Wall Street banks and commodities fraud

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On Wednesday, the US Senate Permanent Subcommittee on Investigations released a detailed report documenting yet another aspect of the insider dealing, price-fixing and general criminality that pervades the American financial system.

The 400-page report gives some insight into the extraordinary and malevolent power of a handful of banks and financial institutions. These corporations, the largest of which control hundreds of billions and even trillions of dollars in assets, dominate the economy and control the political system.

The document focuses on the role of three of the largest banks—Goldman Sachs, Morgan Stanley and JPMorgan Chase—in the physical control of commodities, including energy resources and metals. "The current level of bank involvement with critical raw materials, power generation and the food supply appears to be unprecedented in US history," the report states.

After the deregulation of the commodities markets in the late 1990s—part of a broader banking deregulation under the Clinton administration—trading in commodity-related assets increased enormously. A vast array of derivatives were developed to allow for speculation on commodities, with the market in these assets increasingly divorced from its initial purpose of enabling producers and buyers to hedge against shifts in commodity prices. Markets such as the Commodity Mercantile Exchange in Chicago are now dominated by speculators, who control as much as 70 percent of all assets.

A great deal of money is made buying and selling financial instruments tied to the prices of such basic necessities as oil and wheat. The growth in the direct control of physical goods by banks has allowed them not only to influence the prices consumers pay, but also to leverage their control of commodities to manipulate the prices of the financial instruments on which they gamble. The consequences can be deadly. Speculation in food prices, for example, is a major factor in price swings that can throw millions of people into poverty and hunger all over the world.

Some figures from the report give a sense of what is involved. At one point, the investment bank Morgan Stanley "controlled over 55 million barrels of oil storage capacity, 100 oil tankers, and 6,000 miles of pipeline."

JPMorgan built up a significant stake in the copper market, with "a copper inventory… comprising nearly 60 percent of the available physical copper on the world's premier copper trading exchange." Other activities of the banks documented in the report include trading in uranium, selling jet fuel to airlines, and owning mines and power plants.

One focus of the Senate subcommittee report is the control of the aluminum market by Goldman Sachs, which has been sued by dozens of companies accusing the bank of deliberately manipulating supply to increase aluminum prices and its own profits.

In 2010, Goldman purchased Metro International, a Detroit-area warehousing company that stores about 85 percent of exchange-traded aluminum in the United States. Goldman proceeded to implement complex new rules and incentives at its subsidiary to bottleneck supplies, according to the report.

The bank "approved 'merry-go-round' transactions in which warehouse clients [including banks and financial institutions such as Deutsche Bank and the London hedge fund Red Kite] were paid cash incentives to transfer aluminum from one Metro warehouse to another." The result was curtailed supply and increased prices, which the bank and its financial trading arm could anticipate because they were directly responsible.

Wednesday's report is only the latest in a long string of revelations of nefarious activities by Wall Street banks, including three major documents released by the Senate Permanent Subcommittee on Investigations over the past three-and-a-half years.

The most significant thing about these exposés is that they have no repercussions. Detailed and damning evidence is presented showing that the likes of JPMorgan, Goldman, Morgan Stanley, Bank of America, Citigroup, etc.—and their top executives—lied, cheated, broke laws and, in general, profited handsomely from the economic and social disasters produced by their actions. But no bank or top banker is prosecuted, let alone jailed. No measures are taken to rein in the banks. The sporadic exposés assume the character of harmless rituals. The banks are and remain above the law.

At most, the banks are made to pay fines that amount to a small fraction of their revenues (and far less than the handouts and subsidies they have received from the government) in settlements that have been worked out between the banks and the government in closed-door negotiations—amounts the banks discount as the cost of doing business.

Just last week, JPMorgan, Citigroup, Bank of America, UBS, Royal Bank of Scotland and HSBC agreed to a collective fine of $4 billion for their role in manipulating foreign exchange rates. This followed similar settlements over the banks' manipulation of the most important interest rate in the world, the London Interbank Offer Rate (Libor).

Previous deals were reached to settle charges of money-laundering for drug cartels, deceit and fraud in the sale of mortgage-backed securities, concealment of losses from derivatives trading, complicity in the Bernard Madoff Ponzi scheme, fraud in the foreclosure of homes, and other crimes.

After the Permanent Subcommittee's release of a 640-page document in 2011 on the 2008 financial collapse, the committee's chairman, Senator Carl Levin, declared that the investigation had found "a financial snake pit rife with greed, conflicts of interests and wrongdoing." The longest chapter of the report was a detailed, fact-filled review of Goldman Sach's unloading of toxic sub-prime loans in 2007 and 2008 to counterparties who were not informed that Goldman was betting against the very securities it was hailing as sound investments.

Nevertheless, the Obama administration announced in 2012 that it was ending its investigation of Goldman Sachs for manipulating the sub-prime mortgage market and would file no charges against the bank.

The Subcommittee's second major report on banking fraud, published in 2013, focused on fraud and deception by JPMorgan Chase over $6.2 billion in losses from speculative trades in financial derivatives (the so-called "London whale" trades). Despite documentary evidence that the bank's top management, including Chairman and CEO Jamie Dimon, deliberately concealed information from investors about the loss, no one was prosecuted or held accountable.

This latest report will produce similar results. That the Senate committee has no intention of seriously pressing for a criminal investigation is shown by its failure to summon a single top bank executive to testify at two days of hearings it is holding on its investigation into the banks' commodities dealings.

The functionaries who populate the state apparatus, Democratic and Republican, are either directly or indirectly on the payroll of the banks and corporations whose interests they safeguard. The so-called regulatory agencies are staffed by former or future officers of the very banks they are supposed to be policing. They run interference for the financial mafia.

The inescapable conclusion from this cesspool of corruption and criminality is that the financial system cannot be reformed. The dictatorship of the banks can be broken only through the independent, revolutionary mobilization of the working class. Among the very first tasks of a workers' state will be the expropriation of the banks, their transformation into public utilities under the democratic control of the working class, and the prosecution of all those who have amassed unimaginable wealth on the basis of parasitism and fraud.