

The Crimes of Wall Street: The Scam and Sleaze at the Top

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So many of us know in detail about all the false warnings and exaggerated claims that were used to justify the war in Iraq. By now, six years later, and after many books, reports, news stories and films (hopefully including my two books and film, Weapons of Mass Deception), we see the pattern of lies and deception. We realize what a fraud was committed against the American people and what its consequences have been for the people of this country, Iraq and Afghanistan.

For many of the righteous among us who thunder against these lies, there seems to be a lack of curiosity about the costly frauds that flushed our own economy down the toilet. Here too, there is a tendency to focus blame on politrick(ians), and not look at the larger fraud behind the fraud, in part , because most economists and media outlets minimize its role.

First, its clear that, like on the war, government officials did mislead us, from original deregulators in the Carter-Reagan years to the financial “modernizers of the Clinton-Bush 2 era with their refusal to accept responsibility for the consequences of their free market fantasies, the gutting of rules and regulations and embrace of a phony “ownership society.”

It is also now easy to blame the now self admitted “naivete” of Fedhead Alan Greenspan or the continued arrogance and bluster of Democrat turned Republican Phil Gramm who killed Glass Steagall and called fighters against predatory lenders “terrorists.” It equally easy to scorn those who claim that our government is a “tyranny” and call Obama a flaming Socialist

Flash back with me now to March 2007, just a few months before the markets melted down. Slate reported then on testimony by the two top economy watchers in America. They insisted that problems that were unleashed like a tsunami had been “contained.”

“Testifying on March 28, Ben Bernanke said, “At this juncture...the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained.” The same day, Treasury Sec Henry Paulson told the House of Representatives that “from the standpoint of the overall economy, my bottom line is we’re watching it closely but it appears to be contained.”

In May, Bernanke returned to the containment theme, saying, “we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system.” A few weeks later, he reiterated that “the troubles in the subprime sector seem unlikely to seriously spill over to the broader economy or the financial system.” On July 26, Paulson told Bloomberg, “I don’t think it [the subprime mess] poses any threat to the overall economy.” In China a week later, he revised and extended his remarks: “I also said I thought in an

economy as diverse and healthy as this that losses may occur in a number of institutions, but that overall this is contained and we have a healthy economy.”

Duh? Wrong, wrong, wrong.

But, before you dismiss these two geniuses as dunderheads, let’s consider what they knew or should have known. Or perhaps, like their counterparts in the Pentagon, they were blinded by their own assumptions and false “intelligence.” As people with a strong memories of our volatile history of financial crises, they know it’s not the just the government that should be indicted—it’s the irrational system it upholds.

At that time, and for years leading up to the popping of an artificially created bubble, there was a white collar crime wave underway with large scale corporate fraud that was duly reported and duly ignored. In 2004, The FBI first reported publicly on an “epidemic” of mortgage fraud that had been going on for years charging 80% of the losses were the result of deceptive practices by lenders backed by our biggest financial institutions.

Criminologist William K Black, a former bank regulator and expert on crimes committed by the men at the top—so-called “control frauds” referencing the practices of CEOs in control at big corporations—studied these reports pointing out that by 2008, there were only 62,000 “criminal referrals” in this industry with only agencies reporting crimes “mandated” by law to do so. Only 1/3 of these illegal practices were even reported and, then, hardly any, in unregulated sectors which, in turn, dispensed 80% of them. These were the mortgages Wall Street bought, securitized, sliced and diced, borrowed against, and resold under false pretenses. Did they know? You bet they did.

He estimates there have been ½ million Fraudulent mortgage cases annually that should have been prosecuted but the FBI only has the capacity to handle 500 per annum because most of its white collar crime fighters were reassigned to the war on terror.

This is common says Sam Antar, a former, or maybe not so former admitted white collar criminal who laughs at government attempts to control the crimes:

“ Because the government doesn’t have the resources to do it, and the white-collared criminals know it. The government basically ceded complicated crimes right after Enron. They ceded prosecuting complicated crimes. You see today, like the AIG thing, uh, Andrew Cuomo gets up there in front of the microphone and says, “We’re gonna get those bonuses back!!” Any schmuck prosecutor could’ve gotten those bonuses back. Where are the complicated crimes that are being investigated? All we’re getting today is small dinky guys getting prosecuted here and there for relatively easy crimes to investigate.”

The goal of control frauds are to defeat all attempts at controlling fraud, and artificially through accounting tricks to inflate the value of shares, promote a bubble or in short “Optimize the firm for fraud.” He says the control fraudsters are the real super-predators producing greater losses than all property crimes put together.

He charges this is as part of creating a “crimogenic” environment dressed up in legitimacy.

This is just one fraud. Black cites others including insider trading and “tunneling”—using bank holding companies as conduits for monies transferred from banks to executives and their underlings.

Two economists, one a Nobel Prize winner, George A. Akerlof, who along with Paul M Romer published a fascinating paper on deliberate looting using bankruptcies. Their thesis; 'Our theoretical analysis shows that an economic underground can come to life if firms have an incentive to go broke for profit at society's expense (to loot) instead of to go for broke (to gamble on success). Bankruptcy for profit will occur if poor accounting, lax regulation, or low penalties for abuse give owners an incentive to pay themselves more than their firms are worth and then default on their debt obligations.'

Sound familiar?

In a lecture he gave recently in Iceland, a country's whose government collapsed because of other frauds and speculation, William Black noted that ratings agencies involved in setting the price of assets never even looked at the loan files when certifying many of these deals as 'triple A' thus inflating their value, aided and abetted by phony appraisals. This is what was behind the rash of no-doc or "liars" loans that deliberately misled borrowers.

After securities based on this allegedly asset-backed mortgage paper (with no assets behind it) began to fail in large numbers, one agency, FITCH, went back and reviewed the underlying information only to conclude in a low key way that "the results were disconcerting because of the appearance of fraud in every file we review."

"Disconcerting?" How about infuriating, because more that \$2 TRILLION dollars worth of these "toxic" assets were sold and bought contaminating the global economy. These crimes need to be fully investigated. A commission that investigated the S&L crisis concluded that in the big losses they studied "fraud was invariably present."

Three questions: why didn't anyone read that report? Secondly, what do you think an investigation of this crisis will reveal? And finally, why isn't William Black speaking more in America?

Mediachannel News Dissector Danny Schechter is making a film based on his book PLUNDER: Investigating Our Economic Calamity (newsdissector.com/plunder) Comments to Danny@mediachannel.org

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