

Targeting Small-Time Crooks: Department of Justice “Crackdown” On Wall Street Is a P.R. Stunt

By [Washington's Blog](#)

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Alan Greenspan, William Black, James Galbraith, Joseph Stiglitz, George Akerlof, Chris Whalen and many other economists and financial experts all [say](#) that the economy cannot truly recover unless those who committed fraud are prosecuted.

So we should be ecstatic that the Justice system is finally prosecuting fraud, right?

As the Washington Post [notes](#):

At a news conference headlined by Attorney General Eric H. Holder, authorities unveiled “Operation Broken Trust,” a collection of unrelated criminal and civil cases involving Ponzi schemes, foreign currency frauds, investment scams and other market cons.

The announcement drew attention to President Obama’s Financial Fraud Enforcement Task Force, a group of agencies working to hold accountable people and companies accused of financial wrongdoing during difficult economic times. The task force has struggled to pursue high-profile prosecutions connected to the financial crisis of 2007-09.

Authorities said the operation involved 343 defendants facing criminal charges and 189 facing civil charges, though some will be counted in both categories. The cases represent more than \$8.3 billion in investor losses and 120,000 victims.

“With this operation, the Financial Fraud Enforcement Task Force is sending a strong message,” Holder said. “To anyone operating or attempting to operate an investment scam: Cheating investors out of their earnings and savings is no longer a safe business plan. We will use every tool at our disposal to find you, to stop you and to bring you to justice.”

The schemes often targeted communities, churchgoers and the vulnerable, including the elderly, a blind man and the bereaved family of a recently deceased man, Holder and other law enforcement officials said.

That may sound impressive at first.

But \$8 billion divided by 343 (the number of criminal prosecutions) only averages around \$24 million per prosecution, which is small potatoes given that financial fraud by the big banks has cost the country trillions.

As Andrew Ross Sorkin [writes](#) in the New York Times:

To hear Eric H. Holder Jr. tell it, the Justice Department is aggressively cracking down on financial fraud.

It all sounded quite important, and the program's slogan is pretty catchy. But after you get past the pandering sound bites, a question comes to mind: is anyone in the corner offices of Wall Street's biggest firms or corporate America's biggest companies paying any attention to Mr. Holder's "strong message"?

Of course not. (I actually called some chief executives after Mr. Holder's news conference, and not one had heard of Operation Broken Trust.)

That's because in the two years since the peak of the financial crisis, the government has not brought one criminal case against a big-time corporate official of any sort.

Instead, inexplicably, prosecutors are busy chasing small-timers: penny-stock frauds, a husband-and-wife team charged in an insider trading case and mini-Ponzi schemes.

"They will pick on minor misdemeanors by individual market participants," said David Einhorn, the hedge fund manager who was among the Cassandras before the financial crisis. To Mr. Einhorn, the government is "not willing to take on significant misbehavior by sizable" firms. "But since there have been almost no big prosecutions, there's very little evidence that it has stopped bad actors from behaving badly."

Fraud at big corporations surely dwarfs by orders of magnitude the shareholders' losses of \$8 billion that Mr. Holder highlighted. If the government spent half the time trying to ferret out fraud at major companies that it does tracking pump-and-dump schemes, we might have been able to stop the financial crisis, or at least we'd have a fighting chance at stopping the next one.

Shawn J. Chen, a partner in the Washington office of Cleary Gottlieb Steen & Hamilton, called the announcement by Mr. Holder "a public relations push more than anything else." Mr. Chen went so far as to suggest that the number of cases Mr. Holder cited as evidence of the department's crackdown were somewhat fictional.

"It's hard to believe that they built up all these cases in the past four months," since the task force was created, Mr. Chen said, suggesting it was more likely that Mr. Holder counted every case that had anything to do with financial fraud and put them all under the Operation Broken Trust umbrella.

The Global Economic Crisis



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