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The Financial System's Rotten Heart

Left Margin

By Carl Bloice

BC Editorial Board

The Conservative Party head of the British government, Prime Minister David Cameron, condemned the "spivvy and probably illegal" activity of Barclays and other banks involved in fixing interest rates. The Chancellor of the Exchequer, (treasury secretary) George Osborne, called the Barclays affair "symptomatic of a financial system that elevated greed above all" and "brought economy to its knees." Andrew Rawnsley, the *Observer* newspaper's chief political commentator, wrote about "the moral cesspit of the City" (what we call Wall Street), which he said should make the case "for radical reform of how we do capitalism," adding that the country's bankers are "greedy, reckless and incompetent" and "shameless" and that "they fleece their customers" and as a result "our whole society has been warped." *Financial Times* associate editor, John Gapper, wrote that the UK is plagued by "a set of too-big-to-fail investment banks in which amoral behavior is deeply embedded." The paper derided what it called "the rotten heart of the financial system" engaged in "nothing less than a long-running confidence trick played on the public for personal and institutional advantage," adding, "This was market-rigging on a grand scale. It is hard to think of anything more damning - or more corrosive of the reputation of capitalism." The editors of the *Guardian* thundered "our own society - and economy - have been warped and corrupted" by the banks' behavior.

Against this backdrop, *Rolling Stone's* sharp economics writer, Matt Taibbi, asked out loud last week: "Why is Nobody Freaking Out About the LIBOR Banking Scandal?" "This story is so outrageous that it shocks even the most cynical Wall Street observers," he wrote July 3.

The major U.S. media have pretty much ignored or downplayed the story that unfolds nightly on the BBC - the story of what the British government's Business Secretary, Vince Cable, said unmasked "a moral quagmire of almost biblical proportions."

There have been a few exceptions to the general media avoidance of the subject in the U.S. The reaction on this side of the pond has been "mainly a shrug" wrote columnist, Joe Nocera, in the *New York Times* last Saturday. "Perhaps we're suffering from bank-scandal fatigue, having lived through Bank of America's various travails, and the Goldman Sachs revelations, and, most recently, the big JPMorgan Chase trading loss. Or maybe LIBOR is just hard to gets one's head around."

"But the Brits have this one right," wrote Nocera. "They may not understand the intricacies of LIBOR any better than we do, but they sense, powerfully, that banks have once again made a mockery of the role that society entrusts to them."

"…yes, just when you thought the Street had hit bottom, an even deeper level of public-be-damned greed and corruption is revealed," wrote economist, Robert Reich, Sunday.

And, in a commentary titled, "Crime of the Century," Robert Scheer, editor of truthdig.com concluded that "behind the world's financial edifice lies a reeking cesspool of unprecedented corruption."

Reich throws cold water on the idea that this is a solely British scandal. "So far, the scandal has been limited to Barclay's, a big London-based bank that just paid $453 million to U.S. and British bank regulators, whose top executives have been forced to resign, and whose traders' emails give a chilling picture of how easily they got their colleagues to rig interest rates in order to make big bucks," he wrote.

"But Wall Street has almost surely been involved in the same practice, including the usual suspects — JPMorgan Chase, Citigroup, and Bank of America - because every major bank participates in setting the LIBOR rate, and Barclay's couldn't have rigged it without their witting involvement," Reich continued.

The *Economist* said, "looks less like rogue trading, more like a cartel."

In a nutshell, the now transatlantic scandal involves bank executive giving false reports to the agency that sets the London Interbank Exchange Rate (LIBOR). Based on the information provided, the interest rate is set for the banks' borrowing from each other on a day-to-day basis. As Taibbi described the process, "When LIBOR rates are high, it suggests that the banks' confidence in each other is low, and high LIBOR rates are generally an indicator of shaky financial health among the banks. If the banks manipulated LIBOR, they did it to make themselves look healthier, but this had the consequence of affecting hundreds of trillions of dollars' worth of financial products worldwide." One estimate is that this affects as much as $500 trillion, ranging from home mortgages with variable rates to student loans to what's in your wallet.

Possibly as many as 20 banks, including several big ones, are under investigation for their part in the fraud. "This could only happen in a City in which cheating and deception have become institutionalized," wrote Rawnsley.

A number of the other British banks are said to be in secret negotiations with authorities, aiming to avoid criminal charges through fines the way Barclays has. U.S. authorities are said to be looking into the dealings of a number of major banks. On Sunday *The Independent* reported that "The LIBOR fixing scandal is set to explode across the continent in the coming weeks as it emerged that German regulators have launched an intensive probe into Deutsche Bank - one of the City's biggest employers - over the affair."

Clearly, some of the biggest figures in the legions of the 1 percent have moved in a big way beyond making money the old fashioned way and have instead turned to looting.

"Austerity has redrawn the boundaries," wrote Philip Stephens, associate editor and chief political commentator at the *Financial Times*. "The cost of the financial crash was borne by the hard-working classes. Now it turns out that the banks who were gambling with taxpayers' money were also selling them fraudulent insurance policies. Tax cheating by the wealthy is now recognized as imposing an added burden on everyone else."

"One by one, institutions that people once depended on - banks, parliament, police, press - have been exposed as, if not legally corrupt, then rotten with greed," wrote *Guardian* columnist, Jonathan Freedland, last Saturday. "Football fans are learning that even their beloved teams are not immune: Manchester United supporters despaired this week as they saw their club move towards a flotation on the New York Stock Exchange, in an effort to pay back a chunk of the £423m debt that the Glazer family loaded on to United when they bought it seven years ago.”

“Dip into any radio phone-in or online comment thread and you can hear the fury all this is creating,” continued Freedland. “It's easy to dismiss the current mood as hysteria, and the public's anger is certainly inchoate. The clear alternative ideologies around which collective rage cohered in, say, the 1930s are absent now. No one believes the masses are about to storm the palace. But the crisis of institutions is real.”

“The restoration of integrity in banking will not happen without changes in the law to introduce serious criminal sanctions against venal traders and grossly negligent bosses,” wrote Rawnsley. One of those involved in the latest scandal wrote to another: "Done… for you big boy." The endemic corruption of financial institutions will go on until they know they are being watched, they know the chances of being caught are high, and they know that the penalties for transgression are severe. These ‘big boys’ have to be taught that they are not too big to jail.”

Labor Party leader, Ed Miliband, made a salient point the other day when he noted that "Not one person has gone to jail for what happened during the financial crisis.” “Why is it that when you shoplift £50-worth of goods you go straight to jail but when you fiddle, lie and cheat your way through the system, gaining millions of pounds, you get away with a slap on the wrist - if that," he said.

“After last summer's urban disorders, the police were imaginative in the use of the law to apprehend those involved,” Rawnsley commented. “The courts handed down sentences to looters which were designed to be exemplary. A college student, with no previous convictions, was imprisoned for six months for nicking a £3.50 pack of bottled water. Yet there is serious doubt whether it will be possible to prosecute banksters who perpetrated a massive con involving sums which would buy many millions of bottles of water.”

Washington Post real estate blogger, James Downie, suggests that the banksters can be prosecuted in the U.S under the federal statue against wire fraud. Commenting on “The banking scandal Wall Street fears,” he called for prosecuting the banks involved “as thoroughly as possible." "The traders and submitters directly involved in rigging-for-profit should go to jail."

Last week, a *New York Times* editorial held out the possibility that the U.S. Justice Department might decide to prosecute somebody at Barclays.

I wouldn't hold my breath.

Last week, right after Bob Diamond, chief executive of Barclays - who last year hauled in $27.7 million in total remuneration - resigned from his post. He also bowed out as a host for an upcoming fund raising dinner in London for U.S. Presidential candidate Mitt Romney. (Price of admission: between $25,000- $75,000.)

Romney reportedly took in $50,000 in a speaking fee from Barclays last year.

"Not since Clement Attlee has there been a first-time government with such reforming zeal," *Financial Times* Executive Comment Editor, John McDermott, commented last week about the Cameron regime. "Yet there appears to be little sense of what the priority is for the next three years.

"This should be to prove that capitalism can work for the many and not just the few."

Good luck with that one.

These are not good days for the "free market economy." Its ability to deliver economic justice and security is in question and its reputation is under fire.

"While Barclays has been dominating the news, we hardly noticed that, at the same time, the British pharmaceutical giant, GlaxoSmithKline (GSK), was fined £1.9bn for bad practices in the US," wrote Andreas Whittam Smith last week in the *Independent*. "This is six times more than Barclays has been fined for dishonestly manipulating interest rates.

"These crimes are at least as reprehensible as Barclays', or perhaps worse, as GSK was putting people's physical wellbeing at risk. From which we can conclude that we are not confronting something arising out of the special nature of banking or out of the particular characteristics of the drugs industry. Rather it is the culture of contemporary business that is the problem. Corrupt practices have spread far and wide. They are occurring on a scale that is unprecedented."

Such is the state of contemporary capitalism. It seems to just get worse and worse.

"The problem facing western democracies is doubt about the ability of government to deliver rising living standards," wrote McDermott. He went on to quote a remark made by Osborne in January: "My argument is that the way to address this doubt is not to run away from capitalism but to run towards it." "The future of this government will depend on whether he and Mr. Cameron can do this without falling flat on their faces," offered McDermott.

"At one time the Labour Party was committed to public accountability and control of the commanding heights of the economy. It supported public ownership of major services and industries," wrote Jeremy Corbyn, who is Labour MP for Islington North, in the leftwing *Morning Star* the other day. "Over the years, particularly under new Labour, the party retreated from this and under Blair privatization was promoted."

"Now is the time, more than ever, to call for public ownership and control of the banking system and financial service industries," wrote Corbyn. "Only in this way can there be stability in people's lives and investment in productive industries and vital services."

We aren't there yet; but we should be.

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