# citigroup

## BUBBLES, BAILOUTS AND GLASS-STEAGALL

# OCCUCARD #24

EXPOSING AND OPPOSING THE CORPORATE STATE

**Citigroup Inc. (Citi)** is the third largest U.S. bank by assets. Headquartered in New York City, it holds over 200 million customer accounts in more than 140 countries. As a commercial or retail bank, Citi was once barred from engaging in high-risk investment activity by the Glass-Steagall Act, a 1933 law that prevented commercial banks from gambling with its customers' deposits. During the late 1990s, however, Citi spearheaded a lobbying campaign that induced Congress to repeal Glass-Steagall, freeing them and other commercial banks to invest enormous sums of money in speculative markets, and paving the way for the same types of risky and often fraudulent investment schemes that caused the Great Depression.

Once deregulated, it did not take long for commercial banks to create a colossal financial bubble, using their money-creation powers to issue trillions of dollars in new mortgages to virtually anyone willing to accept a loan. Not only did this inflate the housing market far beyond its intrinsic value, but it guaranteed a mass wave of future defaults when the bubble finally burst. To avoid these liabilities, Citigroup and other megabanks then sold these subprime mortgages to unsuspecting investors after bundling them into intentionally complex and deceptive financial products ("mortgage-backed securities") they knew would fail, yet billing them as AAA-rated.

> A financial or speculative bubble occurs when the price of a particular commodity begins rising or "inflating" beyond its intrinsic value (labor, materials, etc). This happens when investors start buying a commodity based solely on the expectation that they will be able to sell it later at a higher price, with new buyers hoping to sell at higher prices as well, and so on. The commodity itself doesn't matter. It could be stocks, houses or tulips. What matters is only the collective expectation of continued growth and the amount of money available to new buyers. Commercial banks can create enormous financial bubbles using their power to issue virtually unlimited amounts of new money into the economy in the form of loans, pumping up speculative markets and—because bubbles always burst—putting the entire economy at risk. Without Glass-Steagall or similar regulations, this will surely happen again.

Despite such blatant financial fraud, not a single Citigroup executive has been prosecuted. Instead, Congress rewarded Citi with $45 billion in bailout funds, claiming they were "too big to fail," even as many smaller yet less insolvent banks were forced into liquidation. The Securities and Exchange Commission (SEC), in a move that was more PR than punitive, asked Citi to pay a penalty worth only a fraction of what they defrauded investors, amounting to a mere business expense. (They weren't even required to acknowledge wrongdoing.) And for its part, the Federal Reserve continues to bail out Citi and other Wall Street megabanks by loaning them (so far) a staggering $13 trillion at near zero percent interest. By using this money to purchase U.S. treasury bonds that earn three percent, these banks can essentially take money directly from the taxpayers. No effective relief, of course, has been offered to millions of individual debtors who were foreclosed upon, lost their retirement funds or were forced into bankruptcy.

Between 2001 and 2010, Citigroup spent $62 million on lobbying, and in the 20 years prior to the crash, it was the third largest corporate campaign contributor, just behind Exxon and Goldman Sachs. This takeover of government by corporations continues, and given the level of collusion within both major political parties, it won't end without a mass movement of **education**, **protest** and **civil disobedience** that puts direct pressure on the corporate state.

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