The burying of the Financial Crisis Inquiry report

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Late last month, the US Financial Crisis Inquiry Commission issued the first official report on the causes of the 2008 financial meltdown.

The report is devastating. The commission interviewed over 700 witnesses, held 19 days of public hearings, and investigated millions of documents. Based on this research, it gives a fairly accurate picture of the fraud and criminality that led to the greatest financial catastrophe since the Great Depression.

The report implicates corporate executives, regulators, and politicians in the conversion of the US economy into a Wall Street casino. It ties the unethical, irresponsible, and often blatantly illegal practices of the financiers to the impoverishment and suffering of millions.

As significant as its contents, however, is the speed with which the report has been buried by the media and political establishment. Within hours, articles on it were dropped from the front pages of the *New York Times* and *Wall Street Journal* web sites. Printed stories were relegated to inside pages. The *Financial Times*, which focuses its coverage on global economic news and developments, did not put the findings on its printed front page on either the release day or the day after.

As for the Obama administration, the report was conveniently released the day after the State of the Union address. While the president no doubt had advance word of its findings, he made no mention of its imminent release. Indeed, none of the report's themes, from the dramatic increase of the weight of the financial system in the US economy, to the breakdown of regulation and corporate accountability, made their way into his speech.

The commissioners—including six Democrats and four Republicans, chaired by former California Treasurer Phil Angelides—sought to downplay the conclusions contained in their report. At the press conference held to announce their findings, the commissioners used more equivocal language than that of the findings, with one noting that responsibility for the crisis "stretched from the living room to the boardroom," meaning that the American population shared equal responsibility with the banks for the financial crisis. When asked by multiple reporters whether their report unveiled criminality, the commissioners refused to answer.

Regardless of the intentions of the authors, however, the act of systematically detailing the causes of the financial crisis constitutes a telling indictment of the banks, politicians, and regulators. This was no doubt sensed by the commissioners, four of whom supported dissenting versions of the report that sought to undermine the connection between deregulation, the loosening of lending standards, and the ensuing financial collapse.

Commentary that trickled into the editorial pages of major newspapers over several days largely disregarded the report's devastating conclusions, either focusing on tangential issues or openly denouncing the committee's methods.

The report implicates nearly everyone holding a responsible position in the finance sector. It clearly demonstrates that the heads of banks and security rating firms took part in a conspiracy to create the financial bubble of 2005-2007—often for direct personal enrichment. This was facilitated by the transformation of politicians into little more than cheerleaders for the financial bubble and regulators into the impotent facilitators of bank fraud.

As the report points out, "From 1999 to 2008, the financial sector expended $2.7 billion in reported federal lobbying expenses; individuals and political action committees in the sector made more than $1 billion in campaign contributions." This inflow of bank cash to campaign coffers deprived regulators of "the necessary strength and independence of oversight necessary to safeguard financial stability."

With the ensuing deregulation, and fueled by the cheap cash provided by the central banks, financial firms turned to a spree of speculation, primarily in the housing market, which the commission claimed "lit and spread the flame of contagion and crisis."

"Lenders made loans that they knew borrowers could not afford and that could cause massive losses to investors in mortgage securities," it concluded, adding that in 2004, four years before the collapse, executives at Countrywide Financial, a key originator of bad mortgages, "recognized that many of the loans they were originating could result in 'catastrophic consequences'."

The commission concluded that Countrywide and other lenders "knew a significant percentage of ... loans did not meet their own underwriting standards or those of the originators. Nonetheless, they sold those securities to investors."

The fraudulent loans made by lenders were then bought and repacked in the form of collateralized debt obligations. These securities were nothing more than collections of bad mortgages that were reshuffled and resold in such a way that the majority of the ensuing securities got the highest possible credit rating.

The major investment banks, such as Goldman Sachs and Morgan Stanley, charged a hefty fee for repackaging bad

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mortgages. However, they made even more through leveraged speculation on the mortgage-backed securities that they and other banks had issued.

The report points out that, "As of 2007, the five major investment banks—Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley had leverage ratios as high as 40 to 1, meaning for every $40 in assets, there was only $1 in capital to cover losses."

This meant that, as long as housing values kept rising and defaults were kept low, the banks would continue to accrue immensely inflated profits. But the moment there was a drop in the housing market and foreclosures rose, the results would be catastrophic. As the report noted, "Less than a 3% drop in asset values could wipe out a firm."

The corporate mechanism that was supposed to stop this speculative cycle, the financial ratings agencies, "abysmally failed." The report notes that in 2006, Moody's, the credit rating agency, gave its highest rating to 30 mortgage-related securities every weekday. "The results were disastrous," concludes the report. "83% of the mortgage securities rated triple-A that year ultimately were downgraded."

Regulators, including the Securities and Exchange Commission and the Office of Thrift Supervision, failed to take any action to contain the pervasive fraud that was creeping into the financial system. "The Federal Reserve," the commissioners write, "failed to meet its statutory obligation to establish and maintain prudent mortgage lending standards."

This resulted in the "rising incidence of mortgage fraud, which flourished in an environment of collapsing lending standards and lax regulation."

In 2006, when billions of dollars in fraudulent securities began to collapse in value, officials in charge of the US economy were taken completely unawares. Ben Bernanke, the chairman of the Federal Reserve, underestimated the impact of the financial crisis by many orders of magnitude, while insisting that the crisis would stay confined to subprime mortgages.

The big banks, meanwhile, took a more prudent stance, continuing to distribute garbage securities while betting that they would fall in value. Goldman Sachs in particular specialized in this practice, which one expert compared to "buying fire insurance on someone else's house and then committing arson."

By October 2008, the sparks of the subprime mortgage crisis had ignited what Federal Reserve Chairman Ben Bernanke told the panel was "the worst financial crisis in global history, including the Great Depression." He added that of the "13 … most important financial institutions in the United States, 12 were at risk of failure within a period of a week or two."

The collapse of Lehman Brothers and the subsequent bank panic precipitated an unprecedented transfer of wealth into the coffers of the banks, under the guise that this was the only way to prevent a general collapse of the economy. The government shoveled money to the financial companies through every means at its disposal—from the Federal Reserve to the Treasury to the FDIC—both in the form of handouts and in loans.

In the bailout of failed insurer AIG alone, the US government gave $180 billion to the world's largest banks, of which $124.8 billion is still outstanding. The report notes that $2.9 billion of this money made its way directly into the coffers of Goldman Sachs, one of AIG's largest partners.

Yet despite the immensity of the crisis and the social devastation it has wrought, nothing has been done to prevent its repeat. As the commission has concluded, "Our financial system is, in many respects, still unchanged from what existed on the eve of the crisis. Indeed, in the wake of the crisis, the U.S. financial sector is now more concentrated than ever in the hands of a few large, systemically significant institutions."

The report concludes that "the greatest tragedy would be to accept the refrain that no one could have seen this coming and thus nothing could have been done. If we accept this notion, it will happen again."

Under far different circumstances, the contents of the FCIC report would constitute evidence to send thousands of people to jail, including the heads of the banks and the leading officers of the regulatory bodies.

It has become a constant feature of American political life, however, that in the midst of criminality on a scale not seen before in US history, absolutely no one can be held accountable—no one within the economic and political elite, that is. From economic fraud on a monumental scale, to environmental disasters such as the BP oil spill, to the government-orchestrated violation of the most basic democratic and constitutional rights of the American people—the United States sends far more people to prison than any other country in the world, but the chief criminals are never prosecuted.

Indeed, in the wake of a crisis that is generally acknowledged to be the worst since the Great Depression, the only person who has been forced to serve jail-time is Bernie Madoff. He was sent to prison, moreover, not so much because he defrauded many people of a lot of money, but because he defrauded the wrong people and in the wrong way.

Such a culture of absolute impunity is one hallmark of a decaying aristocratic society. The corporate and financial elite is so embedded in criminal activity that the issue of responsibility can not even be broached, for fear that it will begin to unravel the entire stinking edifice.

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