IS THE MADOFF SCANDAL PARADIGMATIC?

Too Good to Be True
Erin V. Arvedlund
New York, NY: Portfolio/Penguin, 2009

Betrayal
Andrew Kirtzman
New York, NY: Harper, 2009

No One Would Listen
Harry Markopolos
New York: Wiley, 2010

Madoff With The Money
Jerry Oppenheimer
New York: Wiley 2009

The Madoff Chronicles
Brian Ross
New York, NY: Hyperion, 2009

Catastrophe
Deborah and Gerald Strober
Beverly Hills, CA: Phoenix Books, 2009

Madoff's Other Secret
Sheryl Weinstein
New York, NY: St Martin's Press, 2009

Reviewed by John Graham and Kevin MacDonald

Initially Bernard Madoff's record-breaking $65 billion Ponzi scheme was reported in terms of how much harm he had done fellow Jews. Subsequently discussion focused on the ineptitude of the Securities and Exchange Commission in not detecting and shutting down this fraud much earlier.

We contend here that the now extensive literature reveals that the Madoff phenomenon was in fact a massive shift of resources from non-Jews to Jews. Prime beneficiaries extended beyond the Madoff family to a number of other members of the Jewish elite. The scam utilized familiar Jewish social traits to reach the size it did. Far from being protected by SEC ineptitude, it was Madoff's perceived position as part of the Jewish Establishment that put him beyond the law — by intimidating the SEC. This was accentuated by traditional Jewish inhibitions on reporting Jewish criminality. We suggest that Madoff's self-destructive as well as socially damaging behavior stemmed *ultimately from the conditionality inherent in the Jewish attitude to society at large — and is not unique to him.*

* * *

In December 2008 the astonishing news broke of Bernard Madoff's immense Ponzi scheme — the biggest in history, apparently, with a notional value approaching $65 Billion. This was very rapidly followed by **loud complaints** by prominent Jewish leaders such as the Anti-Defamation League's **Abe Foxman** and the American Jewish Committee's **David Harris**, to the effect that the media coverage of this scandal was facilitating anti-Semitism by repeatedly noting that Madoff is Jewish.

To the uninvolved observer, these claims appeared paranoid. The news channels were choked with pitiful and chilling stories of elderly Jews discovering they had been flung into destitution by Madoff, and of Jewish Charities reeling from the blows he had struck them. The well-known among the victims — such as Stephen Spielberg, Mort Zuckerman, and New Jersey Senator Frank Lautenberg's family — seemed invariably Jewish. Initially the presence of non-Jewish victims was not very apparent. The obvious question was: *How could someone do this to his own people*? That question could not be asked without acknowledging Madoff's ethnicity.

For most, probably, the conclusion will have been that this event resembled the depressing procession of stories about clergymen of every creed being involved in pedophilia. Society generates these positions involving trust and power, and from time to time they get occupied by perverts who abuse them.

Subsequently, much fascinating detail has come to light, including the seven books cited above. We suggest here that the Madoff affair does in fact offer important lessons as to the nature of the Jewish community, its relationship with the non-Jewish community, and its influence on Public Policy.

The Madoff facts need to be established.

- Madoff founded Bernard L. Madoff Investment Securities right out of Hofstra College (later University), in November 1960. He focused on dealing in the shares of small firms, not listed on any Exchange — "Over-the-Counter" or "Pink Sheet" stocks (the latter from the color of the daily publication which listed the broker-dealers willing to quote prices in particular equities over the phone). In 1971 a computerized communications network was established which made the quoted prices easily visible (NASDAQ). This evolved through several phases to the point at which it is now arguably as efficient a marketplace as any. Bernard Madoff was in the thick of this development, serving on many industry bodies including as Chairman of NASDAQ itself. In the late 70s Madoff began offering competitive markets in stocks listed on the New York Stock Exchange (which he never joined). By 1989 Arvedlund (45) reports Madoff's firm was handing 5% of the NYSE volume (others say it reached as high as 10% [Weinstein, 166]). In 2002 there was talk of it being worth $1 billion (Kirtzman, 131).

- This firm was a genuine business and a considerable technological achievement. There seems to be no evidence that the many non-family professionals employed there ever had any inkling that the investment side of the business was a fraud. It also provided perfect cover.

- As soon as he was able, Madoff began taking in "discretionary" accounts from the public. These are accounts where the broker is authorized to act without first consulting the client. Initially, funds were attracted by promising high returns, but in the later years the pitch was fairly modest returns with a very high degree of confidence ("low volatility" — the "Jewish T Bill"). From raising money among New York-area relatives and friends, he moved on to using agents to tap the wealthy across the country. Ultimately, over the last two decades, Madoff was able to use some of the professional fund-allocating operations which have developed with the hedge fund boom ("**Funds of Funds**"). Unlike the previous contributors, many of the owners of this money were not American and not Jewish.

- This operation may well have been a fraud right from the start. There is no evidence of trades for the investors for many years. The long number of years involved and the power of compounding means that many of the accounts were bloated with fictitious profits. Some suggest that something around $20 Billion may have been paid in over the years, of which a good deal was paid out, so that most of the $65 Billion investors thought they had at the end was fantasy.

- Madoff's claimed returns were intrinsically implausible, and in later years numerous investment professionals believed that his activities were fraudulent. This point of view was repeatedly and forcefully brought to the attention of the SEC, in particular by a Boston-based analyst, Harry Markopolos. In a fascinating response, in 2006 the agency finally launched an investigation which scrupulously ignored the investment operation and in November 2007 "found no evidence of fraud" (Arvedlund, 217). Why this absurdity happened is the Public Policy question addressed in this essay.

TRANSFERRING WEALTH FROM NON-JEWS TO JEWS

From a sociobiological point of view, the first thing to grasp about the Madoff phenomenon is that it was a large scale transfer of wealth from non-Jews to Jews. This is because of the shift in the Ponzi scheme funding basis at the beginning of the 1990s. The big professional fund raisers (and consequently the biggest creditors) entered then or later: Fairfield-Greenwich ($7.9B), Banco Santander ($3B), Banco Medici ($2.1B), Access International ($1.4B), Tremont/Rye/Kingate ($5.8B) and others. Arvedlund (142) reports these outfits in aggregate were owed some $20 Billion; because of their comparatively late entry and accelerating contributions, a much higher proportion of this loss would represent real cash invested. In addition, the $659 million the Securities Investor Protection Corporation (SIPC) has paid out to Madoff account owners should be included — the SIPC is funded by its member broker-dealers, and so ultimately by its customers.

Fairfield-Greenwich and Access International were focused on the ultra wealthy jet-set/titled European crowd, but most of the other European conduits accessed the general European public. Some Jewish money may have been added via Bank Medici, the Vienna-based vehicle established by one-time US resident and Orthodox Jewess Sonja Kohn, who is rumored to have brought in some Russian Oligarchs (as a result of which she is now in hiding). But even here, via complex arrangements with various banks, the main contributions came from the general public in Europe.

Markopolos asserts that the European losses were **"**substantially more than losses in the United States**"** (114). His book has among its illustrations a charming two-page map detailing the location of the 255 foreign funds of funds in over 40 countries who were Madoffed.

This has effectively put the early investors with Madoff in a strange position. Over the past 20 years, as Kirtzman (140) notes: **"**Hundreds of Bernie Madoff's investors were retiring early, moving into bigger houses, on the money they made**"** Whatever else Madoff may thought about his large entourage of elderly early small investors and their descendents, as Kirtzman says, he could **take the view** that **"**he was taking care of all of them in their old age**"** (251).

It is simply a fact that many people lived very well for many years from the proceeds of Madoff's depredations.

This is not to suggest that they had the faintest idea their life styles were in any sense illegitimate and were rooted in fraud. Nor does it mitigate the appalling shock they went through in late 2008, discovering that their Guardian Angel had devoured them. And while the Trustee may have legal logic behind his stance that no recoveries can be obtained in the many cases (reported as **over 83%** of the direct Madoff Securities accounts) where cash withdrawals exceed the amount paid in, had their money been honestly invested, most could have expected substantial gains, given the securities markets of the last generation. So they have enormous opportunity losses and very real grievances.

But, nevertheless, they were beneficiaries too.

THE JEWISH ETHNIC NEXUS THAT ENABLED MADOFF'S FRAUD

Several writers have discussed the arresting idea that the genetic mutations which supply Ashkenazi Jews with their high intelligence are also those which cause the ravaging of this group with cruel and lethal ailments such as Tay-Sachs and Gaucher's disease (see **here**, **here**, and **here**). Bernard Madoff was like a Tay-Sachs occurrence within the Jewish community: The characteristics which make them such formidable competitors for resources also rendered them pathetically vulnerable to a Madoff.

Most salient of these was the practice among this otherwise skeptical and independent community to coalesce around rabbinical/guru figures, who are treated virtually as gods, revered, unquestioned, and fiercely defended. Obvious examples are found to this day among the Hasidim. Kevin MacDonald has demonstrated in ***The Culture of Critique*** how this pattern imposed itself on Western intellectual life, as seen in the rise of Freudianism, Boasian Anthropology, and the Frankfort School, among others, all equipped with their prophet. "Flying wedge" tactics and conscious intra-group loyalty has made this characteristic exceptionally valuable in seizing control of professional entities such as university departments from the disorganized and atomistic non-Jews.

To many, Madoff was such a deity. "He was like a God" Kirtzman quotes professional Holocaust victim Elie Wiesel saying of Madoff (96). (Wiesel lost most of his savings and his foundation's endowment to Madoff.) **"**There was a myth that he created around him. That everything was so special, so unique**"** (Kirtzman, 96). Oppenheimer reports a member of an extended family long involved with and heavily damaged by Madoff saying that they **"**regarded Bernie like a messiah. He was spoken of as if godlike**"** (93). The accounts of the stir he created attending Jewish gatherings are almost comic: **"**He was received like visiting royalty, mysterious and unapproachable**"** (Kirtzman, 89).

The consequence was an extremely useful suspension of disbelief.

Infatuations of this type are rare among whites generally, and usually mild and fleeting. This makes them more difficult to organize — but less vulnerable to a Madoff.

A consequence of this ethnocentric infatuation was that would-be whistle-blowers were subject to savage attack, if they were not simply tuned out. **Laura Goldman**, an investment advisor now resident in Israel, had come to negative conclusions about Madoff and liquidated her own exposure to him. The Strobers relate how when in 2001 both *Barrons* and the trade publication *MAR/Hedge* published stories (**here** and **here**) insinuating Madoff's returns were incredible, she mailed copies to contacts in Palm Beach (where the ultra-wealthy Jewish community had become a major funding source for Madoff): "They said that the publications were anti-Semitic — that Jews have more faith in Bernie Madoff than they do in God" (81).

In her own book, the author of the *Barrons* article (Arvedlund) reports that as a result of her efforts Goldman "was promptly accused of being anti-Semitic by Palm Beach residents… "And I live in Israel!" she noted" (252). This response is a factor to remember when we consider the behavior of the SEC. (The author of the *MAR/Hedge* article, Michael Ocrant, is Jewish.)

Until quite late in the history of his fraud, Madoff relied on drawing in funds from (wealthier and wealthier) individuals. Mechanically, this was a remarkable achievement. A value in the Madoff literature is the documentation it supplies on the characteristic group loyalty from which Madoff benefitted. Kirtzman notes:

> **He was a member of the tribe. Jews of his generation were brought up to think of other Jews as extended family members, with a shared**

> **responsibility to look out for one another. They felt more comfortable going to Jewish doctors, Jewish lawyers, Jewish accountants. Madoff became known as “the Jewish T-bill.” (73–74)**

Kirtzman quotes from a contemporary from Laurelton, Madoff’s home district of Queens:

> **The Jewish world was very tight and highly networked. … Everything was done through “the phone call”. My brother wanted to go into retailing, so a call was made to Mr. Temona on the board of Lerners. I wanted to transfer to NYU and live in one dorm: a call was made to Professor Levine. (74)**

Of course, from the point of view of a non-Jew, this kind of cohesive efficiency makes the Jews lethal competitors in the zero-sum struggle for resources. In the case of Madoff, however, the efficiency turned out to enable the fraud to spread more widely and to be more damaging to the Jewish community itself.

Other characteristics of his victims tended to amplify the Madoff damage. As a broker, rather than a hedge fund, he supplied his clients with pages and pages of transaction history — all fabricated — rather than an overview. Over the years, thousands of hours were evidently sunk by his clients into going through these statements looking for errors — Sheryl Weinstein, the CFO of Hadassah had an assistant committed to the task (Weinstein, 97). A good deal of fanatical seriousness about the investments was thus sublimated. The modest, low double-digit but extremely reliable returns offered in later years were accurately pitched to rational and careful investors. And, sadly, it has to be said that the attitude many brought to middle age from their upbringing increased their vulnerability. As Kirtzman’s Laurelton informant said of her and Madoff’s hometown, “The more money, the better your things…The more money, the more esteem. The more money, the more people looked up to you” (27) — a revealing comment on the importance of financial success within the Jewish community. Like Weinstein, many long-standing Madoff clients refinanced their homes in the easy credit conditions of recent years to maximize their Madoff investments. Many apparently had virtually all their liquidity with Madoff — hence the tales of desperate sales of jewelry in Palm Beach after the arrest.

This passionate intensity about money has worked well historically — but in the Madoff situation, it led to utter disaster.

So did lack of scruple. Kirtzman recounts how a Palm Beach Madoff client, dubious about Madoff’s success, asked his accountant in the early 90s to investigate. The accountant concluded that Madoff was most likely doing something fraudulent, probably front-running (trading ahead of client orders). The client’s response: “I don’t want to hear anything about it” (Kirtzman, 75–77). Clearly, many Madoff accounts thought they were safely benefitting from illegal activity — and did not care.

Jewish networking was also crucial, perhaps ironically, to the Madoff financial Black Hole spreading beyond the Jewish community. Fairfield-Greenwich Group, the biggest funds allocator caught by the implosion, is generally presented as haute WASP because of founder Walter Noel's social image: but FGG was brought to Madoff by Noel's partner Jeffrey Tucker, who is Jewish. Arvedlund suggests Tucker met Madoff via his in-laws the Schneiders of Allentown, Pennsylvania, wealthy garment manufacturers (114). Similarly, she says, access to the US annuity product and general hedge fund market came through Tremont Capital Management and its affiliate Rye Investment Management, run by Sandra Manzke and Bob Schulman (83–84). Manzke had other similar interests, one of which, Kingate Global, brought in wealthy Italian families. And also in Europe, besides Sonja Kohn of the imaginatively-named "Bank Medici" already mentioned (Arvedlund, 129–137), there was Union Bancaire Privee and the Safra Banking group run by Edgar de Picciotto and Edmond Safra. Arvedlund says:

> **De Picciotto and Safra shared similar backgrounds. They were both Sephardic Jews…and…more than just bankers — they were gatekeepers to billions…Once these men had signed off on someone, … the rest of the Swiss banking world would line up to invest, practically without question. (139–140)**

What Kirtzman sneeringly describes as "the princes and princesses, dukes and duchesses" (254) who invested with Madoff through FFG and Access International (the founder of which, Rene-Thierry Magnon de la Villehuchet, actually was a French nobleman) and the other members of the "Swiss banking world" who trusted Madoff's prestigious endorsements were in fact following the old European tradition of the **court Jew** — "a general financial confidant of a territorial sovereign" (see **here**, p. 102; see also **here**). For centuries it was customary for aristocratic landowners, particularly in Eastern Europe, to delegate the task of managing the businesses operations on their estates to Jews, sometimes using the same families for generations. Similarly, throughout German-speaking areas, court Jews typically managed the financial affairs of the nobility, provisioned the military, arranged for loans through Jewish banking families and collected revenues in the form of taxes. Using a Madoff to manage their interests on America's financial steppes and interface with the barbarous Americans was quite consistent with the long-standing behavior pattern of this social group.

Arvedlund notes that the European capital FGG attracted was of a type known in the hedge fund world as "dumb money" because of its herding habits (117). Of all the feeder fund leaders involved with Madoff, only Magnon de la Villehuchet has committed suicide. Bertrand de la Villehuchet commented, "Madoff wouldn't understand the reaction of my brother. It was…honor, a word that's not in his vocabulary" (Ross, 160–161).

Another pattern noted by MacDonald in **his study** of Jewish social organization is a structural tendency towards the enrichment of its elite. Wealth tended to flow upward within the Jewish community to the upper, scholarly, rabbinical class.[1] While these groupings can be plausibly argued to promote the overall interests of the Jewish

[1] Good marriages and business opportunities flowed to individuals with scholarly ability. However, wealthy individuals were also expected to contribute to communal charity for the less able, although indolence was not tolerated.

community as a whole, they also involve heavy transfers of resources within the community from the mass of Jews to a self-selected few — the Rabbinate, in the case of traditional society.

This was dramatically so in the case of the Madoff operation. Health Care entrepreneur Jeffrey Picower holds the prize: Arvedlund reports he and his family over many years withdrew "at least" $5.1 billion of phantom profits as part of a total of $6.7 billion of disbursements (237) (more recently the Madoff Trustee has **claimed $7.2 billion**). According to Oppenheimer, West Coast "money manager" Stanley Chais and his family are accused **by the SEC** of pulling out $500 million more than they ever put into Madoff themselves (77–78). (Chais did not tell his clients he was simply placing their money — some $1 billion — with Madoff.) Both Picower and Chais notionally had access to these funds partly because of extraordinarily high un-Madoff-like returns which conveniently appeared in their personal accounts. They also apparently were able to use their Madoff accounts to generate fake tax losses when needed.

The late Norman F. Levy, a New York real estate mogul who died in 1995, is a particularly colorful case. A long time intimate of Madoff's, he was, according to Kirtzman for some prolonged time getting a daily visit from a Madoff driver carrying a check "usually for millions of dollars. Every now and then they'd be for tens of millions." What kind of legitimate transaction necessitated this is hard to see. As Kirtzman says, "it's…plausible that Bernie was using his friend's bank account to park stolen money" (126–127). (In January, 2010 Levy's daughters **agreed to pay** $220 Million to the Madoff liquidator to settle his claims against "the family and its entities.")

On October 25, 2009 Jeffrey Picower drowned in his Florida swimming pool after a heart attack. This is eerily similar to the 1991 drowning death of **Robert Maxwell**, the Ruthenian-born Jew and UK publishing entrepreneur, who was shortly afterwards discovered to have looted the pension funds of his public companies of hundreds of millions of pounds.[2] As the result of his death, the investigation into Picower's activities is likely to be crippled. (Recent **reports** suggest the Picower estate is getting ready to pay the Madoff trustee $2 billion or more to settle.)

Whether **Ezra Merkin**, the long-time President of the socially elite **Fifth Avenue Synagogue,** was a member of this small circle of massive Madoff beneficiaries is no doubt a question of considerable interest to his fellow congregants. They are reported to have $2B of exposure to Madoff, much of it through Merkin's hedge funds. Kirtzman reports that Merkin had $2.4B of his client's money with Madoff — including that of 30 Jewish charities — but "Of the $470 million in fees he earned from Madoff, Merkin allegedly invested just $9 million back" (Kirtzman, 98).

If not an "insider," Merkin would belong to a group that immediately came under fire in the aftermath of the collapse — the fundraisers. Besides the professional operations

[2] "**Robert Maxwell**." *Ketupa.net: A Media Industry Resource.* The report begins, "Robert Maxwell, aka the Bouncing Czech, demonstrated that you can have a lot of fun in publishing ... especially if you are using other people's money and are not inhibited by ethics or concern about legality."

mentioned previously, these included a number of individuals like Robert Jaffe of Palm Beach and the late "Mike" Engler of Minneapolis-St Paul who in Kirtzman's words

> **were usually prominent members of the Jewish community, working out of exclusive country clubs. While investors thought they were just friends…they were actually getting a percentage of the business. (89)**

Because the apparent inside beneficiaries generally controlled substantial charities which reported large losses to Madoff, they initially escaped much of the opprobrium directed at the money raisers. Possibly the concept of a rogue being a large charitable donor is counterintuitive. But in principle there is no reason why a rogue would not fund charities. Being a philanthropist is in a sense a luxury good and a status symbol — a public marker of having arrived, particularly within the Jewish community.

JEWISH ETHNIC NETWORKING PROPS UP MADOFF'S FRAUD

A remarkable fact that emerges from surveying the literature on Madoff was how widespread the belief was within the professional investment community that the Madoff operation was crooked. This opinion was spread far beyond the saga's whistle-blowing hero, Harry Markopolos who noted, "The industry knew, there's no question about that" (176) and his friends, about whom more later.

There were two Madoff theories. One was that intelligence derived from watching the firm's order flow to its large trading operations gave the investment activity a crucial advantage (Graham remembers being told this — by an ultimate victim — more than 25 years ago.) If true, this would be front-running (taking advantage of a client's business) and quite illegal. Concern about being exploited in this manner was doubtless why, according to Ross, such big brokerage firms as Merrill Lynch, Goldman Sachs and Morgan Stanley would not do business with Madoff Securities (80).

As it happens, this theory was wrong. Since Madoff did not trade for his investment clients, he did not need this type of inside information. So the SEC was quite safe to focus on this question in its final investigation of 2006–7.

The other theory was that the Madoff Investment arm was crooked because it was to some degree at least a Ponzi scheme. Options specialists were led to this conclusion by realizing that Madoff's alleged "Collar" or "Split strike" activities

- could not be replicated to produce the results he claimed.
- needed to be conducted on an impossibly large scale to accommodate the size of money Madoff was employing.
- mysteriously left no trace at all in the close-knit world of options dealing.

This view was apparently widely held. The Strobers report the above-mentioned David Harris of the American Jewish Committee saying after the arrest

the Madoff name had come up here in the AJC's investment committee some months ago when someone suggested we ought to explore investing … with Madoff. And the chairman of our investment committee actually said, "No, I think it's a Ponzi scheme." He actually used *those words* to the ten or fifteen people in the meeting. (42)

Arvedlund reports an account by Harry Markopolos of a meeting with Leon Gross, Citigroup's global head of equity derivatives. Gross told him that "Bernie is a fraud and there's no way his purported stock and options strategy can possibly beat Treasury bill returns. [Gross] also can't believe the guy hasn't been exposed yet" (218).

The famed Jewish co-founder of the Odyssey Partners hedge fund, the late **Jack Nash**, and his son, Joshua, seem to have had a hobby of denouncing Madoff. Jack Nash liquidated a less-than-two-year investment with Madoff in the early 90s after his son reviewed the Madoff statements and smelled a rat. Arvedlund reports they repeatedly told Ezra Merkin this over several years, to no avail (258–259).

Wall Street, of course, is an environment which encourages intense and exclusive concentration on one's immediate financial activity. Furthermore, challenging Madoff was predictably dangerous. Arvedlund reports a meeting between the head of Lehman Brother's alternative investment division and Merkin:

The Lehman guy fired first.

"C'mon, Ezra. You know what's behind Madoff's operation, don't you? Don't act like you don't" he said.

Merkin and the man nearly got into a fistfight … and Merkin left Lehman Brothers in a huff. Not long after…the man at Lehman Brothers lost his job. (98)

Sheryl Weinstein, CFO of Hadassah (**The Women's Zionist Organization of Amerca**) when it invested with Madoff, has a similarly informative story. In 1995, after several years of Madoff managing money for the "Women's Zionist Organization of America," new members of the investment committee became restless. "They were implying that maybe Bernie's methods weren't quite kosher" (166). A meeting was held in which Madoff succeeded in pacifying the all the board members except one, who apparently himself ran some Hadassah capital.

He later tested Bernie's investment technique with some of Hadassah's money. With results in hand, he told the board he could not replicate Bernie's rate of returns.

The board's response was to *stop using him* (Weinstein, 168–169) — not because his performance in his own style of investing was poor, but apparently for having the temerity to question this lion of the Jewish Establishment, Bernard Madoff.

(Hadassah's case **illustrates** the arithmetic of long-time Madoff investors. The charity invested some $40 million in the late 80s and early 90s. It withdrew a total $130 million and thought it had $90 million when the end came.)

With so many prominent Jewish investment industry figures apparently aware that something was wrong with Madoff, the question arises: Why did they not turn him in? After all, a big scandal raising doubts about the integrity of independent investment advisors would be bad for everyone's business, Jew or non-Jew (as it indeed proved to be). Because of Madoff's high-level social-networking fund-raising techniques, many must have been aware that a great many fellow Jews were likely to be vulnerable (one third of the elite Jewish Palm Beach Country Club are reported to have been Madoff investors (Kirtzman, 245). Some might even have thought such a scandal would best be headed off by the Jews themselves for the sake of their community. (David Harris and the Investment Committee of the American Jewish Committee could also have taken this line — but they did not.) Furthermore, the standing of some of these men was such that action by them would have necessitated a serious response by the authorities.

MacDonald **has demonstrated** that group strategies forged in the stressful climate of Medieval Europe continue to be highly influential in determining modern Jewish social behavior. For centuries, it was absolutely forbidden to tell the Civil Authorities about law-breaking by a fellow Jew, an offence known as ***Mesirah*** (informing). Some took the view that informing should be punishable by death. The concept of mesirah is **alive** and **well** amongst strongly traditional Jewish communities to this day — for example recently, in **the community of Syrian Jews centered in Brooklyn** where a prominent rabbi renounced his son after the son had informed on illegal financial activities within the community. A perusal of their web sites suggests that while there is some thought that, in the modern environment, informing about crimes of violence might be permissible, for other "lesser" offences (such as financial wrongdoing) it is still forbidden. There seems to be no concept that it might actually be a citizen's *duty* to report criminal behavior.

HARRY MARKOPOLOS EXPOSES CORRUPTION IN HIGH PLACES

Deeply ingrained traditions fade slowly. The clear message of the facts of the Madoff scandal is that Americans generally cannot rely on American Jews to halt financial fraud by someone who is Jewish.

There was, however, a group who simply could not have tried harder to secure action by the authorities on Madoff. The fate of their efforts opens the most important public policy matter pertaining to the Madoff story.

Professional competiveness was what drove Harry Markopolos, a Boston-based options expert, to challenge Madoff. In 1999, he was asked by his employer, which managed options strategies similar to those claimed by Madoff, to figure out how Madoff was getting consistently superior returns. Within hours he decided that the Madoff claims were fraudulent.

Gathering around him an informal group of like-minded professionals, Markopolos spent most of the next decade trying to get the Securities and Exchange Commission to act. Numerous meetings with different officials as well as providing extensive documentation and apparently scores of phone calls and emails produced almost no response. Finally in November 2005 Markopolos submitted a report titled “The World’s Largest Hedge Fund is a Fraud” (on line **here** [PDF]).

This 19-page document is a nuclear bomb. No one even slightly used to reviewing serious discussions of complex matters could fail to see that it is written by an expert, very carefully thought out, and devastatingly cogent. (Kirtzman — who appears to dislike Markopolos — is quite wrong to describe it as “a dense, rambling thicket … of mathematical formulas, and Wall Street jargon” [197].) One would have thought anyone in the line of responsibility for regulating Madoff would have been absolutely terrified.

The SEC did act. As noted above, in 2006 an investigation was launched. Markopolos was not consulted in any way and Arvedlund quotes a former SEC staff member:

> **When you look at the closing documents, it seems clear that the Markopolos allegations of Madoff being a Ponzi scheme were never even investigated. (216–217)**

In the end the SEC paid itself a kind of fee by demanding that Madoff register as an investment advisor, and in November 2007 terminated the probe — barely a year before the collapse.

What happened?

It has to be said that the SEC compliance operation has evolved into a classical **rent-seeking** bureaucratic monster, happily and expensively papering files in cooperation with a symbiotic tribe of functionaries inside investment operations and their law firms. A parasite, it is not designed to actually *do* anything substantive.

Furthermore, dark suspicions are increasingly common that large targets are exempt. Arvedlund quotes Markopolos recounting the remarks of a former SEC official: “The SEC is bureaucratic and political and turns down slam-dunk cases all too often” (199).

But the Madoff case was obviously enormous and the SEC had been presented with a very concrete and serious accusation — which was not difficult to test. And this was only the last and most elaborate of a series of investigations which inexplicably stopped (Ross, 34).

Now it is true that Madoff had ingratiated himself deeply with the SEC. And he was prominent: already he had served 2 terms as NASDAQ chairman. Quite possibly this explains the very odd lack of interest the SEC showed in the Madoff investment management activity after having shut down, in 1992, the unregistered fund-raising operation — exclusively for Madoff — run by the accounting firm of Avellino & Bienes. Over the previous 30 years, this outfit had developed into being Madoff’s main funding source. Ross says:

> **According to a person involved with the firm at the time, SEC investigators were looking into allegations that Avellino & Bienes were involved in a Ponzi scheme. The investigators discovered that Madoff was handling the investments … but they did not or would not connect the dots that would have exposed Madoff's role as the true master of the scheme. (134)**

Instead, the SEC allowed A&B investors to switch their funds to Madoff Securities directly — rendering nugatory the settlement which required the pool to be returned to the investors.

In the 80s and early 90s, Bernard Madoff was popular with the SEC because of the central role his firm was playing in automating stock trading and competing with the New York Stock Exchange. But by the late 2000s, that was ancient history. Furthermore, the SEC had almost ten years of presentations from Harry Markopolos to consider — and, Markopolos reveals, tips from others too. The scale of the matter was of the first magnitude. Why was there no effective action?

We submit that the answer to this question is **the same** as to why America is engaged in an unpopular war with the Muslim world with no Congressional dissidence, and why **nation-breaking immigration** continues — in the midst of recession — with only a little more dissent — and that after the topic had been virtually driven out of public debate for several years. The Bernard Madoff matter was one about which a significant segment of Jewish America cared very much — some for financial reasons, others, perhaps, because of community pride and loyalty. Challenging this group was well known to be extremely dangerous. As in other matters, they awarded themselves a veto, and they used it — as it happened in this case, to their cost. All in all, the Madoff affair and the cover-up is another indication of Jewish power in America.

An insight into this process arose during the 2006–7 SEC investigation. Harry Markopolos, accurately sensing a cover-up, contacted John Wilke, a *Wall Street Journal* investigative reporter with an exceptionally fine record. Kirtzman reports:

> **With characteristic overkill, Markopolos bombarded the reporter with documents, contacts, questions for him to ask ….**
>
> **But the *Journal* never did investigate Madoff. Markopolos believed it was the fault of "senior editors" at the *Journal* who "respected and feared" Madoff. (208)**

Sadly, Wilke died on May 1st 2009 at 54, of pancreatic cancer. Oppenheimer reports the then *WSJ* Managing Editor, Paul Steiger, flatly denying having heard of the approach (157). Steiger now heads the heavily Jewish **Propublica Foundation**, set up by Herb and Marion Sandler who sold their Golden West mortgage operation to Wachovia Bank with ruinous consequences for the latter. Ironically, Propublica, established to promote investigative journalism, has done some valuable work on the Madoff story, particularly the **Picower angle** (although nothing recently).

In his book, Markopolos reveals that he actually met with and had extensive discussions with Wilke, who seemed very responsive. Throughout 2006, Wilke gave him to believe he was about to start on the story. As late as November Markopolos wrote his "team" that "John told me that his editor has read my Madoff analysis and is very, very excited to start their investigation in January" (166).

But early in 2007 Wilke abruptly cooled off, never actually refusing the story but now raising quibbles. Markopolos (who continued to have a working relationship with Wilke on other stories) says

> **In my mind, at least, I was convinced that someone high up at the *Journal* had decided it was too dangerous to go after Bernie Madoff. … I was finally beginning to consider the possibility that Bernie Madoff was untouchable — that he was simply too powerful to be brought down." (Markopolos, 166–167)**

This analysis — as a practical matter effectively true in our opinion — is very different than the cover story generally presented that Madoff survived because of SEC incompetence. And it is not plausible that the Wall Street Journal's management did not know what was absorbing so much one of their best reporter's time.

A remarkable insight into how this power works appears in Markopolos' *No One Would Listen*. When, in the aftermath, Markopolos was interviewed by David Kotz, the new Inspector general of the SEC, he was surprised to be told that the meeting was part of a criminal investigation and told to take an oath. He was then asked what he knew about Senator Charles Schumer (D-NY) calling the SEC about their Madoff investigation (243).

Markopolos knew nothing, but as he points out "for a middle level SEC employee with ambitions, any case in which an important politician is involved is a case he or she wants to stay far away from" (141).

Bernie Madoff and his sons Andrew and Mark generally **maxed out** contributing to Schumer's campaigns. In more recent years Bernard had also **contributed significantly** to the Democratic Senatorial Campaign Committee and some other Democratic candidates, mainly, like Schumer, Jewish.

But it gets stranger — and more ominous. In September, 2009, Markopolos appeared before the Senate Banking Committee, scheduled to follow H. David Kotz, SEC Inspector General, who was there to discuss his recently-published **investigation** (PDF) of the SEC's Madoff failure. There was a recess between the two testimonies and then:

> **Only Senators Chuck Schumer, who had made a phone call to the SEC, and Jeff Merkley, a Democrat from Washington, returned. Schumer took over the questioning …. The entire room was filled with SEC staffers …. The victims had been shunted to a hearing room … to watch the proceedings on closed circuit television. We couldn't have picked a more adverse audience. (Markopolos, 261)**

Schumer (who apparently felt no need to recuse himself or even disclose that he had intervened on Madoff's behalf) then ran the session so that Markopolos would be able to speak as little as possible. This became so extreme that the lawyer Markopolos had brought "started handing me cards urging me, 'Jump in whenever you can'" (Markopolos, 262).

There is nothing to suggest Schumer was actually involved with or even knew Madoff: yet *No One Would Listen* makes it clear he treated Markopolos with rudely dismissive curtness. Why deprive this genuine public hero of his moment in the sun?

Similarly strange things had happened when Markopolos went (voluntarily) in March 2009 to brief the newly appointed chief of the SEC, Mary Schapiro. David Becker, the career Wall Street lawyer **imported** the previous month as SEC General Counsel, picked a quarrel over extraneous trivia and threw a tantrum so violent that Markopolos' lawyer "thought that he was about to come right over that table and go for my throat" (Markopolos, 249). Consequently, the meeting was terminated.

In 1977 the actor Cliff Robertson, seeking to correct an erroneous report to the IRS of income from Columbia Pictures, inadvertently triggered the discovery that the (inevitably Jewish) head of the studio, David Begelman, was a large scale embezzler. As a result, Robertson, then at the height of his career, was **blacklisted** and got no major movie roles for several years. Evaluating Andrew Kirtzman's Madoff book *Betrayal* purely subjectively, one would think Harry Markopolos was the villain. The Schumer and Becker performances are in the same tradition: unrestrained rage against someone deemed to have caused damage to a community member — quite regardless of the ethical facts.

Written after the Kotz report on the SEC/Madoff fiasco was published, Markopolos' *No One Would Listen* conveniently adds to the evidence presented in the report, thereby destroying the idea that only ineptitude and dislike of Harry Markopolos protected Madoff. In fact, the SEC had had quite independent and very plausible inputs suggesting Madoff was fraudulent:

- "In 2003 … an unidentified fund of hedge funds manager alerted the SEC … explaining *during a conference call* he … 'couldn't figure out how he was earning his returns' …. This was lost in the bureaucracy." (our emphasis)

- An intelligent SEC examiner in 2004 looking (as was his right) at internal correspondence at the fearsomely quantitative Renaissance Technologies Hedge Fund pool headed by James Harris Simons found a discussion concluding Madoff's activities were "inexplicable." Evidently he forwarded this to his superiors with no result. (Renaissance Technologies itself did nothing either.)

- In 2005 an anonymous tipster claiming to have withdrawn $5 million said he was "deeply concerned that Madoff is running a very sophisticated fraudulent pyramid scheme." They even got an anonymous letter in 2008 alleging Madoff was keeping two sets of books! (Markopolos, 257–258)

Quite apart from all this, the SEC 2006–7 investigation itself did produce the information that Madoff had lied about the number of clients he was handling — an issue which drastically alters regulatory requirements. Markopolos says:

> **"What really bugs me is that the SEC caught Madoff lying to its investigators repeatedly and making false statements to a federal official. This is supposed to carry a five year … maximum sentence; yet they never referred him to the Department of Justice for criminal prosecution." (161)**

Nothing was done.

We submit that the SEC failed to stop Madoff not because it was incompetent, but because it was afraid — of the Jewish Establishment.

Looking Like a Goy: Growing Up in the Jewish Community

While we are focused on the way the Madoff case illuminates and reflects the relationships between Jews and non-Jews, there is also the question of how Madoff the man related to the Jewish people.

Looking back, his childhood contemporaries have realized Madoff could well have come to resent his own people — that he had, in the words of an Oppenheimer informant, an "inner need to screw the system" (87).

In the competitive, upwardly mobile Jewish society of Laurelton, Queens in the 1950s, the Madoff family did not command much respect. They were not prosperous, nor were they involved in a prestigious profession. Bernard himself won no academic laurels — Kirtzman quotes a middle school girlfriend recalling a poignant occasion with him sitting silently through a school lunch at which his circle were comparing and boasting about their report cards (21). He had nothing to boast about. Shortly afterwards she broke up with him: "I didn't think he was smart enough" (23).

In fact, Madoff had a concrete reason to feel alienated — what Weinstein describes as his "beautiful blue eyes**"** (25). These are not necessarily appreciated in Jewish circles — Graham recalls being curtly told they represented a fault in the bloodline when once asking a Jewish friend about her eye color. Weinstein reports Madoff's grandmother disliked his High School girlfriend and future wife: "She thought she was a "shiksa"…because Ruth was blond and had blue eyes" (61).

There was no doubt about Ruth Alpern's Jewishness — the two families were in the same town, virtually neighbors — but Oppenheimer reports a school friend remembering of Ruth that a candy store proprietor was ""shocked — *shocked* — to learn she wasn't a gentile because of her goyish look." Ruth Alpern "looked like a shiksa. She did, absolutely…extremely shiksa looking" (34).

Madoff's choice of such a partner may have said more about his attitude to his own community than his circle realized. Weinstein reports the Madoffs were not at all observant, and in fact frequently used Yom Kippur as a day to fly to their villa in France (47).

When the British tried to figure out what caused the socially elite and privileged **Burgess/Maclean/Philby** circle to damage their country so much by spying for the Soviet Union, they found that anguish about minor status blemishes could be argued to have triggered this murderous resentment. Being on the margin of a highly judgmental group can apparently cause extremely anti-social behavior.

POSTSCRIPT: WHERE'S THE REST OF THE MONEY?

What will be the aftermath? Ross reports that "Investigators believe there could be a billion dollars or more that Madoff had stashed in foreign bank accounts" (207). He also quotes an investigator who noted that

> **someone who plans ahead so well that he pre-positions his clothes around the world, don't you think he has some hidden bank accounts around the world too? (89–90)**

(Besides wardrobes at his four homes, Ross notes, Madoff maintained steamer trunks of clothes at six hotels around the world.) A recent story in the *New York Post* quotes a former fellow prisoner alleging Madoff claims to have **$9 billion squirreled away**.

Beyond the question of the Madoff loot, there is the — if anything even more interesting — question of the apparent enrichment of the non-family insiders, Picower, Chais, Levy — and perhaps others. (The *Wall Street Journal* has reported a total of "**at least eight.**") What was going on here? How did these men come to cooperate? What was Madoff's motive for cutting them in?

Our prediction is that nothing significant will ever emerge on these questions. Observation of a long list of scandals, from 1967 Israeli attack on the **USS Liberty** to the dropping of the espionage prosecutions against the American Israel Public Affairs Committee last year, leads inevitably to this conclusion. Thoroughly investigated, the Madoff scandal has the potential to illuminate the economic and political prerogatives usurped in late 20th-century America by what can only be described as the new ruling class. That will not be allowed to happen.

Indeed, **an article** that appeared too late to include in the print version questioned "whether anyone will be charged with being an accomplice to the fraud....Given the slow pace of the investigation, it is questionable whether the government will ever be able to show that there was anything more than a few willing enablers." This is despite the fact that in at least some of these cases the defendants knowingly committed fraud. For example, in one case, "each woman 'knowingly *perpetuated* the fraud,' but there is no claim that they helped to perpetrate it. This means that once again the government accuses defendants of enabling Mr. Madoff's fraud but not with having any responsibility for it. It is a bit puzzling why this is only a civil case, and not a criminal indictment."

If Bernard Madoff has a redeeming quality, it must be the unflinching courage he has shown in refusing to implicate his family in any way. Sheryl Weinstein, his mistress for some years, knew the score: “From our very first lunch, I understood that Bernie was very wrapped up in his family” (57).

So the question is, how could he do this to *them*?

Absent the almost unprecedented financial crisis of late 2008, Madoff’s fraud might never have been revealed, as Arvedlund reports (265). Markopolos told the House Subcommittee on Capital Markets that Madoff could have gone to $100 Billion (Markopolos, 228). It would probably have outlived him. With the remarkable renaissance in confidence in Hedge Funds in 2009, he very likely would indeed have gone on to new heights. But, eventually, the piper would have had to be paid — especially, as seems plausible on the basis of the literature, if the sons did not know exactly what their father was doing.

Was Madoff so extremely present-oriented that some years in a very warm sun were worth decades of obloquy for his descendents?

Perspective is supplied by the case of one of the most outspoken skeptics about Madoff in Florida, named by Arvedlund as Salomon Konig, a “Fund of Funds” manager who “also hails from the Florida Jewish community.” Konig’s penetrating critique of Madoff was well informed for good reason, as Arvedlund discovered: he left Venezuela in 1993 and is under indictment there for running a Ponzi scheme. Yet he has been able to establish himself in his new country in the financial business (239–240).

Perhaps in the back of Madoff’s mind was the idea — possibly the instinct — that after a few years, perhaps in a different country, maybe speaking a different language, his family would live on, possibly with a new name (surname changes are **under way** among the Madoff kin) and perhaps with some portion of the loot.

Americans need to ask themselves if parties with this larcenous and nomadic tradition are appropriate stewards of our national institutions.

John Graham (email him) is employed in the financial sector.

Kevin MacDonald (email him) is professor of psychology at California State University–Long Beach and editor of the Occidental Quarterly and the Occidental Observer.