The Wall Street settlements and the new aristocracy

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Last week, Bank of America became the latest major financial institution to announce a multi-billion-dollar settlement with US regulators of charges related to the 2008 financial meltdown. In a settlement worked out with the Federal Housing Finance Agency, the bank agreed to pay $5.83 billion in fines and buy back $3.2 billion in mortgage-backed securities from the government-sponsored mortgage finance companies Fannie Mae and Freddie Mac, to whom it sold the toxic assets in the run-up to the Wall Street crash. The settlement involves the largest fine levied by a single federal regulator in US history.

The agreement adds to the more than $100 billion in fines that have been levied by US regulators on major American and global banks since the financial crisis, more than half of which has been imposed over the past year.

The record size of the settlements points to the pervasiveness and scale of the criminality of the banks and their top officials. And yet, not a single leading bank executive has been criminally charged.

This is not for lack of evidence. The 2011 reports by the Senate Permanent Subcommittee on Investigations and the Financial Crisis Inquiry Commission document in considerable detail the fact that the 2008 crash was triggered by criminal wrongdoing by bank executives. Carl Levin, the chairman of the Senate Permanent Subcommittee on Investigations said that the committee had found “a financial snake pit rife with greed, conflicts of interest and wrongdoing.”

The most egregious crimes by Wall Street and international banks that have led to financial settlements with US regulators include the following:

• Goldman Sachs, Deutsche Bank, JPMorgan Chase and other banks sold mortgage-backed securities they knew to be virtually worthless, helping to trigger the 2008 crash. Even as the banks were selling these securities to investors, they were making huge profits by betting against the same securities, without telling those to whom they were palming off the securities.

• Major US banks, including Citigroup, Wells Fargo and Bank of America, illegally processed and even forged home mortgage documents in order to more quickly foreclose on the homes of families that had fallen behind on their mortgage payments. The number of people illegally foreclosed on will never be known because the Obama administration put a stop to the tally, but the figure is likely in the millions.

• Nearly all of the major US and international banks manipulated the London Interbank Offered Rate (Libor), the benchmark global interest rate used to set rates on some $350 trillion in financial assets, including mortgages, credit cards, student loans and bonds. By falsely reporting the interest they paid for loans from other banks, these institutions concealed their losses and increased their profits—at the expense of individual retirees, home and car owners, pension funds and municipalities all over the world.

• Major banks, including JPMorgan and UBS, were key partners in the $65 billion Ponzi scheme operated by Bernard Madoff. Earlier this year, JPMorgan, Madoff’s main banker, agreed to pay $2 billion to settle charges that it knowingly profited from Madoff’s scam. The deal shielded JPMorgan and its CEO, Jamie Dimon, from criminal charges through a “deferred prosecution” provision.

The settlements themselves were worked out between the banks and their regulators so as to have the maximum public relations effect, creating the appearance that the banks were being held accountable while minimizing the financial impact on the companies. The banks write off the fines—many of which are tax deductible—as part of the “cost of doing business.”

Not only have no top bankers been prosecuted, no major US banks have been broken up or nationalized. The big banks have grown even bigger and more powerful and have recovered their previous levels of profitability. Even taking into account the settlements with regulators, the six largest US banks made $76 billion in profits last year, just under the record set in 2006 and eclipsing every other year since 2008.

Wall Street pay, too, has hit record levels. The average bonus payout for Wall Street employees grew by 15 percent in 2013, reaching its highest level since the crash. Last week, both Bank of America and Morgan Stanley announced they were nearly doubling the pay of their respective chief executives for 2013.

Prior to the great democratic revolutions of the 18th and 19th centuries, Europe was dominated by an entrenched economic and political aristocracy that enjoyed special privileges and immunities—enshrined in law—that set it apart from the rest of society.

What has emerged today in the United States and the other capitalist countries is a new, financial aristocracy, consisting of multimillionaires and billionaires who make their wealth through financial speculation and manipulation, diverting untold resources from the development of the productive forces, infrastructure and the well-being of the population into their own bank accounts and stock portfolios.

The refusal of the government of the United States or that of any other major industrialized country to prosecute the bankers whose illegal operations triggered the crash of 2008 and subsequent global recession, or take any action against the banks that they head, demonstrates that society is once again dominated by a parasitic elite that, like the aristocrats of old, is above the law.

The government serves not to oversee and regulate the financial elite, let alone hold it accountable. It is their servant and protector. The regulatory agencies, such as the Federal Reserve and the Securities and Exchange Commission, are themselves filled with former or future employees of the banks they are supposed to regulate.

The *Hill* reported last week that over two dozen officials who worked on the Obama administration’s Dodd-Frank financial overhaul have moved on to “lucrative jobs in the private sector,” with many working for law firms and consultancies that advise banks how to avoid the very regulations they drafted.

Democracy in America and around the world is collapsing under the weight of immense and ever-growing levels of social inequality, bound up with the domination of a financial mafia that uses its political power to enrich itself at the expense of society. Congress, the White House, the courts, the regulators, the Democrats and Republicans are all subservient to this financial aristocracy.

Holding to account the criminals who are responsible for the crisis is a vital part of the defense of the social rights of the working class and the struggle to break the grip of the financial kleptocracy on social and political life.

This cannot be carried out through appeals to Congress, the courts or the Democratic Party, which is no less subservient to the banks than the Republicans. The stranglehold of the financial aristocracy can be broken only through a mass political offensive by the working class. Such a movement must be based on the perspective of reorganizing society on a socialist basis, in which the banks and corporations are removed from private ownership and control and transformed into publicly owned utilities under the democratic control of the people.