# CRACKS IN THE PILLAR OF POWER: Top Financiers Expose Fissures Within the 1%

By Kevin Zeese

Global Research, April 13, 2012
13 April 2012

Region: USA
Theme: Global Economy, Poverty & Social Inequality

In recent weeks several big finance insiders have publicly exposed fault lines in the U.S. financial system. Their inside views are telling us that the corruption we see is real and, more importantly, those in the system know it.

Financiers that break from the corruption of gluttonous greed can become the conscience of a sector that seems to have no conscience. Let's hope their courage is contagious and others follow their lead.  We need a revolt from inside big finance that will help radically transform finance from greed to generosity, from gluttony to moderation and from selfishness to community benevolence.

A thorough examination of the corruption of big finance came in a recent shareholder letter from Robert Wilmers, the Chairman and CEO of M&T Bank. He laments that "it is difficult, for one who has spent more than a generation in the field, to recall a time when banking as a profession has been publicly held in such persistently low esteem" noting that polls show "only a quarter of the American public expressed confidence in the integrity of bankers."  He recognizes that this is something big finance has brought on itself: "Since 2002, the six largest banks have been hit by at least 207 separate fines, sanctions or legal awards totaling $47.8 billion. None of these banks had fewer than 22 infractions; in fact one had 39 across seven countries, on three different continents.

And, he highlights the salary disparity between bankers and other Americans reminding us that this is a recent development.  Just a few generations ago "the average compensation in the financial services industry was exactly the same as the average income of a non-farm U.S. worker."  But today: "At a time when the American economy is stuck in the doldrums and so many are unemployed or under-employed, the average compensation for the chief executives of four of the six largest banks in 2010 was $17.3 million – more than 262 times that of the average American worker . . . it is hardly surprising that the public would judge the banking industry harshly – and view Wall Street's executives and their intentions with skepticism."

How did the finance industry change into this corrupt mass?  Wilmers points to the repeal of Glass-Steagall, a law "prudently erected in the wake of the Depression, kept investment banks apart from traditional banks."  When banks were credible members of the community they "saw public service as part of their obligation" and "played a clear, if limited, role in the economy: to gather savings and to finance industry and commerce. Trading and speculation were nowhere included."

But, in the 1970s and 80s he describes banking moving away from investing in things they knew as they began investing in areas where they "possessed little knowledge." This created high risks, so much so that a 1993 study conducted by the Federal Reserve Bank of Boston found that had "banks truly recognized all the losses inherent in their books in 1984, one major bank would have been insolvent and seven others dangerously close."

Rather than reducing risk, they sought quick profit by creating "investments they did not understand – and, indeed it seems nobody really understood. In the process, they contorted the overall American economy." The repeal of the Glass-Steagall Act in 1999 married investment banks with traditional banks. Rather than sound investment Wall Street bet on "increasingly opaque financial instruments, built on algorithms rather than underwriting." This sowed "the seeds of crisis and embodied a broader change that, in important and unfortunate ways, continues today"

Wilmers describes a bigger, systemic problem, "not only bankers but their regulators, not only investors but those paid to advise them, not only private finance but its government-sponsored kin." The result – "the decimation of public trust in once-respected institutions and their leaders." The economic collapse "was orchestrated by so many who should have, instead, been sounding the alarm."

Unfortunately, "the Wall Street banks continue to fight against regulation that would limit their capacity to trade for their own accounts – while enjoying the backing of deposit insurance – and thus seek to keep in place a system which puts taxpayers at high risk. In 2011, the six largest banks spent $31.5 million on lobbying activities. All told, the six firms employed 234 registered lobbyists."

Wilmers urges us "to distinguish between Wall Street banks who, in my view, were central to the financial crisis and continue to distort our economy, and Main Street banks who were often victims of the crisis." Many activists do see the difference between Wall Street and community banks and credit unions; and therefore, have engaged in the "move your money" campaign.

A second example of divisions in the banking sector comes from the Federal Reserve Board of Dallas which released a report from its chief researcher, Harvey Rosenblum , "Why We Must End Too Big To Fail Now," cites statistics showing that the five largest U.S. banks hold 52% of all bank assets. The report points out that "American workers and taxpayers want a broad-based recovery that restores confidence. . . The road back to prosperity will require reform of the financial sector. In particular, a new roadmap must find ways around the potential hazards posed by the financial institutions that the government not all that long ago deemed 'too big to fail.'" In an introduction to the report, Dallas Fed President Richard W. Fisher calls for "downsizing" these megabanks because the continuing cloud of 'too big to fail' hanging over the economy is simply too costly.

Rosenblum, like Wilmers, sees that Americans have lost faith in capitalism as a result of Wall Street's greed: "Diverse groups ranging from the Occupy Wall Street movement to the Tea Party argue that government-assisted bailouts of reckless financial institutions are sociologically and politically offensive. From an economic perspective, these bailouts are certainly harmful to the efficient workings of the market." He blames the big banks for the lackluster "recovery" writing that the too-big-to-fail banks "remain a hindrance to full economic recovery."

In the report, Rosenblaum states that the financial crisis arose because of “failures of the banking, regulatory and political systems.” But, he warns “focusing on faceless institutions glosses over the fundamental fact that human beings, with all their flaws, frailties and foibles, were behind the tumultuous events that few saw coming and that quickly spiraled out of control.”  As the regulatory and political systems failed, the rule of law was not enforced, when this occurs “incentives often turn perverse, and self-interest can turn malevolent. . . Greed led innovative legal minds to push the boundaries of financial integrity. . .”

Rosenblaum sees the too big to fail financial banks, not community banks, as the “primary reason” for the weak recovery: “Many of the biggest banks have sputtered . . . in contrast, the nation’s smaller banks are in somewhat better shape . . . most didn’t make big bets on mortgage-backed securities, derivatives and other highly risky assets whose value imploded.” He concludes: “an economy relatively free from financial crises—won’t be reached until we have the fortitude to break up the giant banks.”

The most highly publicized division among financiers was in mid-March when Goldman Sachs executive Greg Smith publicly resigned, with a pointed letter  in the New York Times.  The letter described a “toxic and destructive environment” in Goldman where the entire staff from senior partners to associates, pursued nothing but ever-more sophisticated means of “ripping their clients off.”  At the center of Smith’s critique is the massive derivatives market, where he was a central player.

What may have been most interesting about the public resignation letter was so many commentators saying – ho hum, Goldman rips off its clients, big surprise.  Former Secretary of Labor Robert Reich broadened the discussion describing the history of Goldman rip-offs going back to the 1920s and broadening the rip-off mentality to all of Wall Street’s big banks, not just Goldman. Reich describes this as a problem of “endemic abuse of power and trust.”  This culture of corruption led to “the junk-bond and insider trading scandals of the 1980s, the dot-com scams of the late 1990s and early 2000s, the Wall-Street enablers of Enron and other corporate looters, and the wild excesses that led to the crash of 2008.”

What do these emerging cracks mean to people in the United States who want to see radical transformation of finance, democratization of the economy and a participatory democracy where people have real power?  It means, we are seeing the weakening of the pillars that hold the power structure in place – a critical step to people having the power to demand change.

Steve Chrismer, an engineer working with Occupy, describes this in engineering terms; how with the right frequency we can insert our fist, even our arm between rocks: “Did you know that it is possible to insert yourself between rocks that are vibrating at just the right frequency?  When looking for the optimum vibration frequency I increased the frequency by single digits from 0 Hz.  When resonance occurred the situation changed dramatically and as the rocks became ‘fluid’ I was able to insert my hand and then my whole arm into the rocks.  If you went slow enough the rocks flowed around you, not noticing your presence, and did not resist: go too recklessly fast and the rocks would resist.

“This is where Occupy is as a movement: only 6 months old and we are already noticing the weakness of solid walls. To weaken the pillars of power requires that we study these cracks so that we can provide the needed energy to open them non-violently and allow us all to pass through.”

Occupy needs to drive wedges through these cracks.  Protests of executive salaries, stopping foreclosures and evictions through Occupy Our Homes, highlighting the failure to loan to small businesses and the hiding of profits off shore to avoid paying taxes, pressuring banks for their investments in private prisons, dirty fuel, for-profit health care and other negative corporate interests need to escalate as we build pressure to break up the Too Big to Fail Banks.  At the same time, we need to build a new finance system which includes developing public banks at the state and city level and building community banks and credit unions by moving our money from the big banks.  Time banks that record volunteer time which is traded for unpaid labor at the community level will avoid the banking system altogether. Expanding the fissures by the combination of protest and building the new economy will result in a finance system that serves the public interest, not private gain.

No doubt many others inside big finance feel the same as those who have spoken out. The courage of the few may embolden more to expose the corrupt practices and unsafe risks that are being taken; and to speak about real solutions to the financial crisis. Up until now, those who see the corruption may have felt alone but now they know they are not and they can join with others seeking to stop the exploitation of people and the planet.

The more we speak about the fraud and corruption of Wall Street, the more we will empower those in big finance who are questioning the current paradigm. The more we protest at banks and financial institutions, exposing the truth about unethical foreclosures, concentrated wealth and ties to industries that harm people and the planet; the more reasons those inside will have to change their behavior. Using creative conflict and nonviolent tactics, we can draw more people to the movement for social and economic justice and provide a safe place for them to speak the truth of much-needed transformation.

***Kevin Zeese*** *is co-director of Its Our Economy and an organizer of the National Occupation of Washington, DC.*



---

**Comment on Global Research Articles on our Facebook page**

**Become a Member of Global Research**

*Articles by:* **Kevin Zeese**

For media inquiries: publications@globalresearch.ca