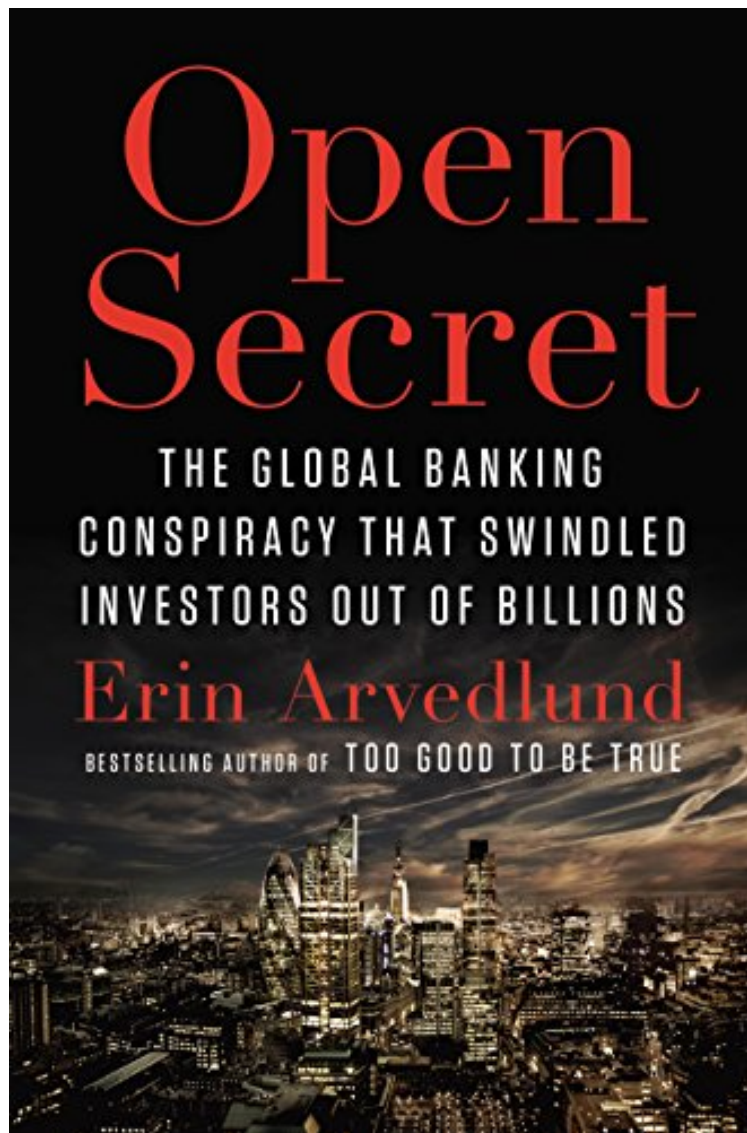


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Open Secret: The Global Banking Conspiracy That Swindled Investors Out of Billions

Erin Arvedlund

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Erin Arvedlund : Open Secret: The Global Banking Conspiracy That Swindled Investors Out of Billions before purchasing it in order to gage whether or not it would be worth my time, and all praised Open Secret: The Global Banking Conspiracy That Swindled Investors Out of Billions:

8 of 8 people found the following review helpful. ... a staggering sum of content and makes it read like a Dan Brown novelBy T RaymondNot sure how Erin threads together a staggering sum of content and makes it read like a Dan

Brown novel, but she did. That's Erin working her usual wizardry. Would you expect something less after her blockbuster novel on Madoff? Short answer - emphatic 'no'. I was particularly struck by the latter chapters in the book. This will hit quite close to home for most of us. This section on the impact to schools and mass transit proves quite convincingly that LIBOR IS the world's most important number. 3 of 3 people found the following review helpful. I was expecting more from the book..By Julio Cesar Campos Neto I was expecting much more from this book or maybe even from the history itself. The first chapters are good but then it becomes a kind of "he said" and "he said" etc As it if wasn't enough to have all this scam between the traders of the biggest banks, It's also shocking to know that even the British authority (BBA) was involved in this too. I've found on the net the very much same history, and on some occasions, even with more details than in the book. It's Ok. You can find the whole history in websites like Bloomberg, economist etc. 2 of 2 people found the following review helpful. Well done...great insight By buyer A very readable account of traders inside money-center banks playing by their own rules. It makes one wonder what scheme is being played out right now that the public doesn't know of.

"Gaming the LIBOR—that is, fixing the price of money—had become just that: a game. Playing it was the price of admission to a club of men who socialized together, skied in Europe courtesy of brokers and expense accounts, and reaped million-dollar bonuses. In the midst of the financial crisis of 2008, rumors swirled that a sinister scandal was brewing deep in the heart of London. Some suspected that behind closed doors, a group of chummy young bankers had been cheating the system through interest rate machinations. But with most eyes focused on the crisis rippling through Wall Street and the rest of the world, the story remained an "open secret" among competitors. Soon enough, the scandal became public and dozens of bankers and their bosses were caught red-handed. Several major banks and hedge funds were manipulating and misreporting their daily submission of the London Interbank Offered Rate, better known as the LIBOR. As the main interest rate that pulses through the banking community, the LIBOR was supposed to represent the average rate banks charge each other for loans, effectively setting short-term interest rates around the world for trillions of dollars in financial contracts. But the LIBOR was not an average; it was a combination of guesswork and outright lies told by scheming bankers who did not want to signal to the rest of the market that they were in trouble. The manipulation of the world's most important number was even greater than many realized. The bankers kept things looking good for themselves and their pals while the financial crisis raged on. Now Erin Arvedlund, the bestselling author of *Too Good to Be True*, reveals how this global network created and perpetuated a multiyear scam against the financial system. She uncovers how the corrupt practice of altering the key interest rate occurred through an unregulated and informal honor system, in which young masters of the universe played fast and loose, while their more seasoned bosses looked the other way (and would later escape much of the blame). It was a classic private understanding among a small group of competitors—you scratch my back today, I'll scratch yours tomorrow. Arvedlund takes us behind the scenes of elite firms like Barclays Capital, UBS, Rabobank, and Citigroup, and shows how they hurt ordinary investors—from students taking out loans to homeowners paying mortgages to cities like Philadelphia and Oakland. The cost to the victims: as much as \$1 trillion. She also examines the laxity of prominent regulators and central bankers, and exposes the role of key figures such as: Tom Hayes: A senior trader for the Swiss financial giant UBS who worked with traders across eight other banks to influence the yen LIBOR. Bob Diamond: The shrewd multimillionaire American CEO of Barclays Capital, the British bank whose traders have been implicated in the manipulation of the LIBOR. Mervyn King: The governor of the Bank of England, who ignored U.S. Treasury secretary Tim Geithner's repeated recommendations to establish stricter regulations over the interest rate. Arvedlund pulls back the curtain on one of the great financial scandals of our time, uncovering how millions of ordinary investors around the globe were swindled by the corruption and greed of a few men.

Praise for Erin Arvedlund's National Bestseller, "Too Good To Be True" "Arvedlund's compelling account bristles with outrage at those whose avarice or negligence enabled Bernie." --"Time" "Ms. Arvedlund . . . works hard to situate the Madoff mess within the larger framework of hedge-fund mania and the Wall Street recklessness that led to the fiscal cataclysms of 2008." --"The New York Times" "She not only brings great lucidity to the subject but supplies invaluable context about the devices that Mr. Madoff used to perpetuate his confidence game." --"The Wall Street Journal" "Good reporting from the journalist who was there first . . . the book . . . will get you mad all over again." --Bloomberg.com About the Author ERIN ARVEDLUND is the bestselling author of *Too Good to Be True: The Rise and Fall of Bernie Madoff*. She writes the *Your Money* column in the *Philadelphia Inquirer* and was previously a reporter for the *New York Times*, the *Wall Street Journal*, and *Barron's* magazine. She lives in Philadelphia with her husband. Excerpt. copy; Reprinted by permission. All rights reserved. Prologue Tom Alexander William Hayes looked the part of the unremarkable British man. He sported short, dark blond hair, slightly wide-set eyes ringed with brown circles, a white button-down dress shirt, grayish blue V-neck sweater piling on the back, and black trousers over black leather slip-on shoes. Like most Londoners commuting around town, he carried an umbrella, as that autumn day it was drizzling. A private man by nature, Hayes remained largely in seclusion at his home in Surrey, with his wife

and one-year-old son. He had stayed behind closed doors for good reason: On the days he did go out into the world, television cameras and paparazzi followed him like buzzards. This particular day, October 21, 2013, was no exception. Outside the gray, modern-style courthouse, photographers waited to snap photos of him entering and leaving the building. Hayes offered no answers to their questions, yet one word seemed to hang over the proceedings as if written in London's cloudy sky. It was an acronym, one that consisted of five letters: L-I-B-O-R. Shorthand for London Interbank Offered Rate. That little word—and its complex financial ramifications—represented countless billions of dollars in allegedly illegal gains and the means by which Hayes might lose his freedom. Hayes had grown up in London, a middle-class lad with a gift for math and computers (a classmate called him an “incredibly smart geek”). His college record was such that employers flew him first-class to their offices for interviews, and, long before he became the poster boy for the largest financial scandal in London in anyone's memory, he accepted, in 2001, a position as a junior trainee at the Royal Bank of Scotland. At RBS, his specialty was derivatives, the financial instruments that, with the advent of electronic trading in the 1990s, represented financiers' new magic. Derivative agreements are contracts that specify an exchange of cash or other assets owned by one party for the second party's assets within some time frame. Hayes's talents aligned nicely with Wall Street's growing appetite for derivatives. The market included options, swaps, and other transactions priced off of interest rates, commodities, and a variety of other underlying assets, and Hayes demonstrated a particular knack. Hayes didn't favor Savile Row suits as some of his well-paid coworkers did; for him, the dress code was post-college casual—jeans, pullover shirts, and sweaters. Fast food sufficed for Hayes, rather than the thousand-dollar dinners celebrated by some in finance. In 2006, he accepted a new job, leaving RBS to work for the global banking power UBS (known in earlier days as Union Bank of Switzerland). That spring his new employer posted him to Tokyo, and his promising career—he hadn't yet turned thirty—took off, as he quickly became one of the most powerful derivatives traders in Tokyo. In Japan, Tom Hayes gained a reputation for one particular proficiency: He proved skilled at betting on the difference between the lending rates offered by banks overnight in buying and selling derivatives. He hedged the tiny differences in the LIBOR, set in London, and the Tokyo overnight rate, set by the Bank of Japan. His ability to play the rate game came to mean millions in profits for UBS, elevating him from merely a trader to a recognized corporate asset, one whom the bank entrusted with immense sums in UBS assets. Outside brokerage firms and other banks took note and, in 2009, he jumped ship, lured away by Citigroup—and a pay package that more than doubled the cool \$2 million or so he took home annually at UBS. One of his new bosses proclaimed him “a star.” Within the financial world, Hayes's ability to make the market's numbers move his way mystified his rivals. Tom Hayes had truly arrived. Southwark Crown Court sits between London Bridge and slightly east of Shakespeare's Globe Theatre. The drama unfolding with Hayes as the central actor, however, was of a distinctly twenty-first-century sort. By the time he entered the courtroom in October 2013, the only thing different about him was the exhaustion clearly etched on his face. Hayes still wore his dark blond hair short, but on that autumn morning Hayes's wide-set eyes had bags, as if he had slept poorly. Though his expression was impassive, his demeanor was glum. He had been the first man arrested in the international scandal that had roiled the banking business. Since 2008, businesspeople around the world had encountered the word “LIBOR” as they ate breakfast and surveyed the morning news. They had learned that LIBOR, established four decades earlier as a convenience in the early days of variable interest rates, had morphed, in effect, from a gentlemen's agreement to a vehicle for outright theft. In Britain, the United States, and elsewhere, journalists reported, LIBOR had become subject to widespread—and illegal—manipulation. Hayes had drawn the special attention of authorities in the United States and the UK. They were eager to serve up the scalps of the men who had rigged the LIBOR, and the U.S. Department of Justice in particular spun a narrative in which Hayes was the principle protagonist, the figure most responsible for rigging the LIBOR. In a long and detailed complaint, filed the previous December, the FBI asserted (among many other allegations) that, in the months between November 2006 and August 2009, Hayes had sought to alter the LIBOR rate on 335 out of 738 business days. The agency cited emails and a plethora of documents. To the Americans, he was the mastermind. Hayes knew the truth was a great deal more complicated, that the years-long fixing of interest rates couldn't be done by just one person; it took a village of traders, brokers, and go-betweens arrayed around the globe, along with bribes, soft threats, and hard financial rewards to push LIBOR up or down. But with the American prosecutors aiming squarely at him, Hayes's legal problems included the risk of extradition to the United States for trial. As he anticipated his day in court, extradition was a prospect that not only Hayes but his countrymen found disquieting. The British public were outraged when three bankers for Enron (David “Bermier”; Bermingham and two colleagues, known collectively as the NatWest Three) ended up being tried, convicted, and incarcerated in American prisons rather than in their home country ten years earlier. At the time, many Britons had actually protested the extradition of the men to America. Thus, Tom Hayes had ample reason for looking grim on what was to be his offer of a plea, guilty or not guilty. This was a hearing, not a trial, but he had to relinquish his passport. Despite having no place to go, however, he was by no means without leverage. One avenue was the press. The previous January, he had texted the Wall Street Journal with a tantalizing message: “This goes much higher than me.” It had been a key public comment, one awash with

implications for former bosses and colleagues. It implied that Hayes hadn't acted alone but had fiddled interest rates with the full knowledge and perhaps the blessing of his bosses. It also made him more sympathetic. The public was hungry to understand more, to learn the identity of other banker perpetrators, to get the whole story. A plot turn that implicated higher-ups just might improve his odds. A proven manipulator of information, Hayes might also use what he knew to good advantage with the courts. In recent months, prosecutors in London had been gaining ground on their U.S. counterparts; the LIBOR scandal was an embarrassment to Britain. Serious Fraud Office chief David Green had pushed the rate-rigging investigations in London into overdrive, assigning sixty people on his staff to move the case through to an indictment phase. If Hayes was as important as the Americans said he was, could he be persuaded to cooperate with British prosecutors? On that dreary morning, no one but Hayes knew exactly how much information he had to trade. Bankers, journalists, and lawyers alike feared and hoped that he would offer the names of others who had helped him rig the LIBOR rate. His naming of names could extend beyond the banks where he had worked to other financial institutions, including rivals and interbank brokers, where friends and colleagues worked. If so, that would be bad news indeed for many big banks, and not only those already embroiled in the controversy. Potentially more explosive was his knowledge of higher-ups—possibly much higher—on the corporate ladder who were co-conspirators in the scheme to rig interest rates at UBS and Citigroup. He'd already hinted as much: Three days after his dismissal in September 2010, an angry Hayes (his firing had come just a few weeks before his wedding day) wrote a letter to a Citigroup human resources executive, ominous in its implications for higher executives. "My actions were entirely consistent with those of others at senior levels," Hayes had written "[and] . . . senior management at [Citigroup Japan] were aware of my actions." In less than a decade, the fortunes of Tom Hayes, derivatives whiz kid, had earned him millions in bonuses and the status of certifiable star in the world of finance. As this book goes to press, it isn't clear whether he will land behind bars. His future almost certainly depends upon a different set of skills than those that made his fortune: With his trial expected to begin in January 2015 in London, its outcome hinges on his capacity for negotiating the British legal system and, possibly, the American justice system in the future. To understand LIBOR, its workings and its crisis requires getting to know the other essential players in New York and Washington, in London and Tokyo. Though he may be the most visible villain in the drama, the story began well before Hayes. In the chapters that follow, you will learn about dozens of men and women on Wall Street and in the City of London. Together, they, like the balls on a billiard table, repeatedly collided, transforming their fortunes and careers and the lives of us, the unwitting investor, in a rigged game they knew was an open secret. The ricochet patterns that emerged are crucially important, as they have altered the global financial landscape.

CHAPTER 11 Is LIBOR a Lie?

In April 2008, Mark Whitehouse and Carrick Mollenkamp had almost given up bothering to go home to sleep. The schlep from the London bureau of the Wall Street Journal often didn't seem worth it when they knew they'd have to turn around and come back again after just a few hours of rest. Instead, the two American reporters regularly camped at the bureau's offices in central London, accommodating the time lapse that separated Greenwich mean time and the Journal's New York deadlines. The long evenings spent at the London office only accentuated the sense that the paper's main offices on the other side of the Atlantic resembled a hungry beast, always ravenous for another batch of copy. The night of April 14 promised to be another long one as they waited for their work to be digested. Though Mollenkamp and Whitehouse had already filed their stories for the next day's editions, their New York bosses, as usual, kept them waiting. The London bureau folks had to be at hand until the final edit was completed, usually around seven p.m. New York time. That meant midnight in London. But as the darkness fell over the British capital, the Americans abroad had time to mull over the story they were breaking and that, they hoped, would break big. They wondered and worried and dared to hope—this one could just be the sort most reporters come across once in a lifetime. Nearing forty years old, Mollenkamp already had a solid track record. He had joined the Journal in 1997, rising swiftly to become one of its top reporters. During a several-year stint in Atlanta, he'd covered the Southeast and, in particular, Big Tobacco. Though he hadn't been persuaded to give up cigarettes (he remained a devoted smoker), his reporting gained him a promotion to cover the banking world in London's financial district. In the banking crisis at hand, he believed he'd uncovered something important. He and Whitehouse were still thinking through what it could mean, what might follow. The subject—interest rate machinations in international markets—was complex and involved some deep financial history. After all, the story had begun to unfold around the time he was a young boy.

In 1969, another American in London had a brainstorm while bathing (in sixties Great Britain, showers were rare indeed). As one colleague remembered years later, "There is no historic plaque affixed to the door at No. 13 Pelham Crescent in London, yet it was in the bathtub at this house that Evan Galbraith is said to have invented the floating-rate note." A man comfortable on two continents, Evan G. Galbraith had moved back and forth between business and public service since the 1950s. He had gone to Yale (his contemporary William F. Buckley would be a lifelong friend) and graduated from Harvard Law School. He served on active duty in the U.S. Navy from 1953 to 1957, attached to the CIA. In 1960 and 1961 he was the confidential assistant to the U.S. secretary of commerce before moving on to the private sector, where he quickly became a high-level businessman. Having been a director of Morgan et Cie in Paris in the 1960s, he moved to London, where he worked for Dillon Read in the 1970s. He held positions on

several corporate boards, including Groupe Lagardegrave;re in Paris, and he was later chairman of the board of the New York subsidiary of Louis Vuitton Moeuml;t Hennessy, the luxury goods giant. Idquo;Irsquo;ve lived in Europe probably twice as much as any Foreign Service officer existing today,rdquo; he once said. Idquo;Irsquo;ve lived in Europe twenty years. Irsquo;ve lived in France now ten years. Irsquo;ve lived in England eleven years. I have had business transactions in thirty-five different countries, and Irsquo;m not rare. There are a lot of us out there.rdqquo; Galbraith confided that there were many businessmen like himself who engaged in high-level negotiations and dealings; in his case, he would later shift streams again, becoming a diplomat (he served as U.S. ambassador to France during the Reagan years). Galbraith never expected that his fame in financial circles would be linked to the rate he dreamed up in the tub for U.S. dollars, but Institutional Investor magazine would later memorialize him as the father of the floating-rate note. It came about during the Nixon administration, when Galbraith worked at Bankers Trust International, which was considered an innovator; that reputation would gain luster thanks to Galbraith. A year after his big idea, Galbraith found a way to put it to work. When the Italian state electric company, Enel, came to the market in 1970, Galbraith helped convince Guido Carli, governor of the Banca drsquo;Italia, that the interest rate on \$50 million in notes should be reset, at six-month intervals, at 0.75 percent over the interbank rate. (The year 1970 would be a notable one in the history of finance in another way too, as it also saw the creation of money market funds, created to offer investors better returns than bank savings accounts while providing a higher degree of safety.) The idea that a company or a person would pay an interest rate reset every six months, rather than a fixed rate for the term of the loan, sounds today like no big deal. After all, many home mortgages, student loans, and credit card contracts now function this way. But in 1970, the idea was revolutionary. With inflation skyrocketing, variable rates seemed to make sense. Galbraithrsquo;s idea was well adapted to the moment. A British colleague fresh out of university, David Clark, remembered the moment years later. Clark had been drafted onto the Enel bond-offering team with the much more senior Galbraith because he knew about foreign exchange and was young and eager. Idquo;I was twenty-two years old and I was one of the traders there. They pulled me into the team for the first floating-rate note.rdqquo; He may have been young, but he knew even then that the Enel deal, made on May 20, 1970, represented a momentous shift. Idquo;It was the beginning of a new era. We knew it was big. It was stunningly simple.rdqquo; The team had to attach a name to this variable rate, and the one assigned to it, which Bankers Trust wrote into the prospectus, was Idquo;London Interbank Offered Rate.rdqquo; Until that closing, Clark had never seen such a rate specified in print, though he had heard it casually quoted between traders at London banks. But now, recorded in a public document, the conceptmdash;which soon enough would be referenced by its more colloquial nickname, LIBORmdash;had been granted official status. bull; bull; bull; Mollenkamprsquo;s life in the City, Londonrsquo;s much older version of Wall Street, involved socializing with traders and bankers alike. He had a way with people, in particular Brits, in part because he was so damn American. He was prone to drinking bourbon along with his daily cigarette and espresso habits. He had a gentle Southern drawl and his gray pinstripes seemed to put people at ease. Plus he had the manners of a gentleman. He and his finance sources liked to relax in bars around Canary Wharf, which was where, after his arrival in London in December 2006, he started hearing talk about the fiddling of a key interest rate. The months leading up to April 2008 had been busier and more soul-killing than any Mollenkamp could remember in his career. The tension had risen in summer 2007 when the French bank BNP Paribas broke ranks and halted redemptions for three of its investment funds. Then the quantitative hedge funds began losing boatloads of money in August. In March 2008 Bear Stearns collapsed, or rather fell into the arms of J.P. Morgan in a U.S. governmentndash;engineered bailout. Suddenly, banks around the worldmdash;not just in the United States but also in the United Kingdom and Europemdash;were trying not to be the next Bear Stearns. Portfolio managers and chief risk officers everywhere were trying to sell mortgage-related assets, loans, and anything they deemed risky. They were willing to mark down painfully to shed it all. The situation was, in the words of one economist, like Idquo;trying to pour an ocean through a thimble.rdqquo; As Mollenkamp slaved away covering the banking crisis, he was grateful to have an ally at hand. Mark Whitehouse had his own sterling reporting credentials, and an MBA to boot. Hersquo;d covered Russian business and reported on Boris Yeltsinrsquo;s drunken dance in and out of the Kremlin. During Whitehousesquo;s Moscow stint, hersquo;d aroused the fury of the cityrsquo;s mayor with his stories about city corruption and of politicians enriching themselves at the expense of ordinary business owners. He and his Russian wife, Alla, had lived through Russiarsquo;s default and ruble devaluations before settling into Western life in a transition countrymdash;close to Europe, but not too American. They thought London cosmopolitan, filled as it was with immigrants from all over, including a large Russian community. Theyrsquo;d arrived thinking it was the best of East and West. Instead, the developed world in 2007 and 2008 was starting to feel a lot like the third world, engorged on debt. Governments were bailing out centuries-old banks, and it seemed like a different currency was devalued every week. All of it had been prompted by the crack in the U.S. housing market, where for years anyone with a driverrrsquo;s license and a pulse could get a \$500,000 mortgage. But when housing prices stopped rising and mortgage holders stopped paying, the ripple effect was felt across Europe and Asia. But Mollenkamp had been hearing other noises, other complaints. His sources moaned that the cash marketmdash;the market for loans between such giants as the American multinational Citigroup and Swiss giant UBSmdash;was wobbly. The talk was of a funky interest rate, something called the London Interbank

Offered Rate, or LIBOR, which had emerged over the years as the market's reference point. Mollenkamp knew it was the main interest rate that pulsed through the banking community in the City, but, strangely, it didn't seem to be reflecting the chaos of the times. Or perhaps, he wondered, the bankers were suppressing the number, trying to make it lower than it was supposed to be? Apparently, Mollenkamp learned upon asking around, the manipulation of the LIBOR rate was an open secret in the City's banking community. Rumor had it that Barclays had complained to higher-ups at the New York Federal Reserve about the LIBOR. Though some academics and analysts seemed aware of the situation, no one wanted to say it too publicly. "So who cares?" Mollenkamp asked his buddies at the bar, trying to draw them out. A lot of people, they told him. Banks in London weren't just banks in London anymore. They were global entities starting to teeter amid the credit crisis, and no bank wanted to send a signal to the rest of the market that it was in trouble. If word got out, the rate at which they needed to borrow money would suddenly get more expensive. No one wanted to be the next Bear Stearns, which had been gobbled up for less than a tenth of what it had been worth only months earlier. The very real prospect of financial disaster put everyone on edge. Back in the 1970s, floating-rate loans made immediate good sense to the oil companies. Drillers in the North Sea, for example, needed huge amounts of money in long-term loans of, say, \$100 million for what might be a ten-year project. But banks were afraid of lending that kind of cash since no one knew where interest rates were going in a world where inflation was hitting double digits. As David Clark, the bright young man at Bankers Trust, remembered, "The great skill of the market was to respond." Again, Evan Galbraith had done his bit. Not only was his timing suited to the volatility of the times, but it also felt as if a quarter century of economic history had conspired to make it the perfect moment. At the close of World War II, a new international monetary system had been agreed upon at an economic conference of forty-four countries held in Bretton Woods, New Hampshire. The new currency regime established values for the currencies of International Monetary Fund (IMF) member countries in terms of gold or the U.S. dollar of specified gold content. Under the terms of the Bretton Woods understanding, foreign monetary authorities were to intervene in the markets to maintain the value of their currencies within 1 percent of the dollar par value. They would intervene in dollars and, in exchange, the U.S. Treasury stood ready to sell gold to the central banks or buy it from them at the official price of thirty-five dollars per ounce. One effect of Bretton Woods was to establish the dollar as the principal reserve currency and, aside from gold, as the principal reserve asset of the world's monetary system. Sterling remained a reserve currency, but it was only a minor one outside of British Commonwealth countries. Soon after the war, U.S. Secretary of State George Marshall outlined a plan to halt Joseph Stalin's advance of communism into Western Europe. Marshall's goal: to enable the postwar economy in Europe to recover so that countries outside the Soviet bloc would be able to pay for their own military capabilities. One solution was to address the so-called "dollar famine" and so, starting in 1947, Marshall managed to shift dollars abroad. It was the first in a series of economic moments in which very large quantities of American currency moved outside the boundaries of the United States. The outflow of dollars increased again in 1963, when President John F. Kennedy imposed a 1 percent tax on dollar accounts; according to economic historian Martin Mayer, that had the "monstrous" effect of flooding Europe with still more U.S. dollars. With the dollar holding sway as the world's dominant medium of exchange, foreigners had to keep borrowing dollars. But they couldn't borrow them in the United States, so they borrowed from the stashes in Europe. That meant that a large pool of dollars swirled around Europe. American currency was held by Soviets fearful that the Americans would forcibly seize the cash over old lend-lease debts; some was hoarded by Arabs afraid that their assets could be frozen in the event of a Middle East war. Other dollars were held by businesspeople who found it easier to use the one currency accepted around the globe. Kennedy's tax also had the unintended consequence of distinguishing plain-vanilla dollars from those dollars held in Europe, and the latter gradually came to be known as Eurodollars. Since the 1963 tax made repatriating dollars to the United States more expensive than keeping them abroad, London rapidly emerged as a hot spot for trading in Eurodollars (not to be confused with the euro currency, which wouldn't come into being for another few decades). Banks outside America still needed a way to borrow and lend in dollars, and London soon overtook the United States in dollar trading, leading to the creation of the Eurodollar market. The next U.S. president also helped drive dollars to London, as a new rule of thumb became apparent in international money markets: The more barriers to lending dollars that the U.S. government devised, the higher would be the interest rates the banks (American and foreign) paid for dollar deposits to be kept and lent abroad. With his heavy spending for the Vietnam War, as well as the costs of antipoverty and other Great Society programs, President Lyndon B. Johnson exacerbated weakness in the U.S. dollar. His guns-and-butter spending created such huge deficits that the dollar began to slide against other currencies. One result was the decision by his successor, Richard Nixon, to end Bretton Woods. In the first six months of 1971, Nixon put domestic price controls in place and stopped American gold sales. As was the pattern, however, the resulting economic tremors caused European central banks to focus on the dollar, and they put more than \$10 billion in Eurodollars into private banks. The Eurodollar market heated up even more in the wake of the oil shock of 1973, when the Organization of Arab Petroleum Exporting Countries (OPEC) proclaimed an oil embargo. A few years later, the 1979 Iranian Revolution caused another oil crisis. Overnight, oil prices quadrupled, which led to a flood of OPEC earnings entering the Eurodollar market and its

London-based underwriters like Bankers Trust. The Arabs needed somewhere to park their oil riches, so Western European nations began floating huge dollar-denominated bond offerings, and the oil producers promptly reinvested their billions in Eurodollars. Even the British cabinet had taken advantage of the Eurodollars' interest rates, noting in 1973 that raising funds for housing could take the form of borrowing with a Treasury guarantee: "It could either be a Eurobond issue—like the recent National Coal Board issue—or a Eurodollar syndicated rollover loan, like the Electricity Council. Eurodollar rates are at present several percentage points lower than British interest rates and with the possibility of \$20 billion of OPEC money coming in may fall further." The impact on the overall market was great. Again according to Mayer: "This gigantic dollar-denominated Euromarket became the engine for recycling the money OPEC extorted for oil. Eurodollars became the medium for the Third World debt." None of the changes moved the dollar off its pedestal—and even without the anchor of the gold standard—the dollar remained the reserve currency of the world. On the other hand, trading increased in an already buoyant Eurodollar market, where London was the major financial center. Perhaps most important, the immense trove of Eurodollars had entirely escaped the jurisdiction of the U.S. Federal Reserve. The transnational character of the dollar wasn't limited to the Old World. Global capital in dollars dispersed to the East too, especially to cities like Hong Kong. And as the U.S. regulators tried to control dollars flowing out, the faster dollars left the country. According to Ron Chernow's *The House of Morgan*, J.P. Morgan's Walter Page told then assistant secretary of the Treasury Paul Volcker (at this time serving the Nixon administration) that the old rules risked "the end of the American banking system." J.P. Morgan wanted to be able to accept those dollars outside the United States even though U.S. regulations forbade them from doing so. "You will throw us out of Europe and Singapore and Japan," Page said. Volcker rewrote the regulations on the spot. The more they asked around, the clearer it had become to Mollenkamp and Whitehouse that LIBOR wasn't quite what it seemed. Their insight wasn't an entirely new one in 2008, and it wasn't the result of the credit crisis precipitated by the mortgage outrages in the United States. It had started many years before. What was new, Mollenkamp suspected, was that it had gotten out of control. Like the little white lie that grows by degrees to become a dangerous, all-consuming untruth, LIBOR was beginning to seem unwieldy as a sequence of convenient untruths only added to the economic destabilization happening all around the world. And this was a gigantic problem, since LIBOR was the interest rate to which billions of dollars in contracts and trillions of dollars in loans were pegged. As the journalists looked into the London night, they understood that what they were discussing would call into question the trustworthiness of LIBOR. It had begun as a convenient benchmark for British banks to set adjustable rates at a time after fixed interest rates became less useful. By pegging lending rates to LIBOR, which was supposed to represent the rate banks charge one another for loans, banks sought to guarantee that the interest rates their clients paid never fell too far below their own cost of borrowing. It made good business sense, of course. Their small clients borrowed at prime rates, and their best clients borrowed at a cheaper, lower LIBOR rate. It had worked so well that the British Bankers' Association (BBA), which issued the LIBOR numbers, had eventually trademarked the interest rate and marketed it abroad. The Chicago Mercantile Exchange popularized LIBOR among its floor traders of interest rates and futures. The BBA began publishing rates set for fifteen different loan durations, from overnight to one year, and in ten currencies, including the pound, the dollar, the euro, and the Swedish krona.