

# Los Angeles Municipal Fraud, The Next Battle Against Wall Street?

By [Tom Hayden](#)

Global Research, May 10, 2014

[tomhayden.com](http://tomhayden.com)

Region: [USA](#)

Theme: [Global Economy](#)

*The next battle against Wall Street may be brewing and this one is in Los Angeles City Hall.*

If it erupts, the soldiers will be a scrappy, wonky, and sophisticated phalanx of labor, neighborhood, and religious activists. Their research has exposed the fact that Wall Street banks were paid \$200 million in fees alone last year by the City of Los Angeles; many millions more than the city spent on fixing its streets.

The comparison between City Hall and our streets makes City Hall officials wince; claiming it mixes apples with oranges. But there's more than catchiness in the comparison. The new report, [Fix LA](#), shows that at least \$106 billion in public money overall, from airports, seaports, utilities and pension funds, goes to private financial institutions that profit from fees, lending and leveraging those funds.

Citizens and elected officials often are overwhelmed and under-qualified to understand the weird and complicated transactions – debt swaps and derivative trades, for example – that Wall Street employs to extract maximum profit from all that public capital. There is no single Los Angeles official mandated to bargain with Wall Street. No official consumer watchdog, no fledgling Elizabeth Warren or Ralph Nader. No inspector-general to investigate financial industry fraud. No mainstream investigative reporters on the case, not so far anyway. While insiders and advocates will pore over the city's multi-billion annual budget this month, no single monitor is minding the hundreds of millions funneled to Wall Street's predatory care, as the report charges.

City officials will have their chance to respond in public hearings over the next several weeks, based on a motion being introduced by Councilman Paul Koretz this Friday; one seconded by Council member Gil Cedillo. Budget and Finance Committee chair Paul Krekorian, waiving the report, promised thorough public scrutiny of its data and claims.

Koretz is challenging the prevailing notion that the main role of local government is to cut its budgets for essential services, embrace austerity as inevitable, and pray that Wall Street investors notice. The city's budget already has been cut 19 percent per capita since the Wall Street crash. The city paid out \$133 million in taxpayer money last year alone to Wall Street firms for managing its pension funds.

While labor contracts are always "on the table" in budget talks, no one ever suggests that the city should put its Wall Street contracts "on the table" for cuts or renegotiation.

While public employers are blamed perennially in the media and politics for making excessive wage demands, when was the last time anyone questioned Wall Street for making excessive fee demands?

While the public absorbs sixty percent cuts in the city budget for picking up debris and trash, who complains about banks charging \$7.9 million for managing the city's cash?

The Koretz motion calls on the city to either renegotiate or terminate a financial deal involving the City of Los Angeles and Bank of New York Mellon, which turned sour after the 2008 Wall Street crash. Koretz says the deals like this have cost the City \$65 million since 2008.

According to a Brookings Institute [report](#), "A growing body of evidence...suggests that borrowing costs are too high. Given that the value of municipal bonds outstanding is \$2.9 trillion, municipal borrowers and their investors are leaving billions of dollars on the table every year because of borrowing costs, fees, and other transaction costs. These costs are a drain on state budgets; (and) make investments in education, infrastructure, health care and utilities more expensive..."

From a Wall Street perspective, cities look like large and inviting pools of public capital waiting to be privatized, just like Social Security on the national level. But in the progressive tradition, the role of government is to deploy public resources to maximize returns in the public interest. Progressive public officials are tasked with striking the best deal for their constituents. From the Wall Street perspective, financial transactions should be carried out in milliseconds, which leaves no role for public hearings, oversight or regulations. Campaign contributions are meant to lubricate the bureaucratic machine.

The [Fix LA](#) report just might force a debate over the role of a democratic government in a market economy because the report is potentially much more than fifteen pages plus an appendix. The research is sound enough to embarrass many observers who claim to "know" Los Angeles. The effort is led by the Coalition of LA City Unions, including SEIU Local 721 and AFSCME District Council 36, representing collectively 22,000 city workers with the resources of staff, structure, and a budget for organizing. Only last week they sent out tens of thousands of glossy campaign-style pamphlets complete with readable headlines and charts. Union members are pouring over the report's findings. The question is whether their campaign takes root with a broader public. The issues are complicated. The injuries inflicted are harder to notice than home foreclosures. The ideological argument over austerity has divided even liberals. The power of campaign contributions can be chilling. The public mood may be too cynical at the moment.

A truly grassroots campaign might begin change all that. The Fix LA organizing effort, which already has sponsored a town meeting in South Central and advocates' visits to Council offices, relies on neighborhood-based organizations like Community Coalition, the Alliance of Californians for Community Empowerment, the Southern Christian Leadership Conference and a roster of clergy with roots in the past and present campaigns for a living wage. If the forces that were aroused by Occupy Wall Street in 2011 are ready for ignition, there's a possibility of bringing the fight with Wall Street to Main Street LA, the address of City Hall.

Update May 5, 2014

As promised, the City Council budget committee held a several-hour hearing Monday on the issues raised by the Fix LA Coalition's research paper on Wall Street profits from LA city funds. Chaired by Council member Paul Krekorian, the hearing saw five Council members engaging intently with the report's authors, labor leaders and community-based representatives. The hearing was uniquely significant in that the labor-community

advocates for the first time were invited to have a seat at the table as part of the official city agenda. The hearing, which lasted several hours, was televised live on the LA city channel.

In a few weeks, the Fix LA Coalition will also hold another lengthy and detailed dialogue with City Controller Ron Galperin and experts from his office. Galperin, who is one of only three LA citywide elected officials, has independent audit powers. Recent Controllers' [reports](#) have questioned whether the city has gotten the best return on its investments, and whether passively managed investments are sometimes perform better than actively-managed ones, which obtain the higher management fees.

Normally, Wall Street fees and management practice are evaluated by methods comparing other cities and pension funds. Therefore if all comparable fees are within the same range, they are considered acceptable. In the growing debate in LA, officials are being asked to compare Wall Street fees with budget cuts for essential services like street repair and with the long-term costs of downsizing urban services.

For full testimony, see [A Balanced Plan to Fix LA](#) and the Coalition of LA City Unions [Presenation](#) to the LA City Council Budget & Finance Committee

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