As Barclays CEO resigns

Libor manipulation scandal engulfs 16 top banks

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The Libor scandal, thus far focused on British-based Barclays bank, has revealed that global capitalism functions not as a free market, but as a rigged market controlled by contending groups of corporations, cartels and multi-billionaire speculators.

The sums involved in the manipulation of Libor (the London inter-bank lending rate) and its European equivalent, Euribor, are staggering. The most conservative estimate of the money accrued to the world's top banks by these practices is £48 billion ($75 billion).

Libor and Euribor are two of the crucial mechanisms for setting interest rates on a vast array of financial products. Libor is the largest and most variable rate, covering ten currencies. It even helps determine the rate of the US dollar in the form of eurodollars.

Traders in London, New York, Japan and elsewhere colluded to manipulate the Libor rate so as to make massive profits or conceal losses, at the direct expense of pension funds and mortgage and loan holders.

These practices—involving what the British Financial Services Authority (FSA) admits were a "significant number of employees"—played a major role in determining the extent of the global financial crash of 2008.

A former Barclays executive who was close to the bank's Libor-setting operation told the *Financial Mail* that the Libor mis-quotes "gave an illusion of stability and was a key factor in masking the severity of the crisis."

A legal case in the United States is seeking damages of £70 billion ($110 billion) from Barclays and almost £80 billion ($126 billion) from the UK government-owned Royal Bank of Scotland (RBS)—figures far in excess of the banks' market valuations.

This alone would make it the financial crime of the century. Yet after investigations going back to 2007 in at least three countries, no one has been prosecuted. Instead, those responsible have earned millions upon millions.

It was not until this week that the two leading figures in Barclays, Chairman Marcus Agius and Chief Executive Bob Diamond, reluctantly resigned. Both can expect handsome severance packages.

Meanwhile, the British Conservative/Liberal Democrat government has done nothing other than promise yet another toothless parliamentary inquiry—the standard mechanism for burying every crime of the ruling elite from the Iraq war to the *News of the World* phone hacking scandal.

The reasons are obvious. Far more than a few dozen traders are involved. The 16 banks cited in the class action taken by the City of Baltimore, Charles Schwab Corp. and others include Barclays, RBS, HSBC**,** Bank of America, Citigroup, JPMorgan Chase, UBS and Deutsche Bank.

Their respective heads will all claim ignorance of the practices conducted by their traders, despite some of those directly involved saying they were acting under orders.

From at least 2007, the British Banking Association (BBA) and the UK's regulatory authority, the FSA, were made aware that the Libor rate was being manipulated, but did nothing. Agius is the head of the BBA.

Action was taken in the UK, reluctantly, only in October 2009, after investigations were launched by the financial authorities in the US, Japan, Canada and Switzerland and by the European Commission following the collapse of Lehman Brothers in 2008 and the onset of the global banking crisis.

It was not until last month that Barclays was fined a total of £290 million ($455 million) by the US Commodity Futures Trading Commission, the US Department of Justice and the FSA, with the FSA's penalty amounting to £59.5 million.

Derivatives and interest rate swaps governed by Libor are valued at $350 trillion and eurodollar futures at $564 trillion. Barclays, having been granted immunity in return for cooperation, will no doubt consider their fine a very small price to pay indeed—as will all those concerned who have a great deal to hide.

In one exchange on April 16, 2008, a senior Barclays treasury manager informed the British Banking Association that the bank had not been reporting accurately. Stating that Barclays was not the worst offender, he declared, "We're clean, but we're dirty-clean, rather than clean-clean."

Tellingly, the BBA representative responded, "No one's clean-clean."

Yesterday, Barclays directly implicated the Bank of England and the former Labour government in the scandal when it released a 2008 email sent by CEO Diamond following a phone call with the deputy governor of the Bank of England, Paul Tucker. Diamond wrote that Tucker had informed him that "senior officials in Whitehall" were concerned that Barclays' Libor submissions were at the top end and suggested that they did not have to be so high.

The bank had indicated it was acting in accordance with instructions from the top in misreporting its borrowing costs. Diamond appears today before parliament's Treasury Committee and more revelations of who knew what are expected to follow.

The fact that parliament is to investigate the scandal when leading politicians from all parties are implicated makes clear that no serious action is intended.

Among the senior Conservatives with intimate ties to the banks involved is Deputy Chairman Michael Fallon, a board member of the leading brokerage firm Tullett Prebon, which is cooperating with the FSA.

Prime Minister David Cameron's close adviser, former party treasurer Michael Spencer, heads the brokerage firm ICAP, which is alleged to have manipulated Libor. Cabinet Office Minister Francis Maude was retained by Barclays to sit on its Asia-Pacific advisory committee between 2005 and 2009.

For Labour, the issue goes beyond a list of individuals with ties to the banks. It was Gordon Brown who, as chancellor in 1997, introduced the financial regulation system that gave free rein to the banks. Brown was praising this system as late as 2006, when he boasted that Labour's "light touch regulatory environment" had enabled the City of London to capture a greater share of the foreign equity market than anywhere else in the world.

Even in the aftermath of 2008, Labour and the Tories handed over hundreds of billions to the very people who now stand accused of rampant criminality, including cheap money under the Bank of England's "quantitative easing" policy. One of the Bank of England's own staffers, Andrew Haldane, has estimated that when the full indirect costs are included, the figure for the total in public funds pumped into the British banks could rise to £7.4 trillion.

Both Labour and the Conservative/Liberal coalition government opposed the introduction of regulatory measures for the City of London banks, including the separation of retail and investment banking operations. Instead, the coalition government has tabled a few measures, some of which were required by the EU competition authorities, which will not be implemented until at least 2019.

Their collective attention was directed towards the imposition of savage spending cuts totalling well over £130 billion, designed to make working people pay for the crimes and gambling debts of the financial elite.

Last year, Diamond was invited by the BBC to give a keynote lecture on the ethics and culture of banking. The difficult concept of culture, he said, could best be defined by "how people behave when no one is watching."

Much of the rest of his lecture was taken up with insisting on austerity for the majority of the population. "There is no better example than Greece", he declared, of the need for "a reduction in public spending". He added, "It's no surprise then that the UK government has started doing just that…"

That year, Diamond's remuneration was worth £17.7 million, including a £5.7 million tax payment made on his behalf. His bonus alone was worth £2.7 million.

Any action that may now be taken will seek to reconcile paying back the major corporate victims of the Libor manipulation and the strategic political requirement of maintaining the stability of the global financial system. Once again, the cost of this will be borne by working people through further raids on public finances.