Madoff jailed after pleading guilty to operating Ponzi scheme

Barry Grey
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Bernard Madoff pleaded guilty in Federal District Court in Manhattan Thursday to 11 felony charges related to his operation of the biggest Ponzi scheme in history. The 70-year-old stock broker and investment adviser, until his arrest last December celebrated as one of the richest and most savvy Wall Street insiders, was led away to jail in handcuffs after Judge Denny Chin revoked his bail. The judge set June 16 as the date for sentencing for crimes that carry a maximum statutory prison term of 150 years.

The 100-seat courtroom was packed with media and victims of Madoff's decades-long scam, and some 400 others packed an additional room with two screens to watch a live feed of the proceedings. Thousands of investors, from the ranks of the wealthy as well as middle-class retirees, have lost tens of billions of dollars as a result of the collapse of Madoff's fraud, in which existing clients with his investment advisory business, as well as those who invested with other firms that served as "feeder funds" for Madoff's operation, were paid off from the proceeds generated from new clients.

Many retirees, including those who had no idea their money was being managed by Madoff, have lost their life savings. Others have been reduced overnight from wealth and privilege to poverty. Banks, hedge funds, investment firms, charities and trusts in the US, Europe and Asia that invested with Madoff have lost billions of dollars. The list of defrauded clients includes Hollywood celebrities and some of America's rich and powerful, such as New York Mets owner Fred Wilpon and *New York Daily News* owner Mortimer Zuckerman.

In an extraordinary statement to the court, Madoff, who became a leading figure on Wall Street through his stock-trading and market-making company, served three terms as chairman of the Nasdaq Stock Market and was a board member of several securities industry institutions, told the judge, "I operated a Ponzi scheme through the investment advisory side of my business."

He continued: "When I began the Ponzi scheme, I believed it would end shortly and I would be able to extricate myself and my clients from the scheme. However, this proved difficult, and ultimately impossible..."

He said his fraud began in the early 1990s, when recessionary conditions "posed a problem for investments in the securities markets." (In their criminal information filed on Tuesday, federal prosecutors said the fraud had likely been occurring "from at least as early as the 1980s.")

Madoff went on to say that "for many years, up and until I was arrested on December 11, 2008, I never invested those funds in the securities, as I had promised. Instead, those funds were deposited in a bank account at Chase Manhattan Bank." He went on to describe how he had employees of his investment advisory business fabricate stock trading confirmations and client account statements and filed false audit reports and financial statements with the Securities and Exchange Commission (SEC).

He referred to a 2006 SEC investigation into his investment advisory business and admitted lying to SEC staff by telling them he had executed stock trades and options contracts on behalf of his clients. By that time, his company had been investigated at least 8 times by the SEC and other regulatory bodies, and one Wall Street whistleblower had been insistently pressing the SEC to conduct a thorough probe of Madoff's operations, declaring in one letter that Madoff was operating "the world's largest Ponzi scheme."

The fact that the SEC never proceeded against Madoff, despite abundant signs that he was carrying out a fraud, is indicative of the collusion of government regulators in the criminal activities of Madoff and much bigger financial players on Wall Street. Madoff's statement to the court makes clear that any genuine investigation would have quickly revealed that his investment advisory business was bogus. His fraud was uncovered only when he could no longer keep it going and he decided to confess and turn himself in to the authorities.

Last month, the SEC agreed to a deal with Madoff in its civil suit against him, lodged after Madoff confessed to the FBI, that did not require Madoff to admit or deny any of its charges against him and averted a civil trial.

The media is placing great emphasis on whether other of Madoff's immediate business associates, including his wife, sons and other family members, were knowingly involved in the fraud. This, however, is a secondary issue.

The more fundamental question, which the media studiously avoids, is what the Madoff affair reveals about the American economic and political system as a whole. Madoff's fraud took the form of a Ponzi scheme, but that is only one form of a vast system of financial fraud and deception that has been brought into being with the aid of the government.

Madoff's rise and fall are emblematic of the growth of financial parasitism over three decades during which virtually all of the limited government controls over the banks put in place after the 1929 Wall Street crash were progressively dismantled. His scheme finally collapsed when the vast edifice of paper values, in the form of exotic debt mechanisms—collateralized debt obligations, structured investment vehicles, etc.—came crashing down, freezing credit markets and sending stock prices plummeting. By the late fall of 2008, Madoff faced growing demands for redemptions from nervous clients and was unable to raise the funds to meet them.

His fall from the status of Wall Street "wizard" to disgraced felon is symbolic of the collapse of the entire ideology of American capitalism. The supposed infallibility of the market, the glorification of "free enterprise," the elevation of Wall Street billionaires to hero status have come crashing down along with iconic firms such as Bear Stearns, Lehman Brothers and Citigroup.

Madoff's rise coincided with the turn to financial speculation and the elevation of the stock market to a dominant role in the functioning of American business that began with the appointment of Paul Volcker as Federal Reserve chairman in 1979 and the coming to power of the Reagan administration in 1981. This was bound up directly with the dismantling of large sections of basic industry, a frontal assault on the wages, jobs and living standards of the working class, the removal of regulations on corporations and banks, and the gutting of social programs.

By 1989, Madoff's securities trading operation handled over 5 percent of trading volume on the New York Stock Exchange and he was ranked among the highest paid people on Wall Street by *Financial World* magazine. The following year he became chairman of Nasdaq. His fortunes continued to rise in the 1990s, during the Clinton years, when Wall Street reached new heights based on ever more complex forms of financial manipulation and the scrapping of what remained of the major financial reforms of the 1930s.

This process—an expression of the decay of American capitalism—generated fantastic fortunes for the financial elite at the expense of the living standards of the broad masses of people. Its essence was a vast redistribution of wealth from the bottom to the top and an unprecedented growth of social inequality.

New York Times columnist David Leonhardt, writing in the March 11 issue, provides an insightful commentary on the modus operandi of US finance over this period. In a column entitled "The Looting of America's Coffers," he cites a paper published 16 years ago by two prominent American economists, George Akerlof and Paul Romer, who explained that a series of financial crises in the 1980s were the result of a calculated policy carried out by big financial interests.

"The investors had borrowed huge amounts of money," Leonhardt writes, "made big profits when times were good and then left the government holding the bag for their eventual (and predictable) losses. In a word, the investors looted."

He quotes from the economists' paper, which reads today like a description of the subprime mortgage market: "The investors displayed a 'total disregard for even the most basic principles of lending,' failing to verify standard information about their borrowers or, in some cases, even to ask for that information. The investors 'acted as if future losses were somebody else's problem,' the economists wrote. 'They were right.'"

Leonhardt continues: "Bankers can make long-shot investments, knowing that they will keep the profits if they succeed, while the taxpayers will cover the losses."

In other words, the banks use borrowed money to make highly profitable investments they know are doomed to ultimately fail, confident that they will be bailed out by the government at public expense.

The Madoff fraud is but one expression of the vast looting operation that is at the core of contemporary capitalism.