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Obama stumbled on Wall Street

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In his recent speech on Wall Street, President Obama tried to delegitimize any criticism of his proposed financial regulations and taxes. He said, "What's not legitimate is to suggest that somehow the legislation being proposed is going to encourage future taxpayer bailouts, as some have claimed. That makes for a good sound bite, but it's not factually accurate. It is not true. In fact…a vote for reform is a vote to put a stop to taxpayer-funded bailouts. That's the truth. End of story."

One of Wall Street's toughest critics, *New York Times* columnist Gretchen Morgenstern, must have missed the memo. Two days after the president attempted to foreclose debate, Morgenstern explained that the so-called financial reform bills "would encourage smaller companies to grow large and dangerous so that they, too, could have a seat at the bailout buffet… . The message is this: Subject as they will be to a newly codified "resolution authority," these [large and intertwined] institutions and their investors and lenders can expect to be rescued if they get into trouble. This perception delivers lucrative advantages to these institutions. The main perquisite is lower borrowing costs, a result of lenders' assumptions that the giants are less risky because they will be in line for government assistance if they become imperiled."

Morgenstern told the truth. End of story. Why else would the Senate bill need a new $50 billion bailout fund? The TARP slush fund still exits and the FDIC still insures depositors. Who stands to collect that extra $50 billion if not the big foreign and domestic institutions that might make big bad loans to big bad failures?

The president's broadside against derivatives was based on an assertion that investors "weren't fully aware of the massive bets that were being placed. That's what led Warren Buffett to describe derivatives that were bought and sold with little oversight as 'financial weapons of mass destruction.' And that's why reform will rein in excess…"

One man’s weapons may be another man’s favorite investments, but in this case it’s the same man. Buffet’s firm has invested $65 billion in derivatives, and Berkshire Hathaway exemplifies what Obama called “the furious effort of industry lobbyists to shape this legislation to their special interests.” Like many businesses that use derivatives to hedge risk, the financial bills would hit Warren Buffet hard, requiring his firm to keep an extra $8 billion in reserve, uninvested, for no sensible reason.