10 Ways the American Economy Is Built on Fraud

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Here are 10 ways the American economy is built on fraud:

1). Accounting Fraud: Last year, America's leading banks were insolvent. They had tens or hundreds of billions in losses on their books, and the only way to wipe those losses out would be to either a) own up to the mess, raise enormous amounts of money on top of all the bailout money; or b) get out a big fat eraser, and wipe those losses off the books as if they never existed. The first option was nice and all, but a real hassle. So Geithner and Larry Summers chose Door Number Two: Accounting Fraud. They forced the FASB to accept a rule-change in the accounting methodology called "mark-to-model" which let banks decide how much their assets were worth, rather than letting the markets decide. So if for example a BofA owned a complex security called "Orion Butt Fungus" that was worth 5 pesos on the open market, but BofA was too broke to go out and raise 5 pesos to cover that loss, under the new accounting rules, the government told BofA that rather than pricing "Orion Butt Fungus" at what the market will actually pay for it, why not first ask, "How much would BofA like 'Orion Butt Fungus' to be worth, in a perfect world?'" If BofA answers, "Doyee, gee I dunno, how about $500 million?" then under the "mark-to-model" accounting rules, BofA could now value "Orion Butt Fungus" at $500 million, and voila! Their problems are over. That wasn't so hard, was it? Suddenly, BofA looks like it knows how to pick winners! And no one's going to second-guess them, because everyone else is mark-to-modeling their "Orion Butt Fungi" too! The end result: under the old rules, BofA would have had to raise money just to cover its debts, sort of like you and me have to do, and that's just a lot of money going to waste. But now that its portfolio is so profitable, BofA has a much easier time raising money, which it uses to pay ginormous bonuses to its executives.

2). Big Pharma Fraud. Remember that scene early in *Fight Club*, when Edward Norton explained his job, when it was more profitable to let a car defect go and pay whatever lawsuit settlements come from the deaths, and when it's better to recall the cars because the number of deaths will result in too many lawsuits? This is humanitarian do-gooder stuff compared to the savage real-world fraud-for-profit model that drives America's drug companies. It's really simple and it goes like this: the more fraud a drug company commits, so long as it's off-the-scale fraud with the most horrible consequences for the victims, the drug company's profits always outdo the criminal fines and lawsuits by factors of 20, 30, 100… It's as simple as that. Because the billion in penalties here or the two billion in class action lawsuit settlements there are always far less than the tens of billions you earn from pushing harmful drugs on unsuspecting idiots. To wit: Between May 2004 and March 2010, a handful of top drug companies like Pfizer, Eli Lilly and Bristol-Myers paid over $7 billion in criminal penalties for bribing doctors to prescribe drugs for unapproved uses, with sometimes deadly consequences. However, as a Bloomberg report noted, the fines are always a fraction of the profits—Pfizer alone paid almost $3 billion in criminal fines since 2004, yet that was just one percent of their total revenues; Eli Lilly got busted bribing doctors to prescribe a schizophrenia drug, Zyprexa, to elderly patients suffering from dementia, even though company-run clinical trials showed an alarming death rate of 31 people out of 1,184 participants (double the placebo rate). Whatever—the market for elderly dementia patients meant billions in extra revenues. So Eli Lilly continued pushing Zyprexa on the elderly for another four years until it the Feds busted them. Eli Lilly got hit with $1.42 billion fine, but that was peanuts compared to the $36 billion it earned on Zyprexa sales from 2000-2008. To make it happen, the drug companies buy off all the checks and balances: lawsuits revealed the enormous bribes they pay to doctors, and even America's medical journals are so corrupted by drug company influence that they're no longer reliable as much more than hidden advertisements, according to a recent UCSF study. Medical journals are 5 times more likely to publish "positive" drug reviews than negative reviews, and one-quarter of all clinical trials are never published at all, leading doctors to prescribe drugs assuming they have all the information. The result: prescription drugs kill one American every five minutes …while Americans pay more for drugs than anyone in the world, spending a total of $12 billion on drugs in 1980 to spending $291 billion in 2008—a 1,700% increase. America is ranked only 17th in the world in life expectancy.

3). Alan Greenspan: Fraudonomics Maestro. America's central banker from 1987-2006 once told a do-gooder regulator not to fuck with the bankers' fraud schemes, because in Greenspan's mind, fraud was not a crime and didn't need to be regulated. Then Greenspan forced the regulator, Brooksley Born, to resign. Just in time for his next and final act as Central Bank chief: from 2001-2004, Greenspan pumped up the biggest housing bubble in human history by holding rates down to nothing, while touring the country promoting the glories of subprime and Alt-A mortgages. Then in late 2005, when the bubble was ready to burst, Greenspan tendered his resignation and switched over to the other side, signing lucrative contracts with three investment firms all of which bet big against gullible American homeowners, and reaped billions. First, Greenspan signed up to work for Deutsche Bank, which is being sued for securities fraud for selling an Abacus-like CDO to a Warren Buffett-owned bank, M&T; Greenspan also worked for Pimco, which earned $2 billion in a single day in September 2008, when Fannie Mae and Freddie Mac were nationalized with Greenspan's lobbying help; and lastly, Greenspan went to work for Paulson & Co., the hedge fund that raked in $1 billion off the same Abacus CDO deal that brought the SEC fraud suit against Goldman Sachs. It's an unusually perfect record for Greenspan, given his atrocious forecasting record at the Fed. It recalls the old Greenspan circa 1984-5, when he worked as a lobbyist for Charles Keating trying to push regulators off his back and vouching on the record for Keating's character…Keating was eventually jailed for fraud in the worst savings and loan collapse of all.

4). Municipal Debt Fraud. America's $2.8 trillion municipal bond market is rife with fraud of the sort you'd expect in an emerging tinpot economy: opacity rather than transparency, plenty of corruption and kickbacks, resulting in decimated budgets and services cutbacks in communities across the country. The problem all stems from way the bonds are issued these days: instead of holding open tenders, nearly all are the result of backroom deals. Back in 1970, only 15 percent of municipal bond contracts were awarded through no-bid contracts; last year, 85% of muni bond deals were assigned in no-bid, non-transparent agreements. Studies show that no-bid bonds invariably cost municipalities more than bonds resulting from open tenders. So far, fraud and corruption charges have been leveled against state employees and city councilors in Florida, New York, New Mexico, Alabama and California, to name a few. Muni bond defaults soared from just $348 million in 2007 to $7.4 billion in 2008—that's an increase of 20 times– with growing numbers of cities, counties and states on the verge of bankruptcy.

5). Journalism fraud. The Washington Post got caught whoring out their venerable editorial staff to corporate lobbyists for anywhere from $25,000 to $250,000 a date, depending on the access. The Atlantic Monthly admitted to TalkingPointsMemo that it routinely sold access to its editorial staff for cash. As for business journalism, all sorts of articles and studies have asked the obvious question: "How did every mainstream business outlet miss the financial collapse of 2008?" Among all the self-flagellating mea-kinda-culpas, you won't find the word "fraud" in their answer. Speaking of business journalism and fraud, The Business Insider, one of the top business news blogs, published a pair of articles defending Goldman Sachs against the SEC fraud charges. The author of the articles defending Goldman Sachs is Business Insider's co-founder and editor, Henry Blodget. In 2003, Blodget himself was charged with securities fraud by the SEC for repeatedly misleading clients into buying stocks of companies that in private emails Blodget referred to as "piece of shit." Under the terms of Blodget's settlement with the SEC, he agreed to a lifetime ban from the securities industry, and he paid $4 million in fines and disgorgements. Since he is not barred from the world of business journalism, Blodget was able to post an article last Friday headlined: "HOLD EVERYTHING: The SEC's Fraud Case Against Goldman Seems VERY Weak."

6). Fraudonomics K-12. If you want your kid to grow up to succeed in a fraud-based economy, you need to teach him the ABC's of cheating starting at a young age. This is one area where America's schools aren't failing their students. Cheating is so rampant in schools that nowadays if the student doesn't cheat on his exam, chances are his teacher or administrator will cheat on his test for him. One in five elementary schools in Georgia are currently being investigated for tampering with the students' standardized test scores—although suspicious patterns of erasing and remarking answers showed up in half of the state's elementary schools. In California, as many as two-thirds of its public schools admitted to fudging its students' standardized test scores. A survey of graduate school students found that 53 percent of business school grad students admitted to cheating, more than any other grad school discipline. Overall, up to 98 percent of college students today admit to cheating, compared to just 20 percent who cheated in 1940.

7). Boardroom Fraud. Corporate America's boardrooms are stacked up these days in tight, intertwined relationships that turn public companies into crime scenes, plundering money from unsuspecting shareholders and divvying up the loot among the directors and top executives. In 2008, Chesapeake Energy's stock price collapsed from $74 per share to $9.84, wiping out $33 billion in shareholder value. The CEO, Aubrey McClendon, gambled and lost 94% of his stock in the company on a margin call, personally losing about $2 billion. So what did the board of directors do? They voted to award McClendon $112 million for 2008, the highest of any CEO in America. Shareholders were outraged, calling it a "bailout," and several pension funds tried suing Chesapeake, but the courts in Oklahoma blocked the lawsuits. That's because Aubrey McClendon is sort of the George Bush of Oklahoma—a spoiled fuck-up with a rich and powerful granddaddy—Robert Kerr, former governor and senator, and founder of Kerr-McGee—meaning plenty of VIP connections for the loser grandkid. So on Chesapeake's board, you had Aubrey's cousin, Breene Kerr; Frank Keating, Republican ex-governor of Oklahoma whose son Chip (and Chip's wife) works for Chesapeake; Don Nickles, Republican ex-Senator of Oklahoma who co-funded with Aubrey the Republican anti-gay marriage campaign in 2004; Richard Davidson, the former head of Union Pacific, whose corrupt board of directors lavished Davidson with tens of millions in bonuses and a $2.7 million per year pension when he retired… Now multiply a board of directors like this by the sum total of "Corporate America" and you get…a corrupt, tin-pot corporate culture masquerading as a civilized First World corporate culture. That's us. (You can read about this problem in an excellent new book *Money For Nothing: How The Failure of Corporate Boards is Ruining American Business and Costing Us Trillions*.)

8). Corrupt credit rating agencies. The only way big institutional investors like pension funds could justify buying a piece of the Orion Butt Fungus CDO pie was if ratings agencies like S&P or Moody's gave it a top-notch seal of approval: AAA rated, with a little star on the forehead for good behavior. And in the world of fraudonomics, good behavior looks like this email from a Standard & Poor ratings analyst in December 2006:

> "Rating agencies continue to create an even bigger monster _ the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters."

The happy ending to this story is that a huge percentage of thieving scum like this emailer saw their hopes become reality: they got wealthy and retired before the CDO market crashed in a trillion-plus dollar heap of shit. And if they didn't retire, even better—because bonuses in 2009 were soaring, thanks to the always-gullible American taxpayer.

9). Regulatory Fraud: In the OTS, OCC, Fed, pension benefit guaranty agency and of course the SEC, where whistleblowers were routinely ignored because the regulators were too busy painting their monitors while surfing sites like www.fuck-my-wife.com.

- **10). Judicial Fraud:** Juvenile court judges in Pennsylvania took millions of dollars in kickbacks from privately run prisons in exchange for sentencing thousands of innocent kids to juvenile prison terms. Chronic on-the-bench masturbation is running rampant: an Oklahoma judge was accused of using a penis pump on the bench, while nearby in Texas, a Harris County judge masturbated and ejaculated on a defendant's hand. Speaking of Texas, the entire juvenile prison system there was turned into a sex abuse racket involving Texas state officials–over 750 official complaints about prison administrators molesting or raping underaged inmates in all 13 juvenile facilities had been officially logged between 2000 and 2007.
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- The list goes on and on. Hell, even our literature was corrupted with fraud: James Frey's addiction "memoir" *A Million Little Pieces* turned out to be *A Million Pieces of Bullshit*, the biggest literary fraud of our time. Fooled readers sued, Oprah chewed him out and Frey is now a bestelling "fiction" author.

This is just scratching the surface, but you get the point. We're way past the point of redemption. No wonder everyone's dreaming of a violent apocalypse to wipe the slate clean, and take us away to another plane where everything would be better. Anything but this.

Read more of Mark Ames at eXiledonline.com. He is the author of Going Postal: Rage, Murder, and Rebellion: From Reagan's Workplaces to Clinton's Columbine and Beyond.