Financial Crime in America

Why Hasn't Obama Targeted The Ongoing White Collar Crime Wave?

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Another day. Another ponzi scheme

This time it's the Millenium Bank in the Eastern Caribbean accused of a mere $65 million dollar rip off. (Ponzi king Bernard Maddoff allegedly took in $65 billion.) Regulators say there is a "ponzimonium" underway with scores of newly opened investigations. We are talking about pervasive institutional crime, not just individual theft.

The role of shady, largely unreported, "off shore" institutions is slowly emerging as a component of a larger criminal scheme. There is a report that "a class action lawsuit has been filed against several offshore entities and individuals on behalf of investors in four hedge funds who allegedly lost over $3 billion in the Bernard Madoff fraud."

On shore, in New York, Attorney General Andrew Cuomo has issued new subpoenas to AIG. Former Governor Eliot Spitzer is saying the problem there is not just with bonuses by billions from government bailouts going to "counterparties"—companies that did business with the infamous insurer which just changed its name.

Reports the Wall Street Journal: "CDS contracts were at the heart of AIG's meltdown," Cuomo said in a statement. "The question is whether the contracts are being wound down properly and efficiently or whether they have become a vehicle for funneling billions in taxpayers dollars to capitalize banks all over the world."

The Obama people must be worried about the capacity of white collar crooks to undercut their own programs because they are setting up their own investigation of those who took bailout monies.

Reports a Memphis newspaper: "Eil M. Barofsky, the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), recently announced the creation of a broad, multi-agency task force designed to deter, detect and investigate instances of fraud in the soon-to-be-launched Term Asset-Backed Securities Loan Facility (TALF) program."

They know who they are dealing with. It's always been easier to rob banks with fountain pens and electronic transfers than guns and stickups.

In North Carolina, a judge sentenced Lance Paulson, the former CEO of National Century Financial Enterprises, to 30 years for security frauds. Said the Judge, "Poulsen was the architect of a fraud of such magnitude that it would have made financial experts shudder."

Judges may be shuddering but our media is still downplaying the extent of the crimes behind the collapse of our economy. This issue does not seem to have a high priority with the Obama Administration either. The President had denounced "reckless speculation" but is preoccupied with pumping more money into banks rather than tracking down the fraudsters that Franklin Roosevelt called "banksters."

Recall that this crisis started with the collapse of the housing bubble. The FBI has called mortgage fraud an "epidemic" and says "the thousands of financial fraud investigations now underway are putting a strain on the bureau's ability to fight other crimes. An explosion of mortgage fraud cases has stretched the FBI so thin it's having a hard time investigating other white collar crime."

They have 250 agents investigating these crimes as compared to more than l000 who handled the S&L crisis in the 1980s. Many of their corporate crime experts were reassigned to combating terrorism. The Tri-State Defender in Memphis reports:

"The Federal Bureau of Investigation said it received 46,717 suspicious activity reports related to mortgage fraud last year – compared with 45,617 in 2006 and 6,936 in 2003. By the end of fiscal year 2007, the Bureau was handling just over 1,200 mortgage fraud investigations – a 47 percent rise from 2006. That figure has reached 1600 for the current fiscal year.

FBI Deputy Director Pistole told a Senate Judiciary Committee last month that the agency is investigating 530 open corporate fraud investigations, including 38 directly related to the current financial crisis. Pistole said the fraud investigations were putting a strain on the staffs.

"The increasing mortgage, corporate fraud and financial institution failure case inventory is straining the FBI's limited white-collar crimes resources," he said."

FBI Director Mueller told the Senators the Justice Department and the bureau were working on "what we call fast track prosecutions in a number of areas, and….we're prioritizing our cases to hit the most egregious early and put those persons away."

The Financial Crimes Enforcement Network (FinCEN) released a new report that shows subjects reported for suspected mortgage loan fraud may also be involved in other financial crimes such as check fraud, money laundering, stock manipulation, structuring to avoid currency transaction reporting requirements and others. From depository institution Suspicious Activity Reports (SARs), FinCEN identified approximately 156,000 mortgage fraud subjects, and found that 2,360 were reported for suspicious activity in 3,680 of the other SAR types.

"This study analyzes the possible interrelationship of illicit activity occurring across different financial sectors. Criminal actors may attempt to exploit any vulnerability to commit fraud and launder money through a range of financial institutions," said FinCEN Director James H. Freis, Jr. "The interconnected nature of suspicious activity across multiple financial sectors covered by FinCEN's Bank Secrecy Act regulations underscores the immense value of combining insights from the different sectors for the purpose of detecting and thwarting criminal activity."

This whole crime by crime approach is incremental at best and misses the deeper problem.

We might look back at an earlier crisis and learn what was done then to combat what John Kenneth Galbraith denounced as widespread "corporate larcency."

Galbraith cited the Pecora Commission which in 1932 investigated the causes of the 1929 crash. It uncovered a wide range of abusive practices on the part of banks and bank affiliates.

A Wikipedia entry explains: "These included a variety of conflicts of interest such as the underwriting of unsound securities in order to pay off bad bank loans as well as "pool operations" to support the price of bank stocks. There was outrage then when banker JP Morgan admitted he had paid no taxes for two years. The commission's Chief Counsel Ferdinand Pecora said; 'Legal chicanery and pitch darkness were the banker's stoutest allies."

Somehow those lessons were lost. Amnesia about the past contributed to denial about the present. We need a new Pecora Commission with subpoena power to investigate the causes of this crisis—and it's too bad that a man with the stature of John Kenneth Gailbraith is not alive to chair it.

Senator Bernie Sanders is calling for just such a commission complete with an investigative staff and subpoena powers. Why don't all progressive groups, media, unions, and concerned organizations endorse this call. We need professionals like Eliot Spitzer who had denounced predatory lending practices involved. You need people who have been on Wall St to see through the tricks on Wall Street.

We need to look into the $5 billion these firms have spent to rewrite laws and deregulate. We need to know which politicians took their payoffs and do their bidding. We need a jailout, not just a bailout.

We need to remember Balzac's insight: "Behind every great fortune lies a great crime." But he was not the only great thinker with insight. "In a closed society where everybody's guilty, the only crime is getting caught," wrote Hunter S. Thompson, " In a world of thieves, the only final sin is stupidity." And that does not just apply to the perpetrators.

News Dissector Danny Schechter is making a film based on his book PLUNDER: Investigating Our Economic Calamity (Cosimo Books at Amazon.com. Comments to dissector@mediachannel.org

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