

The JPMorgan fiasco and the case for nationalization

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In just four trading days since JPMorgan Chase's announcement of massive losses in derivatives, the estimated toll has risen from \$2 billion to more than \$3 billion. When CEO Jamie Dimon first acknowledged the bank's debacle last Thursday night, he warned that the losses could rise. The *Wall Street Journal* reported that America's biggest bank was girding for a loss of perhaps \$4 billion *over the next year*.

The losses have piled up at breakneck speed largely due to the intervention of rival hedge funds and Wall Street speculators, who have rushed to exploit JPMorgan's predicament for their own profit, placing large bets against the billions of soured securities still held by the bank.

The affair provides a glimpse of the avarice and debauchery that are at the heart of the capitalist financial system. The amounts being squandered in the entirely parasitic pursuit of super-profits and obscene levels of executive pay come at the expense of the vital needs of the people.

The billions lost as a result of just one set of speculative trades will be greater, for example, than the entire federal budget for programs to help low-income families pay their utility bills. Obama has slashed the budget for the Low Income Home Energy Assistance Program (LIHEAP) from \$5 billion to \$3.5 billion, condemning millions of households to go without heat or electricity.

These sums would cover the budget deficit of many a US city, currently being pared through the destruction of jobs, wages, education and social services. The JPMorgan loss will likely end up equaling the dollar amount of new cuts in health care and education just proposed by the Democratic governor of California.

This, of course, is only a tiny fraction of the trillions diverted from social needs and useful production to

maintain the American financial aristocracy, including the colossal sums handed over by the government to bail out the banks. (JPMorgan received \$25 billion from the \$700 billion Troubled Asset Relief Program).

The operations of the banks and hedge funds are not only socially destructive, they are riddled with illegality. The big Wall Street firms such as JPMorgan, far from being broken up or reined in, have been allowed to strengthen their monopolistic grip over the economy. They are, in practice, above the law.

Dimon has personally led the public campaign of Wall Street against even the mildest limits on the speculative practices of the banks. He has focused his opposition on the so-called Volcker Rule in the 2010 Dodd-Frank financial regulatory law. The rule purports to bar banks with federally guaranteed deposits, such as JPMorgan, from using their funds to speculate for their own profit.

Under pressure from the banks, as well as the Federal Reserve and the Obama administration, federal regulators have failed for two years to agree on language for the Volcker Rule. A preliminary draft released last October, however, is so watered-down that it would allow the type of huge bet made by JPMorgan's London-based Chief Investment Office under cover of "hedging" the risk on the bank's overall balance sheet.

Dimon only last month called press reports of troubled investments by the Chief Investment Office "a complete tempest in a teapot." This itself suggests serious violations of securities laws that prohibit firms from deceiving investors and the public about the state of their finances. There are grounds, moreover, to suspect accounting scams aimed at covering up the losses prior to the bank's first-quarter earnings report, released April 13.

Yet on Monday, President Obama intervened to vouch for Dimon and JPMorgan, calling the CEO “one of the smartest bankers we got” and praising JPMorgan as “one of the best managed banks there is.” On Wednesday, his presumptive Republican opponent in the November election, Mitt Romney, opposed any strengthening of banking regulations, saying of the JPMorgan fiasco, “That’s the way America works.”

The American people are thus presented with the choice of voting for one or another political pimp for Wall Street. Nothing could more clearly demonstrate the corrupt and incestuous relationship between both major parties and the financial elite. The politicians and regulators cannot bring the banks under control because they are their bribed servants.

One day after Obama’s testimonial, the FBI announced it was opening a preliminary criminal investigation into JPMorgan’s actions. Dimon and company have little to fear, however. Federal prosecutors hastened to assure that the inquiry was routine and that no one at the bank had been accused of wrongdoing. Not a single high-level banker has been prosecuted since the Wall Street crash of 2008, and federal financial fraud prosecutions have fallen to 20-year lows under Obama.

Dimon should be prosecuted and held criminally liable for his illegal and anti-social actions, along with the rest of the financial manipulators responsible for the financial and social disaster.

The trillions in ill-gotten wealth amassed by Wall Street should be seized and used to meet urgent social needs—jobs, education, housing, a secure retirement—and to rebuild the social infrastructure.

This, however, requires the mass, independent action of the working class. Only a political offensive by the working class on the basis of socialist policies can close down the Wall Street casino and end the plundering of society by the financial parasites. Talk of reforming the financial system is a fraud and an illusion.

The JPMorgan debacle provides fresh proof of the need to take the banks out of the hands of the bankers and nationalize them under the democratic control of the working population. This is the socialist—and the only viable—means of reorganizing the financial system to serve the needs of society.



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