# Senate report on Wall Street crash: The criminalization of the American ruling class

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The US Senate Permanent Subcommittee on Investigations released a voluminous report last Wednesday on the Wall Street crash of 2008 that documents the fraud and criminality that pervade the entire financial system and its relations with the government.

The 650-page report is the outcome of a two-year investigation that involved over 150 interviews and depositions as well as the examination of subpoenaed emails and internal documents of major banks, government regulatory agencies and credit rating firms. The report, entitled "Wall Street and the Financial Crisis: Anatomy of a Financial Collapse," establishes that the financial crash and ensuing recession were the result of systemic fraud and deception on the part of the mortgage lenders and banks, carried out with the collusion of the credit rating corporations and the complicity of the government and its bank regulatory agencies.

The *World Socialist Web Site* will analyze the contents of this important document in detail in the coming days. However, its basic thrust is clear. As the executive summary states: "The investigation found that the crisis was not a natural disaster, but the result of high-risk, complex financial products; undisclosed conflicts of interest; and the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street."

At a press conference Wednesday and in subsequent interviews, Senator Carl Levin (Democrat from Michigan), the chairman of the subcommittee, was even more explicit. "Using emails, memos and other internal documents," he said, "this report tells the inside story of an economic assault that cost millions of Americans their jobs and homes, while wiping out investors, good businesses and markets. High-risk lending, regulatory failures, inflated credit ratings and Wall Street firms engaging in massive conflicts of interest contaminated the US financial system with toxic mortgages and undermined public trust in US markets.

"Using their own words in documents subpoenaed by the subcommittee, the report discloses how financial firms deliberately took advantage of their clients and investors, how credit rating agencies assigned AAA ratings to high-risk securities, and how regulators sat on their hands instead of reining in the unsafe and unsound practices all around them. Rampant conflicts of interest are the threads that run through every chapter of this sordid story."

Levin went on to say that the investigation had found "a financial snake pit rife with greed, conflicts of interest, and wrongdoing." He told the *New York Times*: "The overwhelming evidence is that those institutions deceived their clients and deceived the public, and they were aided and abetted by deferential regulators and credit ratings agencies who had conflicts of interest."

The report is divided into four sections, each focusing on a different contributor to the network of fraud and abuse: the mortgage lenders, the regulators, the credit rating firms and the Wall Street investment banks. The first section takes Washington Mutual (WaMu) as its case history, detailing the predatory and deceptive lending practices and accounting and reporting subterfuges that led, following the implosion of the subprime mortgage market, to the bank's collapse and takeover by JPMorgan Chase in September of 2008.

The second examines the corrupt role of the federal Office of Thrift Supervision (OTS), which oversaw three of the biggest financial failures in US history—Washington Mutual, IndyMac and Countrywide Financial. "Over a five-year period from 2004 to 2008," the report states, "OTS identified over 500 serious deficiencies at WaMu, yet failed to take action to force the bank to improve its lending operations and even impeded oversight by the bank's backup regulator, the FDIC."

The third section documents the systematic manner in which the rating firms Moody's and Standard & Poor's gave top credit ratings to collateralized debt obligations (CDOs) and other complex securities backed by subprime and other toxic mortgages, enabling the banks to make billions of dollars by palming off these junk securities as top-grade investments. In return, the rating companies raked in huge profits for their services.

As the report states: "Credit rating agencies were paid by Wall Street firms that sought their ratings and profited from the financial products being rated… The ratings agencies weakened their standards as each competed to provide the most favorable rating to win business and greater market share. The result was a race to the bottom."

The final section examines the fraud and deception perpetrated by the major investment banks as they profited first from the inflation of the US housing market and then from its implosion. It takes as its examples Goldman Sachs and Deutsche Bank. Goldman began betting heavily in 2007 that the housing market would collapse, packaging and selling subprime mortgage-backed CDOs even as it secretly bet that the same securities would plummet in value.

The report cites emails by Deutsche Bank's top global CDO trader, Gregg Lippman, calling risky mortgage securities marketed by the bank "crap" and "pigs" and the bank's operations a "CDO machine," which he characterized as a "Ponzi scheme."

The document points to the central role of the big Wall Street banks in promulgating the fraud, stating: "Investment banks were the driving force behind the structured finance products that provided a steady stream of funding for lenders originating high-risk, poor-quality loans and that magnified risk throughout the US financial system. The investment banks that engineered, sold, traded and profited from mortgage-related structured finance products were a major cause of the financial crisis."

The overall picture is one of criminality on the part of the entire financial establishment that, with all levels of government serving as its co-conspirator, systematically looted the economy in order to further enrich itself. The result is a social tragedy for tens of millions of people in the US and many millions more around the world. And yet, the result of this historic crime is that the bankers and speculators are richer and more powerful than ever.

Not a single senior executive at a major US bank, hedge fund, mortgage firm or insurance company has gone to jail. Not one has even been prosecuted.

There is every indication that none will be criminally indicted in the future. As with the similarly damning report released in January by the US Financial Crisis Inquiry Commission, the Senate report has been largely buried by the mass media. It was reported perfunctorily on the inside pages of some of the major newspapers and barely mentioned by the broadcast and cable networks, and then dropped.

One day after the release of the Senate report, the *New York Times* published a long article on the failure to prosecute any of the Wall Street criminals. It recounted a private meeting between the then-president of the Federal Reserve Bank of New York (now Obama's treasury secretary) Timothy Geithner and then-New York Attorney General Andrew Cuomo in October 2008 at which Geithner urged Cuomo to back off on investigations of the banks and rating agencies.

The article contrasted the absence of criminal charges against bankers today with the aftermath of the savings and loan debacle of the late 1980s, when government task forces referred 1,100 cases to prosecutors and more than 800 bank officials went to jail. It noted the precipitous decline in referrals by bank regulators to the FBI, from 1,837 cases in 1995 to 75 in 2006. Over the ensuing four years, at the height of the financial crisis, an average of only 72 a year have been referred for criminal prosecution.

The Office of Thrift Supervision has not referred a single case to the Justice Department since 2000, and the Office of the Comptroller of the Currency, a unit of the Treasury Department, has referred only three in the last decade.

How is this to be explained? Why are Goldman CEO Lloyd Blankfein, JPMorgan CEO Jamie Dimon, the former CEO of Washington Mutual, Kerry Killinger, as well as Treasury Secretary Geithner and his predecessor, Henry Paulson (previously CEO of Goldman), not in prison?

Such financial manipulators are being shielded while workers are being stripped of their jobs, wages, homes and basic social services to pay for the debts resulting from the transfer of trillions in public funds to the banks. Collective resistance to this attack is being criminalized in the form of anti-strike laws, imposing fines and jail terms for workers who fight back.

One reason for the absence of prosecutions is the power of the individuals involved, all of whom wield immense influence over politicians, the media and the legal system. But it goes deeper than the status of individuals, just as the sordid state of affairs as a whole arises not from individual greed, but rather from a profound crisis of the entire system.

The criminalization of the American ruling class is the outcome of more than three decades in which the accumulation of wealth by the corporate-financial elite has become increasingly separated from real production. In its pursuit of profit, the ruling class has dismantled huge sections of industry and turned ever more decisively to financial manipulation and speculation.

The ascendancy of the most parasitic sections of the capitalist class has been accompanied by a sharp decline in the living standards of the working class. The richest and most powerful layers have acquired staggering levels of wealth by plundering society.

The ruling class itself senses that to prosecute any of the leading figures in the defrauding of the American people (and the rest of humankind) would rapidly expose the criminality of the entire system. It would mean putting the capitalist system itself on trial.

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