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The misguided CEO blame game

By Harlan Protass
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If the most recent string of financial scandals has taught us anything, it's that some guy in a suit is going to end up behind bars whenever Main Street loses on Wall Street. Just ask Charles Keating, Michael Milken, Jeffrey Skilling or Bernard Ebbers. The fallout from the ongoing market meltdown is shaping up no differently.

The public wants heads, and pressure is building to hold top-level executives accountable for the crisis that has crippled the nation's financial system and will cost taxpayers billions. In the last two weeks alone, federal investigators have opened probes into four companies at the epicenter of the current financial debacle—Fannie Mae, Freddie Mac, Lehman Brothers and American International Group. And a series of former chief executive officers and senior executives from the nation's fallen financial giants have been dragged before Congress for unseemly "show-trials."

But even if we start seeing CEO perp walks on the evening news, the burgeoning credit crisis will not abate, moribund home values will not rise, foreclosure rates will not slow and the economic woes that many Americans are experiencing will not be alleviated. Why? Because what these executives are accused of doing —essentially garden-variety fraud—has little, if anything, to do with the root causes of the current economic mess.

Take, for example, Lehman Brothers. Reports surfaced last week that federal prosecutors in Brooklyn, N.Y., are probing whether its executives misrepresented the firm's financial condition through misleadingly upbeat comments during conference calls with analysts and investors. Similarly, investigators in Manhattan are reportedly examining whether the firm valued its assets at artificially high levels, focusing on what investors were told about valuations for approximately $32.6 billion in commercial real estate holdings.

Or look at AIG. Lawmakers grilled its former senior management for having told investors that the company was “confident in our marks and the reasonableness of our valuation methods” just days after being told by outside auditors that the insurance giant “could have a material weakness” in those areas. The same could be said about Bear Stearns. Its former CEO has been rightfully lambasted for assuring investors that its “liquidity position has not changed at all” and that its “balance sheet has not weakened at all” just days before it collapsed in March. Likewise, in September, Wachovia Corp.’s former CEO said that the bank has “a great future as an independent company,” and that it is “focused on very exciting prospects when we get things right going forward.” Two weeks later it was priced for sale at a fraction of its value on the day those statements were made.

Did these executives commit crimes? Maybe. Lying to the investing public is a serious offense. It cannot be countenanced lest the public lose confidence in the markets’ integrity. Are they facing potentially lengthy prison terms? You don’t even want to know.

But they are not to blame for the genesis of the problems in the economy today. Rather, that responsibility lies primarily with the housing developers, lenders, brokers, real estate agents and appraisers targeted in the FBI’s more than 1,400 ongoing mortgage-fraud investigations. They’re the ones who exploited vulnerabilities in the mortgage-loan system for their own gain. They laid the groundwork of the subprime mortgage mess responsible for triggering today’s escalating credit crisis. After all, the conduct for which these Wall Street executives are being scrutinized happened largely after the financial turmoil was already in full swing. That their firms sowed the seeds of their own demise by leveraging themselves to the hilt and taking on exceedingly risky investments is really nothing more than very bad business

judgment, albeit on a massive scale.

As the stock market continues its dizzying decline and the taxpayer tab for the fix continues to rise, it’s perfectly natural to look for someone to blame. For better or worse, that’s what our society does. And smartly dressed, smooth talking Wall Street types sure make juicy targets. But going after CEOs is nothing more than a clever deception designed to trick the American public into believing that the government has identified the culprits responsible for their economic woes and is doing something about it.

Don’t believe the hype, though—there’s plenty of blame to go around.

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