Swindlers All, a Brief History of Government Business Frauds from Alexander Hamilton to AIG

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Michael Powelson

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This book is dedicated to my sons Eli and Noah,
my sisters Shannon and Blithe,

and to my mother

Ann Lonergan-Venturella-Snyder-Cox-Powelson-Smith.

A remarkable woman.

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INTRODUCTION: EVERYTHING IS RIGGED

> Things can go badly for the rich if they don't run the state.
>
> Lorenzo de Medici[1]

In 2006 I first taught a class at California State University-Channel Islands titled "The History of Business and Economics in North America." Geared for business and economics majors, as the title suggests, the class covered the economic history of the United States, Mexico, and Canada from the colonial period to the present day. While I was trained as a Latin American historian, economic necessity has determined that over the years I have taught dozens of US history courses, and this class in particular suited my training since in the course of my career I have traveled and studied throughout Central America, Mexico, the United States, and Canada. My dissertation, "Work and Society in Colonial Chiapas," focused on the economic history of one province in Spain's vast overseas empire.[2] While early on in my academic career I was aware of the various business/government swindles that have dotted US history, in teaching this class I became acutely aware of how widespread and deeply-rooted these swindles were and continue to be. Carried out by the business class in league with government officials (who were often business elites themselves), the frauds and swindles that I taught in class expanded my knowledge of the corruption so rooted in US economic history. Coincidentally, the Great Recession of 2007–2008 was unfolding around this time, an economic collapse fueled in part by a wide array of scams and swindles, and so the idea for this book was born.

This book details the major swindles in US history carried out by business elites in league with US government agencies and officials, and one mission of this book is to put to rest the notion that the government and business class are hostile entities. To the contrary, as this book chronicles, without the government at the ready to bail out the business class, the US and world capitalist system would have ceased operation long ago. The Great Recession is a perfect example where, once again, the business sector in league with government officials engaged in a massive swindle by transferring trillions of dollars of public monies into the private accounts of the wealthiest individuals and largest corporations in the world. I am not alone in this assertion, and Matt Taibbi, for example, has made this same point in his article "Why Isn't Wall Street in Jail?" while the economist Jeffry Sachs recently declared on CNN that every major Wall Street firm "broke the law."[3]

While it was no secret outright criminality swirled around this latest meltdown of the US economy, the Department of Justice never got around to charging anyone of importance of any criminal act. Incredibly, and despite a mountain of evidence, Wall Street brokers, hedge-fund managers, accountants, and CEOs were able to avoid criminal prosecution, and while seventeen trillion dollars went missing in the wake of the Great Recession, no one was punished.[4]

As with previous collapses, whether called "panics," "depressions," or "recessions," the Great Recession of 2007–2008 could not have occurred without active government support for banking and financial deregulation, which in turn set the stage for yet another economic crisis. In the 1970s and 1980s, both the Carter and Reagan administrations enacted laws deregulating the savings and loan banks, the "thrifts," which led to the collapse of the savings and loan industry in the early 1990s. In 1999, President Bill Clinton signed the Graham-Leach-Bliley Act repealing part of the New Deal-era Glass-Stegall Act, and—you guessed it—the revisions of Glass-Steagall opened the floodgates for Wall Street to engage in high-stakes gambling with other people's money, with predictable results.

Fig. 1.1. President Clinton signs the Graham-Leach-Bliley Act (1999)
Source: public domain, Securities and Exchange Historical Society

The Great Recession of 2007–2008 was not the first time that capitalist greed combined with criminal fraud has ravaged the US economy. In fact, from the Panic of 1792 to the bailout of AIG, Goldman Sachs, and General Motors in 2008, business and government elites have worked together to guarantee that private profits continue at the expense of the public wellbeing. Additionally, this book argues that these swindles, frauds, and scams have negatively affected the economic and material wellbeing of the mass of US society. Not only have scarce government resources been wrongly, and often criminally, diverted to the private sector, but unemployment, poverty, homelessness, and war have followed in the wake of the scams chronicled in this book.

Given the many economic collapses in US history, any claims that the Great Recession was unexpected or could not have been predicted are laughable. It was the very first president of the United States, George Washington, who conspired with the very first Treasury Secretary, Alexander Hamilton, to enrich their friends and relatives by using government monies to pay off what was believed to be worthless Revolutionary War debts, while at the same time locating the new capital of the nation on worthless swampland. The result was the Panic of 1792, the first of many panics that would plunge the nation into economic ruin and cast the honest craftsman, the hardworking merchant and the humble laborer into the ranks of the unemployed. In the 1830s, President Jackson conspired to enrich *his* friends and political cronies by terminating the Second US National Bank and routing government funds into Jackson's "pet banks." The result was the Panic of 1837.

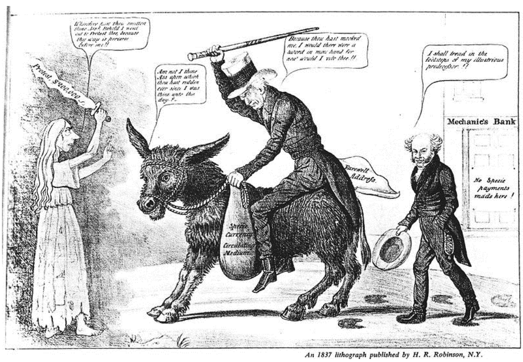

Fig. 1.2. Political cartoon blaming President Andrew Jackson for the Panic of 1837. Source: public domain

In the 1860s, both business fraud artists and government officials conspired to rob the public treasury under the guise of building the transcontinental railroad that played a role in sparking the Panic of 1873. Throughout the late nineteenth and early twentieth centuries, banker and "robber baron" J. P. Morgan swindled the US government during the Civil War and the construction of the Panama Canal, and again during the Panic of 1907—all with the knowledge and support of the US government. The results were the panics of 1893 and 1907.

And so it went. During the "Roaring Twenties," business/government scams were as frequent as the days of the year, and with the deregulation craze of the late twentieth century, fraud after fraud has devoured the finances and economic health of the nation. Not only have massive amounts of government monies been transferred to the private sector by federal, state, and local governments, but in the wake of these swindles the US economy was inevitably driven into economic crises. Thus, rather than the hostile combatants they are portrayed as being by the news media and popular culture, business and government elites have historically worked together in broad cooperation—and are often even the same individuals. George Washington, for example, among the wealthiest individuals in the United States when he took office in 1789, expressed no misgivings about using his high office to engineer a land deal that would enrich himself and his fellow southern elites. Andrew Jackson, a major slaveholder and one of the wealthiest among US presidents, had no qualms about using his high position to enrich his friends and political cronies. From Herbert Hoover to G. W. Bush, and from Teddy Roosevelt to John Kennedy, individuals of immense personal wealth have most often occupied the White House, and have derived a direct benefit from this longstanding partnership of business and government. The awful truth is that the collaboration between Wall Street and Washington DC has dominated the United States since its founding—a collaboration that is stronger than ever.

The pattern of a government run by wealthy elites was established early in the Republic, and from its inception the United States has been directed by an assortment of wealthy landowners, lawyers, manufacturers, and financiers. For every self-made success like Abraham Lincoln—made rich as a railroad lawyer before he took office in 1861—are the millionaires from America's moneyed aristocracy, with names like Thomas Jefferson, James Madison, and Franklin Roosevelt. The wealth of US presidents provides a window into the wealth of all government offices, and both the current and past speakers of the house, Paul Ryan and Nancy Pelosi respectively, are multi-millionaires, just like their nineteenth-century counterpart house speaker Henry Clay, a wealthy landowner, lawyer, and slave owner. This is also true of the US Senate, where wealthy senators like John C. Calhoun and Daniel Webster were the nineteenth-century versions of senators Jay Rockefeller and John Kerry in the twentieth century.[5]

In fact, it is difficult to find a politician that is *not* among the super wealthy,[6] and whether from the local, state, or federal levels, elected officials too often come from wealth and privilege.[7] Yet there exists the fiction in our media and popular culture that the government and the business community are somehow at odds with each other. The truth, however, is that business and government have always worked together to dominate American economic and political culture. And despite the wealth and consensus among the US ruling class, there persists a belief that socialism is somehow creeping into the American body politic. Former President Barack Obama and his supporters, for example, were routinely denounced as socialists by their opponents. Despite the red-baiting of politicians, the business class, and the popular news media, however, there are no socialists, communists, or anarchists anywhere to be found at any level or branch of the US government, whether federal, state, or local. From its inception, the United States has been controlled by people either of wealth or by people who are willing to do the bidding of the wealthy.

In over two centuries of swindles, a clear tendency has emerged that these periodic frauds and swindles grow in both size and severity. The fraud engineered by the Jackson administration in the 1830s that resulted in the Panic of 1837, for example, was not as large as the one carried out in the construction of the transcontinental railroad a generation later, which led to the Panic of 1873. And the multi-trillion dollar swindle that began in 2007 has eclipsed all other swindles in US history—including the Great Depression of 1929. Thus, not only are frauds and swindles an integral part of the US economy, they are getting larger and costlier as the centuries progress. And given past performance, these frauds followed by economic collapse *will happen again*, unless action is taken to stop this dynamic.

Terms like "fraud," "swindle," "scam," "racket," and "huckster" are found throughout this book, and certainly the business and political elites to whom these terms apply will object. There has been from the beginning of the Republic a reluctance to call a fraud a fraud. Rather, government and business elites will claim they are engaging in a legitimate business transaction. Yet, a fraud by any other name is still a fraud. For example, in

2006–2007, the investment bank Goldman Sachs advised their clients to purchase a financial product called a "Collateralized Debt Obligation" (CDO) in the lead-up to the Great Recession of 2007–2008. At the same time, however, Goldman Sachs was *selling* their own CDOs because they knew their value would soon collapse.[8] This is obviously a "scam," defined as a ruse by one party to promise financial reward to another party when the scammer knows that the second party will in fact lose money (see chapter nine). When online scammers promise a reward will be deposited into the scammed party's bank account, we know this to be a scam. So why is it not a scam when Goldman Sachs advises clients to purchase securities to keep the price of that security high, allowing Goldman Sachs to sell off those same securities right before their value plummets?

A fraud is a scam on a broader scale, as was the case with the transcontinental railroad, where a number of different corporations and politicians were involved in a massive swindle to transfer public funds to various private interests (see chapter three). The transcontinental fraud included the Union Pacific Railroad, the Central Pacific Railroad, a company called Credit Mobilier, another called the Credit and Finance Corporation. The transcontinental fraud also included Congress members Oakes Ames and future President James Garfield to name but a few. And while all parties denied they had done anything wrong, the evidence is clear that a major fraud was orchestrated before, during, and after the construction of the transcontinental railroad.

While a fraud deprives a party of something through deceit, a swindle *deceives* a party out of something through deceit. This may appear to be but a subtle difference, but they are two different entities all the same. While the fraud of the transcontinental *deprived* the public of government lands and government money, the swindles of J. P. Morgan included overcharges for defective rifles he sold to the military during the Civil War or the exorbitant prices he charged while he enjoyed a monopoly in steel production in the early twentieth century. Swindles were also at the hearts of the bailouts of the savings and loan industry in the late twentieth century and the bailouts of all the major banks and insurance companies during the Great Recession of 2007–2008. In both cases the US government paid out well more than the value of these corporations in order to rescue them from collapse (see chapters four, eight, and nine).

A racket is similar to a fraud with the difference that while frauds continue until detected, a racket is an ongoing and seemingly endless fraud that is rooted in the very soil of the US economy. Such is the case with the military industrial complex, which for centuries has absconded with public monies based on false claims of threats from abroad, outrageous overcharges for military equipment, and the refusal to account for huge sums allocated to military purchases. Public monies swindled over the centuries by any number of politicians, business people, and corporations can only be defined as a racket (see chapter seven).

Whether scam, swindle, fraud, or racket; this book attempts to expose the often-ignored reality that the United States business and political culture is and has been saturated with various schemes to relieve the public and/or trusting citizens of their money. Originally trained as a Latin American historian, during my days in undergraduate and graduate school it was a tenant of faith that the political and economic corruption of Latin American nations were the root causes of the abject poverty, homelessness, crime and low-quality education found throughout the region. But after years teaching US history classes, along with the previously mentioned History of Business and Economics in North America, I have concluded that any corruption found in in Latin America was miniscule compared to the vast sums of money that have been swindled over the years in the US—with the active cooperation of both business and government elites. While it is easy for US academics and journalists to identify and report on corruption in Latin America, it is much more difficult to turn a mirror on this nation's own deep and varied history of scams, swindles, frauds, and rackets.

In fact, some of the most admired United Statesians, including Alexander Hamilton, Andrew Jackson, Theodore Roosevelt, and Woodrow Wilson, were involved in financial schemes that both enriched themselves and/or their friends and relatives, and were, at the same time, damaging to the wealth, well-being, and quality of life of the nation. These frauds were too often ignored, however, because of the deification of US heroes like Washington, Jackson, Lincoln, and Reagan that too-often encourages journalists and academics to tread lightly on these towering figures. The record is clear, however: both famous and not-so-famous politicians have worked in league with some of Wall Street's most powerful executives to defraud the government, and hence the American people. Yet, historians and journalists are reluctant to label as fraudulent the actions of US politicians and entrepreneurs. In an otherwise excellent piece, *New Yorker* writer James Surowiecki insists there is a subtle difference between fraudsters and entrepreneurs:

> Entrepreneurs have skills that are very much like those of the con men. To raise money to start a business, you've got to sell an imagined future—a dream. Before building a single car, Henry Ford had to persuade his major supplier to take stock in lieu of cash, because he didn't have the money to pay for thousands of dollars' worth of parts.[9]

But why separate Henry Ford from other types of con men? Ford not only sold investors on a future he could not guarantee, but scammed the US public with claims of a five-dollar-a-day wage while conveniently leaving out the harsh conditions, including "character requirements," his workers were expected to endure to receive this paltry sum.[10] Academics, journalists, and readers might disagree, but this book makes no differentiation between street level scams, swindles, frauds, or rackets on the one hand, and, on the other, the daily business practices of our business elites that are really just frauds of one sort or another.

Since the Great Recession of 2007–2008 there has been heightened interest in the economic history of the United States, and more specifically how things could have gone so terribly wrong within the banks, insurance companies, and brokerage houses during the Great Recession of 2007–2008. In calmer times, business/government frauds are too-often ignored because of the overall strength of the US economy. Now, however, millions still suffer from the effects of the Great Recession of 2007-2008, and it is at this moment that a brief history of economic swindles by business/government elites is needed.

This book is a brief history of the most egregious joint government/business swindles and is intended for readers largely unaware of this dark side of the financial history of the United States—which would be most of the reading public. While primary research is incorporated in this study, most of the information has been published and is well known among journalists, academics, and business elites. The target of this book is the reading public and students who have little knowledge of the various frauds and scams committed throughout US history. While readers might disagree with my conclusions, "facts," as John Adams famously declared, "are stubborn things." Fraud is at the very heart of the US capitalist system, a truth too-often ignored in the news media, primary and secondary education, and the hallowed halls of colleges and universities.

How many readers are aware, for example, of the massive government/corporate swindle that plagued the construction of the Panama

Canal in the early 20th century? And how many are aware of the government/corporate fraud carried out by an army of investors led by J. P. Morgan in league with the Teddy Roosevelt to transfer millions of government dollars into Wall Street banks during the Panic of 1907?

Fig. 1.3. J. P. Morgan attacks a photographer.
Source: public domain

Despite these and other business/government frauds, there are few books that chronicle these scams, and none that recounts the various frauds that have been perpetrated since the early years of the Republic. For example, the scams that resulted in the Panic of 1907 were ably reported by future Supreme Court justice Louis Brandeis in his book *Other People's Money*.[11] But since its publication in 1914, no book has addressed with a critical eye this crucial event in US financial history. Mathew Josephson's classic work *The Robber Barons*, first published in 1934, while critical of Wall Street, was published over seventy years ago, omits Wall Street swindles in the early days of the Republic, and ends at the beginning of the twentieth century.[12] Jack Beatty's excellent *Age of Betrayal* covers only the period from 1865 to 1900, while Charles Geisst's *Wall Street: From the Beginnings to the Fall of Enron* is a good if sympathetic view of corporate America, and focuses primarily on the banks and brokerage firms based in New York City. Geisst's work also leaves out the years 1795 to 1812, which are covered in this present work. Befitting its pro-Wall Street nature, Geisst's work leaves out a number of scams that are included in this present work.[13] John Steele Gordon's *Empire of Wealth* celebrates the alleged brilliance of Wall Street and so either minimizes or ignores altogether some of the most important financial scams.[14]

Books on more-recent Wall Street swindles are plentiful and carry such names as *The Greatest Ever Bank Robbery*, *Liar's Poker*, and *House of Cards*.[15] These books focus on events of the past thirty years and are mostly critical of the practices of the business/government fraternity that engineered these frauds. These books lack, however, the historical perspective that this book provides, which confronts the reality that financial scams are as old as the United States itself and have only gotten worse over time. It is one thing to claim that fraud has been part of Wall Street for the past three decades; it is quite another to argue, as this book does, that fraud has penetrated every corpuscle of the business/government "culture" for close to two and a half centuries.

This book synthesizes scholarly research, of which the general reader is neither aware nor often has access to, and will also utilize government documents, newspapers of the time, and unpublished memoirs and manuscripts. Outside of the studies mentioned above, there are many scholarly books and research articles on various aspects of US economic history going back to the beginning of the Republic. Thomas Carlyle's quip that economics is "a dismal science" too often provides the excuse rather than the reason why most United Statesians lack a basic understanding of the history of US business and finance. Yet the study of economics and economic history would be of great interest to the average reader if not for the fact that too often economic history has been made dull through the combined effort of academics and journalists who obscure and render incomprehensible the inequities of the current economic system we identify as "capitalism." While the record of corruption is well-documented, most academics and journalists are reluctant to apply such harsh terms such as "fraud" and "swindle" to describe the actions of the United States' most prominent business and political leaders.

But a fraud by any other name is still a fraud.

From the beginning of the Republic, government officials in league with businesses and corporations have committed frauds to enrich the business class while at the same time they engineered economic crises that impoverished working people. Yet because of the structure of capitalism the perpetrators of these panics, recessions, or depressions—the entrepreneurs—too often go unpunished for their crimes. To the contrary, it is the working and middle classes that are made to suffer for the trespasses of the elites. Refusing to take responsibility for their scams, elites respond to economic collapse by punishing working and middle class people with layoffs and home foreclosures. While the working and middle classes are not responsible for these economic collapses, whether it was the Panic of 1792 or the Great Recession of 2007-2008, it is the working and middle classes that are made to suffer for the economic crises engineered by the elites. Moreover, the United States cannot hope to address the causes of the recent Great Recession unless it is acknowledged that these economic crises are neither unique nor of recent origin, but in fact have been part of the US economy from the first years of the Republic. To illustrate this, a selection of swindles, frauds, and scams going back to the first years of the Republic and up to the present day will be covered in this book.

Chapter one details the various scams in the first years of the Republic engineered by the likes of Alexander Hamilton, Thomas Jefferson, and George Washington. Hamilton enriched his friends by convincing Congress to borrow money and go into debt in order to pay off what was believed to be worthless Revolutionary War debt. At the same time, Jefferson, Madison, and Washington conspired to locate the nation's capital in the heart of the slavocracy as part of a fraud to profit on swampland they owned along the Potomac River. The chapter also reveals how Hamilton was involved in the nation's first sex scandal in order to cover up his scheme to defraud the US Treasury.

Chapter two investigates how Andrew Jackson conspired to close down the Second US National Bank in favor of "pet banks" run by friends and political cronies. Slave owner, duelist, and Indian killer, Jackson's decision to pay off the national debt, demand gold and silver—specie—for federal land purchases, and shutter the central bank resulted in one of the worst economic collapses in US history.

Chapter three will investigate the myriad frauds involved in the construction of the transcontinental railroad by some of the most prominent business and government figures of the day, including "honest" Abe Lincoln. From the diversion of public monies to the creation of dummy companies, the transcontinental railroad fraud contained many elements of the culture of fraud that surrounded the actions of the nation's political and economic elites. This chapter will also illustrate how the Union Pacific Railroad and its principal shareholder, Thomas Durant, anticipated by over a century the fraudulent accounting practices of Ken Lay and his Enron Corporation.

Chapter four explains how corporations became "legal persons" that enjoyed full constitutional rights at a time when real people—blacks, Indians, Asians, and workers—were systematically denied their constitutional rights. This chapter emphasizes the fact that whatever the business elites say about "competition," the reality is that every businessperson and corporation seek monopoly—the opposite of competition. This chapter will also make note of the contradiction inherent in a legal system that vigorously protects the rights of private corporations, while at the same time it is used to wage war and undermine the rights of another type of corporation—labor unions.

Chapter five details how J. P. Morgan and Teddy Roosevelt conspired to create the nation of Panama in order to build a canal and enrich Morgan and his cronies. In a hotel room in New York City and with no Panamanians present, Morgan and his cronies devised the nation of Panama, then a province of Colombia, while Teddy Roosevelt did his part by ordering the navy to blockade Panama's harbors, thereby preventing Colombia from reasserting control of its rebellious province. This chapter will also detail how, through fraud and outright bribery, Morgan convinced Congress to shift from Nicaragua, which engineers believed was the best location for the canal, to Panama.

Chapter six analyzes how the frauds and swindles of the "Roaring" 1920s led directly to the Great Depression of 1929 and will also note the relationship between the Depression and Second World War. Too often in US history, war has proven to be the solution to economic collapse, and in exchange for the misery of hunger, homelessness, and unemployment of the Great Depression came the misery of the battlefield abroad and the draconian laws, rationing, and stagnant wages at home that were the defining features of the Second World War.

Chapter seven, "War is a Racket," gets its title from the book of the same name by US Marine Major General Smedley Butler. Largely due to geography, it is the US's good fortune that no nation has posed a military threat to the United States. Yet, based on false claims of foreign threats, the US has by far the largest military in the world, with a vast network of overseas bases, encampments, air-landing strips, forts, and naval fleets unrelated to defending the land or the people of the United States. But war is big money and therefore vulnerable to swindle, and also a racket because those opposed to war, no matter how legitimate the opposition, will be accused of being unpatriotic and endangering the lives of US soldiers abroad. This chapter will also investigate how it is that the US, which makes up less than five percent of the world's population, accounts for thirty-seven percent of the world's military spending.[16]

Chapter eight investigates how a wave of deregulations in the late twentieth century have resulted in the bankruptcies of the industries that were deregulated. For example, the deregulation of the savings and loan industry resulted in the collapse of the "thrifts" by the early 1990s, and bankruptcies also followed in the wake of the deregulation of communications, the internet, and the energy industries. This chapter illustrates how Enron, touted as a new-fangled company for the twenty-first century, proved to be very much a traditional practitioner of fraud, and employed a "reverse Credit Mobilier" scheme similar to the one carried out during the transcontinental railroad scam of the mid-nineteenth century.

And, finally, chapter nine, "Too Big to Care," looks at the Great Recession of 2007-2008, easily the biggest swindle carried out in a nation with a proud tradition of scams, frauds, and rackets. All the frauds that Wall Street sorcerers could conger up, Collateralized Debt Obligations (CDOs), Credit Default Swaps (CDSs), subprime mortgages, and a host of other "financial products," were on display for the Great Recession of 2007-2008. This greatest of swindles (so far) was eclipsed only by the fact that, with few exceptions, no one was punished for a swindle where seventeen trillion dollars went missing! This chapter shows how fraud is so deeply rooted in the soil of the US economic system that most financiers, CEOs, hedge-fund managers, and stock and bond traders would vehemently deny that what they did was even fraudulent. This chapter also shows that the system is so corrupted that over time, Congress and the court system have made legal most of the swindles that were once considered criminal. Moreover, the few scams that are still considered illegal are simply not prosecuted.

There exists, of course, the possibility that the fraudsters noted in this book genuinely believed that they did nothing wrong; that they genuinely believe they were simply taking advantage of a loophole in the system or that they had found areas of profit not noticed by others. In the eighteenth century Alexander Hamilton, for example, denied that he swindled anyone, while in the twenty-first century Enron CEO Ken Lay maintained to the end that he had broken no laws. It is irrelevant, however, whether or not the fraud artist admits to their own scams. The homeless man panhandling for money on a freeway onramp, for example, might very well believed he's the king of France. The fact is, that homeless man is *not* the king of France. In the world of the fraud artist, it is irrelevant to what extent they are self-aware of their acts. What is of great importance, however, is whether their acts constitute a fraud, regardless of what business/government elites might say, and this book will emphasize that one should look to what the business/government elites *do* rather than what they *say*, because the first person a swindler swindles is themselves.

So many people played a role in the conception and completion of this book that if they were all included the list would never end. A few deserve special note, however: the faculty and staff at California State University-Channel Islands deserve some big thanks, and in particular Rainer Buschmann, Scott Corbett, Alison Perchuk, Ross Pugia, John Griffin, Michael Bloch, Jose Alamillo, Rick Wolfe, Ramon Tejada, Rafael Perez, Paul Murphy, Marie Francois, and Frank Barajas, all of whom encouraged me almost daily to keep plugging away. James Meriwether also deserves much thanks, although he should not be judged for my trespasses. The CSUCI staff were ever-so helpful, especially Alison Potter, Amanda Sanchez, Heidi Alabash, Kim Gregory, and Hai Le.

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Finally, a special thanks to my cousin Margo Powelson, who, after listening to me rant at a Christmas Eve party about the frauds perpetrated on Wall Street, challenged me simply to write it down.

Notes

[1] Quoted in Tim Clark, *Medici Money: Banking, Metaphysics and Art in Fifteenth-Century Florence* (New York: W. W. Norton), 183.
[2] Unpublished dissertation (Columbia University, 1995).
[3] Matt Taibbi, "Why Isn't Wall Street in Jail?" *Rolling Stone* (February 16, 2011), http://www.rollingstone.com/politics/news/why-isnt-wall-street-in-jail-20110216; Jeffrey Sachs on Fareed Zakaria *GPS*, CNN (October 30, 2011), http://globalpublicsquare.blogs.cnn.com/2011/10/31/sachs-versus-ferguson-on-occupy-wall-street.
[4] See chapter nine for details on the swindles of the Great Recession of 2007-2008.
[5] Aliyah Shahid, "House Minority Leader Nancy Pelosi's Wealth Grows 62% to $35.2M, Boehner, Reid's worth increases too," *New York Daily News* (June 15, 2011), http://articles.nydailynews.com/2011-06-16/news/29687626_1_stock-gains-house-speaker-charles-rangel. Nancy Pelosi's wealth was over twenty million dollars in 2010, which ranked her as the thirteenth wealthiest member of Congress. Senator John Kerry is the richest member of Congress with an estimated wealth of 188 million. See "The 50 Richest Members of Congress," *Roll Call* (September 16, 2010), http://www.rollcall.com/features/Guide-to-Congress_2010/guide/-49892-1.html.

[6] Where an exception is found, such as former president Bill Clinton, this once poor civil servant from Hope, Arkansas is now, after two terms in the White House, a millionaire, and in 2008 the Clintons were worth an estimated 109 million dollars. See "Clintons Disclose Wealth," *Los Angeles Times* (April 5, 2008), http://articles.latimes.com/2008/apr/05/nation/na-taxes5.

[7] The medium income for all of the US Congress is 1.1 million dollars. See Dan Kopf, "The Typical US Congress Member is 12 Times Richer Than the Typical American Household," *Quartz* (February 12, 2018), https://qz.com/1190595/the-typical-us-congress-member-is-12-times-richer-than-the-typical-american-household.

[8] Gretchen Morgenson and Louise Story, "Banks Bundled Bad Debt, Bet Against It and Won," *New York Times* (December 23, 2009), https://www.nytimes.com/2009/12/24/business/24trading.html.

[9] James Surowiecki, "Do the Hustle," *New Yorker* (January 13, 2014), https://www.newyorker.com/magazine/2014/01/13/do-the-hustle.

[10] Tim Worstall, "The Story of Henry Ford's $5 a Day Wages: It's Not What You Think," *Forbes* (March 4, 2012), https://www.forbes.com/sites/timworstall/2012/03/04/the-story-of-henry-fords-5-a-day-wages-its-not-what-you-think/#a2c82ec766d2.

[11] Louis Brandeis, *Other People's Money and How the Bankers Use It* (F.A. Stokes, 1914).

[12] Mathew Josephson, *The Robber Barons* (New York: Harvest Books, 1934).

[13] Jack Beatty, *The Age of Betrayal: the Triumph of Money in America, 1865–1900* (New York: Vintage, 2008); Charles Geisst, *Wall Street: a History From its Beginnings to the Collapse of Enron* (New York: Oxford University Press, 2004).

[14] John Steele Gordon, *An Empire of Wealth: the Epic History of American Economic Power* (New York: Harper Collins Publishers, 2004).

[15] Martin Meyer, *The Greatest Ever Bank Robbery: the Collapse of the Savings and Loan Industry* (New York: Collins Books, 1992); Michael Lewis, *Liar's Poker* (New York: W. W. Norton, 1989); William Cohan, *House of Cards: a Tale of Hubris and Wretched Excess on Wall Street* (New York: Anchor Books, 2010).

[16] "U. S. and World Population Clock," *United States Census Bureau*, https://www.census.gov/popclock/; "U. S. Military Spending vs. the World," *National Priorities Project*, https://www.nationalpriorities.org/campaigns/us-military-spending-vs-world.

CHAPTER ONE

FOUNDING SWINDLE: ALEXANDER HAMILTON AND THE PANIC OF 1792[1]

Touched by the wand of speculation,
A frenzy runs through all the nation;
For soon or late, so truth advises
Things must assume their proper sizes—
And sure as death all mortal trips,
Thousands will rue the name of SCRIPTS

Philadelphia *Gazette*,
August 13, 1791[2]

Even his enemies recognized Alexander Hamilton's genius. Historians have concurred with Hamilton's contemporaries, and they credit him, the nation's first Secretary of the Treasury, with creating the basic structure and direction of the US economy. In his first report to Congress, Hamilton proposed that the federal government pay off all outstanding Revolutionary War debts which, he reasoned, would put the new Republic on a sound financial footing. To do this, however, the new nation would have to take on debt, which was fine with Hamilton, who noted that as long as debts were paid in a timely fashion they would not burden the fledgling economy.[3] Hamilton also argued for the creation of the First US National Bank, the precursor to the current Federal Reserve System, in order to create a nationwide banking system to expedite trade and commerce. Finally, Hamilton was the first to lay out the structure of what came to be known as the "American System," in which tariffs, a central bank, and government subsidies for infrastructural development would advance the US economy. This American System was later championed by such prominent leaders as Henry Clay, Daniel Webster, and Abraham Lincoln.[4]

But like so many other "founders," Hamilton was not beyond the occasional swindle, and it was Hamilton's manipulations of the finances of the early Republic that resulted in widespread fraud, a bubble in land speculation, the Whiskey Rebellion, and finally the Panic of 1792, the first stock market collapse of the newly established United States of America. All this happened in the space of the five short years when Treasury Secretary Hamilton was in charge of the new economy.[5]

The events that led to the Panic of 1792 followed the general structure of events that were to cause future economic crises in the United States, up to and including the Great Recession of 2007–2008. Government policies pushed by the business sector created a "bubble" in stock and land values, which in turn caused financial collapse and the inevitable government bailout of private speculators. Given that this very scenario unfolded as recently as 2007-2008, it is clear that history *does* repeat itself again and again and again.

Alexander Hamilton was the first of many Americans to engineer a government/business swindle intended to enrich his friends, relatives, and cronies at the expense of the US public. Born on the island of Nevis in the Caribbean, Hamilton's mother was unmarried at his birth, and the young Alexander grew up in humble circumstances. While still in his twenties, Hamilton served during the Revolutionary War as one of Washington's most able officers, and by his early thirties had coauthored the *Federalist Papers*, which historians judge one of the great political writings of that era.[6] By the age of thirty-four Hamilton had become one of the most dynamic leaders of the new American Republic—articulate, brash, and brilliant.[7]

But great men are often not very good men. John Adams, for example, described Hamilton as "the most restless, impatient, artful, indefatigable, and unprincipled intriguer in the United States."[8] Fellow Federalist Noah Webster wrote Hamilton to ask whether "your ambition, pride, and overbearing temper have destined you to be the evil genius of this country."[9] Of all of the "founders," Hamilton was regarded by his peers as the least principled, and he managed to alienate not only Republican opponents like Thomas Jefferson, James Madison, and Aaron Burr, but his Federalist allies like John Adams as well, who described Hamilton as the "bastard brat of a Scotch peddler."[10]

Hamilton's opportunism and determination to climb the social ladder were apparent at an early age. In a letter to his friend John Laurens in

1779, Hamilton, still a young Revolutionary War officer, described what he sought in a wife: "As to fortune, the larger stock the better."[11] An admired officer in the victorious revolution and close to General Washington, Hamilton recognized his own value in marriage early, and was willing to barter his value on the open market. In order to find him a wife, Hamilton instructed Laurens to "advertise in the public papers and doubtless you will hear of many competitors for most of the qualifications required, who will be glad to become candidates for such a prize as I am."[12]

In 1780 Hamilton, the "prize," married Elizabeth Schuyler, daughter of Phillip Schuyler, one of the wealthiest and most politically powerful men in the new Republic. The humble clerk from Nevis had arrived, and, along with a well-connected wife, was able to acquire familial, social, political, and economic ties that would elevate him into the elite circles of the American Republic. Not only was Elizabeth's father from a wealthy New York family, but her mother, Catherine Van Rensselaer, was from an even wealthier New York family which, like her father, was descended from the original Dutch settlers in New York's Hudson Valley. Hamilton's father-in-law, Philip, was a member of the Continental Congress and served in the Continental Army. After the Revolution, Schuyler became a member of the first Congress of the Confederation, and in 1789 was elected senator for New York when the federal government first convened under the newly ratified Constitution of 1788. Hamilton was surrounded by wealth, including his brother-in-law, John Baker Church, a former member of the British Parliament and founding member of the Bank of Manhattan Company, as well as a director of the Bank of North America. Both Schuyler and Church reaped great financial rewards during Hamilton's tenure as the first Treasury Secretary. George Washington also benefitted from Hamilton's term at the Treasury. At the Constitutional Convention in Philadelphia in 1787, convened to rewrite the original "Articles of Confederation," Washington noted that he "felt a direct financial stake" in the outcome of the Convention, since ratification of a new constitution "would restore American credit"—including Washington's own extensive dabbling in land speculation.[13] At the time of the convention, in fact, Washington held a considerable sum of Revolutionary War debts which, under the earlier "Congress of the Confederation," had gone unpaid and so were considered worthless. Washington and other speculators hoped that a new central government with the power to tax would now be in a position to pay off the war debts, and so "Washington understood firsthand the need for Alexander Hamilton's fiscal program as treasury secretary."[14]

In 1789, Washington selected the thirty-four-year-old Hamilton to be the Secretary of the Treasury of the newly established Republic. Hamilton's critics may have questioned his ethical judgment, but none doubted his talent in the world of finance, and so Treasury Secretary Hamilton set about arranging the finances of the new nation. Many of Hamilton's friends and relatives invested in stocks and bonds on Wall Street in New York City, a street originally lined with a defensive wall constructed to guard against attacks from Native Americans. These early traders had no building to work out of and so carried out their trading on the street itself, in the coffee houses that lined the avenue, or under a buttonwood tree that sat near the intersection of Wall Street and present-day Pearl Street. It was in this environment that the first insider trading scam was carried out in the young American Republic.

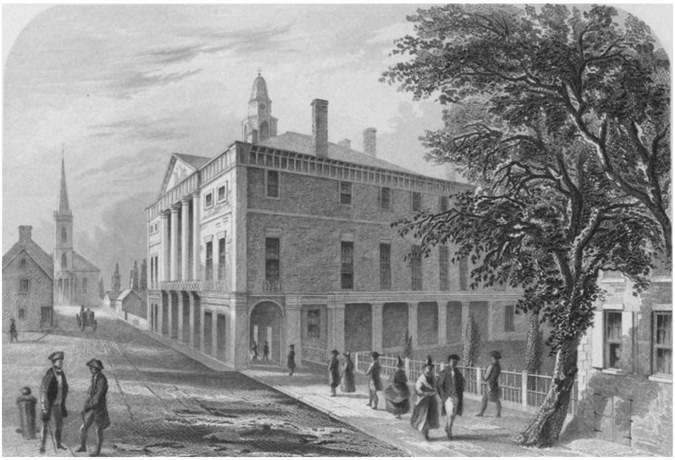

Fig. 1.1. Wall Street and Trinity Church, NY (c. 1790)
Source: public domain

Today, it is illegal for government officials to share or use information not known to the general public in order manipulate financial markets with the purpose of enriching themselves, their friends, or relatives. In 1790 such use, or misuse, of information was not formally illegal, but was, then as now, ethically wrong. Yet Hamilton used his position as Treasury Secretary to enrich his friends and relatives, and he did so to the detriment of the young nation. By 1790, almost a decade had passed since cash-strapped state militias and the Continental Congress had taken out loans to finance their war with the British Empire, and many of these loans remained unpaid by the time Hamilton assumed his post at the Treasury.[15] Since these debts went unpaid, their value had declined over time, some of it fifteen cents on the dollar.[16] Like many other businesspeople and politicians, during the convention in 1787 Hamilton called for the new federal government to resolve the ongoing debt crisis that plagued the nation.[17]

Shortly after taking his position as Secretary of the Treasury, some of Hamilton's closest friends and relatives began purchasing these debts at a fraction of their face value, which led some to charge Hamilton with informing his friends and relatives beforehand of his plan to pay off these seemingly worthless Revolutionary War debts at face value and accumulated interest. Many, both in and out of Congress, cried fraud, and it was charged that Hamilton's friend and mentor Robert Morris, for one, was a beneficiary of Hamilton's plan. Senator William Maclay of Pennsylvania claimed that, "Hamilton had communicated to one of the leading financiers of Philadelphia, a partner of Morris and a dealer in securities, his proposed plans for redemption of the public debt in full, previous to their publication in the first report to the House on public credit, January 9, 1790."[18] Hamilton's actions were all the more suspicious give that he proposed to Congress that the debts be paid back in full to the current debt holders—an important clause because many of the original debt holders had sold their debts to speculators, including Hamilton's friends and relatives, under the assumption that they would never recoup the money at anywhere close to the value of the original loan.[19]

Thus informed of his plan, Hamilton's friends and relatives approached debt holders who were in the dark about the Treasury Secretary's scheme and offered to buy them at a fraction of their face value—between fifteen and twenty-five cents on the dollar, but often for as little as ten. Just prior to assuming his post as Secretary of Treasury, many of Hamilton's friends and relatives became active players in this debt market, suggesting that Hamilton had told them of his plan. Hamilton's close friends Robert Morris and William Duer, for example, both speculated in the debt market, as did Hamilton's father-in-law Philip Schuyler and his brother-in-law John Baker Church.[20] All of them made money purchasing debt at discount prices which were later sold at face value with interest or used to purchase lands in the growing land speculation craze that touched the likes of Washington, Madison, and Hamilton himself.[21] Andrew Craigie, who owned shares in the Scioto Company (which would go broke as a result of the Panic of 1792), was another investor who benefitted from inside information he gained from his relationship with Hamilton. The Scioto

Company was headed by William Duer, who had earlier served as Assistant Secretary of the Treasury at the same time that Hamilton was appointed Secretary of the Treasury. In a personal letter, Craigie wrote that his friendship with Duer made him confident that "the public debt affords the best field in the world for speculation," and noted that, "I know of no way of making safe speculations but by being associated with people who from their official situation know all present and can aid future arrangements either for or against the funds."[22]

William Constable, another Hamilton friend and business partner, also speculated in the debt market. In a letter to a friend dated March 1789, one month before Washington took office as president, Constable expressed confidence that Hamilton would recommend that Congress pay off both state and national debts on favorable terms for speculators. In a letter dated November 1789, Constable again declared his confidence that both state and federal debts would be paid off at face value, and in that same letter referred to a group of Hamilton's friends as "those in the secret" (of which Constable counted himself) who should be careful to "keep the price down" of outstanding debts in order to "afford a profit of 100 percent in less than 3 years." In other words, "those in the secret" should be discreet in their purchases of war debts least outsiders conclude that worthless debts might soon not be so worthless. In a letter to Hamilton's friend Robert Morris, Constable recounted that he had recently dined with Hamilton, who told him that the outstanding debts "must no doubt be funded."[23]

Once these debts were in the hands of his friends and relatives, Hamilton submitted his *First Public Report on Credit* to Congress on January 9, 1790.[24] In his report, Hamilton proposed that the federal government should pay off all state and federal debts at full face value with interest. In addition to the previously mentioned friends and family, at least seventeen members of Congress stood to benefit directly from the "Assumption Bill," as it came to be known.[25] Many others in Congress also stood to gain financially, since the infusion of millions of dollars into the nation's financial markets would stimulate the price of all commodities—especially the price for land.

In his report, Hamilton estimated that the combined state and federal debt, with interest, totaled 65 million dollars—roughly 1.7 billion in 2016 dollars.[26] Many in Congress opposed Hamilton's proposal and argued that such a measure would reward those that speculated in debt and war profiteering rather than the original creditors who loaned money or