Pillage and Class Polarization: The Rise of "Criminal Capitalism"

By Prof. James Petras
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About 75% of US employees work 40 hours or longer, the second longest among all OECD countries, exceeded only by Poland and tied with South Korea. In contrast, only 10% of Danish workers, 15% of Norwegian, 30% of French, 43% of UK and 50% of German workers work 40 or more hours. With the longest work day, US workers score lower on the 'living well' scale than most western European workers.

Moreover, despite those long workdays US employees receive the shortest paid holidays or vacation time (one to two weeks compared to the average of five weeks in Western Europe). US employees pay for the costliest health plans and their children face the highest university fees among the 34 countries in the Organization for Economic Cooperation and Development (OECD).

James Petras (right)

In class terms, US employees face the greatest jump in income inequalities over the past decade, the longest period of wage and salary decline or stagnation (1970 to 2014) and the greatest collapse of private sector union membership, from 30% in 1950 down to 8% in 2014.

On the other hand, profits, as a percentage of national income, have increased significantly. The share of income and profits going to the financial sector, especially the banks and investment houses, has increased at a faster rate than any other sector of the US economy.

There are two polar opposite trends: Employees working longer hours, with costlier services and declining living standards while finance capitalists enjoy rapidly rising profits and incomes.

Paradoxically, these trends are not directly based on greater 'workplace exploitation' in the US.

The historic employee-finance capitalist polarization is the direct result of the grand success of the trillion dollar financial swindles, the tax payer-funded trillion dollar Federal bailouts of thecrooked bankers, and the illegal bank manipulation of interest rates. These uncorrected and unpunished crimes have driven up the costs of living and producing for employees and their employers.

Financial ‘rents’ (the bankers and brokers are ‘rentiers’ in this economy) drive up the costs of production for non-financial capital (manufacturing). Non-financial capitalists resort to reducing wages, cutting benefits and extending working hours for their employees, in order to maintain their own profits.

In other words, pervasive, enduring and systematic large-scale financial criminality is a major reason why US employees are working longer and receiving less – the ‘trickle down’ effect of mega-swindles committed by finance capital.

Mega-Swindles, Leading Banks and Complicit State Regulators

Mega-swindles, involving trillions of dollars, are routine practices involving the top fifty banks, trading houses, currency speculators, management fund firms and foreign exchange traders.

These ‘white collar’ crimes have hurt hundreds of millionsof investors and credit-card holders, millions of mortgage debtors, thousands of pension funds and most industrial and service firms that depend on bank credit to meet payrolls, to finance capital expansion and technological upgrades and raw materials.

Big banks, which have been ‘convicted and fined’ for mega-swindles, include Citi Bank, Bank of America, HSBC, UBS, JP Morgan, Barclay, Goldman Sachs, Royal Bank of Scotland, Deutsch Bank and forty other ‘leading’ financial institutions.

The mega-swindlers have repeatedly engaged in a great variety of misdeeds, including accounting fraud, insider trading, fraudulent issue of mortgage based securities and the laundering of hundreds of billions of illegal dollars for Colombian, Mexican, African and Asian drug and human traffickers.

They have rigged the London Interbank Official Rate (*LIBOR*), which serves as the global interest benchmark to which hundreds of trillions of dollars of financial contracts are tied. By raising *LIBOR*, the financial swindlers have defrauded hundreds of millions of mortgage and credit-card holders, student loan recipients and pensions.

Bloomberg News (5/20/2015) reported on an ongoing swindle involving the manipulation of the multi-trillion-dollar International Swaps and Derivatives Association (*ISDA*) fix, a global interest rate benchmark used by banks, corporate treasurers and money managers to determine borrowing costs and to value much of the $381 trillion of outstanding interest rate swaps.

The Financial Times (5/23/15, p. 10) reported how the top seven banks engaged in manipulating fraudulent information to their clients, practiced illegal insider trading to profit in the foreign exchange market (*forex*), whose daily average turnover volume for 2013 exceeded $5 trillion dollars.

These seven convicted banks ended up paying less than $10 billion in fines, which is less than 0.05% of their daily turnover. No banker or high executive ever went to jail, despite undermining the security of millions of retail investors, pensioners and thousands of companies.

The Direct Impact of Financial Swindles on Declining Living Standards

Each and every major financial swindle has had a perverse ripple effect throughout the entire economy. This is especially the case where the negative consequences have spread downward through local banks, local manufacturing and service industries to employees, students and the self-employed.

The most obvious example of the downward ripple effect was the so-called '*sub-prime mortgage'* swindle. Big banks deliberately sold worthless, fraudulent mortgage-backed securities(*MBS*) and *collateralized debt obligation* (*CDO*) to smaller banks, pension funds and local investors, which eventually foreclosed on overpriced houses causing low income mortgage holders to lose their down payments (amounting to most of their savings).

While the effects of the swindle spread outward and downward, the US Treasury propped up the mega-swindlers with a trillion-dollar bailout in working people's tax money. They anointed their mega-give-away as the bail out for *'banks that are just too big to fail*"! They transferred funds from the public treasury for social services to the swindlers.

In effect, the banks profited from their widely exposed crimes while US employees lost their jobs, homes, savings and social services. As the US Treasury pumped trillions of dollars into the coffers of the criminal banks (especially on Wall Street), the builders, major construction companies and manufacturers faced an unprecedented credit squeeze and laid off millions of workers, and reduced wages and increased the hours of un-paid work.

Service employees in consumer industries were hit hard as wages and salaries declined or remained frozen. The costs of theFOREX, LIBOR and ISDA fix swindles' fell heavily on big business, which passed the pain onto labor: cutting pension and health coverage, hiring millions of 'contingent or temp' workers at minimum wages with no benefits.

The bank bailouts forced the Treasury to shift funds from 'job-creating' social programs and national infrastructure investment to the *FIRE* (finance, insurance and real estate) sector with its highly concentrated income structure.

As a result of the increasing concentration of wealth among the financial swindlers, inequalities in income grew; wages and salaries were frozen or reduced and manufacturers outsourced production, resulting in declines in production.

Employees, suffering from the loss of income brought on by the mega-swindles, found that they were working longer hours for less pay and fewer benefits. Productivity suffered. With the total breakdown of the '*capitalist rules of the game'*, investors lost confidence and trust in the system. Mega-swindles eroded 'confidence' between investors and traders, and made a mockery of any link between performance at work and rewards. This severed the nexus between highly motivated workers, engaged in '*hard work, long hours'* and rising living standards, and between investment and productivity.

As a result, profits in the finance sector grew while the domestic economy floundered and living standards stagnated.

Financial Impunity: Regulatees Controlling the Regulators

Despite the proliferation of mega-swindles and their pervasive ripple effects throughout the economy and society, none of the dozens of federal or state regulatory agencies intervened to stop the swindle before it undermined the domestic economy. No CEO or banker was ever arrested for their part in the swindle of trillions. The regulators only reacted after trillions had 'disappeared' and swindles were 'a *done deal'*. The impunity of the swindlers in planning and executing the pillage of hundreds of millions of employees, taxpayers and mortgage holders was because the federal and state regulatory agencies are populated by 'regulatory administrators' who came from or aspired to join the financial sector they were tasked with 'regulating'.

Most of the high officials appointed to lead the regulatory agencies had been selected by the 'Lords of Wall Street, Frankfurt, the City of London or Zurich.' Appointees are chosen on the basis of their willingness to enable financial swindles. It therefore came as no surprise on May 28 2015 when US President Obama approved the appointment of Andrew Donahue, Managing Director and Associate General Council for the repeatedly felonious, mega-swindling banking house of Goldman Sachs to be the 'Chief of Staff' of the Security and Exchange Commission. His career has been typical of the Washington-Wall Street '*Revolving Door'*.

Only after fraud and swindles evoked the nationwide public fury of mortgage holders, investors and finance companies did the regulators '*investigate'* the crimes and even then not a single major banker was jailed, not a single major bank was closed down.

There were a few low-level bond traders and bank employees who were fired or jailed as scapegoats. The banks paid puny (for them) fines, which they passed on to their customers. Despite pledges to 'mend their ways' the bankers concocted new schemes with their windfalls of billions of Federal 'bailout' money while the regulators looked on or polished their CV's for the next pass through the 'revolving door'.

Every top official in Treasury, Commerce and Trade, and every regulator in the Security Exchange Commission (SEC) who 'retired to the private sector' has ended up working for the same mega-criminal banks and finance houses they had investigated, regulated and 'slapped on the wrist'.

As one banker, who insists on anonymity, told me: 'The most successful swindlers are those who investigated financial transgressions'.

Conclusion

Mega-swindles define the nature of contemporary capitalism. The profits and power of financial capital is not the outcome of 'market forces'. They are the result of a system of criminal behavior that pillages the Treasury, exploits the producers and consumers, evicts homeowners and robs taxpayers.

The mega swindlers represent much less than 1% of the class structure. Yet they hold over 40% of personal wealth in this country and control over 80% of capital liquidity.

They grow inexorably rich and richer, even as the rest of the economy wallows in crisis and stagnation. Their swindles send powerful ripples across the national economy, which ultimately freeze or reduce the income of the skilled (middle class) employees and undermine the living conditions for poor working-class whites, and especially under and unemployed Afro-American and Latino American young workers.

Efforts to '*moralize'* capital have failed repeatedly since the regulators are controlled by those they claim to ‘regulate’.

The rare arrest and prosecution of any among the current tribe of mega-swindlers would only results in their being replaced by new swindlers. The problem is systemic and requires deep structural changes.

The only answer is to build a political movement independent of the two party system, willing to nationalize the banks and to pass legislation outlawing derivatives, forex trading and other unnatural parasitic speculative activities.

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