Libor scandal exposes banks' rigging of global rates

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Rotting in its own criminality, the capitalist financial system produces ever more powerful arguments for its expropriation and reconstitution under public ownership and democratic control.

The latest banking scandal, thus far focused on UK-based Barclays bank, goes to the heart of the global financial system. It provides a glimpse into the mechanisms by which a handful of giant banks rig the so-called "free market" to boost their profits and the fortunes of their executives and big investors. It is a process of economic plunder whose result is mass unemployment, poverty and ever increasing social inequality.

Barclays last week became the first of many big banks to admit to manipulating the most important benchmark for international interest rates, the London interbank offered rate (Libor). The daily Libor rate, which is supposed to measure the average cost of short-term loans between major banks, determines the interest rates for loans and investments that affect hundreds of millions of people around the world.

Libor influences an estimated $360 trillion of loans and credit default swaps. It impacts futures contracts traded on the Chicago Mercantile Exchange with a notional value of more than $564 trillion.

Libor and its Brussels-based counterpart, Euribor (European interbank offered rate), also the target of bank manipulation, are used to set the borrowing rates for $10 trillion in mortgages, student loans and credit cards. Some 90 percent of US commercial and mortgage loans are linked to the index.

As one *Financial Times* commentator put it, rigging Libor is "the financial equivalent of contaminating the water supply."

Last week, Barclays, the fourth-largest bank by assets in the world, admitted "misconduct" in a settlement with Britain's Financial Services Authority (FSA), the US Commodity Futures Trading Commission (CFTC) and the US Department of Justice. It agreed to pay a total of $453 million to the three agencies for seeking to manipulate the Libor rate between 2005 and 2009.

The reports issued by the three entities included emails, text messages and telephone conversations showing that from 2005 to 2007 the bank knowingly submitted false estimates, mostly high, of its interbank borrowing costs to the Libor board. It did so in response to employees at its derivatives trading desks who asked for phony submissions to benefit their bets on credit default swaps and other derivatives.

From 2007 to 2009, at the height of the global financial crisis, the bank deliberately underestimated the cost of loans from other banks in its submissions to the Libor board in order to conceal its weakened financial position.

This type of gaming of the Libor and Euribor rates (as well as the Tokyo-based Tibor) was being carried out by virtually all of the major international banks. A dozen regulators around the world are investigating somewhere between 12 and 20 other banks, including HSBC, the largely state-owned Royal Bank of Scotland, Deutsche Bank, Credit Suisse, UBS, JPMorgan Chase, Citigroup, Bank of America, Bank of Tokyo-Mitsubishi and Sumitomo Mitsui. More settlements along the lines of the Barclays deal are expected in the coming weeks.

This bankers' conspiracy has a very real and vast impact on the lives of ordinary people. Countless billions were effectively stolen from new homeowners or those with variable-rate mortgages, credit card holders, students with college loans, small business borrowers and other consumers when the banks priced the Libor rate artificially high. The *Wall Street*

Journal noted Thursday that an extra 0.3 percentage point would add $100 to the monthly payment on a $500,000 adjustable-rate mortgage.

The lowballing of the Libor rate, on the other hand, cost bondholders who were not parties to the plot untold billions in lower returns. This includes state and local governments that have pared budget deficits by slashing jobs, wages and public services. It also includes pension funds and retirees with fixed investments, whose income was significantly lowered.

The settlement with Barclays is a whitewash designed to let the bank's top executives off the hook and conceal the complicity of governments and bank regulators in the scam. The $453 million fine is a fraction of the billions Barclays made illegally over the years by falsifying its loan rates to Libor and Euribor. It is a small price to pay for allowing what is, in essence, a criminal operation to continue.

Incredibly, despite emails and other evidence to the contrary, the regulators concluded they could not determine whether Barclays' top executives were involved. The $160 million settlement with the US Justice Department exempted the bank from criminal prosecution. No official at Barclays or any of the other banks has to date been criminally or civilly charged. This includes CEO Robert Diamond, who resigned Tuesday.

Last year Diamond received close to $39 million in total remuneration. Since joining the Barclays board in 2005, he has taken in $311.7 million in salary, benefits, bonuses and share awards. Less than a year ago, Diamond, who appeared Wednesday before the British House of Commons treasury select committee, told the same group that "the period of remorse and apology" by banks was over.

One reason the US and British governments and regulators want to sweep the scandal under the rug as quickly as possible is because they are directly implicated.

Charges that the banks were rigging Libor were raised at least as early as 2007 and were ignored by US and European governments and regulators. They were, in fact, encouraging the banks to submit low loan rate estimates after the financial crisis erupted in 2007 in order to hide the depth of the crisis and protect the financial elite. Barclays contends that Paul Tucker, deputy governor of the Bank of England, suggested to Diamond in October of 2008 that its submissions to the Libor board were too high.

Libor itself is a product of the deregulation of the banks carried out by capitalist governments of all stripes, nominally "left" as well as conservative, over the past 30 years. Launched in the mid-1980s, it is a prime example of "self-regulation," a euphemism for giving the banks a free hand to rig markets and plunder the population.

It is presided over by the British Bankers' Association (BBA), a private banking trade and lobby group, presently headed by the chairman of Barclays, Marcus Agius. Eighteen of the world's biggest banks submit loan data to the Libor board every morning to help set the global rate to which their own trading bets are tied. These same banks control the BBA.

This, like so many other market mechanisms, is intrinsically corrupt and riddled with conflicts of interest.

Any claim that this cesspool of avarice and corruption can be "reformed" is the product of ignorance, self-delusion or deliberate deceit. The bankers who have committed fraud must be brought to justice and their illegally obtained fortunes seized and used to provide relief for the unemployed, the homeless and all those victimized by the financial mafia.

The fate of humanity, the rational and progressive allocation of resources to benefit the world's inhabitants and prevent a further descent into social devastation, requires the expropriation of the banks by the working class and their transformation into public utilities democratically controlled and run in the interests of social need, not private profit.

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