Wall Street Isn't Winning - It's Cheating

By Matt Taibbi, Rolling Stone 26 October 11

I was at an event on the Upper East Side last Friday night when I got to talking with a salesman in the media business. The subject turned to Zucotti Park and Occupy Wall Street, and he was chuckling about something he'd heard on the news.

"I hear [***Occupy Wall Street***] has a CFO" he said. "I think that's funny."

"Okay, I'll bite," I said. "Why is that funny?"

"Well, I heard they're trying to decide what bank to put their money in," he said, munching on hors d'oeuvres. "It's just kind of ironic."

Oh, Christ, I thought. He's saying the protesters are hypocrites because they're using banks. I sighed.

"Listen," I said, "where else are you going to put three hundred thousand dollars? A shopping bag?"

"Well," he said, "it's just, they're protests are all about ... You know ..."

"Dude," I said. "These people aren't protesting money. They're not protesting banking. They're protesting corruption on Wall Street."

"Whatever," he said, shrugging.

These nutty criticisms of the protests are spreading like cancer. Earlier that same day, I'd taped a TV segment on CNN with Will Cain from the National Review, and we got into an argument on the air. Cain and I agreed about a lot of the problems on Wall Street, but when it came to the protesters, we disagreed on one big thing.

Cain said he believed that the protesters are driven by envy of the rich.

"I find the one thing [the protesters] have in common revolves around the human emotions of envy and entitlement," he said. "What you have is more than what I have, and I'm not happy with my situation."

Cain seems like a nice enough guy, but I nearly blew my stack when I heard this. When you take into consideration all the theft and fraud and market manipulation and other evil shit Wall Street bankers have been guilty of in the last ten-fifteen years, you have to have balls like church bells to trot out a propaganda line that says the protesters are just jealous of their hard-earned money.

Think about it: there have always been rich and poor people in America, so if this is about jealousy, why the protests now? The idea that masses of people suddenly discovered a deep-seated animus/envy toward the rich - after keeping it strategically hidden for decades - is crazy.

Where was all that class hatred in the Reagan years, when openly dumping on the poor became fashionable? Where was it in the last two decades, when unions disappeared and CEO pay relative to median incomes started to triple and quadruple?

The answer is, it was never there. If anything, just the opposite has been true. Americans for the most part love the rich, even the obnoxious rich. And in recent years, the harder things got, the more we've obsessed over the wealth dream. As unemployment skyrocketed, people tuned in in droves to gawk at Evrémonde-heiresses like Paris Hilton, or watch bullies like Donald Trump fire people on TV.

Moreover, the worse the economy got, the more being a millionaire or a billionaire somehow became a qualification for high office, as people flocked to voting booths to support politicians with names like Bloomberg and Rockefeller and Corzine, names that to voters symbolized success and expertise at a time when few people seemed to have answers. At last count, there were 245 millionaires in congress, including 66 in the Senate.

And we hate the rich? Come on. Success is the national religion, and almost everyone is a believer. Americans love winners. But that's just the problem. These guys on Wall Street are not winning - they're cheating. And as much as we love the self-made success story, we hate the cheater that much more.

In this country, we cheer for people who hit their own home runs - not shortcut-chasing juicers like Bonds and McGwire, Blankfein and Dimon.

That's why it's so obnoxious when people say the protesters are just sore losers who are jealous of these smart guys in suits who beat them at the game of life. This isn't disappointment at having lost. It's anger because those other guys didn't really win. And people now want the score overturned.

All weekend I was thinking about this "jealousy" question, and I just kept coming back to all the different ways the game is rigged. People aren't jealous and they don't want privileges. They just want a level playing field, and they want Wall Street to give up its cheat codes, things like:

FREE MONEY. Ordinary people have to borrow their money at market rates. Lloyd Blankfein and Jamie Dimon get billions of dollars for free, from the Federal Reserve. They borrow at zero and lend the same money back to the government at two or three percent, a valuable public service otherwise known as "standing in the middle and taking a gigantic cut when the government decides to lend money to itself."

Or the banks borrow billions at zero and lend mortgages to us at four percent, or credit cards at twenty or twenty-five percent. This is essentially an official government license to be rich, handed out at the expense of prudent ordinary citizens, who now no longer receive much interest on their CDs or other saved income. It is virtually impossible to not make money in banking when you have unlimited access to free money, especially when the government keeps buying its own cash back from you at market rates.

Your average chimpanzee couldn't fuck up that business plan, which makes it all the more incredible that most of the too-big-to-fail banks are nonetheless still functionally insolvent, and dependent upon bailouts and phony accounting to stay above water. Where do the protesters go to sign up for their interest-free billion-dollar loans?

CREDIT AMNESTY. If you or I miss a $7 payment on a Gap card or, heaven forbid, a mortgage payment, you can forget about the great computer in the sky ever overlooking your mistake. But serial financial fuckups like Citigroup and Bank of America overextended themselves by the hundreds of billions and pumped trillions of dollars of deadly leverage into the system - and got rewarded with things like the Temporary Liquidity Guarantee Program, an FDIC plan that allowed irresponsible banks to borrow against the government's credit rating.

This is equivalent to a trust fund teenager who trashes six consecutive off-campus apartments and gets rewarded by having Daddy co-sign his next lease. The banks needed programs like TLGP because without them, the market rightly would have started charging more to lend to these idiots. Apparently, though, we can't trust the free market when it comes to Bank of America, Goldman, Sachs, Citigroup, etc.

In a larger sense, the TBTF banks all have the implicit guarantee of the federal government, so investors know it's relatively safe to lend to them - which means it's now cheaper for them to borrow money than it is for, say, a responsible regional bank that didn't jack its debt-to-equity levels above 35-1 before the crash and didn't dabble in toxic mortgages. In other words, the TBTF banks got better credit for being less responsible. Click on freecreditscore.com to see if you got the same deal.

STUPIDITY INSURANCE. Defenders of the banks like to talk a lot about how we shouldn't feel sorry for people who've been foreclosed upon, because it's they're own fault for borrowing more than they can pay back, buying more house than they can afford, etc. And critics of OWS have assailed protesters for complaining about things like foreclosure by claiming these folks want "something for nothing."

This is ironic because, as one of the Rolling Stone editors put it last week, "something for nothing is Wall Street's official policy." In fact, getting bailed out for bad investment decisions has been de rigeur on Wall Street not just since 2008, but for decades.

Time after time, when big banks screw up and make irresponsible bets that blow up in their faces, they've scored bailouts. It doesn't matter whether it was the Mexican currency bailout of 1994 (when the state bailed out speculators who gambled on the peso) or the IMF/World Bank bailout of Russia in 1998 (a bailout of speculators in the "emerging markets") or the Long-Term Capital Management Bailout of the same year (in which the rescue of investors in a harebrained hedge-fund trading scheme was deemed a matter of international urgency by the Federal Reserve), Wall Street has long grown accustomed to getting bailed out for its mistakes.

The 2008 crash, of course, birthed a whole generation of new bailout schemes. Banks placed billions in bets with AIG and should have lost their shirts when the firm went under - AIG went under, after all, in large part because of all the huge mortgage bets the banks laid with the firm - but instead got the state to pony up $180 billion or so to rescue the banks from their own bad decisions.

This sort of thing seems to happen every time the banks do something dumb with their money. Just recently, the French and Belgian authorities cooked up a massive bailout of the French bank Dexia, whose biggest trading partners included, surprise, surprise, Goldman, Sachs and Morgan Stanley. Here's how the New York Times explained the bailout:

To limit damage from Dexia's collapse, the bailout fashioned by the French and Belgian governments may make these banks and other creditors whole - that is, paid in full for potentially tens of billions of euros they are owed. This would enable Dexia's creditors and trading partners to avoid losses they might otherwise suffer ...
When was the last time the government stepped into help you "avoid losses you might otherwise suffer?" But that's the reality we live in. When Joe Homeowner bought too much house, essentially betting that home prices would go up, and losing his bet when they dropped, he was an irresponsible putz who shouldn't whine about being put on the street.

But when banks bet billions on a firm like AIG that was heavily invested in mortgages, they were making the same bet that Joe Homeowner made, leaving themselves hugely exposed to a sudden drop in home prices. But instead of being asked to"suck it in and cope" when that bet failed, the banks instead went straight to Washington for a bailout - and got it.

UNGRADUATED TAXES. I've already gone off on this more than once, but it bears repeating. Bankers on Wall Street pay lower tax rates than most car mechanics. When Warren Buffet released his tax information, we learned that with taxable income of $39 million, he paid $6.9 million in taxes last year, a tax rate of about 17.4%.

Most of Buffet's income, it seems, was taxed as either "carried interest" (i.e. hedge-fund income) or long-term capital gains, both of which carry 15% tax rates, half of what many of the Zucotti park protesters will pay.

As for the banks, as companies, we've all heard the stories. Goldman, Sachs in 2008 - this was the same year the bank reported $2.9 billion in profits, and paid out over $10 billion in compensation - paid just $14 million in taxes, a 1% tax rate.

Bank of America last year paidnot a single dollar in taxes - in fact, it received a "tax credit" of $1 billion. There are a slew of troubled companies that will not be paying taxes for years, including Citigroup and CIT.

When GM bought the finance company AmeriCredit, it was able to marry its long-term losses to AmeriCredit's revenue stream, creating a tax windfall worth as much as $5 billion. So even though AmeriCredit is expected to post earnings of $8-$12 billion in the next decade or so, it likely won't pay any taxes during that time, because its revenue will be offset by GM's losses.

Thank God our government decided to pledge $50 billion of your tax dollars to a rescue of General Motors! You just paid for one of the world's biggest tax breaks.

And last but not least, there is:

GET OUT OF JAIL FREE. One thing we can still be proud of is that America hasn't yet managed to achieve the highest incarceration rate in history - that honor still goes to the Soviets in the Stalin/Gulag era. But we do still have about 2.3 million people in jail in America.

Virtually all 2.3 million of those prisoners come from "the 99%." Here is the number of bankers who have gone to jail for crimes related to the financial crisis: 0.

Millions of people have been foreclosed upon in the last three years. In most all of those foreclosures, a regional law enforcement office - typically a sheriff's office - was awarded fees by the court as part of the foreclosure settlement, settlements which of course were often rubber-stamped by a judge despite mountains of perjurious robosigned evidence.

That means that every single time a bank kicked someone out of his home, a local police department got a cut. Local sheriff's offices also get cuts of almost all credit card judgments, and other bank settlements. If you're wondering how it is that so many regional police departments have the money for fancy new vehicles and SWAT teams and other accoutrements, this is one of your answers.

What this amounts to is the banks having, as allies, a massive armed police force who are always on call, ready to help them evict homeowners and safeguard the repossession of property. But just see what happens when you try to call the police to prevent an improper foreclosure. Then, suddenly, the police will not get involved. It will be a "civil matter" and they won't intervene.

The point being: if you miss a few home payments, you have a very high likelihood of colliding with a police officer in the near future. But if you defraud a pair of European banks out of a billion dollars - that's a billion, with a b - you will never be arrested, never see a policeman, never see the inside of a jail cell.

Your settlement will be worked out not with armed police, but with regulators in suits who used to work for your company or one like it. And you'll have, defending you, a former head of that regulator's agency. In the end, a fine will be paid to the government, but it won't come out of your pocket personally; it will be paid by your company's shareholders. And there will be no admission of criminal wrongdoing.

The Abacus case, in which Goldman helped a hedge fund guy named John Paulson beat a pair of European banks for a billion dollars, tells you everything you need to know about the difference between our two criminal justice systems. The settlement was $550 million - just over half of the damage.

Can anyone imagine a common thief being caught by police and sentenced to pay back half of what he took? Just one low-ranking individual in that case was charged (case pending), and no individual had to reach into his pocket to help cover the fine. The settlement Goldman paid to to the government was about 1/24th of what Goldman received from the government just in the AIG bailout. And that was the toughest "punishment" the government dished out to a bank in the wake of 2008.

The point being: we have a massive police force in America that outside of lower Manhattan prosecutes crime and imprisons citizens with record-setting, factory-level efficiency, eclipsing the incarceration rates of most of history's more notorious police states and communist countries.

But the bankers on Wall Street don't live in that heavily-policed country. There are maybe 1000 SEC agents policing that sector of the economy, plus a handful of FBI agents. There are nearly that many police officers stationed around the polite crowd at Zucotti park.

These inequities are what drive the OWS protests. People don't want handouts. It's not a class uprising and they don't want civil war - they want just the opposite. They want everyone to live in the same country, and live by the same rules. It's amazing that some people think that that's asking a lot.