Criminal Banksters effectively control Congress/Government

by Jerry Mazza via reed - ICH *Wednesday, Apr 28 2010, 8:32pm*
international / injustice/law / other press

The 'Big Six' form the most powerful criminal cartel in American history

> The Big Six investment banks, Goldman Sachs, Morgan Stanley, JP Morgan Chase, Citigroup, Bank of America and Wells Fargo, are “shorting the American Dream,” according to economist Simon Johnson and entrepreneur James Kwak in an interview on April 16, “Financial Regulation and Regulatory Capture” on Bill Moyers Journal. Here’s a summary of the big and important ideas and issues on the table.

First, Simon Johnson is a former chief economist at the International Monetary Fund, now teaching at MIT’s Sloan School of Management. James Kwak is a former management consultant at McKinsley & company, co-founder of the successful software company, Guidewire, and presently studying law at Yale Law School. Together Johnson and Kwak run the economic website BaselineScenario.com. To boot, they have written a new best seller, 13 Bankers: The Wall Street Takeover and the Next Financial Meltdown.

The big ideas that emerge from the title of their interview are that financial regulators are not enough to deal with the Big Six banks, whose employees are very smart people, very hungry for financial opportunity, legit or not legit. Thus, very often regulators are sucked into large investment banks or affiliated financial institutions like the distinguished Michael Oxley, co-author of the Sarbanes Oxley Act. Oxley has joined the financial industry, along with some 124 former other members of Congress and their aides.

To Oxley’s undying credit, the Sarbanes-Oxley Act grew out of the debacle of Enron and made it a law that CEOs and other top managers were and are responsible for the policies and actions of their companies on their watch and can’t just shrug their shoulders, saying they didn’t know what was happening. What Johnson and Kwak are really calling for are more laws on the books that can safeguard against financial abuse.

Unfortunately, we have, as they point out, former Clinton Treasury Chief Robert Rubin now getting $100 million a year to consult for Citibank and he can’t explain how the company came so incredibly close to financial collapse. Yet, when Newsweek wanted someone of note to explain all this, the job was given to, guess who, Robert Rubin. Suddenly, he found religion?

Charles Prince, another former Citi CEO said: “Let me start by saying I’m sorry. I’m sorry that our management team, starting with me, like so many others, could not see the unprecedented market collapse that lay before me.” He must have seen it for years before that if he wasn’t blind or deaf, because it was reported on Internet news services at the very least, particularly Citi’s huge derivatives debt.

Both Rubin and Prince were accused by Democratic Chairman of the Bipartisan Financial Enquiry Committee Phil Angelides, “of either pulling the levers or being asleep at the switch.” This writer’s money is on pulling the levers.

Also, there is Washington Mutual’s CEO Dave Beck appearing before Senator Carl Levin, investigating how so many bad loans were made at WaMu. After all, this was the biggest “meltdown belly-up of a major investment bank in US history.” Yet a blasé Beck said when asked what happened, “It’s a very real possibility that the loans that went out were better quality than Mr. Shaw laid out.” Levin rebutted, “And there’s a very real good possibility that they were exactly the quality that he laid out, right? Is that right?” Beck wavered, “That’s right.” A frustrated Levin answered, “Okay. And you don’t know and apparently you don’t care. And the trouble is you should have cared.” So it goes.

In keeping with Beck’s feigned ignorance, it’s interesting that the Johnson-Kwak interview aired the day before the NY Times broke the story U.S. Accuses Goldman Sachs of Fraud. The short version of the article is that Goldman profited from the sale of collateralized debt obligations (CDOs) that were packaged with garbage loans and peddled to hedge funds and investors. This plan was the brainchild of Fabrice Tourre, a vice president at Goldman in London. The plan, cited in the SEC case as Abacus 2007-ACi, proved successful in having Wall Street hedge fund investors make a mountain of money on negative bets or “shorting,” betting on the bad loans to fail, which they did, thereby adding more disaster to the subprime lending market and helping to “short the American Dream,” that is, the market is not a level playing field for investors.

The follow-up Times article, Top Goldman Leaders Said to Have Overseen Mortgage Unit, indicates that “Mr. Tourre was the only person named in the SEC. suit. But according to interviews with eight former Goldman employees, senior bank executives played a pivotal role in overseeing the mortgage unit just as the housing market began to go south. These people spoke on the condition that they not be named so as not to jeopardize business relationships or to anger executives at Goldman, viewed as the most powerful bank on Wall Street.

“According to these people, executives up to and including Lloyd C. Blankfein, the chairman and chief executive, took an active role in overseeing the mortgage unit as the tremors in the housing market began to reverberate through the nation’s economy. It was Goldman’s top leadership, these people say, that finally ended the dispute on the mortgage desk by siding with those who, like Mr. Tourre and Mr. Egol, believed home prices would decline . . .”

The reason for extending the chain of responsibility up to the top is precisely to invoke a law like the Sarbanes Oxley Act, so that Abacus is not seen as the random action of a greedy profiteer, which also occurs, according to Johnson and Kwak. Now, it is verified that Abacus was a corporate plan that had the blessings of the CEO and top management. Let’s see what shakes out of this or what dodges are made.

Another major problem that Johnson and Kwak see is that the six megabanks have become a financial oligarchy. In fact, their aggregate assets equal some 63 percent of GDP. Back in the 1990s, adjusted for inflation, their assets equated to less than 20 percent of GDP. This rise in financial power gives them the notion that they can go out and take more and more risks. After all, the taxpayer and Uncle Sam will be willing to bail them out if they fail. The Fed lending window is wide open to them. It encourages them to “distort the system . . . change the rules of the game to favor themselves. To that end, they spend a million dollars a day lobbying against reforms to fix the financial system.”

As asset power increases, the oligarchy’s power to twist arms in Congress increases. In fact, Johnson claims “the big banks got stronger as a result of the bailout . . . They’re turning that increased economic clout into more political power. And they’re using the political power to go out and take the same sort of risks that got us into disaster in September 2008,” when Lehman Brothers was allowed to fail and shook the international banking system.

The truth is Citibank alone, according to Johnson and Kwak, controls some $12.5 trillion in assets, so it can't be allowed to fail without causing another catastrophe à la Lehman Brothers. Johnson and Kwak's idea is to have the banks break themselves down to into entities with no more than a $100 billion cap each. That makes them and the other mega-banks small enough to fail. This is really a key point. And one wonders why the Glass-Steagall Act hasn't been reinstituted as promised to help facilitate this division for break-down purposes.

Included in the "too big to fail" discussion were the quasi-government/Wall Street Fannie Mae and Freddie Mac mortgage lenders, which literally "captured Congress" with their financial lobbying in the 1990s, arguing for rights to take on improper risk. And it was the Republicans who "called them on that." Unfortunately, Treasury Secretary Henry Paulson in 2008, confronted with the multiple "too big to fail" banks, as Johnson points out, "was right. If you let JPMorgan Chase or Goldman Sachs fail, the consequences would have been devastating, because they are so big. It's a Fannie May and Freddy Mac structure come to Wall Street, come to the top guys on Wall Street. And our Republican colleagues and friends should recognize this, they should acknowledge it. And then we can all fix it together."

On the other hand, Johnson and Kwak's whole point is also that we can't allow these bailouts to continue. We have to fix the system with a series of laws that prevent the next bubble, the mindless creation of toxic lending, and the imminent failure of banks that have wrongly become "too big to fail." We can't institutionalize the corruption that leads to financial failure. We have to legislate against it. Or the economy will collapse.

To that point, Johnson and Kwak single out Magnetar, "a hedge fund named after a neutron star that spews deadly radiation cross the galaxies," if you can believe that weirdness. "Magnetar worked with American banks to create toxic CDOs, securities backed by subprime mortgages that managers knew were bad. Magnetar took information and bet against the same investments which they recommended to buyers. Selling short and making a fortune." This process is as deadly as radiation and a repetitive event in contemporary finance. It's got to go.

Another scam pointed out by Johnson and Kwak is Goldman bailing out Greece with an initial amount of money and then stashing that debt paper in a secret Cayman account. Then it sold a second round of debt to investors, not divulging the first debt, and how deep the total truly was. Then it bet against Greece paying it off and once again made a fortune off of investor ignorance and Greece's bad luck. These are not accidents. These are planned strategies to defraud, to look for the loopholes to cheat, to short the American Dream.

Also, a not so accidental complexity in procedures, management, sheer numbers of employees and divisions in huge financial companies makes for rogue traders who seek loopholes to create questionable if not illegal offerings, even at their company's expense. The moral barometer here is at its nadir.

Moyers pointed out "that even when JPMorgan Chase lost $880 million [in] one of these whacky obscure deals . . . the executives still paid themselves millions of dollars in up-front fees. It exploded and personally they still made money." This is a classic case of top executives cheating their own company, as Enron's cheating their own employees out of retirement funds, walking away with hundreds of millions, and later with jail sentences. There is a fundamental cynicism in the financial community that their ilk is above the law, that they are smartest guys in the room, and not subject to the suckers' rules.

This kind of brashness is reminiscent of CEO Jamie Dimon who said of his company JPMorgan Chase in 2009 that “they had the best year in their history.” That’s because his company was “big and beautiful” and sucked up enough of the bailout dollars to land in the black. This is a guy who dines with President Obama, does lunch, and god knows what else, namely playing financial oligarch. Obama called him “a savvy businessman,” but in this writer’s opinion, he’s a high level sleaze.

Yet it comes down to the lobbying dollars that help keeps this deadbeat oligarchy afloat and the lack sufficient of legislation like the Glass-Steagall Act from resurfacing to separate commercial banks from investment banks. Or to have a toothier Commodities Futures Modernization Act, which former Commodities Futures Trading Commission Chair Brooksley Born wanted to protect against derivatives.

The act was gutted by Senator Phil Gramm with Clinton’s blessings in 1999. The link above is to an article I wrote about Born’s travails, the intimidations by Greenspan, Rubin, and particularly Larry Summers, who called her, saying he had 13 bankers in the room who all said that if she proceeded with her CFMA, the financial system would totally collapse. She subsequently resigned, having done all she could to protect her fellow citizens from these financial predators.

Johnson and Kwak remind us to remember that fighting this fight is a long-term job and not a quick fix. As Johnson points out, Teddy Roosevelt faced the bankers for a decade and brought Morgan in tow as FDR did his corps of bankers. Early on Andrew Jackson faced down the national bank. It will take a president with backbone and conviction to tell these guys what to do, rather than seeking “consensus” in lieu of courage. I also believe there are intelligent Republicans out there who see and know what’s going on and need to act in unison with their Democratic counterparts.

Like the Marines, we need a few good men, maybe more than a few, to stand up and fight the Blankfeins, the Rubins, the Princes, etc. Kwak suggested that some people should go to jail for fraud. I’m for that, the more the merrier to make an example and save the financial system. Both Johnson and Kwak are practicing financial professionals who believe in the system, which can’t be run with a totally unregulated free-market hand, but with laws that keep the playing field level.

As a closer, Moyers pointed to the Republican leader in Congress, Senator Mitch McConnell from Kentucky who was being taken to task by reporters recently for “attending a fundraiser with hedge funds and other Wall Street poobahs.”

This came, as Johnson shredded a recent statement by McConnell: “He [McConnell] says let the biggest banks fail, go bankrupt, don’t do anything, leave the situation as it is now and when they get in trouble, let them fail. If you do that, you’ll have catastrophe. The bankruptcy system clearly and manifestly cannot deal with the failure of a complex, global, financial institution. And we have the evidence before us in what happened after Lehman Brothers failed. That was bankruptcy. It caused chaos around the world, Bill. That’s what the Republicans are advocating. If we just leave things as they are and next time we’ll take that chaos and we’ll get a second Great Depression. We’re arguing for reform. We’re arguing for change. We’re arguing for ways to make those biggest banks smaller and safer. If they were small enough to fail, that’s a very different story. And that’s a much safer place to be.

When Moyers asked, “What do these big six banks think about what Senator McConnell is saying?” Kwak nailed it: “Well, the big six banks don’t want any reform at all, essentially. So, I think . . . there’s some evidence that Senator McConnell has been talking to the big banks and to other people on Wall Street.” So let’s leave it at another regulatory capture.

Hopefully, you’ve gotten an idea of what a brilliant and important interview this was. See or read it for yourself, before your American Dream gets shorted again in a new financial collapse.

See:
http://www.pbs.org/moyers/journal/blog/2010/04/financial_regulation_regulator.html

http://www.informationclearinghouse.info/article25336.htm
