

The Real Reason the SEC Has Been Shredding Documents For Decades

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SEC Attorney Reveals that Agency Has Shredded Documents for Decades to Cover Up Wall Street Fraud

What should we make of the new revelations by Securities and Exchange Commission attorney Darcy Flynn (background [here](#), [here](#) and [here](#)) that the SEC has been shredding documents for decades?

As many commentators have [noted](#), the SEC did this to cover up fraud on Wall Street.

The *Entire Government Strategy* Is To Cover Up Fraud

William K. Black – professor of economics and law, and the senior regulator during the S & L crisis – says that that [the government's entire strategy](#) now – as during the S&L crisis – is to cover up how bad things are:

The entire strategy is to keep people from getting the facts.

Top Government Officials Created the Conditions In Which Fraud Would Flourish

I [noted](#) last year:

It is not only a matter of covering up fraud that has already happened. The government also created an environment which greatly encouraged fraud.

Here are just a few of many potential examples:

- *The government-sponsored rating agencies committed [massive fraud](#) (and see [this](#))*
- *The Treasury department [allowed banks to “cook their books”](#)*
- *Business Week [wrote](#) on May 23, 2006:*

“President George W. Bush has bestowed on his intelligence czar, John Negroponte, broad authority, in the name of national security, to excuse publicly traded companies from their usual accounting and securities-disclosure obligations.”

- Regulators [knew of and allowed](#) the use of debt-hiding accounting tricks by the big banks

- Tim Geithner was complicit in [Lehman’s accounting fraud](#), (and see [this](#)), and [pushed](#) to pay AIG’s CDS counterparties at full value, and then to keep the deal secret. And as Robert Reich [notes](#), Geithner was “very much in the center of the action” regarding the secret bail out of Bear Stearns without Congressional approval. William Black [points out](#): “Mr. Geithner, as President of the Federal Reserve Bank of New York since October 2003, was one of those senior regulators who failed to take any effective regulatory action to prevent the crisis, but instead covered up its depth”

- The former chief accountant for the SEC [says](#) that Bernanke and Paulson broke the law and should be prosecuted

- Freddie and Fannie [helped to create the epidemic of mortgage fraud](#)

- The government knew about mortgage fraud a long time ago. For example, the FBI warned of an “epidemic” of mortgage fraud in 2004. However, the FBI, DOJ and other government agencies then stood down and did nothing. See [this](#) and [this](#). For example, the Federal Reserve turned its cheek and [allowed massive fraud](#), and the SEC has repeatedly [ignored accounting fraud](#). Indeed, Alan Greenspan took the position that [fraud could never happen](#)

- Bernanke might have [broken the law](#) by letting unemployment rise in order to keep inflation low

- Paulson and Bernanke [falsely stated](#) that the big banks receiving Tarp money were healthy, when they were not

- Arguably, both the Bush and Obama administrations [broke the law by refusing to close insolvent banks](#)
- Congress may have [covered up illegal tax breaks](#) for the big banks
- Of course, deregulation by Larry Summers, Robert Rubin, Phil Gramm and many other high-level politicians and regulators also helped to grease the skids for fraud

Economist James K. Galbraith [wrote](#) in the introduction to his father, John Kenneth Galbraith's, definitive study of the Great Depression, *The Great Crash, 1929*:

The main relevance of The Great Crash, 1929 to the great crisis of 2008 is surely here. In both cases, the government knew what it should do. Both times, it declined to do it. In the summer of 1929 a few stern words from on high, a rise in the discount rate, a tough investigation into the pyramid schemes of the day, and the house of cards on Wall Street would have tumbled before its fall destroyed the whole economy. In 2004, the FBI warned publicly of "an epidemic of mortgage fraud." But the government did nothing, and less than nothing, delivering instead low interest rates, deregulation and clear signals that laws would not be enforced. The signals were not subtle: on one occasion the director of the Office of Thrift Supervision came to a conference with copies of the Federal Register and a chainsaw. There followed every manner of scheme to fleece the unsuspecting

This was fraud, perpetrated in the first instance by the government on the population, and by the rich on the poor.

The government that permits this to happen is complicit in a vast crime.

In other words, the fraud started at the very top with Greenspan, Bush, Paulson, Negraponte, Bernanke, Geithner, Rubin, Summers and all of the rest of the boys.

As William Black told me today:

In criminology jargon: they created an intensely criminogenic environment. I have no knowledge whether the national security aspects played any role, but the anti-regulatory dogma was devastating.

([Here's the definition](#) for criminogenic.)

I [noted](#) last month:

[Fraud caused the Great Depression and it has caused the current financial crisis](#). But fraud is not being prosecuted, and so it will occur again and again, and prevent a sustainable economic recovery.

[Numerous economists](#) have been saying this for years. As I [pointed out](#) in March:

Nobel prize winning economist George Akerlof has [demonstrated](#) that failure to punish white collar criminals – and instead bailing them out- creates incentives for more economic crimes and further destruction of the economy in the future. Indeed, William Black [notes](#) that we've known of this dynamic for “hundreds of years”.

Now mainstream journalists are starting to catch on.

Market Watch senior columnist Brett Arends [writes](#):

No one has been punished. Executives like Dick Fuld at Lehman Brothers and Angelo Mozilo at Countrywide, along with many others, cashed out hundreds of millions of dollars before the ship crashed into the rocks. Predatory lenders and crooked mortgage lenders walked away with millions in ill-gotten gains. But they aren't in jail. They aren't even under criminal prosecution. They got away scot-free. ***As a general rule, the worse you behaved from 2000 to 2008, the better you've been treated. And so the next crowd will do it again. Guaranteed.***

Gretchen Morgenson and Louise Story [point out](#) in the New York Times that:

As the financial storm brewed in the summer of 2008 ... Federal prosecutors officially adopted new guidelines about charging corporations with crimes — a softer approach that, longtime white-collar lawyers and former federal prosecutors say, helps explain the dearth of criminal cases despite a raft of inquiries into the financial crisis.

Though little noticed outside legal circles, the guidelines were welcomed by firms representing banks. [The Justice Department's directive](#), involving a process known as deferred prosecutions, signaled “an important step away from the more aggressive prosecutorial practices seen in some cases under their predecessors,” Sullivan & Cromwell, a prominent Wall Street law firm, [told clients in a memo that September](#).

“If you do not punish crimes, there’s really no reason they won’t happen again,” said Mary Ramirez, a professor at Washburn University School of Law and a former assistant United States attorney. “I worry and so do a lot of economists that we have created no disincentives for committing fraud or white-collar crime, in particular in the financial space.”

(This appears to be true on [both sides of the Atlantic](#).)

And Frank Rich [reports](#) in a much-discussed piece in the New Yorker:

What haunts the Obama administration is what still haunts the country: the stunning lack of accountability for the greed and misdeeds that brought America to its gravest financial crisis since the Great Depression. There has been no legal, moral, or financial reckoning for the most powerful wrongdoers. Nor have there been meaningful reforms that might prevent a repeat catastrophe. Time may heal most wounds, but not these. Chronic unemployment remains a constant, painful reminder of the havoc inflicted on the bust’s innocent victims. As the ghost of Hamlet’s father might have it, America will be

stalked by its foul and unresolved crimes until they “are burnt and purged away.”

After the 1929 crash, and thanks in part to the legendary Ferdinand Pecora’s fierce thirties Senate hearings, America gained a Securities and Exchange Commission, the Public Utility Holding Company Act, and the Glass-Steagall Act to forestall a rerun. After the savings-and-loan debacle of the eighties, some 800 miscreants went to jail. But those who ran the central financial institutions of our fiasco escaped culpability (as did most of the institutions). As the indefatigable [Matt Taibbi has tabulated](#), law enforcement on Obama’s watch rounded up 393,000 illegal immigrants last year and zero bankers. The Justice Department’s ballyhooed Operation Broken Trust has broken still more trust by chasing mainly low-echelon, one-off Madoff wannabes.

Those in executive suites at the top of that chain have long since fled the scene with the proceeds, while bleeding shareholders, investors, homeowners, and - cashiered employees were left with the bills. The weak Dodd-Frank financial-reform law that rose from the ruins remains largely inoperative

I [pointed out](#) in January that fraud is Wall Street’s *business model*, which is being supported by the government:

Nobel prize-winning economist George Akerlof [demonstrated](#) that if big companies aren’t held responsible for their actions, the government ends up bailing them out. So failure to prosecute directly leads to a bailout.

Moreover, as I [noted](#) last month:

Fraud benefits the wealthy more than the poor, because the big banks and big companies have the inside knowledge and the resources to leverage fraud into profits. Joseph Stiglitz [noted](#) in September that giants like Goldman are using their size to manipulate the market. The giants (especially Goldman Sachs) have also used high-frequency program trading (representing up to [70% of all stock trades](#)) and high proportions of [other trades](#) as well). This not only [distorts the](#)

[markets](#), but which also lets the program trading giants take a sneak peak at what the real traders are buying and selling, and then trade on the insider information. See [this](#), [this](#), [this](#), [this](#) and [this](#).

Similarly, JP Morgan Chase, Bank of America, Goldman Sachs, Citigroup, and Morgan Stanley together hold [80% of the country's derivatives risk, and 96% of the exposure to credit derivatives](#). They use their dominance to [manipulate the market](#).

Fraud disproportionately benefits the big players (and [helps them to become](#) big in the first place), increasing inequality and warping the market.

[And] Professor Black [says](#) that fraud is a large part of the mechanism through which bubbles are blown.

Finally, failure to prosecute mortgage fraud is arguably worsening the housing crisis. See [this](#) and [this](#).

The government has not only turned the other cheek, but aided and abetted the fraud.

And this environment is ongoing today. See [this](#), for example.

Even when the government has prosecuted financial crime (because public outrage became too big to ignore), the government has settled for pennies on the dollar [as a way to quietly bail out the big banks].

Corruption At the Top Leads to Lawlessness By The People

[Corruption at the top leads to lawlessness by the people.](#)

Unfortunately, the lawlessness by those at the top will lead to lawlessness by the people. This will lead to the break down of the economy and the financial system ... and society as a whole.