

FTX collapse: A damning exposure of the criminality of capitalism

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One of the most significant aspects of the collapse of the crypto currency trader FTX, which filed for bankruptcy last Friday, was that its essentially fraudulent operations were largely conducted in plain sight.

Last April, in an interview with Bloomberg, FTX's owner-founder Sam Bankman-Fried acknowledged his company was in essence a Ponzi scheme, that is, a system in which money can be made so long as more money keeps flowing in.

Describing the operation, he said, "you start with a company that builds a box" and then "dress it up to look like a life-changing, you know, world-altering protocol that's gonna replace all the big banks in 38 days or whatever."

After listening to the spiel, the interviewer responded that what had been described was a Ponzi scheme, to which Bankman-Fried replied that it was a "pretty reasonable response" with a "depressing amount of validity."

This immediately raises the question: How was this fraud able to be carried out? The answer is clear.

It would not have even made it to first base had it not been for the promotion it received from top levels of the media, political, financial, and even sporting establishment.

Last August, for example, Bankman-Fried was on the front cover of *Fortune* magazine where he was hailed as potentially the next Warren Buffet, the multi-billionaire of Berkshire Hathaway and the sixth richest man in the world.

Two months ago, the venture capital firm Sequoia, in a nearly 14,000-word article on Bankman-Fried, said he had the "status of legend" with a "vision about the future of money itself."

Bankman-Fried had connections with the top levels

of the Democratic Party as a major donor. He conducted television interviews with former US President Bill Clinton and former British Labour Prime Minister Tony Blair.

He was promoted in the sporting world with the famous NFL quarterback Tom Brady providing an endorsement last year and he acquired the naming rights for the stadium of the basketball team the Miami Heat.

And sections of the middle classes chimed in, promoting the illusion that the crypto market was the way in which the "small guy" could challenge and even up-end the power of the financial giants.

The shameless promotion of FTX fraud by the "great and the good" on the heights of society was because its modus operandi was deeply rooted. It was a microcosm of the operations of the financial system as a whole.

The FTX Ponzi scheme depended on the continuous inflow of money into its coffers. But this process has formed a central foundation of the stock market and the financial system for the past three decades and more, starting with the decision of the US Federal Reserve to provide Wall Street with money in response to the stock market crash of October 1987.

Every crisis which followed resulted in the provision of still more essentially free money to finance the next round of speculation. After the 2008 financial crisis, the Fed initiated quantitative easing (QE), sending interest rates to record lows as it bought up financial assets. And as money poured in so the stock market boomed.

After the crisis of March 2020, when markets froze at the start of the COVID-19 pandemic, QE went on steroids as the Fed doubled its asset holdings to nearly \$9 trillion virtually overnight. Another stock market surge resulted.

FTX was one of the beneficiaries of the further orgy

of speculation. Towards the end of 2021 the market value of Bitcoin, the major crypto currency, had reached almost \$70,000.

As millions died and tens and hundreds of millions were infected, many of whom will be afflicted by the life-time effects of Long COVID, FTX, along with a host of others, were being lifted into the stratosphere, quite literally in the case of Amazon's Jeff Bezos, who used the money derived from the super exploitation of his workforce and the rise of his stock holdings to launch himself into space.

The FTX episode raises another decisive question: Where were the regulators?

After the 2008 crisis had revealed that the financial system, in the words of a Senate 2011 report, was a "snake pit," riven by conflicts of interest and in some cases outright criminal activity, a pledge was issued "never again."

Regulations would be introduced to prevent a recurrence of such a crisis, whose effects in the form of job losses and financial hardship imposed on millions of people are still being felt.

So, after the open admission by Bankman-Fried that he was essentially operating a Ponzi scheme, where was Democratic Senator Elizabeth Warren, the supposed champion of ordinary people against the depredations of the banks and finance capital? Why was she not at the rostrum, pounding the table, and sounding the alarm?

This self-confessed "capitalist to the bone" remained silent, no doubt recognising, at some level, that his operations were deeply entrenched in the financial markets and should not be touched, and furthermore it would not be politic to take down a major financial donor to her party.

Likewise, the Securities and Exchange Commission, under the chairmanship of Gary Gensler, took no action.

There could be no clearer demonstration of the fact that so-called regulation is as much of a fraud as the schemes devised by Bankman-Fried and others. The reality is that vast swathes of the financial system operate essentially no differently from FTX, having become completely divorced from any value in the real economy.

In the news article on FTX which set off the crisis two weeks ago, it was noted that a considerable portion

of its assets were crypto tokens created out of "thin air." But this is not fundamentally different from the valuations ascribed to the hundreds of billions of dollars' worth of assets traded in financial markets every day.

When these assets are bought and sold, and vast profits are made on the deal, not a single atom of real value has been created. And this world of fictitious capital, where money and wealth are created out of "thin air," is protected and defended by the so-called regulators who promote the fiction that it can somehow be controlled.

The collapse of FTX, along with growing concerns that the entire financial house of cards may disintegrate, signifies that a turning point is now being reached.

The chief factor is the change in the financial landscape resulting from the tightening of monetary policy by the Fed. This has not been undertaken to "fight inflation," but to batter down the wage demands and struggles of the working class in the face of the largest price rises in four decades.

The response of the ruling classes to what is clearly an ever-deepening financial crisis will not be more regulation. Rather, they will use every means available, including state repression and force, to increase the exploitation of the working class—the producers of all real wealth—to put value into their financial assets.

This means that in every struggle now emerging the working class is faced with the necessity of developing its own independent strategy to combat the disaster created by the ruling oligarchy and all its agencies.

Its path forward is the advancement and fight for a socialist program, starting with the ending of the private ownership of the financial system to lay the basis for the establishment of an economy based on human need, not profit.



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