Financial crisis commission defends Wall Street criminals

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The Financial Crisis Inquiry Commission, the body set up by the Obama administration to investigate the 2008 Wall Street meltdown, released its 633-page findings report Thursday morning. The commission, which concluded that the financial collapse was due to the "systemic breakdown in accountability and ethics," deliberately refused, as a matter of policy, to name any individuals it suspected of malfeasance.

Facing journalists' questions in a press conference Thursday morning, the panel moved to shield financial criminals from prosecution and the public view. By far the most frequent topic raised by reporters related to the absence of criminal accusations in the findings. One of the first questioners asked, "Did you find corporate criminal activity in the run-up to the financial crisis? If you did, why are those findings not included in this report?"

To this, panelist Brooksley Born responded, "Our mandate was to refer to the attorney general any individual that our investigation found may have violated US laws. We did make several such referrals, but we are not going to talk about any of those."

In response to similar questions, the panelists got visibly frustrated and insisted that they would not disclose any details of criminal violations, how many they found or even confirm that any referrals took place.

All substantive questions were merely brushed off. One reporter asked whether the cases of accounting fraud by failed bank Lehman Brothers and other companies were bigger than Enron and WorldCom, two prominent corporate fraud cases that resulted in criminal indictments.

Phil Angelides, the panel's chair, blatantly sidestepped the question, merely noting that the use of questionable accounting at Lehman Brothers was a "publicly known case" and that the inquiry had "looked into off-balance-sheet assets."

These evasive responses were totally in keeping with the character of the commission, which was designed from the ground up to be as impotent and unobtrusive as possible. The panel's composition bears notice. Its ten members were political and business figures largely unknown to the public. The chair of the panel, Phil Angelides, was treasurer of California and the unsuccessful Democratic nominee for the state's governor in 2006. The only figure of any real national prominence was Brooksley Born, the former head of the Commodity Futures Trading Commission. The rest of the panel consisted of ex-CEOs, former bankers, think tank employees, and one former senator.

The timing of the announcement is also significant. The panel waited for a rebound in the stock market and a sizable rise in bank profits to issue its report, seeking out the time when the banks' crimes were least in public view. The final release date of the report was announced only a week in advance, giving the impression that it was prepared beforehand and issued at the most convenient time.

Even as the panel held its press conference, the corporate elite gathered at the World Economic Forum in Davos, Switzerland, to call for even further cuts to regulation and the elimination of the minuscule reforms implemented in the 2009 Dodd-Frank financial reform bill.

These characteristics, together with the press' willingness to treat the bank bailout as a dead issue, led to the findings being largely ignored by the major newspapers. Neither the *Wall Street Journal* nor the *New York Times* featured the story on their web site home pages on Thursday afternoon.

The report itself constitutes an exercise in defending the culpable parties through a combination of impotent moralizing and obscurantism. Where possible, the panelists sought to implicate the American public in the bankers' fraud. Bob Graham, a panelist and retired senator, concluded his remarks with the words, "in sum, we reaped what we had sown." Heather Murren, a panelist and former employee of Merrill Lynch, added that the causes of the crisis "stretched from the living room to the boardroom."

Aside from overt attempts to blame the American public, the panel follows the now well-established model of spreading blame so broadly that accountability disappears. The panel concluded that "widespread failures in financial regulation and supervision proved devastating to the stability of the nation's financial markets." The panelists, particularly Angelides, adamantly proclaimed that regulators had the power to prevent the crisis, but failed to do so. Yet when asked by reporters whether the heads of the treasury and Federal Reserve were in any way responsible, Angelides sidestepped the question.

Apart from faulting regulators, the panel concluded that the crisis was caused by a "systemic breakdown in accountability and ethics" on the part of corporate executives.

This is a truism. Yet no major figure from either government or from the big banks has been prosecuted in connection with the financial meltdown. It defies belief that "a systematic breakdown of ethics" resulting in hundreds of billions in losses could take place in corporate boardrooms without any breaches of the law.

Despite its role as an official whitewash, the commission's findings contain some substantive information. For instance, the report admits the widely reported claim that Goldman Sachs, the most profitable Wall Street firm in history, received $2.9 billion as a part of the bailout of AIG, the failed insurance agency.

Prior to the release of the commission's findings, commentators compared the inquiry to the Pecora Investigation, a series of hearings held in 1932 to investigate the causes of the 1929 Wall Street Crash. That inquiry, which was broadly followed by both the press and public, exposed numerous cases of fraud and abuse by dozens of companies and individuals.

By uncovering the depth of the fraud and speculation that led to the crisis, the inquiry forced the resignation of National City Bank president Charles Mitchell, and made public the fact that J.P. Morgan, Jr., the banker, had paid no taxes for the past two years. The numerous cases of fraud and parasitism unearthed by the commission sparked public outcry and calls for prosecution by major politicians.

Responding to a wave of anti-bank sentiment in the wake of the commission's findings, the Roosevelt administration laid the groundwork for the financial regulation of the postwar period, creating the Securities and Exchange commission to prosecute financial fraud, and implementing the Glass-Steagall Act, which separated commercial and investment banking until its repeal in 1999.

The present commission has exactly the opposite character of the Pecora Investigation. Instead of shining light on the banks' crimes, the commission aims to keep the circumstances of the crisis obscure, while preventing the prosecution of those responsible. In this, it follows the principle, laid down by the commission's lead investigator in 1933, Ferdinand Pecora, "Legal chicanery and pitch darkness were the banker's stoutest allies."

The release of the inquiry commission's report is a key step in the process of returning the financial system to "business as usual." Over two years since the worst postwar financial crisis, there have been no fundamental changes implemented to the financial system and the banks have returned to their daily labor of gambling, fraud and speculation at the public expense.