

The Obama administration's fight against the financial crisis

Final report for the American Council on Germany

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Scope of my research

I focused my research on the question, if Barack Obama's reform agenda on the financial system will prevent the next financial crisis or limit its impact. I wanted to find out what happened to those affected by the crisis, mainly people who were loosing their homes. Third, what remains of the protest movement Occupy?

First Finding – Wall Street wants to be regulated (at least a bit)

As a German journalist it is pretty hard to get hold of the big players of Wall Street or in the political scene. Therefore, my first station was the annual Sifma conference, the Securities Industry and Financial Markets Association, which took place in Washington September 26th and 27th.

It was a unique opportunity to get an insight in the current discussion of the financial industry. Famous attendees of the conference were for instance John F. W. Rogers, Secretary to the Board of Goldman Sachs or Henry Paulson, the former Secretary of the Treasury under George W. Bush. But the most interesting setting of the conference was, that the heads of important regulatory bodies attended the conference also, like Mary Jo White, back then Chair of the U.S. Securities and Exchange Commission, SEC.

This encounter between state supervisors and Wall Street players made the conference so important for me. I recognized two interesting things: First, that the heads of the regulatory bodies enjoyed a great deal of respect on the conference – especially Mary Jo White, I wrote a text about her later on. A clear indicator that the Obama's reform agenda developed teeth. Second, that within the financial sector, the opinions about those reforms differed.

Before I came to D.C. I read a lot about the Dodd-Frank act, Barack Obamas most important legislation to regulate financial markets and a blueprint for the European Union's reform agenda. At the conference, the implementation of Dodd-Frank was one of the main topics – some players clearly wanted to dismantle the whole thing, others acknowledged the new rule as a necessity for stable markets in the future.

Second finding – The Dodd-Frank act is as a center piece of two opposing economic philosophies

In order to understand the electoral battle between Hillary Clinton and Donald Trump, the insights in Washington were really helpful. Congressman Jeb Hensarling, Chair of the House Financial Services Committee, also attended the Sifma conference and represented the Trump-Team: In his opinion, Dodd-Frank was an obstacle for growth and job creation on the U.S.

Besides the Sifma conference I had the opportunity to meet some other interesting personalities in D.C. for instance Ed Mierzwinski, Consumer Program Director of U.S. PIRG or Lisa Donner, Director of Americans for Financial Reforms. Both of the left democratic spectrum, very outspoken and fellows of Elisabeth Warren's attempts on strong financial market regulations. They both worked for years on defending Dodd-Frank and gave me impressive insights about how politicians and lobbyists in D.C. fight about two completely different political positions – on the one side: unleash the markets, on the other: contain them as much as possible. I deepened my knowledge by meeting with spokespersons of, for example, the Office of Financial Research (a body of the Treasury) or the Center for Economic and Policy Research. Just for networking purposes I also met with officials from the World Bank or the World Resources Institute.

Now I do understand the deep ideological gaps between the two markets philosophies in the U.S. We don't really have this oppositions in Germany.

Third finding – The financial crisis strengthened the civil society

One can argue about the roots of the financial crisis, but everybody would agree that there was a housing bubble. And a lot of people were affected by it. During the Obama era, the foreclosure crisis lead to at least 20 Million Americans who lost their homes. I wanted to figure out what happened to them and met in Boston with an organization called City Life / Vida Urbana.

They developed from the civil rights movement and today they fight for affordable housing in the Boston area. They took me on a small rally for people that got what they called “conded out” of their houses. That means that investors buy houses, convert huge spaces into small condominiums and rent them out to a much higher price than the former inhabitants can't afford anymore. According to City Life / Vida Urbana often migrants get evicted from their homes, because they are not aware of their rights.

I focused on one case with a lucky outcome. An old man called Marshal Cooper, who went through a foreclosure, but still managed to stay in his home. I met him two times and later on made him to the main protagonist of a piece I published shortly before the elections. The main lesson learned was: The financial crisis not only produced victims. It was also a fountain of youth for the civil society and it was a reason for people to start to help each other.

Fourth finding – Washington did not pay to save the banks

Lot's of people think: Obama saved the banks, but not the people. True? I raised this question to Barney Frank, former Chair of the House Financial Services Committee and along with Chris Dodd the guy that gave the Dodd-Frank act its name. I met him in his home in Boston and had a very impressive interview about the question, how the financial crisis led to more extremism both on the left and the right wing of the U.S. society. And how deeply alienated the U.S. society was and still is because of the housing crisis. Frank argued, that the banks payed back the help they received from the federal government almost completely – and that Washington had programs to help people to get out of the foreclosure trouble.

Fifth finding – Clinton's big problem with the left

“Hillary Clinton is a criminal. Lock her up.” I thought I would hear this phrase only from Trump followers. But I heard it several times during my research in New York when I tried to figure out what remained of the Occupy Wall Street movement.

Occupy Wall Street was a loose compilation of all kind of activists that occupied the Zucotti Park in downtown Manhattan in 2011. They claimed to be the 99 percent protesting about the one percent that profits from globalized financial markets. For some weeks the movement got world wide media attention and inspired similar movements in hundreds of cities, in Europe mainly in Madrid, London or Frankfurt.

Five years later you can't get Occupy on the phone. They don't have an official spokesperson or an agenda, in fact, they never had one. But in New York, there are still several groups and activists that claim to be an offspring of Occupy. It's just a small fraction of those who have been politicized in 2011. So, my findings here are not representative.

I was surprised to recognize a strong anti-establishment rhetoric in those very leftish, liberal circles of New York, similar to the rhetoric of right winged Trump supporters. The lock-her-up-phrase was mentioned during a meeting of Occupy activists who discussed about financial markets in the Columbia University in New York. Not everybody agreed on it, but the direction was clear: Even though the Obama administration came up with, in its full implementation, almost 22.000 pages of new rules for Wall Street, even those following the complicated topics didn't consider it to be enough to make society a whole more fair. Instead, they followed the opinion that Clinton, as Obamas potential successor, is part of an elite that won't be able to solve any problems.

Sixth finding – Why John Oliver can't just erase debt

So what did remain of Occupy? One of the answers I found is that it's hard to quantify. A lot of people told me that it reanimated the American civil rights movement and inspired people to start to act. Jerry Ashton for example. After being a Hippie in the seventies, he started a serious professional career as a debt collector. Jerry's job was to make people pay their medical debt. In 2011, he saw the pictures of the occupied Zucotti Park, he thought, that looks a bit like the old movements in the seventies and joined them.

Back then, some activists tried to deal with student and medical debt and had the idea of releasing people from their payments by buying their debt. There is a huge secondary market for all kind of debt in the states, that works like this: If a donor can't collect a bill, he sells it to debt collectors. They pay less than the original amount and take the risk of collecting the debt. This goes on and on, at the very end there is a market of nearly uncollectable debt, because people just can't pay. Collectors pay about one percent of the original amount of debt and start to harass people aggressively to make at least a few of them pay the full bill.

There are tons of reports about people whose lives are hell because of this kind of debt collectors. The idea of the occupy group was simply to buy those debts with the donors' money and release the people from paying it. Jerry joint in – he was the only guy who knew how the business worked.

Today Jerry has an organization called RIP medical debt. They buy debt and release it. His organization got famous when TV star John Oliver payed 60.000\$ to buy medical debt worth 15 Million \$ and remit it live in his show Last Week Tonight. Oliver used Jerry's organization in the background and mentioned it on the show. When I interviewed Jerry in New York, he explained to me why: You can't just buy an remit debts in the States. If you do so, it counts as an income and the former debtors have to pay taxes for it.

So Jerry had to set up a total new kind of charity, the debt forgiving charity. Once acknowledged by the tax authorities, he is now able to buy and remit debts. His organization estimates that per year

64 Million Americans are at some point not able to pay at least one medical bill. His final goal is to remit one billion Dollars of debt. Jerry is a great example how social movements inspire people to change things instead of only dreaming of a revolution.

Seventh finding – Algorithms caused the financial crisis and will lead to more trouble

Jerry is an example of concrete action. But Occupy also influenced the political debate. Former congressman Barney Frank mentioned this aspect during our interview: Barney Sander's movement would not have been possible without the new framing of the political spectrum after the financial crisis and the support of people that have been politicized during the Occupy protests. Trump used the fact that Clinton received donations from Wall Street as an argument against her. Clinton tried to gain ground by promising tighter regulations of Wall Street. Both of them framed Wall Street as an opponent for the well-being of ordinary people – a rhetoric that echoed Occupy.

But on an academical level I got hold of an even more interesting interpretation of the financial crisis. In New York City, I interviewed Cathy O'Neil, author of the book "Weapons of Math Destruction", that was on the long list of the National Book Award this year. O'Neil joined the Occupy Movement as well after working on algorithms for investment companies.

She draws a line from these algorithms to those that nowadays are used for predictive policing, to measure the potential success of somebody applying for colleagues or to predict the voting behavior of every single American in order to micro-target them with individualized posts and adds.

In O'Neil's opinion, the problem of predictive algorithms has caused the financial crisis and is now used in all parts of society, with even more potential threats. The problem about those algorithms is, she says, that in all parts of the society people trust them blindly, but there is no attempt to control or regulate them.

Eighth finding – The middle class works hard, but not for the american dream

One of the cities, which was hit the hardest by the housing foreclosure crisis starting in 2008 was Tampa, Florida. So I wanted to see on the spot if the actually very common impression that the central government left those people who were affected by the crisis alone was true. I focused my research in Tampa on two institutions: First, the Housing & Education Alliance and its founder and Executive Director, Sylvia Alvarez. Second, the Metropolitan Ministry and one of their social workers, Elaine Thomas, whose clients are homeless people.

Elaine Thomas is a member of the hard working American middle class who, within one year, lost literally everything. Elaine, mother of two now grown-up kids, had a good job in 2007, an affordable mortgage rate, everything seemed to be fine.

When the crisis started, she was laid off and faced a vicious cycle. Without a job, her health insurance payment went up, as well as her interest rate. Even though she found a new job, it didn't get her out of that mess, because she earned less there. Plus, the bank refused to refinance her mortgage with an adjusted, fair interest rate. Elaine even had troubles to get in touch with the right bank – as her mortgage credit was bundled with others and was sold to various banks within a short period of time.

Her story is a blueprint for what happened to millions of Americans since 2008. They managed to reorganize their lives, but faced a personal economic decline. Elaine found help though. It was the

U.S. Department of Housing and Urban Development who came to Tampa to organize meetings between banks and debtors to negotiate affordable mortgage rates. Finally, her mortgage rate was adjusted so now she can pay. Elaine also got monetary help from a fund called "Florida's hardest hit", a measure of the Obama government. The fund itself faced critique by the media for not effectively helping those in need, but in Elaine's case, it worked.

In short: The federal government helped Elaine to get out of the trouble, but it didn't manage to stimulate an sustainable economic growth that led to a recovery of the middle class. A lot has been written about this phenomenon in the last years, for example George Packer's bestseller "The Unwinding".

Ninth finding – America has unknown heroes

I already mentioned Sylvia Alvarez. Her organization, the Housing & Education Alliance, also located in Tampa, is helping poor families to educate their kids and finding a home to stay in. In the midst of the crisis, the government of Florida cut the funding for this organization. Without any money to pay her employees, Alvarez decided to send them home, but she wanted to keep on working. The situation in Tampa was too severe. The parking lot in front of her office was full with families sleeping in their cars, because they have been evicted from their homes. Alvarez knew how to help them and she refused to close her doors.

So did her employees. They almost entirely stayed, knowing there won't be any payment. But the considered it their duty to help their fellow citizens. Bit by bit, of course, some of them left. Nowadays the organization has shrunk, but still exists. Alvarez helped hundreds of families, but in the end she could not help herself. Just some weeks before I came to her office to hear her story, the bank took her house. Now she lives at her parent's place again and tries to restart her own existences.

Unfortunately, I didn't publish her story, but at least a colleague from the Tampa Bay Times whom I met, was very interested to write it down. What lesson did I learn? Maybe simply that a society in crisis sometimes unveils its best parts.

Summary

After the elections, my first question is almost irrelevant. Will Obama's reform agenda limit the effect of the next financial crisis? Donald Trump announced to dismantle almost all of it. But it also influenced the international regulatory framework a lot. Former Secretary of the Treasury Henry Paulson said something on the Sifma conference that seemed to summarize the problem. In his opinion, the international system is still very fragile, high federal dept rates combined with negative interest rates point out systemic problems way beyond the regulations covered by Dodd-Frank. On the long run, we face a climate crisis, Paulson concluded. A crisis which, in my words, the current system is definitely not ready to solve. It's still all about stabilizing the basic function of the economy like providing credits to stimulate consumption and growth.

What happened to those affected by the crisis? At least the people I met managed to work their way out of the mess in different ways. But to put this finding in perspective: I didn't search for devastating cases in particular. I nevertheless got the impression that huge parts of the American society were left behind or arranged themselves with the fact that there is no way up the ladder of wealth. For them it's enough not to fall down. To me it didn't sound like people were still believing in the American dream.

Occupy Wall Street was just one answer to this feeling. It was followed by other movements like Black Lives Matter, which leads to a totally different topic – racism, which was not part of my research. But I assume that both are connected in some ways. When people feel left behind economically they tend to seek simple answers. Blaming people with a different skin color, religion or origin is one of those simple answers.

Publications

- [“Obamas Versprechen”](#), taz.am wochenende, November 5th, (“Obama's promise”), feature about the housing crisis and Obama's Dodd-Frank act, online version has a different title
- [“Die unterbrochene Revolution”](#), taz.die tageszeitung, November 11th, (“An interrupted revolution”) report about Occupy Wall Street activists in New York
- [“Das Silicon Valley weiss, wen du wählst”](#), taz.die tageszeitung, November, 8th, (“Silicon Valley knows who you'll vote for”), feature about Cathy O'Neil and her book “Weapons of Math Destruction”
- [„Da liegt Trump auch mal richtig“](#), taz.die tageszeitung, November 18th, (“That's where Trump is right”) interview with Marc Weisbrot, co-director of the Center for Economic and Policy Research in Washington
- [„Einfach Verzicht predigen funktioniert nicht“](#), Newsletter of the German Council of Sustainable development, November, 18th, interview with Ann-Christine Duhaime, neurosurgeon at the Boston General Hospital about how the brain's reward system leads to overconsumption and how to solve the problem