many new regulations in the aftermath of the great financial crisis of 2008. The bankers were able to win many of these battles despite public anger at the multi trillion-dollar bailouts the bankers received from the taxpayers when the great financial crisis hit. And to add insult to injury, just ten years later, when the Covid Pandemic as announced in March of 2020 and a global financial panic ensued, the major financial institutions and markets were once again lent trillions of dollars at low interest rates by the US government and US Federal Reserve to sustain their operations and profits.

The political prowess and staying prowess of the major bankers despite the major costs they have imposed on our economy is remarkable. As Dick Durbin, Democratic Senator from Illinois complained at the height of the great financial crisis in 2009: “"the banks, hard to believe in a time when we're facing a banking crisis that many of the banks created, are still the most powerful lobby on Capitol Hill. And they frankly own the place."[x]

How can that be? The answer is that the bankers have mobilized and organized a lot of “friends”, namely “*The Bankers' Club*”, to protect and enhance the banks' power. This club consists, of “the usual suspects”: the major financial institutions themselves, Senators, members of Congress, even Presidents – to whom they give campaign money and other lucrative favors. But the Bankers' Club also consists of other individuals and institutions who might be less obvious but are equally important: financial regulatory agencies such as the Securities and Exchange Commission and the Office of the Comptroller of the Currency; the Federal Reserve (the US central bank); many lawyers, other businesses big and small, and far too many members of my own profession – economists. These club members help promote the interests of the banks even when those interests clash with what society as whole needs; and in doing so they become a powerful social and political force that stands in the way of our ability to create a more socially productive and fair financial system.

The ability of the bankers to mobilize their Club to stop financial regulations, block public financial institutions, and to promote government bail-outs in crisis times, creates a self-reinforcing loop in which the financial institutions are able to earn higher incomes and profits, use their "money spigot" to shower politicians with campaign contributions, offer good-paying jobs to economists, lawyers, and former financial regulators, and thereby keep the club together and powerful. In the process, this self-reinforcing loop income, profits and wealth has helped to create enormous inequalities in income and wealth in the United States.

Fortunately, the Bankers' Club has opponents. For one thing, the Club faces a powerful, though usually latent force of disgruntled and even angry Americans. A Gallup survey in 2022 found that 56% of Americans, including majorities of both Republicans and Democrats, thought that banks and other financial institutions have a negative impact "on the way things are going in the country these days".[xi] Popular culture does not treat bankers and financial institutions kindly either, as blockbuster movies like "Wall Street", "Wolf of Wall Street", "The Big Short", and "Margin Call" show. Nonetheless, while the public is a latent force of opposition, most of the time, the majority of Americans, disgruntled though they may be, don't get involved in the nitty gritty of banking regulation and reform.

Fortunately, skilled and energetic groups of financial reformers, in Congress, regulatory agencies, the academy, philanthropies, think tanks and labor unions have been fighting for financial reform and public financial institutions such as public banks. Many of these groups became energized at the time of the great financial crisis, but before that, many activists and reformers had been fighting against racial discrimination in banking, predatory lending, and consumer protection in the financial services industry. More recently, many activists around the country have been fighting for public banking and other financial reforms, including limiting banks investments in the fossil fuel industry. These groups and individuals make up what I call *"The Club Busters"*.

In *Busting the Bankers' Club,* I portray the battle between the "Bankers' Club" and the "Club Busters" over whether we will have a fair, effective and equitable financial system. I describe the financial and social issues at stake in this conflict and depict some of the key players and strategies on both sides. I also explain why the "Bankers' Club" has significant strategic advantages over the "club busters", most notably financial resources. In the last section of the book, I discuss what these reformers have been doing to win and suggest how more of us can get involved in the struggle. I end with a recognition that, ultimately, in order to reform and restructure the financial system and win the battle against the Bankers' Club, we will have to reduce the role of money in politics. That is, we have to restore democracy.

Terminology

Terminology in economics, as in other fields, can be befuddling. I have already thrown around the words "finance", "banks", "bankers", and before going further, I should clarify my use of these and related terms. The root cause of possible confusion is that our financial system contains many different kinds of institutions, markets, participants, products and services. It consists of banks that take deposits and make loans; financial institutions that borrow to buy other companies; insurance companies; financial institutions such as investment banks that act as brokers between those who want to raise funds to invest, and those who want to buy financial assets. And the list goes on. All of these financial institutions are in the "financial services industry", but not all of them are "banks". Banks hold deposits and make loans. Other financial institutions typically are not allowed to take customers' deposits.

My book is about the "Bankers' Club". Here I do not mean simply commercial banks and commercial bankers, but rather, I mean financial institutions more broadly, and especially their CEO's, top management, owners, and creditors. To be more inclusive, I could have used the term "Financiers" and "Financiers' Club", but I thought this would sound strange to American ears. A common American term that evokes what I have in mind is "Wall Street", the large banks and other financial institutions that dominate our financial system. I could have used the term "Wall Street Club", but I didn't.

It is important to note that our financial system is dynamic and those who are included as "bankers" change over time. In this book, you will encounter commercial banks, investment banks, shadow financial institutions, private equity firms, hedge funds, asset management companies, and crypto currency firms. You will also encounter some esoteric financial products, such as derivatives, collateralized debt obligations, and cryptocurrencies. In all cases, I will do my best to explain what these institutions and products do and why they matter.

Now I turn to a sketch of the historical scaffolding that holds up the narrative of *Busting the Bankers' Club.*

A Road Map with Historical Markers

This story of our destructive financial system amid the battle between the Bankers' Club and the Club Busters runs on two tracks. One track traces the historical evolution of the financial system and these political conflicts from the time of the New Deal in the 1930's to the present. The second track portrays the key members of the Bankers' Club and the Club Busters and analyzes the bases for their political power and the strategies they have employed. Always operating in the back of both tracks are the economic and financial dynamics that define and alter the terrain on which these two tracks run.

By necessity, these two tracks – the historical and the analytical – are intertwined throughout the book. Since the historical narrative provides the scaffolding on which the whole discussion rests, in the next section I give a brief road map of the key historical markers to help the reader follow the story I tell. But before I go there, I need to clarify the terms I use throughout the book.

The Great Depression, New Deal Banking Reforms and the Rise of "Boring Banking"

The stock market crash of 1929 and mass unemployment and banking crises that followed broke up a powerful early 20th century version of the "bankers' club". A dominant financial-business bloc of massive banks and allied industrial corporations was, perhaps, best epitomized, perhaps, by JP Morgan's bank, one of several financial conglomerates that combined commercial banking activities such as making business loans and taking in deposits from customers with investment banking activities such as investing in banking and non-banking companies, marketing stocks and bonds for a range of businesses, and trading in commodities and financial securities such as bonds. These big banks' ties to major industrial corporations such as steel companies and railroad firms helped to solidify a business-finance coalition that wielded enormous economic and political power.

When the Depression hit, the public blamed the big banks for the debacle. Major industrial corporations that suffered from the Depression abandoned their support of the major financial conglomerates. To make matters worse for the banks, the big banks began fighting among themselves. The landslide election of Franklin Delano Roosevelt (FDR) in 1932 and the weakness of the "bankers' club 1.0" created an opening for New Deal financial reforms in 1933-34. The *Glass-Steagall Act of 1933*, was a signature New Deal financial regulation. It broke up the financial conglomerates by separating investment banking from commercial banking.

Many other important New Deal regulations followed. These regulations limited financial speculation and protected depositors, customers and investors of financial institutions. The reforms created a socially oriented quid pro quo for bankers. The reforms restricted competition that banks had to face, and in exchange, these bankers' would limit the risks they took while channeling credit and provide banking services in their respective areas such as for mortgages, short-term business loans, longer term bonds, and equities (stocks).

The result was a relatively stable financial structure became known as a system of "boring banking".[xii] Some observers referred to it as the era of 3-6-3 banking. Bankers paid depositors 3%, lent out the money at 6%, and got to the golf course by 3 in the afternoon. Boring work, pretty good profits, but great golf.

Not all was perfect in this world of *Boring Banking.* Far from it. Discriminatory policies by the US government and private financial institutions meant that blacks and other people of color could not get home mortgages in most areas of major cities. Normal banking services were also denied most African Americans and other people of color. Women could not get loans without their husbands or fathers co-signing for them. This significant discrimination meant that it was especially difficult for blacks, especially, to accumulate generational wealth which, for most Americans, has depended on their ability to buy houses. Moreover, it meant that many communities were starved of credit they needed to build businesses, and infrastructure they needed to thrive. [xiii] On the other hand, this system was not only relatively financially tranquil but it also contributed significantly to the growth and development of many parts of the US economy.

As with most things, this system of *Boring Banking* could not last forever. Shifts in the US and global economy, including large increases in inflation associated with the Vietnam War in the 1960's and OPEC oil price increases of the 1970's, disrupted the edifice of financial regulation. Boring Banks started facing stiff competition from other financial institutions, such as money market funds, that didn't have as strict regulations, and who could be more nimble in this complicated economic environment. The biggest commercial banks such as Citibank spent billions to lobby politicians and convince regulatory agencies to loosen their regulatory constraints. Investment banks, such as Bear Stearns, Lehman Brothers and Goldman Sachs also paid top-dollar to avoid restrictions on their behavior. Politicians from both main parties paved the way to financial de-regulation. The banks also had a good deal of help from some of the banks' top regulators, including the Federal Reserve, the Securities and Exchange Commission, and the Comptroller of the Currency.[xiv]

The signature victory for the Bankers' Club was the repeal in 1998 of the Glass – Steagall Act and its separation of investment and commercial banking. Along with other measures, such as the *Commodity Futures Modernization Act* which prohibited the regulation of most financial derivatives, this repeal allowed for the agglomeration once again of megabanks, financial behemoths that allowed deposit taking, commercial lending, and the promotion of highly speculative and risky financial products – all under one corporate "roof". This spate of financial de-regulation ushered in the world of "Roaring Banking", the risky financial institutions and practices that nearly brought our economy to its knees first in the great financial crisis of 2008 and remain with us to this day.

From Roaring Banking to Dodd-Frank

For a long period, Roaring Banking was very good for the banks and the bankers. They grew in size, not just in absolute terms, but also relative to the over-all growth of the economy. This growth allowed the banks and other financial institutions to start scarfing down about 40% of all profits in the US by 2006. Wall Street bonuses soared over the period of Roaring Banking, reaching a high of more than $30 billion dollars in 2006.

The Bankers' Club destruction of the New Deal banking regulations, and the implementation of a period of "light" financial rules, proved to be very lucrative for the financiers who now had wide latitude to raise interest rates, take on risky ventures, and expand beyond their local markets. Figure 2 illustrates this correlation between the financial regulation and bankers' incomes compared with those in the rest of the economy. When financial regulations are tight, bankers' incomes are about the same as those in other sectors. But when financial regulations are loose, bankers' incomes rise relative to others. As I tell my students, "correlation" does not mean "causation" but here it looks pretty close.[xv]

Figure 2

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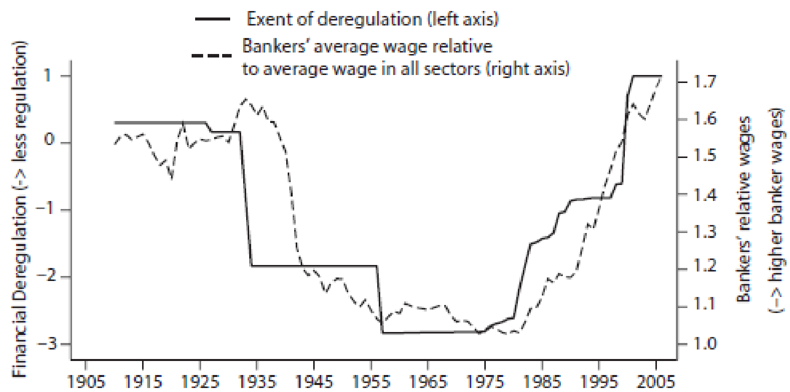

Figure 2. Financial deregulation and bankers' wages relative to average wages, 1909–2006. Note: The left axis measures the extent of deregulation using a Financial

With these large incomes, Roaring Banking became a major engine of social inequality in the United States. These profit and bonus payments also became a major source of the "money spigot", funds the banks could use to lure and pay-off politicians and others to become loyal members of the Bankers' Club.

This story did not end well. The world economy came to a hair from a financial meltdown in 2008, and the crisis generated massive economic and social dislocation in the US and elsewhere. The response of the Federal Reserve and both the George W. Bush and Barack Obama administrations was to use billions of dollars to save the banks, but relatively little to help those who lost their jobs and homes as a result of the crisis. By some estimates, the Treasury Department, the Federal Reserve, and other Federal agencies lent out more than $20 trillion dollars to the banks and other financial institutions.[xvi] The public cry was: " the government bailed out Wall Street but not main street."

In 1996, Presidential candidate Barack Obama promised sweeping financial reform. When he won the election he initiated a financial reform effort the culminated in the *Dodd-Frank financial reform legislation*, named after Senator Chris Dodd and Congressman Barney Frank who had shepherded this legislation through Congress.

A big political fight ensued between the banks and their allies, on the one hand, and reform politicians, unions and activist organizations coordinated by the newly formed *Americans for Financial Reform (AFR).* The Bankers' Club pushed for the weakest financial reforms possible, while the Club Busters such as the AFR pushed on and off of Capitol Hill for major financial reforms and financial restructuring.

President Obama signed the Dodd-Frank legislation into law in 2010, saying that it would end the era of Too Big to Fail and government bail-outs of Wall Street. But, in reality, the legislation was little more than a road map for reform, a kind of limbo status that kicked off years of further battles between the Club and the Club Busters that has cost millions of dollars and is continuing to this day.

From President Trump to The Covid Meltdown

The Bankers' Club received a big assist in 2016 when Donald Trump was elected. Though Trump had ran a campaign as a populist, with energetic "anti-bank" attacks, he quickly fell in line with the Club and appointed regulators who's main goal was to weaken the Dodd-Frank reforms. The Club Busters like AFR, Washington tank *Better Markets*, and other groups fought mostly defensive battles to protect the Dodd-Frank regulations and, especially the Consumer Financial Protection Agency that Elizabeth Warren and others had fought so hard be included in Dodd-Frank and who the banks vigorously opposed.

The inadequacy of Dodd-Frank reforms was demonstrated vividly when, in March of 2020, the World Health Organization announced that Covid-19 was a Pandemic. The global financial markets promptly went into a tailspin. Once again, the Federal Reserve, the U.S. Treasury and other central banks and government agencies found they had to "bail-out" the globe's major financial institutions and markets. So much for the end of Too Big to Fail. A main culprit in the financial meltdown was the huge, multi-trillion dollar "shadow financial system" which is called "shadow" because these activities, institutions and markets were mostly left out of the of Dodd-Frank and other international financial regulations.

From Financial Reform in the Biden Administration to New Horizons for Finance

Club Busting did not end with the fight over the Dodd-Frank legislation. The Biden administration came into office with a financial reform agenda designed to strengthen the Dodd-Frank rules and also to enhance financial consumer protections, improve laws requiring financial institutions to better serve underserved communities including communities of color, and to marshal the wealth of the financial sector to help address other major issues such as the climate change emergency. The change in political parties did not make the Bankers' Club go away. Far from it. The Club continues to mobilize politicians on both sides of the aisle, especially the Republicans to protect the bankers' profits and prerogatives, while, by the way, keeping a heavy thumb on the legislative scales in favor of the fossil fuel companies.

Emerging challenges facing financial institutions and regulators come from new financial technologies, including cryptocurrencies. The political and economic fights over the regulation of Crypto – and the millions of dollars of lobbying money thrust into the battle – are strongly reminiscent of the battles in the 1980's and 1990's to de-regulate the New Deal financial system. The financial technology connected bank failure of Silicon Valley Bank and several other large banks in the early months of 2023 and subsequent government bail-out of depositors, further indicated that Too Big to Fail still survives. The multi-billion-dollar collapse of Samuel Bankman-Freid's FTX crypto asset firm, and the millions of dollars he spent to curry favor with politicians and other members of the Bankers' Club, illustrate that the battle between the Jekyll and Hyde of finance, and between the Bankers' Club and the Club Busters, is alive and well.

[i] Wikipedia https://en.wikipedia.org/wiki/Strange_Case_of_Dr_Jekyll_and_Mr_Hyde
[ii] Atkinson, et. al. 2013, 1; Better Markets 2011.
[iii] Mian and Sufi 2014
[iv] Amsden 2001.
[v] Keynes 1936; see also Crotty 2019.
[vi] Tobin 1987.
[vii] Reinhart and Rogoff 2008.
[viii] Eichengreen 2008
[ix] Marglin and Schor 1992.
[x] Real Clear Politics 2009.
https://www.realclearpolitics.com/video/2009/04/29/sen_durbin_banks_own_the_place.html .
[xi] https://www.pewresearch.org/fact-tank/2022/11/17/anti-corporate-sentiment-in-u-s-is-now-widespread-in-both-parties/ ; surveys by the Gallup poll have similar results with only 27% of Americans having confidence in banks in 2022. https://news.gallup.com/poll/394283/confidence-institutions-down-average-new-low.aspx
[xii] Krugman 2009.
[xiii] See Rothstein 2017; Baradaran 2015.
[xiv] Wall Street Watch 2009; Wilmarth 2020.
[xv] Philippon and Reshef (2008) also provide econometric work that gets closer to demonstrating "causation".
[xvi] Wray 2011.