

## WALL STREET REFORM: A BIG FLOP FOR THE BIG LIE STRATEGY?



### Introduction

Over the past two decades, Wall Street pushed hard to weaken government oversight and loosen regulatory restrictions on the financial industry's behavior. Once Wall Street was able to play by its own rules, old standards went out the window. The resulting binge of greed, speculation, fraud, and reckless risk-taking resulted in a financial meltdown that has cost millions of Americans their jobs, homes, and retirement savings. The federal government was forced to step in to prevent an even more chaotic and catastrophic financial collapse.

But now that Congress is taking serious steps to stop the abuses that have cost the nation so dearly, big Wall Street banks and their political enablers have been doing their best to block reform. They're using every trick in the book, including setting up a fake grassroots group that was designed to sound like a progressive organization. Some unconvincingly suggested that Republicans were opposing the Senate reform bill because it wasn't tough enough on Wall Street. A centerpiece of these obstructionist strategies has been repeating over and over again a brazen lie that the reform legislation before Congress would put taxpayers on the hook for "endless" bailouts. The bill would in fact do the opposite.

### Audacious Lying as Propoganda Strategy

Big lies became a staple of right-wing political strategy long

before Barack Obama decided to run for President. Big lies by their nature are audacious, since they are meant to convince people to accept a version of truth that is 180 degrees from reality. Think about the Swift Boat crowd's doggedly deceptive effort to damage John Kerry by smearing his well-documented and highly decorated military service. The Swift Boat episode epitomizes the Karl Rove Machiavellian-Orwellian political approach to go after an enemy's strength, not his weakness.

Essential to the strategy is noise from the echo chamber of right-wing pundits online and on Fox News -- and unwarranted credibility from conservative members of Congress and other public officials. Since the 2008 presidential campaign, right-wing political strategists have made audacious lies the go-to strategy for opposing the Obama administration and its political goals. Let us count the ways: Birtherism, death panels, Obama is a Marxist who wants to take over the entire

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economy, Obama hates white people and white culture, Ivy Leaguer Sonia Sotomayor is an undeserving affirmative action anti-white-male racist, the federal hate crimes law is a "pedophile protection act" that will put preachers in jail, the Obama administration hates religion. And so on.

This list makes it clear that telling big lies is not always

successful in accomplishing a particular goal, such as stopping health care reform legislation or keeping Sotomayor off the Supreme Court. But the goal and impact is often broader: taking the public option off the table, or contributing to the larger right-wing Big Lie narrative that Barack Obama is a dangerous radical whose political wings must be clipped in the 2010 elections to prevent the nation's slide into tyranny.



## FRANK LUNTZ INSTRUCTED REPUBLICAN OFFICIALS HOW TO OBSTRUCT WALL STREET REFORM WHILE CONFUSING THE AMERICAN PUBLIC ABOUT WHO WAS LOOKING OUT FOR THEIR INTERESTS.

Which brings us to the apparent collapse of the lie that Republican leaders led by Senate Majority Leader Mitch McConnell have been deploying against efforts to bring some much-needed transparency and accountability to the financial industry: that Wall Street reform guaranteed “endless bailouts” for big banks.

The Bailout Lie seems to be falling apart under the weight of its own transparent falsity and by some GOP strategists' calculations that standing in the breach for billionaire hedge fund CEOs may not be the most effective political positioning headed into the fall elections. Recent news reports suggest that GOP leaders are now angling for a face-saving compromise, a strategic flip-flop that has given rise to what we can call Son of the Big Lie: which is to claim that their Bailout Big Lie was right all along and we should be grateful that they stuck to their guns. You can see why they think this new lie is worth a shot politically, but it's equally transparent.

### Lying to Protect Big Money from Reform and Regulation

Republican congressional leaders were always in a bit of a difficult situation around the effort to bring some more effective oversight and regulation to the industry whose irresponsibility has gravely damaged the American economy and drained the U.S. Treasury.

On one hand, the GOP is closely tied to the Wall Street interests who most strongly oppose regulatory reform. On the other, right-wing tea party activists and independent voters are angry about taxpayer bailouts and their belief that Wall Street

CEOs have been rewarded, rather than held accountable, for financial wrongdoing that has devastated the nation's housing market and economy. So it's not a great time to be exposed as carrying political water for billionaire hedge fund executives – the people Mitch McConnell visited begging for campaign contributions just before launching attacks on Wall Street reform.

Back in January, Republican pollster and communications strategist Frank Luntz distributed a strategy memo instructing Republican officials how to obstruct Wall Street reform while confusing the American public about who was looking out for their interests. Among Luntz's key recommendations was to tie reforms to big bank bailouts. There's the 180 degree spin from reality. One of the key goals of Wall Street reform legislation being considered in both houses of Congress is preventing the need for such bailouts by clamping down on the kind of overly

risky behavior that led to the financial system meltdown. The legislation has been designed to create mechanisms to shut down failing institutions in an orderly way to prevent the need for expensive improvised bailouts in the future.

So, to be clear, the purpose of the Bailout Lie was to let Republicans get away with stopping reforms that would crimp the style of Wall Street speculators while at the same time convincing tea party activists and Main Street Americans that it was somehow the Democrats doing Wall Street's bidding.



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That's a big bluff. But Senator McConnell is nothing if not audacious in putting the Bailout Lie to work.

As MSNBC commentator Rachel Maddow noted in a recent show skewering McConnell for doggedly promoting this false attack on the legislation, “reality is not exactly how this stuff works.”

[Attacks on the House Reform Legislation](#)

On February 3, Factcheck.org, a project of the Annenberg School at the University of Pennsylvania, noted that a secretive group called the Committee for Truth in Politics, was running ads in 35 markets attacking the Wall Street Reform and Consumer Protection Act which had passed the House. Factcheck's post -- "The Big Bank Bailout Bill?"—debunks the ads' claims that the reform bill amounts to a "new \$4 trillion bailout for banks. If they fail. Again." More recently, USA Today reported that the Orwellian-named interest group had spent \$5 million on its anti-reform ads while refusing to disclose any of its contributors.

The Factcheck.org post notes that the House bill actually puts caps on lending authority the Federal Reserve already has and would create new restrictions on the use of that authority, and that a \$150 billion pot of money to help deal with future financial crises would be funded by fees from large financial institutions themselves.

We take no position on whether the \$4 trillion cap is too big or too small, or whether the authority itself should or should not be granted. But there's nothing in the bill that requires that banks get this loan money at any point in time, a fact that may well be lost on viewers of the ad.

In addition, Factcheck quotes a House Financial Services



*[The House bill is] "a complete government control of the financial services industry"*  
**-Rep. Michele Bachmann**

Committee staffer refuting the claim that the \$4 trillion is available "if [banks] fail."

"That's 1,000 percent incorrect," he says, pointing to another provision in the bill that gives regulators the authority to dissolve "systemically important" firms that are failing. "They will use a fund paid for by the industry to put it out of its misery" and "stop any spread of this sort of financial contagion that can take down the financial system or harm the economy."

It should be noted that even before Luntz blessed the strategy with his January memo, some right-wing propagandists were already trashing the House legislation. Back in December, Walking Big Lie Rep. Michele Bachmann of Minnesota called the House bill "a complete government control of

# YOU DON'T HAVE TO TAKE OUR WORD THAT THE **BAILOUT LIE** WAS JUST THAT...

You don't have to take our word that the Big Lie was just that. The nonpartisan Politifact, in an analysis labeled "Bank bailouts not in bill, but liquidation is," flatly declared McConnell's claims to be "false." The full Politifact report is worth reading, but here's a short excerpt:



**MITCH MCCONNELL SAID THAT NEW FINANCIAL REGULATIONS WOULD LEAD TO BAILOUTS.**

*Sen. Mitch McConnell said that new financial regulations under consideration in the Senate could lead to only one thing: bailouts.*

*"In fact, if you look at it carefully, it will lead to endless taxpayer bailouts of Wall Street banks," McConnell said at a press conference on April 14, adding that it "actually guarantees future bailouts of Wall Street banks" and that it sets up "in*

*perpetuity the potential for additional taxpayer bailouts of large institutions."*

...

*In ruling on McConnell's statement, that financial reform "actually guarantees future bailouts of Wall Street banks," we base our ruling primarily on the legislation. It clearly states that the intention is to liquidate failing companies, not bail them out. To do that, it creates a fund with contributions from financial firms, not from taxpayer funds. We do not see any element of the bill that expressly permits ongoing, "endless" outlays from the federal treasury. Is it possible that liquidation may cost the government money, potentially more money than is allowed for in the bill? Yes. But even so, McConnell is using seriously overheated rhetoric. Nothing in the bill "guarantees" future bailouts of Wall Street banks. We rate his statement False. ■*

the financial services industry” and said it would make bailouts permanent and give the president the authority to make future bailouts at his own discretion. According to Bachmann’s typically over the top refrain, “it isn’t that socialism has occurred in our lifetime, *it’s in the last 18 months!*”

### [McConnell Leads Big Lie Attack on Senate Legislation](#)

In recent weeks, Senate Majority Leader Mitch McConnell has endlessly parroted Luntz’s rhetorical deceptions such as his claims that the Wall Street reform bill being considered by the Senate would result in “endless taxpayer bailouts.” McConnell, who built a now-collapsing partisan wall of opposition to the reform bill, had also tried recycling another old GOP strategy on the health care bill, which is to insist that reform legislation had to be thrown out so senators could start all over on a bipartisan bill.

McConnell has had plenty of help from conservative commentators and the right-wing echo chamber. Media Matters has documented the lie’s appearance in right-wing media, including Fox News and the opinion pages of the Wall Street Journal. The “bailout” language spread beyond that as well. During a CNN report on reform, the crawl on the bottom of the screen read, “Financial Fix or Wall St. Bailout?”

### [The Truth: Shutdowns Not Bailouts](#)

The Bailout Lie is as bold as it is false. As President Obama himself said in taking on McConnell’s charges, the Senate Majority Leader was making a “cynical and deceptive assertion that reform would somehow enable future bailouts -- when he knows that it would do just the opposite.”

Indeed, the provision of legislation under consideration in the Senate that McConnell and others decried as a “bailout fund” would actually create an orderly, bank-funded process for authorities to shut down – not bail out – giant financial firms that get into trouble. Sen. Mark Warner (D-VA) made clear that this wasn’t the preferred option of Wall Street executives when he told the Washington Post, “No rational management team would ever choose resolution. It means shareholders wiped out. Management wiped out. Your firm is going away.” As the Washington Post editorialized last month, the Senate bill “provides a way to rein in the risks” taken by large financial institutions, and “and taxpayers won’t be on the hook if they nevertheless collapse.”

The same is true for the House bill. Rep. Barney Frank said the legislation will provide “a mechanism for putting non-bank financial institutions out of everybody’s misery.”

Financial journalist Edmund Andrews has written:



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**-Barack Obama**

“The recent bailouts kept zombie banks and AIG alive, because both the Bush administration and the Federal Reserve correctly feared that their collapse would set off a chain-reaction of failure. The bailouts were necessary because the government didn’t have the authority to shut the companies down in a orderly way....The new resolution authority would give the government new powers to take over and shut down failing giants. That is quite different from bailing out a bank and keeping it alive.

### [Wall Street Reform in Waiting](#)

With the Bailout Lie failing, it seems more likely that reform legislation will make it through the Senate and ultimately to the White House for the president’s signature, and the lobbying by the financial industry and others to influence the final makeup of the bill will undoubtedly be intense. Until the final bill is in place it’s impossible to say who all the winners and losers will be – but it’s clear that the Luntz-McConnell Bailout Lie is one of the losers. ■



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