The Madoff scandal

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The repercussions from the collapse of Bernard L. Madoff Investment Securities LLC, whose founder and owner was arrested last Thursday after admitting that his $17 billion investment advisory business was "a giant Ponzi scheme," continue to widen. According to a criminal complaint filed by the FBI and a civil action brought by the Securities and Exchange Commission (SEC), the elderly Madoff estimated that the losses from his fraud exceeded $50 billion. The tally of losses already reported by banks, hedge funds and wealthy investors climbed over the weekend to nearly $20 billion.

Banks and hedge funds around the world—in the US, Britain, Italy, Spain, France, Switzerland and Japan—are reporting hundreds of millions and even billions in losses. University endowments, charities and other institutions that entrusted their money to Madoff or to hedge funds that invested in Madoff's company are reeling from the news that their investments are worthless.

Prominent and wealthy individuals—including J. Ezra Merkin, the chairman of GMAC, Fred Wilpon, the principal owner of the New York Mets, Norman Braman, the former owner of the Philadelphia Eagles professional football team, Frank Lautenberg, the multimillionaire Democratic senator from New Jersey, and Mortimer Zuckerman, the owner of the *New York Daily News*—are among those who have lost millions. Among the thousands and even tens of thousands of individuals likely to be affected is no small number of retirees of relatively modest means whose life savings were tied into Madoff's operation.

The fallout from the Madoff scandal will inevitably result in the failure of other investment firms, impacting thousands more individuals and hundreds more businesses.

Madoff's scam could not have been carried out without the complicity of the highest echelons of the financial elite and the government.

US officials now allege that Madoff was engaged in a Ponzi scheme—using new revenues from investors to meet payments due to existing investors—at least since 2005. As of yet, no one really knows how long Madoff, a former chairman of the Nasdaq Stock Market and current member of the board of governors of the National Association of Securities Dealers, was paying his old clients with money obtained from new ones. The scheme collapsed after clients requested some $7 billion in redemptions.

As the *New York Times* reported Saturday, "There is fragmentary evidence that Mr. Madoff's alleged scam may have lasted for years or even decades... It is not even clear whether Mr. Madoff actually made any of the trades he reported to investors."

One thing is clear, Madoff, known as a Wall Street legend, was a man with many connections in high places. Since 2000, he has given at least $100,000 to the Democratic Senatorial Campaign Committee and more than $23,000 to the party's candidates, including Senator Charles Schumer of New York, the chairman of the Joint Economic Committee of Congress, and Senator Lautenberg. His legal defense team includes Mark Mukasey, the son of the current attorney general.

There were ample signs that Madoff's operation was fraudulent. He made his reputation and his millions by delivering solid returns of 1 or 2 percent a month to his investors month in and month out from the day he launched his investment advisory business as an adjunct to his brokerage firm. Wealthy investors and hedge fund operators marveled as Madoff worked his "magic" in bull markets and bear markets alike, regardless of the gyrations on the stock market.

But there were also those who realized that such consistent returns could not be achieved through legal means. They looked at Madoff's amazing record, the secretive nature of his investment funds and the fact that his auditing firm was an obscure one-room operation based in New City, New York, and concluded that Madoff was working a scam.

One executive in the securities industry, beginning in 1999, repeatedly urged the SEC to investigate Madoff. "Madoff Securities is the world's largest Ponzi scheme," he wrote in one letter to the SEC. Other investment firms steered their clients away from Madoff.

The SEC, which had investigated and cleared Madoff in 1992, refused to intervene. On the contrary, he was appointed to a committee of academics, regulators and executives formed in 2000 by former SEC Chairman Arthur Levitt to advise the agency on new stock market rules in response to the growth of electronic trading.

The role of the SEC epitomizes the transformation of government regulatory agencies into the facilitators of financial fraud on a colossal scale. Its job has become running interference for the skullduggery of brokerage houses, hedge funds and banks.

The removal of any regulatory restraint on the operations of the banks and finance houses over the past three decades is itself an expression of the crisis and decay of American capitalism. The hallmark of this process is the growth of financial parasitism. It is the other side of the coin of the systematic dismantling of large sections of industry and the relentless attack on the jobs and wages of the working class. This assault, in tandem with the unfolding economic crisis, is entering a new and even more brutal stage.

The very fact that the Madoff scandal has had its impact on the most privileged social layers testifies to the depth of the underlying crisis that produced it. It has, moreover, shed light on the social physiognomy of those elite sections of the population that have benefited from the vast redistribution of wealth from the bottom to the top. So manic is the drive for personal enrichment that supposedly savvy investors and Wall Street insiders barely bothered to examine Madoff's operations, so long as he delivered a steady stream of solid returns.

What is being widely reported as the largest financial fraud in history goes far deeper and extends far wider than the machinations of a single broker and fund manager. It marks a new stage in the disintegration of the US and world financial system—the convulsive outcome of decades in which a vast accumulation of personal wealth at the top has been achieved on the basis of semi-criminal forms of financial manipulation unrelated to production and the creation of real value. To a great extent, the entire economy has been transformed into a giant Ponzi scheme. The collapse of trillions in paper assets will assume ever more malignant forms.

Barry Grey