

The Wall Street Financial Crisis: A Mistake or a Crime?

Question: When is a Crime Not Considered Criminal? Answer: When it's Hatched on Wall Street.

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All over Europe and in much of the rest of the world, a new fictional hero has engaged the fascination of millions of readers. His name is Mikael Blomkvist, and he's the protagonist of the late Stieg Larsson's Millennium trilogy. These thrillers, set against the background of high financial crimes and misdemeanors, have become global best-sellers, doubtless in part owing to their gripping plots, elaborate mysteries and engaging characters. But their success is also indisputably a by-product of the macroeconomic chicaneries of our era and the human catastrophes they have wrought.

Larsson understood that financial crimes are far from victimless. They have upended millions of people's lives, even if most of the victims don't understand how they've been shortchanged and who is responsible.

Although the financial crisis that swept the world may have started on Wall Street, it has brought down governments and shredded economic security worldwide, resulting in the loss of millions of jobs and homes as businesses collapse, foreclosures grow, credit tightens and communities are devastated. One estimate of the damage: \$197 trillion.

The Pew Economic Policy Group reports the average U.S. household lost \$66,000 in stock holdings and \$30,000 in real estate values from June 2008 through March 2009 due to the upheaval in world markets. This brings us close to \$100,000 per family. Against that backdrop, it's not hard to see the appeal of Larsson's hero Blomkvist, whose "contempt for his fellow financial journalists" the author encapsulates with stinging clarity: "A bank director who blows millions on foolhardy speculations should not keep his job. A managing director who plays shell company games should do time.... The job of the financial journalist was to examine the sharks who created interest crises and speculated away the savings of small investors, to scrutinize company boards with the same merciless zeal with which political reporters pursue the tiniest steps out of line of ministers and members of Parliament."

This is why I identified with Blomkvist's fictional mission; in some ways it captured my own frustrations in a media world for which "the c-word"— as in financial crime—seems must never be spoken.

The media failed us on the most crucial story of our era. Our newspapers and TV sources contributed to an economic disaster so cynically engineered even billionaire investor Jim Chanos was prompted to ask, "So where are the perp walks? How long does it take before

we see any investigations? It boggles the mind that \$150 billion is vaporized...there haven't been any arrests, any indictments, nor any convictions at any major bank or at any of the government-owned financial institutions Fannie, Freddie and AIG."

I know how hard it is to alarm the public with mere facts. They don't have the context within which to interpret complicated stories. In 2006 I released the film *In Debt We Trust*, exposing illegal subprime scams and warning of the coming meltdown. It was well reviewed, but no mainstream TV outlet would air it.

I was dismissed as an alarmist and a "doom and gloomer." A mass denial of the dangers ahead seemed to be embedded in the euphoria of the very bubble that was bringing in billions for Wall Street's financial alchemists, who themselves seemed oblivious to the risks and indifferent to the social impact their practices courted.

The media coverage has made a complex reality deliberately complicated, even incomprehensible. The satirical paper *The Onion* put the financial press in its place regarding the totally obtuse reporting for which financial journalists were justly infamous even before the biggest scoop since 1929 fell into their laps: "JPMORGAN CHASE ACQUIRES BEAR STEARNS IN TEDIOUS-TO-READ NEWS ARTICLE." The *Onion* witheringly characterized the coverage as "bogging down the news for anyone who might be remotely interested in grasping what the fuck is going on."

Yet there were truth-tellers out there who were largely ignored. Investors like Warren Buffett compared the new exotic financial instruments to weapons of mass destruction— financial nuclear bombs.

Even guru of the right Ayn Rand had warned in *Atlas Shrugged* about greed destroying her beloved free market: "When you see that men get richer by graft and by pull than by work, and your laws don't protect you against them, but protect them against you—when you see corruption being rewarded and honesty becoming a self-sacrifice—you may know that your society is doomed."

Doomed or not, in the second year of the Age of Obama the hoped-for economic turnaround has yet to occur. Even as the stock market goes up again, benefitting institutional investors with the capabilities to exploit it, unemployment remains high and loan defaults continue to rise. The best projections forecast a "jobless recovery," which for millions is no recovery at all. How did we get into this mess?

Put ten economists in a room, and you get 20 explanations. Most of them revolve around business mistakes, poor risk models or even psychological problems like delusion and market madness. Few will concede that former Senator Ted Kaufman (D-Delaware) was right in charging that "fraud and potential criminal conduct were at the heart of the financial crisis." Missing has been a hard-nosed look at the crisis as a crime story.

Former bank examiner William Black understands this. Focusing on looting and CEO fraud, he helped send over 1,000 bankers to prison during the S&L crisis in the 1980s. This time there were neither dogged sleuths nor crime-busting newshounds on the beat.

Even Alan Greenspan has finally admitted in his all-too-polite exchange with a government inquiry that has come to resemble a Princeton seminar, "If you don't have enforcement, and a lot of that stuff was just plain fraud, you're not coming to grips with the issue." Of course,

this “maestro” didn’t go into detail on “a lot of that stuff.”

What we are watching is an abstruse debate about banks that are “too big to fail,” not too big to jail. Very little of the discourse speaks in terms of the victims—the millions of families now without breadwinners or homes. Most of the commentary still looks up at CEOs, not down at the people whom they robbed by design, as folk singer Woody Guthrie put it, not with a six-gun but “with a fountain pen.”

When most of us think of crime, we think of gangsters with guns, not banksters with elaborate schemes designed to transfer your wealth to their accounts. Graydon Carter, the editor of *Vanity Fair*—a publication more at home with Groucho Marx than Karl—said of the meltdown: “[This] may well turn out to be the greatest nonviolent crime against humanity in history...never before have so few done so much to so many.”

Yet economic writers, even progressive ones like James Kwak, deeply mired in the labyrinthian world of financial transactions, still don’t believe it. The day the SEC filed a complaint against Goldman Sachs, he wrote on *BaselineScenario.com*, one of the more critical Web sites covering the collapse of this vast swindle: “One of the things I say now and then that most annoys people is that the financial crisis was not caused by criminal behavior.... My general line is that I’m sure there was some bad behavior that rose to the level of criminal liability—like lying in disclosure documents—but that it wasn’t necessary for the crisis, and we could have had the crisis without any criminal activity at all.”

The problem with this thinking is that it defines financial crime too narrowly, only in terms of securities laws concerned primarily with protecting investors.

It doesn’t acknowledge that financial institutions spent nearly a billion dollars underwriting efforts to erode government controls and change rules, regulations and even laws to allow them to get away with whatever enhanced their bottom lines, no matter who got hurt. Their well-documented history of aggressive lobbying and buying up politicians qualifies them as avaricious manipulators, not law-abiding companies. Their legal and moral defenses for this conduct are entirely bogus.

Let’s look at Goldman Sachs. In my film I report that Goldman was accused by Massachusetts authorities of deliberately designing mortgages to fail. They settled the complaint by paying a \$60-million fine and wrote it off as a cost of doing business. The SEC later filed civil fraud charges on similar grounds.

This was followed by turbulent hearings on the Hill during which Senator Carl Levin (D-Michigan) repeatedly cited an internal correspondence reference to “shitty” deals that Goldman Sachs peddled only to bet against them. The Justice Department, in a separate action, was asked to open a criminal file. Among the allegations: shady accounting schemes. The giant firm has certainly come in for excoriation and ridicule, but none of Goldman’s officers has been convicted of wrongdoing, and they are “lawyered up” to the gills.

Leslie Griffith on Reader Supported News writes: “A modern-day financial monarchy, Goldman acts with the impunity once reserved for kings. Controlling legislators. Electing Presidents. Filling the Executive Branch with well-heeled lackeys, manipulating world markets and betting against the welfare of its own clients...the American people. When their equivalent of ‘tax time’ came, they squeezed the peasants for billions of bail-out bucks.”

In their testimony before Congress, Goldman bankers defended themselves by saying all big banks did what they did. A weak alibi at best, it nonetheless seems to be working for them. The assignment of criminal liability is hardly underway. As one lawyer said to Bloomberg News, "In order to proceed criminally in a case, you need to have very clear evidence of lying, cheating and stealing." In plain English: Don't get your hopes up. The government has not declared war on Wall Street even after Wall Street declared war on Main Street. The housing bubble was built on a bedrock of fraud linking shady subprime brokers and appraisers to an industry of financial products that were then resold with misrepresented values thanks to the connivance of unethical ratings agencies.

The selling and reselling of assetless asset-backed securities is a central element of the vast fraud, as is the practice of insuring while simultaneously betting against these investments through companies like AIG. We are talking about a criminal enterprise involving tens of thousands of people working in the financial services industry.

Martin Wolf of The Financial Times explained that three industries worked together almost like a cabal to perpetuate these schemes. The architects of the FIRE economy (structured around Finance, Insurance and Real Estate), operated in the shadow of bent rules and apathetic regulators. They built a huge infrastructure of collaborators and henchmen called "financial service professionals."

Writes Wolf: "In between the ultimate borrowers and the risk-takers were loan-originators, designers and packagers of securitized assets, ratings agencies, sales staff, managers of banks and SIVs [Structured Investment Vehicles] and managers of pension—and other—funds." What chance did some poor homeowner or credit card customer have against this savvy and well-funded phalanx of operatives whose one mission was to separate them from their property and money?

Many knew the people they were selling to could not afford to buy their products. They didn't care. It was all done deceptively and by design. It was deliberate, engineered in public and hidden in plain sight. At the local level, mortgage companies said they were under pressure from Wall Street to keep selling homes to the poor so the paper could be resold in an atmosphere of trickle-down corruption.

My own investigation led me to produce a new film, *Plunder: The Crime of Our Time*, out on DVD from Disinfo. (PlunderTheCrimeOfOurTime.com). I also wrote a companion book, *The Crime of Our Time* (Disinformation Books) with more documentation than you can get into any film of reasonable length. I was surprised when the Wall Street Journal characterized it as an "anti-Wall Street film [that] isn't just for Michael Moore fans." The Hollywood Interview blog called it "fascinating and nailbiting, much like *All the President's Men*."

Movie City News elaborated: "*Plunder: The Crime of Our Time* describes how Wall Street interests greased the skids for just such a collapse, consciously breaking laws they knew government regulators were unlikely to defend. Michael Moore has trod similar ground, but in a more overtly entertaining style.... It's a sobering documentary, but one that's too important to ignore...in Schechter's case, again."

This crisis can be explained in a way most people will understand, and when the public "gets it" they will get angry and act. It's the oldest truism: Where there is a will, there's a way.

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Economics, has been a radio news director, local TV news reporter, CNN show producer and Emmy Award-winning ABC News broadcast producer. He is cofounder of Globalvision, an independent film and television production company. He has directed 25 documentaries, including his latest, Plunder: The Crime of Our Time, about the financial crisis as a crime story. He has been honored as a blogger and has written 11 books, including The Crime of Our Time, further detailing his findings regarding financial crime. He has reported from 60 countries. See Plunderthecrimeofourtime.com

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