

Financial Fraud and the Economic Crisis

A Cavalcade of U.S. Corruption Is Finally Being Scrutinized

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The “F Word” (for fraud) is back in polite conversation on Wall Street. Fraud and financial crime are slowly becoming part of the debate over what must be done to restore confidence in what has so plainly been a confidence game.

Drilling for oil has knocked financial reform out of the headlines but among commentators, a concern with crime and the absence of punishment is being raised again.

First there was Robert Reich, the former Clinton Labor Secretary, a small man with a large and insistent voice. He’s practically spitting because he’s so pissed off with the inaction, asking where has the SEC been—not the Bush SEC which blew the Madoff probe but the Obama appointees:

“It’s now clear Lehman Brothers’ balance sheet was bogus before the bank collapsed in 2008, catapulting the Street and the world into the worse financial crisis since 1929. The Lehman bankruptcy examiner’s recent report details what just about everyone on the Street has known since the firm imploded – that Lehman defrauded its investors. Even Hank Paulson, in his recent memoir, referred to Lehman’s balance sheet as bogus.

In order to look like it could borrow \$30 for every dollar of its own money, Lehman shifted liabilities off its books at the end of each quarter. Its CPA, Ernst and Young, approved of this fraud against the advice of its own whistle blower, whom Ernst and Young fired.

Lehman’s practices couldn’t have been all that different from those of every other big bank on the Street. After all, they were all competing for the same business, and using many of the same techniques. Lehman was just the first to go under, causing a financial run that led George W. to warn “this sucker could go down” unless the federal government came up with hundreds of billions to bail out the others.”

Reich is joining former Bank regulator Bill Black who has been contending that the banks have been robbing us. To see some of his recent interviews, check out Real News Network.<http://www.newdeal20.org/2010/03/30/bill-black-not-dead-yet-9279/>

Now Ed Harrison who produces the credit writedowns site is asking about follow up. Whatever happened to the FBI accusation that there has been an epidemic of mortgage fraud. He writes;

“Rampant fraud in the mortgage industry has increased so sharply that the FBI

warned Friday of an “epidemic” of financial crimes which, if not curtailed, could become “the next S&L crisis.”

Assistant FBI Director Chris Swecker said the booming mortgage market, fueled by low interest rates and soaring home values, has attracted unscrupulous professionals and criminal groups whose fraudulent activities could cause multibillion-dollar losses to financial institutions.

“It has the potential to be an epidemic,” said Swecker, who heads the Criminal Division at FBI headquarters in Washington. “We think we can prevent a problem that could have as much impact as the S&L crisis,” he said.

In the 1980s, many Savings and Loans failed because of poor management, risky loans and investments, and in some cases, fraud. Taxpayers were left with a \$132 billion tab to cover federal guarantees to S&L customers.

This is the headline and first four paragraphs of a CNN article from 17 September 2004.

Where are the investigations, perp walks, convictions? So what happened to all that fraud?

It’s still ongoing.”

Yes it is.

The World Policy Institute examines corruption in global terms in its latest World Policy Journal. Daniel Kauffman writes about a part of the problem the media has not really explored—what’s called “State capture;”

Most research on corruption focuses on developing countries, which is unfortunate. When corruption indexes focus exclusively on cruder forms of corruption (what we think of as typical cases of bribery), they mask one of the most serious governance challenges facing countries like the United States today—so-called legal corruption and state capture by powerful corporations.

(For evidence of this, one need only look to the undue influence exerted by Wall Street and mortgage giants over regulations leading up to the financial crisis, or by giant carmakers over automobile safety regulators.)

Indeed, research suggests that legal corruption and state capture in the United States are extremely high when compared with most countries in the world, and higher than any other industrialized OECD country. Thus, contrary to popular notions, both developing and rich countries face corruption challenges, although their form may differ.”

This is part of what Transparency International, an agency that monitors corruption worldwide calls an “untamed hydra;” Lawrence Cockcroft, co-founder of the international corruption watchdog, Transparency International, observes that this blight is “so deeply entrenched in nations the world over, that regardless of initiatives for improvement,” victims and perpetrators alike are often desperately interconnected in a web that threatens to undermine progress towards and resolution of the dominant global humanitarian needs of our time.”

Overseas these problems are also common, but in many countries there seems to be far more vigilance and prosecution. One recent example:

(AFP) SHANGHAI — An executive at China Mobile, the world's biggest mobileoperator, has been detained after going missing with hundreds of millions ofyuan (tens of millions dollars), a report said Thursday.

Li Xiangdong, based in the southwestern Sichuan province and in charge ofChina Mobile's centralized wireless music platform, went missing "many daysago", the 21st Century Business Herald said, citing unnamed sources.

It was unclear how Li siphoned the money away from the company, but industryinsiders said a possible source was kickbacks from service providers andcontent providers doing business with China Mobile, the report said.

Stories like this are becoming increasingly common. Overseas, the crimes seem to be prosecuted. What about here?

News Dissector Danny Schechter writes about financial fraud in The Crime Of Our Time. His new film PLUNDER investigates the subject. See the website: Plunderthecrimeofourtime.com. Comments to dissector@mediachannel.org

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