The Scam Wall Street Learned From the Mafia

How America's biggest banks took part in a nationwide bid-rigging conspiracy - until they were caught on tape

by: Matt Taibbi

Illustration by Victor Juhasz

Someday, it will go down in history as the first trial of the modern American mafia. Of course, you won't hear the recent financial corruption case, *United States of America v. Carollo, Goldberg and Grimm*, called anything like that. If you heard about it at all, you're probably either in the municipal bond business or married to an antitrust lawyer. Even then, all you probably heard was that a threesome of bit players on Wall Street got convicted of obscure antitrust violations in one of the most inscrutable, jargon-packed legal snoozefests since the government's massive case against Microsoft in the Nineties – not exactly the thrilling courtroom drama offered by the famed trials of old-school mobsters like Al Capone or Anthony "Tony Ducks" Corallo.

But this just-completed trial in downtown New York against three faceless financial executives really was historic. Over 10 years in the making, the case allowed federal prosecutors to make public for the first time the astonishing inner workings of the reigning American crime syndicate, which now operates not out of Little Italy and Las Vegas, but out of Wall Street.

The defendants in the case – Dominick Carollo, Steven Goldberg and Peter Grimm – worked for GE Capital, the finance arm of General Electric. Along with virtually every major bank and finance company on Wall Street – not just GE, but J.P. Morgan Chase, Bank of America, UBS, Lehman Brothers, Bear Stearns, Wachovia and more – these three Wall Street wiseguys spent the past decade taking part in a breathtakingly broad scheme to skim billions of dollars from the coffers of cities and small towns across America. The banks achieved this gigantic rip-off by secretly colluding to rig the public bids on municipal bonds, a business worth $3.7 trillion. By conspiring to lower the interest rates that towns earn on these investments, the banks systematically stole from schools, hospitals, libraries and nursing homes – from "virtually every state, district and territory in the United States," according to one settlement. And they did it so cleverly that the victims never even knew they were being cheated. No thumbs were broken, and nobody ended up in a landfill in New Jersey, but money disappeared, lots and lots of it, and its manner of disappearance had a familiar name: *organized crime*.

In fact, stripped of all the camouflaging financial verbiage, the crimes the defendants and their co-conspirators committed were virtually indistinguishable from the kind of thuggery practiced for decades by the Mafia, which has long made manipulation of public bids for things like garbage collection and construction contracts a cornerstone of its business. What's more, in the manner of old mob trials, Wall Street's secret machinations were revealed during the *Carollo* trial through crackling wiretap recordings and the lurid testimony of cooperating witnesses, who came into court with bowed heads, pointing fingers at their accomplices. The new-age gangsters even invented an elaborate code to hide their crimes. Like Elizabethan highway robbers who spoke in thieves' cant, or Italian mobsters who talked about "getting a button man to clip the capo," on tape after tape these Wall Street crooks coughed up phrases like "pull a nickel out" or "get to the right level" or "you're hanging out there" – all code words used to manipulate the interest rates on municipal bonds. The only thing that made this trial different from a typical mob trial was the scale of the crime.

USA v. Carollo involved classic cartel activity: not just one corrupt bank, but many, all acting in careful concert against the public interest. In the years since the economic crash of 2008, we've seen numerous hints that such orchestrated corruption exists. The collapses of Bear Stearns and Lehman Brothers, for instance, both pointed to coordinated attacks by powerful banks and hedge funds determined to speed the demise of those firms. In the bankruptcy of Jefferson County, Alabama, we learned that Goldman Sachs accepted a $3 million bribe from J.P. Morgan Chase to permit Chase to serve as the sole provider of toxic swap deals to the rubes running metropolitan Birmingham – "an open-and-shut case of anti-competitive behavior," as one former regulator described it.

More recently, a major international investigation has been launched into the manipulation of Libor, the interbank lending index that is used to calculate global interest rates for products worth more than $3 *trillion* a year. If and when that case is presented to the public at trial – there are several major civil suits in the works here in the States – we may yet find out that the world's most powerful banks have, for years, been fixing the prices of almost every adjustable-rate vehicle on earth, from mortgages and credit cards to interest-rate swaps and even currencies.

But *USA v. Carollo* marks the first time we actually got incontrovertible evidence that Wall Street has moved into this cartel-type brand of criminality. It also offered a disgusting glimpse into the enabling and grossly cynical role played by politicians, who took Super Bowl tickets and bribe-stuffed envelopes to look the other way while gangsters raided the public kitty. And though the punishments that were ultimately handed down in the trial – minor convictions of three bit players – felt deeply unsatisfying, it was still a watershed moment in the ongoing story of America's gradual awakening to the realities of financial corruption. In a post-crash era where Wall Street trials almost never make it into court, and even the harshest settlements end with the evidence buried by the government and the offending banks permitted to escape with no admission of wrongdoing, this case finally dragged the whole ugly truth of American finance out into the open – and it was a hell of a show.

1. THE SCAM

This was no trial scene from popular lore, no *Inherit the Wind* or *State of California v. Orenthal James Simpson*. No gallery packed with rapt spectators, no ceiling fans set whirring to beat back the tension and the heat, no defense counsel's resting a sympathetic hand on the defendant's shoulder as opening statements commence. No, the setting for USA v. Carollo reflected the bizarre alternate universe that exists on Wall Street. Like so many court cases involving big banks, the proceeding looked more like a roomful of expensive lawyers negotiating a major corporate merger than a public search for justice.

The trial began on April 16th in a federal court in Lower Manhattan. The courtroom, an aerielike setting 23 stories up, offered a panoramic view of the city and the East River. Though the gallery was usually full throughout the three-plus weeks of testimony, the spectators were not average citizens come to witness how they had been robbed blind by America's biggest banks. Instead, there were row after row of suits – other lawyers eager to observe a long-awaited case, one that could influence the outcome in a handful of civil suits pending across the country. In fact, the defendants themselves, whom the trial would reveal as easily replaceable cogs in a much larger machine of corruption, were barely visible from the gallery, obscured by the great chattering congress of prosecution and defense attorneys.

Only the presence of the mostly nonwhite and elderly jury, which resembled the front pew of a Harlem church, served as a reminder that the case had any connection to the real world. Even reporters from most of the major news outlets didn't bother to attend. The judge in the trial, the right honorable and amusingly cantankerous Harold Baer, acknowledged that the case was not likely to set the public's pulse racing. "It is unlikely, I think, that this will generate a lot of media publicity," Baer sighed to the jury in his preliminary instructions.

Once opening statements began, it was easy to see why the press might stay away. One of the main lines of defense for corrupt Wall Street institutions in recent years has been the extreme complexity of the infrastructure within which these crimes are committed. In order for prosecutors to win convictions, they have to drag ordinary Americans, people who watch and enjoy reality TV, up the steepest of learning curves, coaching them into game shape with regard to obscure financial vehicles like swaps and CDOs and, in this case, Guaranteed Investment Contracts.

So it was no surprise that both the prosecution and the defense began their opening remarks to the jury by apologizing for the hellishly dull maze of "convoluted" and "boring" and "tedious" financial transactions they were about to spend weeks hearing about. Only Wendy Waszmer, the feisty federal prosecutor with straight brown hair and an elfin build who presented the government's case, succeeded in cutting through the mountainous dung heap of acronyms and obfuscations and explaining what the case was about. "Even though some aspects of municipal bond finance are complex, the fraud here was simple," she told the jurors. "It was about lying and cheating cities and towns in a bidding process that was in place to protect them."

The "simple fraud" Waszmer described centered around public borrowing. Say your town wants to build a new elementary school. So it goes to Wall Street, which issues a bond in your town's name to raise $100 million, attracting cash from investors all over the globe. Once Wall Street raises all that money, it dumps it in a tax-exempt account, which your town then uses to pay builders, plumbers, the chalkboard company and whoever else winds up working on the project.

But here's the catch: Most towns, when they raise all that money, don't spend it all at once. Often it takes years to complete a construction project, and the last contractor isn't paid until long after the original bond is issued. While that unspent money is sitting in the town's account, local officials go looking for a financial company on Wall Street to invest it for them.

To do that, officials hire a middleman firm known as a *broker* to set up a public auction and invite banks to compete for the town's business. For the $100 million you borrowed on your elementary school bond, Bank A might offer you 5 percent interest. Bank B goes further and offers 5.25 percent. But Bank C, the winner of the auction, offers 5.5 percent.

In most cases, towns and cities, called *issuers*, are legally required to submit their bonds to a competitive auction of at least three banks, called *providers*. The scam Wall Street cooked up to beat this fair-market system was to devise phony auctions. Instead of submitting competitive bids and letting the highest rate win, providers like Chase, Bank of America and GE secretly divvied up the business of all the different cities and towns that came to Wall Street to borrow money. One company would be allowed to "win" the bid on an elementary school, the second would be handed a hospital, the third a hockey rink, and so on.

How did they rig the auctions? Simple: By bribing the auctioneers, those middlemen brokers hired to ensure the town got the best possible interest rate the market could offer. Instead of holding honest auctions in which none of the parties knew the size of one another's bids, the broker would tell the prearranged "winner" what the other two bids were, allowing the bank to lower its offer and come in with an interest rate just high enough to "beat" its supposed competitors. This simple but effective cheat – telling the winner what its rivals had bid – was called giving them a "last look." The winning bank would then reward the broker by providing it with kickbacks disguised as "fees" for swap deals that the brokers weren't even involved in.

The end result of this (at least) decade-long conspiracy was that towns and cities systematically lost, while banks and brokers won big. By shaving tiny fractions of a percent off their winning bids, the banks pocketed fantastic sums over the life of these multimillion-dollar bond deals. Lowering a bid by just one-100th of a percent, called a *basis point*, could cheat a town out of tens of thousands of dollars it would otherwise have earned on its bond deposits.

That doesn't sound like much. But when added to the other fractions of a percent stolen from basically every other town in America on every other bond issued by Wall Street in the past 10 to 15 years, it starts to turn into an enormous sum of money. In short, this was like the scam in Office Space, multiplied by a factor of about 10 gazillion: Banks stole pennies at a time from towns all over America, only they did it a few hundred bazillion times.

Given the complexities of bond investments, it's impossible to know exactly how much the total take was. But consider this: Four banks that took part in the scam (UBS, Bank of America, Chase and Wells Fargo) paid $673 million in restitution after agreeing to cooperate in the government's case. (Bank of America even entered the Justice Department's leniency program, which is tantamount to admitting that it committed felonies.) Since that settlement involves only four of the firms implicated in the scam (a list that includes Goldman, Transamerica and AIG, as well as banks in Scotland, France, Germany and the Netherlands), and since settlements in Wall Street cases tend to represent only a tiny fraction of the actual damages (Chase paid just $75 million for its role in the bribe-and-payola scandal that saddled Jefferson County, Alabama, with more than $3 billion in sewer debt), it's safe to assume that Wall Street skimmed untold billions in the bid-rigging scam. The UBS settlement alone, for instance, involved 100 different bond deals, worth a total of $16 billion, over four years.

Contracting corruption has been around since the construction of the Appian Way. The difference here is the almost unimaginable scope of the crime – and the fact that it's mobsters from Wall Street who are getting in on the action. Until recently, such activity has traditionally been the almostexclusive domain of the Mafia. "When I think of bid rigging, I think of the convergence of organized crime and the government," says Eliot Spitzer, who prosecuted two bid-rigging cases in his career as a New York prosecutor, one involving garbage collection, the other a Garment District case involving the Gambino family. The Mafia moved into bid rigging, he says, because it observed over time that monopolizing public contracts offers a far more lucrative business model than legbreaking. "Organized crime learned their lessons from John D. Rockefeller," Spitzer explains. "It's much more efficient to control a market and boost the price 10 percent than it is to run a loan-sharking business on the street, where you actually have to use a baseball bat and collect every week."

What Spitzer saw was gangsters moving in the direction of big business. When I ask him if he is surprised by the current bid-rigging case, which looks more like big business moving in the direction of gangsters, he laughs. "The urge to become a monopolist," he says, "is as old as capitalism."

2. THE TAPES

The defendants in the case – Dominick Carollo, Steven Goldberg and Peter Grimm – worked together at GE, which was competing for bond business against banks like Chase, Wells Fargo and Bank of America. Carollo was the boss of Goldberg and Grimm, who handled the grunt work, submitting bids. Between August 1999 and November 2006, the three executives participated in countless rigged bids by telephone, conspiring with middleman brokers like Chambers, Dunhill and Rubin. We know this because prior to the start of the *Carollo* trial, 12 other individuals, including several brokers from CDR, had already pleaded guilty in a wide-ranging federal investigation.

How did the government manage to make a case against so many Wall Street scam artists? Hubris. As was the case in Jefferson County, Alabama, where Chase executives blabbed criminal conspiracies on the telephone even though they knew they were being recorded by their own company, the trio of defendants in Carollo wantonly fixed bond auctions despite the fact that their own firm was taping the conversations. Defense counsel even made an issue of this at trial, implying to the jury that nobody would be dumb enough to commit a crime by phone when "there was a big sticker on the phones that said all calls are being recorded," as Grimm's counsel, Mark Racanelli, put it. In fact, Racanelli argued, the conversations on the tapes hardly suggested a secret conspiracy, because "no one was whispering."

But the reason no one was whispering isn't that their actions weren't illegal – it's because the bid rigging was so incredibly common the defendants simply forgot to be ashamed of it. "The tapes illustrate the cavalier attitude which the financial community brought toward this behavior," says Michael Hausfeld, a renowned class-action attorney whose firm is leading a major civil suit against Bank of America, Wells Fargo, Chase and others for this same bid-rigging scam. "It became the predominant mode of transacting business."

How and when the government got hold of those tapes is still unclear; the prosecution is not commenting on the case, which remains an open investigation. But we do know that in November 2006, federal agents raided the offices of CDR, the broker firm that was working with Carollo, Goldberg and Grimm. Caught redhanded, many of the firm's top executives agreed to turn state's witness. One after another, these hangdog, pasty-faced men were led up to the stand by prosecutors and forced to recount how they'd been snatched up in the raid, separated and blitz-interviewed by FBI agents, and plunged into years of nut-crushing negotiations, which resulted in almost all of them pleading guilty. Prosecutors would eventually accumulate 570,000 recorded phone conversations, and to decipher them they worked these cooperating witnesses like sled dogs, driving them in for dozens of meetings and grilling them about the details of the scam.

The state's first witness, confusingly, was a CDR broker named Doug Goldberg (no relation to the defendant Steven Goldberg). Almost every executive involved in the trial was absurdly young; many were just out of college when the bid-rigging scam started in the late Nineties. Doug Goldberg graduated from USC in 1993, and his fellow CDR executive Evan Zarefsky still looks to be about 15 years old, suggesting a suit-and-tie version of Napoleon Dynamite. The extreme youth of some of the conspirators was an obvious subtext of the trial, underscoring the fact that far more senior executives from bigger banks like Chase and Bank of America had been permitted by the government to evade testifying.

Right off the bat, in fact, Doug Goldberg explained that while at CDR, he had routinely helped the cream of Wall Street rig bids on municipal bonds by letting them take a peek at other bids:

Q: Who were some of the providers you gave last looks to?
A: There was a whole host of them, but GE Capital, FSA, J.P. Morgan, Bank of America, Société Générale, Lehman Brothers, Bear. There were others.

Goldberg went on to testify that he repeatedly rigged auctions with the three defendants. Sometimes he gave them "last looks" so they could shave basis points off their winning bids; other times he asked them to intentionally submit losing offers – called *cover bids* – to allow other firms to win. He told the court he knew he was being recorded by GE. When asked how he knew that, he drew one of the trial's rare laughs by answering, "Either they told me or some of them, like Société Générale, you can hear the beeping."

Because of the recordings, he went on, he and the defendants used "guarded language."

"I might tell him, if I'm looking for an intentionally losing bid, 'I need a bid,' or something like that," he said.

Q: With whom specifically did you use this guarded type of language?
A: With Steve Goldberg and others.
Q: In your dealings with Steve Goldberg, what, if any, language or other signal did he use that you understood as a request for a last look?
A: He might ask me where I "saw the market," or he might ask me for, as I mentioned, an "indication of where the market is," an "idea of the market."

The broker went on to detail how he had worked with the GE executives to manipulate a number of auctions. In several cases, he was pushed to make deals with GE by his boss at CDR, Stewart Wolmark, who seemed smitten with GE's Steve Goldberg; jurors listening to the tapes couldn't miss the pair's nauseatingly tight, cash-fueled bromance. In December 2000, for instance, Wolmark helped Goldberg win a rigged bid for a bond in Onondaga County, New York. After the auction, he calls his buddy Steve:

WOLMARK: Hey, congratulations. You got another one.
GOLDBERG: Yeah. Yeah, thank you. Thank you.
WOLMARK: You're hot!
GOLDBERG: I'm hot? Hot with your help, sir.

Later on, Wolmark basically tells Goldberg he owes a service to his fellow gangster. "I deserve the big lunch now," Wolmark chirps.

"Yeah," says Goldberg. "I owe you something, huh?"

A few months later, in March 2001, Wolmark and Goldberg do another deal, this time for a $219 million construction bond for the Port Authority of Allegheny County, Pennsylvania. Wolmark rings up his payola paramour and scolds him for not calling him during a recent trip to Vegas, where Goldberg doubtless spent a nice chunk of the money Wolmark had helped him steal from places like Onondaga County.

"Good time in Vegas, you can't even call me back?" Wolmark laments.

"I don't have time to sleep in Vegas," Goldberg says suggestively.

"There's sleeping," Stewart Wolmark chides, "and there's Stewart."

From there, the clothes just start flying off as the pair jump into a steamy negotiation over the monster Allegheny deal. "I'm all set with $200 million," Goldberg says. "Everything's ready to go."

Then Wolmark asks if GE is ready to pay CDR its bribe. "You got some swaps coming up?"

Goldberg assures him they do. Wolmark then passes the deal off to his own Goldberg, Doug, who handles the actual auction.

When prosecutors tried to explain these telephone auctions at trial, projecting the transcripts of the calls on a huge movie screen set up across the courtroom from the jury, you could see the sheer bewilderment on the jurors' faces. The men on the tapes seemed to be speaking a language from another planet – an insanely dry and boring planet, where there's no color and no adverbs, maybe, and babies are made by rubbing two calculators together. One of the jurors, an older white man, spent the first few days of the trial yawning repeatedly, fighting a heroic battle to stay awake in the face of all the mind-numbing jargon about Guaranteed Investment Contracts. "Who needs Lunesta," joked one lawyer who attended the proceedings, "when you can hear a lawyer talk about GICs right out of the gate?"

The language of the auctions was a kind of intellectual camouflage. If you didn't listen closely, you'd have thought the two Goldbergs were a couple of airmen exchanging weather balloon data, rather than two Wall Street executives plotting a crime to rip off the good citizens of Allegheny County. In that deal, Steve Goldberg of GE originally bid "503, 4" on the $219 million bond, only to be guided downward by Doug Goldberg of CDR. The broker explained in court:

Q: Can you explain what you understood Mr. Goldberg to say when he was saying 503, 4? What was he bidding?
A: That was the rate he was willing to bid on this investment agreement.
Q: How much was it?
A: 5.04 percent.
Q: What did you do as a response to his bid of 5.04 percent?
A: I brought his bid down to 5.00 percent.

In other words, even though GE was willing to pay an interest rate of 5.04 percent, Allegheny County ended up earning just 5.00 percent on its $219 million bond. How much money that amounted to is difficult to calculate, given the way the bond account diminished each year as the county used it to pay contractors; even Doug Goldberg couldn't put a number on the scam. But if the account was full at the start of the deal, GE may have cheated the county out of as much as $87,600 a year to start.

In any case, GE certainly chiseled the Pennsylvanians out of a sizable sum, because soon after, the company paid CDR a kickback of $57,400 in the form of "fees" on a swap deal. The whole deal pleased CDR's higher-ups. "I went to Stewart Wolmark and told him that not only did Steve Goldberg win but that I was able to reduce his rate down four basis points," said Doug Goldberg. "Stewart was very happy and excited."

Over and over again, jurors heard cooperating witnesses translate the damning audiotapes. In one lurid sequence, the bat-eared, bespectacled CDR broker Evan Zarefsky explained how he helped the GE defendant Peter Grimm win a bid for a bond put out by the Utah Housing Authority. The pair had apparently reamed Utah so many times that it had become a sort of inside joke between the two of them. From a call in August 2001:

GRIMM: Utah, let's see, how we look on that?
ZAREFSKY: Good old Utah!

Grimm complains about how much he'll have to pay to win the deal. "These levels are really shitty," he says.

Zarefsky comforts him. "Well, I can probably save you a couple of bucks here," he says.

From there, Grimm rattles off numbers, ultimately settling on a bid of 351 – 3.51 percent. Zarefsky, in almost motherly fashion, guides the manic Grimm downward, telling him, in code, that his bid is 10 basis points too high. "You actually got like a dime in there," Zarefsky says. "You want to come down a dime?"

So Grimm comes back with a bid of 3.41 percent, which turned out to be the winning bid. Utah lost out on 10 basis points, GE bilked the state out of untold sums, and CDR got another nice kickback.

This, basically, is how a lot of the calls went. The provider would tentatively offer a number, and the broker would guide him to a new bid. "You have a little bit of room there," he might say, or "That's gonna put you about a nickel short." Guiding the bidders to the lowest possible bid was called "figuring out the level" or being "in the market"; obtaining information about other bids was called "giving an indicative" or "seeing the market."

The brokers and providers used a dizzying array of methods for rigging deals. In some cases, the broker helped the "winner" by simply excluding other bidders, who may or may not have been in on the scam. In one hilarious sequence that sounds like something out of a wiretap of a Little Italy social club, CDR executive Dani Naeh tells GE's Steve Goldberg that he's not sure he can guarantee a win on a bid for a New Jersey hospital bond. There were too many triple-A-rated companies interested in the bond, Naeh explains, and he couldn't control their bids the way he could those of the lesser, double-A-rated companies he usually did business with. "It would be easier for us to contact other providers who were rated double-A and ask them to submit an intentionally losing bid," Naeh testified. He sounded exactly like a mobster, talking about "our guys" and "our friends."

In some of the calls, jurors could hear the entirety of the dirty deals negotiated, including the bribe paid back to the broker. In one deal involving a bond for the Port of Oakland, California, Steve Goldberg of GE starts to ask his pal Stewart Wolmark of CDR what kind of kickback the broker wants for rigging the deal. Such conversations about payoffs were so commonplace that Wolmark doesn't even have to wait for Goldberg to finish the question:

GOLDBERG: What are we building in here for the...
WOLMARK: Swap.

In his testimony, Wolmark explained that he was asking for a swap deal in return for rigging the bid. "He wanted to know what we were going to get paid on the back end," Wolmark explained.

In the call, Wolmark and Goldberg start haggling over the price of CDR's kickback. Wolmark tells Goldberg he only wants what's fair. "Listen, I'm not a *chazzer*," Wolmark says.

Fans of the movie *Scarface* will remember Tony Montana's inspired translation of this Yiddish term: "Thas a pig that don' fly straight."

Wolmark reassures Goldberg that as pigs go, he's a straight flier. "You see the kind of mensch I am," he says.

Negotiations ensue. Goldberg tells Wolmark that he can pay him more on the bribe – the swap deal – if Wolmark can help GE save money on the Port of Oakland deal. "I'd like to see if we can pull a nickel out of that swap," Wolmark says. Translation: He wants to boost CDR's take on the kickback by five basis points.

"If I could get to the right level," Goldberg answers, referring to the Port of Oakland deal. Translation: Goldberg will help Wolmark get his "nickel" on the swap deal if Wolmark can help GE "get to the right level" on the bid.

3. THE POLITICIANS

The *Carollo* case provides far more than a detailed look at the mechanics and pervasiveness of bid rigging; it offers a clear and unvarnished blueprint of the architecture of American financial and political corruption. In an attempt to discredit the CDR witnesses, defense counsel hounded them about other revelations that surfaced in the government's investigation, particularly those that involved bribery, illegal campaign contributions and pay-for-play schemes.

The defense's cross-examinations were surreal. It was certainly true that some of the government's cooperating witnesses had dubious résumés, so it may have made sense to highlight their generally duplicitous history of tax evasion or lying to investigators. But in their zeal, defense counsel went far beyond simply discrediting the witnesses, spending an inordinate amount of time eliciting even more details about the grotesque corruption scheme their own clients had taken part in. The result was a rare and somewhat confusing spectacle: high-octane lawyers from Wall Street working to rip the lid off Wall Street corruption in open court.

Defense counsel showed us, for instance, how CDR employees were routinely directed by their boss, David Rubin, to make political contributions to select candidates, only to be reimbursed by Rubin for those contributions later on. This kind of corporate skirting of campaign finance limits is something we've always suspected goes on, but we rarely get to see direct evidence of it.

More interesting, though, were the stories about political payoffs. In 2001, CDR hired a consultant named Ron White, a Philadelphia bond attorney who happened to be the chief fundraiser for then-mayor John Street. CDR gave White two tickets to the 2003 Super Bowl in San Diego plus a limo – a gift worth $10,000. As his "guest," White took Corey Kemp, the city treasurer for Philadelphia, who, 16 days later, awarded CDR a $150,000 contract to advise the city on swap deals. But that wasn't the end of the gravy train: CDR doled out those swap deals to selected banks, who in return kicked back $515,000 to CDR for steering city business their way.

So a mere $10,000 bribe to a politician – a couple of Super Bowl tickets and a limo – scored CDR a total of $665,000 of the public's money. If you want to know why Wall Street has been enjoying record profits, here's your answer: Corruption is a business model that brings in $66 for every dollar you invest.

Even more startling was the way that a notorious incident involving former New Mexico governor and presidential candidate Bill Richardson resurfaced during the trial. Barack Obama, you may recall, had nominated Richardson to be commerce secretary – only to have the move blow up in his face when tales of Richardson accepting bribes began to make the rounds. Federal prosecutors never brought a case against

Richardson: In 2009, an inside source told the AP that the investigation had been "killed in Washington." Obama himself, after Richardson bowed out, praised the former governor as an "outstanding public servant."

Now, in the *Carollo* trial, defense counsel got Doug Goldberg, the CDR broker, to admit that his boss, Stewart Wolmark, had handed him an envelope containing a check for $25,000. The check was payable to none other than Moving America Forward – Bill Richardson's political action committee. Goldberg then went to a Richardson fundraiser and handed the politician the envelope. Richardson, pleased, told Goldberg, "Tell the big guy I'm going to hire you guys."

Goldberg admitted on the stand that he understood "the big guy" to mean Wolmark. After that came this amazing testimony:

Q: Soon after that, New Mexico hired CDR as its swap and GIC adviser on a $400 million deal, right?
A: Yes.
Q: You learned later that that check in that envelope was a check for $25,000, right?
A: Yes. I learned it later.
Q: You also learned later that CDR gave another $75,000 to Gov. Richardson, right?
A: Yes.
Q: CDR ended up making about a million dollars on this deal for those two checks?
A: Yes.
Q: In fact, New Mexico not only hired CDR, they hired another firm to do the actual work that they needed done?
A: For the fixed-income stuff, yes.

What we get from this is that CDR paid Bill Richardson $100,000 in contributions and got $1.5 million in public money in return. And not just $1.5 million, but $1.5 million for work they didn't even do – the state still had to hire another firm to do the actual job. Nice non-work, if you can get it.

To grasp the full insanity of these revelations, one must step back and consider all this information together: the bribes, yes, but also the industrywide, anti-competitive bid-rigging scheme. It turns into a kind of unbroken Möbius strip of corruption – the banks pay middlemen to rig auctions, the middlemen bribe politicians to win business, then the politicians choose the middlemen to run the auctions, leading right back to the banks bribing the middlemen to rig the bids.

When we allow Wall Street to continually raid the public cookie jar, we're not just enriching a bunch of petty executives (Wolmark's income in 2008, two years after he was busted in the FBI raid, was $2,464,210.18) – we're effectively creating an alternate government, one in which money lifted from the taxpayer's pocket through mob-style schemes turns into a kind of permanent shadow tax, used to maintain the corruption and keep the thieves in place. And that cuts right to the heart of what this case is all about. Wall Street is tired of making money by competing for business and weathering the vagaries of the market. What it wants instead is something more like the deal the government has – regularly collecting guaranteed taxes. What's crazy is that in order to justify that dream of regular, monopolistic tribute, they've begun to see themselves as a type of shadow government, watching out for the rest of us. Amazingly enough, this even became a defense at trial.

4. THE DEFENSE

There were times, sitting in the courtroom, when I wondered, *How did this case even go to trial?* What defense attorney would look at the thousands of recorded phone calls, the parade of cooperating witnesses, the stacks of falsified documents, and conclude that airing all of this in court was a smart play? Listening to tape after damning tape played in open court while the defendants cringed in a corner seemed increasingly like a gratuitous ass-kicking, one that any smart defense lawyer would have made a deal to avoid.

But as the weeks passed, I started to get a feel for the defense strategy, which made a kind of demented sense. The lawyers for Carollo, Goldberg and Grimm didn't even bother trying to argue the facts of the case. Instead, in one cross-examination after another, they kept hitting the same theme. Despite the fact that the rigged bids resulted in lower returns, wasn't it true that the cities and towns still received, technically speaking, the highest bid? If a town received a 5.00 percent return on a $219 million bond instead of 5.04 percent, who's to say that wasn't a good price?

John Siffert, the gray-faced and unlikable attorney for Steve Goldberg, put it this way in his cross-examination of CDR executive Stewart Wolmark. Asking about the Allegheny deal, he boomed: "Isn't it fair to say that you believed that by lowering... Steve's bid to 5 percent, Steve's bid was still a fair price to pay?"

Wolmark's answer was both quick and sensible: "I don't determine the fair price," he replied. "The market does." GE was supposed to pay the *highest* price the market would pay. It wasn't a competitive auction, as required by law.

But Siffert had made his point, and his rhetoric got right to the heart of the defense, which was going to center around the definition of the word "fair." The men and women who run these corrupt banks and brokerages genuinely believe that their relentless lying and cheating, and even their anti-competitive cartel-style scheming, are all legitimate market processes that lead to legitimate price discovery. In this lunatic worldview, the bidrigging scheme was a system that created fair returns for everyone. If a bunch of Pennsylvanians got a 5.00 percent return on their money instead of 5.04 percent, and GE and CDR just happened to split the extra .04 percent, that was a fair outcome, because that's what the parties negotiated. True, the Pennsylvanians had no idea about the extra .04 percent, and true, they had hired CDR precisely to make sure they got that extra 0.4 percent. But hey, it's not like they were complaining: Until someone told them they were being brazenly cheated, they were happy with their bond service. And besides, it's not like ordinary people understand this stuff anyway. So how is it the place of some busybody federal prosecutor to waltz in here and say what's a fair price?

Walter Timpone, who represented Carollo, tried to lay this outrageous load of balls on the jury using a faux-folksy analogy. "When your refrigerator breaks down, if you're not mechanically inclined, you're at the mercy of that repair person," he told the jury. "And if he repairs the refrigerator, makes it work well, charges you a fair price, you're likely to call on him again when the stove breaks." What he was essentially telling jurors was: This shit is complicated, so best just to leave it to the experts. Whether they're fixing a fridge or fixing a bond rate, they get to set the price, because we're all morons who are dependent on them to make our world work. Timpone, in his lawyerly way, was actually telling us an essential economic truth: *You're at the mercy of that repair person.*

This incredible defense, which the attorneys for all three defendants led with, perfectly expresses the awesome arrogance of the modern-day aristocrats who run our financial services sector. Corrupt or not, they built this financial infrastructure, and it's producing the prices they genuinely think are fair for us – and for them. And fair to them is the customer getting the absolute bare minimum, while they get instant millions for work they didn't do. Moreover – and this is the most important part – they believe they should get permanent protection from the ravages of the market, i.e., from one another's competition. Imagine Jack Nicholson on the witness stand, dressed in a repairman's uniform and tool belt. *Who's gonna fix those refrigerators? You? You, Lieutenant Weinberg? You can't handle the truth!*

That, ultimately, is what this case was about. Capitalism is a system for determining objective value. What these Wall Street criminals have created is an opposite system of value by fiat. Prices are not objectively determined by collisions of price information from all over the market, but instead are collectively negotiated in secret, then dictated from above.

"One of the biggest lies in capitalism," says Eliot Spitzer, "is that companies like competition. They don't. Nobody likes competition."

To the great credit of the jurors in the *Carollo* case, they didn't buy Wall Street's ludicrous defense. On May 11th, nearly a month after the trial began, they handed down convictions to all three defendants. Carollo, Goldberg and Grimm, who will be sentenced in October, face as many as five years in jail.

There are some who think that the government is limited in how many corruption cases it can bring against Wall Street, because juries can't understand the complexity of the financial schemes involved. But in *USA v. Carollo*, that turned out not to be true. "This verdict is proof of that," says Hausfeld, the antitrust attorney. "Juries can and do understand this material."

In the end, though, the conviction of a few bit players seems like far too puny a punishment, given that the bid rigging exposed in *Carollo* involved an entrenched system that affected major bond issues in every state in the nation. You find yourself thinking, *America's biggest banks ripped off the entire country, virtually every day, for more than a decade!* A truly commensurate penalty would be something like televised stonings of the top 10 executives of every guilty bank, or maybe the forcible resettlement of every banker and broker in Lower Manhattan to some uninhabited Andean wasteland... anything to address the systemic nature of the crime.

No such luck. Instead of anything resembling real censure, a few young executives got spanked, while the offending banks got off with slap-on-the-wrist fines and were allowed to retain their pre-eminent positions in the municipal bond market. Last year, the two leading recipients of public bond business, clocking in with more than $35 billion in bond issues apiece, were Chase and Bank of America – who combined had just paid more than $365 million in fines for their role in the mass bid rigging. Get busted for welfare fraud even once in America, and good luck getting so much as a food stamp ever again. Get caught rigging interest rates in 50 states, and the government goes right on handing you billions of dollars in public contracts.

Over the years, many in the public have become numb to news of financial corruption, partly because too many of these stories involve banker-on-banker crime. The notorious Abacus deal involving Goldman Sachs, for instance, involved a hedge-fund billionaire ripping off a couple of European banks – who cares? But the bid-rigging scandal laid bare in *USA v. Carollo* is a totally different animal. This is the world's biggest banks stealing money that would otherwise have gone toward textbooks and medicine and housing for ordinary Americans, and turning the cash into sports cars and bonuses for the already rich. It's the equivalent of robbing a charity or a church fund to pay for lap dances.

Who ultimately loses in these deals? Well, to take just one example, the New Jersey Health Care Facilities Finance Authority, the agency that issues bonds for the state's hospitals, had their interest rates rigged by the *Carollo* defendants on $17 million in bonds. Since then, more than a dozen New Jersey hospitals have closed, mostly in poor neighborhoods.

As *Carollo* showed us, in open court, this is what Wall Street learned from the Mafia: how to reach into the penny jars of dying hospitals and schools and transform their desperation and civic panic into fat year-end bonuses and the occasional "big lunch." Unlike the Mafia, though, they were smart enough to do their dirt without anyone noticing for a very long time, which is what defense counsel in this case were talking about when they argued that towns and cities "were not harmed" by the rigged bids. No harm, to them, means no *visible* harm, i.e., that what taxpayers didn't know couldn't hurt them. This is logical thinking, to the sociopath – like saying it's not infidelity if your wife never finds out. But we did find out, and the scale of betrayal unveiled in *Carollo* was epic. It was like finding out your husband didn't just cheat, but had a frequent-flier account with every brothel in North America for the past 10 years. At least now we know how bad it was. The trick is to find a way to make the cheaters pay.

Editor's Note: Due to a mislabeling in the court transcript, we misidentified the attorney who used the refrigerator analogy in his opening statement. The online version of the story has been corrected.

This story is from the July 5th, 2012 issue of Rolling Stone.

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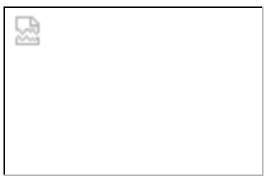
- 

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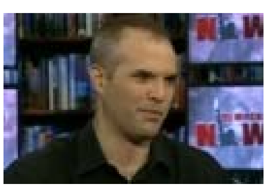
- 

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