



Market plunges on Obama bank crackdown

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Stocks on Wall Street plunged overnight after US President Barack Obama announced plans to limit the size and power of America's biggest banks.

In a very public swipe at Wall Street, Mr Obama blamed banks for sparking the worst economic crisis since the Great Depression and said common sense reforms were needed.

"Never again will the American taxpayer be held hostage by a bank that's too big to fail," he said.

Wall Street gave an immediate thumbs down to the plan, with the Dow Jones industrial index sinking 2 per cent as the president delivered his announcement.

Mr Obama says the financial system is far stronger today than it was a year ago, but is still operating under the same rules that led to its near-collapse.

Now he wants to ban banks from proprietary trading operations, where a firm makes bets on financial markets with its own money.

"Banks will no longer be allowed to own, invest or sponsor hedge funds, private equity funds or proprietary trading operations for their own profit, unrelated to serving their own customers," he said.

"These firms should not be allowed to run these hedge funds and private equities funds while running a bank backed by the American people."

The plan is the latest attempt by the White House to harness popular anger at massive Wall Street bonuses and tight credit markets as Congress heads to a crucial election year.

The plan has to be approved by Congress, and Mr Obama is vowing to make sure it happens, even if Wall Street deploys an army of lobbyists to try to block it.

"If these folks want a fight, it's a fight I'm ready to have," he said.

Banks threatened

The plan means that some of America's biggest banks, such as Bank of America and JP Morgan, may have to be broken up.

But the director of financial regulation studies at the Cato Institute, Mark Calabria, says the president is unfairly vilifying banks.

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"To say that these banks held the taxpayer hostage is just ridiculous," he said.

"It was the decision of policy-makers who voted to spend public money to bail out these banks.

"I cannot find one single example of where some institution took insured deposits and used it to gamble on the stockmarket.

"Where is the example, where does this make a difference? All this seems to be is some misdirection at something that never made a difference to begin with."

The industry lobby group for banks says Mr Obama is trying to return the US to the past.

The Financial Services Roundtable says the better idea would be to modernise the regulatory framework and not take the industry "back to the 1930s".

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