WHY OCCUPY WALL STREET?

11 REASONS WHY PROTESTERS HAVE PICKED THE RIGHT TARGET

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As protests resume on Wall Street, some in the media are again saying that there is no coherent rationale for the demonstrations. In fact, though, these protesters have chosen the right target: a set of institutions and actors who not only played a central role in creating the financial crisis, but have worked to foster a more unequal U.S. economy and democracy over recent decades – with the effect of undermining America's middle class.

The origins of the financial crisis and efforts to reform Wall Street have been overshadowed in the past year by other issues, particularly the jobs crisis and the push to reduce budget deficits. But the ongoing protests offer a good occasion to step back and consider the broad ways in which the financial industry – and the financialization of the U.S. economy – have worked at odds with the interests of ordinary Americans and broad, sustained economic growth in the real economy. Below are ten ways that Wall Street is more than just a mere symbol of the inequities in our economy and our democracy.

1. WALL STREET CAUSED THE FINANCIAL CRISIS.

While many players were involved in pumping up the housing bubble starting in the late 1990s, leading financial institutions were key culprits in this story – and, worse, ensured a catastrophic hard landing when the bubble deflated. Wall Street's insatiable appetite for mortgages that it could bundle into securities, making huge profits, helped fuel irresponsible lending. Its undue influence on credit ratings agencies caused these watchdogs to turn a blind eye to the huge risks associated with securities backed by subprime loans. In turn, by making over-leveraged bets backed by these assets – bets which served no economically productive purpose – Wall Street investment firms laid the ground work for a global financial disaster.

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2. WALL STREET'S PRIORITIES HURT WORKERS AND THE MIDDLE CLASS.

A focus on "shareholder value" has trumped all other goals for the modern corporation since the 1980s – a shift that Wall Street helped usher in through a relentless search for profits that included leveraged buy outs, mergers and acquisitions, and private equity deals, as well as a more aggressive quest for short-term trading gains. This narrow focus on the bottom line has undermined American workers and the middle class by justifying any cost-cutting measures that can boost quarterly earnings, including foreign outsourcing, eliminating benefits, and busting unions. The uneven economic recovery of the past two years dramatically illustrates the growing disconnect between corporate profits and stock values, and the well-being of ordinary Americans. Even as corporate profits have hit record levels, the Dow has passed 13,000, and hedge fund managers have reaped multi-billion dollar paydays, high unemployment endures and earnings for most households have been stagnant. Most of the income gains of recent years have gone to the top 1 percent. Nearly all the forces typically blamed for rising inequality – globalization, new technologies, declining unionization – have had a more devastating impact on U.S. living standards thanks to Wall Street's imperative to put stock price above all else. The bottom line focus has also been devastating to the environment, giving companies a greater incentive to oppose any costs aimed at controlling how much they pollute.

3. WALL STREET EMPLOYS K STREET TO DOMINATE MAIN STREET.

Spending nearly $5 billion in political donations and lobbying over the past 15 years, the financial industry largely succeeded in writing its own rules, at the cost of protecting investors, consumers and – ultimately – the broader economy. Even after the financial crisis, Wall Street worked aggressively to resist common-sense regulations. According to OpenSecrets.org, the financial industry has spent $756.4 million on lobbying since the start of 2009 and $246 million on campaign donations (not including spending by the U.S. Chamber of Commerce and Super Pacs). At the height of the legislative fight over financial reform in 2010, it was spending over $1 million a day to influence Congress. In addition, through its contributions to the Chamber of Commerce, the Club for Growth, and conservative think tanks like the Heritage Foundation, Wall Street institutions and leaders have helped bankroll a broader effort to weaken regulatory safeguards, derail laws to improve working families' quality of life, and undo our social insurance programs. Among other things, Wall Street firms have bankrolled efforts to privatize Social Security – a shift that would benefit the financial industry while exposing Americans to major new economic risks.

4. WALL STREET GREED PERVERTS FINANCIAL MARKETS.

The main role of financial markets – in theory, anyway – is to mobilize and allocate capital in ways that foster economic growth and innovation. Increasingly, though, these markets have been turned into tools aimed at personal enrichment and Wall Street has lately compiled a troubling record of allocating vast amounts of capital to unproductive purposes in pursuit on short-term speculative gains. The dotcom boom of the 1990s channeled major wealth to unproven companies that later flamed out, while Wall Street's role in securitizing and peddling subprime mortgages led investors to unwittingly bankroll an unproductive – and ultimately, catastrophic – housing bubble. In both cases, Wall Street investment firms and traders scored huge gains while ordinary investors were left with major losses.

5. WALL STREET DODGES FAIR TAXES.

The financial industry has aggressively resisted efforts to close the carried-interest loophole that improperly treats income that hedge fund managers and private equity executives earn by investing *other people's money* as capital gains, allowing some of the largest paychecks collected today in America to be subject to the lowest tax rate. Wall Street is now lobbying against the "Buffett Rule" which would close this loophole and, more broadly, Wall Street money has played a central role in underwriting anti-tax groups like the Club for Growth. In addition, Wall Street firms have engaged in systematic tax avoidance through the use of foreign subsidiaries to shelter income from U.S. tax rates. In 2008, for example, Goldman Sachs reported profits of over $2 billion. Yet it had 29 subsidiaries located in offshore tax havens, and paid federal taxes of just $14 million on those profits.

6. WALL STREET DRIVES PAY EXCESSES.

Since 1996 (the year finance overtook manufacturing as America's most profitable sector) 90 percent of income growth has gone to the top 10 percent of households. Income from Wall Street has played an outsized role in this trend. Pay for Wall Street insiders has skyrocketed, with bonuses increasing 20 fold in just twenty years as average workers' pay stagnated. Average pay in finance is now 181 percent that of the average private sector worker. But the excessive pay hasn't been limited to those who work on the Street. Stock market activity has inflated the pay of executives in the real economy as well, as more have come from tax-preferred capital income. The pay above and beyond a base salary for top 5 executives at all publicly-traded companies increased five-fold between 1992 and 2006, to over $29 billion.

7. WALL STREET HAS DEVOLVED INTO A CASINO.

While investment banks used to make most of their money through working with real businesses, many shifted their focus to financial speculation starting in the 1990s. Technology enabled high-frequency trading, which mechanically leeches profit off of incidental stock price swings. Derivatives – which were initially designed to play a constructive role in reducing risk – became instruments of speculation so complex that even top financial executive didn't understand the outsized bets their firms were making. The vast majority of derivatives trades in recent years have been naked bets by traders who have no interest in the underlying asset. How much has this come to dominate our financial markets? In just three days, speculators in the unregulated foreign exchange and interest rate derivative markets gamble more (*$6.1 trillion per day*) than the entire U.S. economy can create in real goods and services in a year.

8. WALL STREET LOVES PREDATORY LENDING.

Ever since Wall Street lobbying and influence helped deregulate financial services two decades ago, Americans' relationship to their lenders has grown increasingly toxic. Wall Street banks like Wells Fargo, Capital One, Citigroup and Chase all had subprime lending arms that targeted working-class communities with high fee and -interest mortgage loans, often just to refinance – and strip wealth from – existing assets. Beyond mortgages, Wall Street even finances usurious, 455 percent APR corner-store payday lending to the tune of nearly $3 billion a year. Wall Street has also managed to indenture America's next generation, with Wall Street-financed private student loans charging unlimited interest rates that can be as high as 18 percent.

9. WALL STREET HAS NOT BEEN HELD ACCOUNTABLE.

Nearly four years after the financial crisis, not a single top Wall Street executive or trader has been accountable for criminal actions that help cause the crash. For example, while civil suits have turned up evidence that Wall Street firms knowingly deceived investors about the risks of mortgage-backed securities – a form of fraud – the U.S. Justice Department has not pursued any criminal cases against these firms or the executives who ran them. Settlements reached by the U.S. government with key figures involved in fueling the mortgage collapse, such as former Countrywide CEO Angelo Mozillo, have exacted insignificant punishment in comparison to the profits made – and have not involved any criminal charges or outright admission of wrongdoing. Meanwhile, Wall Street is bankrolling congressional Republicans who are try to gut the budget of the Securities and Exchange Commission and other watchdogs.

10. WALL STREET IS WORKING TO KILL REFORMS.

Thanks to vast spending on lobbying, Wall Street ensured that Congress passed a watered-down version of financial reform last year. Now they are working to undermine even that modest legislation, working every day to eviscerate various provisions of the Dodd-Frank law. In particular, Wall Street lobbyists have waged a relentless war against the Consumer Financial Protection Bureau, which was established to curb a wide range of abusive practices by Wall Street banks and other lenders. Wall Street has also bitterly fought other provisions of Dodd-Frank, such as a new whistleblower law that rewards insiders who reveal financial crimes. Wall Street campaign donors have lavishly rewarded leading critics of Dodd-Frank, including Senators like Jim DeMint, who have proposed repealing the law entirely. Three years after the financial crisis, Wall Street not only denies that it did anything wrong or criminal, but is working tirelessly to thwart efforts to ensure that a similar crisis never happens again.

11. THE ECONOMIC "RECOVERY" HAS SERVED THE ONE PERCENT

In March, the World Top Incomes Database, a project of economists Facundo Alvaredo, Tony Atkinson, Thomas Piketty, and Emmanuel Saez, showed that in the first year after the recession (2010), the wealthiest 1 percent of Americans took home no less than 93 percent of all income gains.

In absolute numbers the picture is just as stark. Mike Konczal of the Roosevelt Institute crunched the data and showed that Americans in the bottom 90 percent lost $127 in income over 2009 to 2010 while the top one percent saw their incomes *grow* by $105,637.

Occupy Wall Street was hugely successful in injecting the issue of income inequality into our political discourse, something long overdue, some would say by 30 years. With the numbers in for the first year of the so-called "Recovery," we now know that Occupy was even more accurate in their critique. But the numbers also suggest that without major reforms, we're on the road back to the status quo. We need Occupy now more than ever.

Ultimately, the lesson is clear: the middle class will not benefit from a growing economy unless policies are in place to deliver widely shared prosperity.

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