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BLACK
C o M M e n t a t o r**
Commentary, analysis and investigations
on issues affecting African Americans
www.blackcommentator.com

April 9, 2009 - Issue 319

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**Madoff and the Mafia:
A Mere Speculation or Almost a Sure Thing?
National Affairs
By Lawrence R. Velvel, JD
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I recently received a communication from a sophisticated, savvy individual who has much experience with how the world works. This person seems to be of the view that the Madoff scam may have been an organized crime operation, with Mafia corruption in Madoff and the SEC. This possibility of organized crime being involved has occurred to me also, and has been alluded to here on a couple of occasions. (Interestingly, Harry Markopolos feared for his life, thinking Bernie would have a hit put on him if his efforts during the 2000s were uncovered. This very fear seems to smack of an organized crime connection, of an unarticulated fear of some type of Mafia connection somewhere in the deal.)

Unless and until the government uncovers and discloses that there was a tie to organized crime, the idea that the Italian, Jewish, Irish, or, more lately, Russian Mafia were involved must remain mere speculation, speculation that might be right or might

be wrong. But here are some of the facts and ideas fueling the speculation:

Right now an awful lot of billions of dollars seem to have disappeared into thin air. Did all of this huge sum - apparently nearly \$200 billion over the years - disappear because of redemptions and Bernie's personal siphoning off of what - a few billion perhaps? Could all of it have disappeared because of redemptions when you figure that so many of Bernie's investors were in Madoff for the duration, that instead of withdrawing their principal, they let it ride, and many of them let the income ride, for literally decades? Madoff was a *long* term, not a short term, investment for thousands of people, for feeder funds, and for charities. Indeed, there are those who believe the reason he cultivated charities is that they generally withdraw only five or six percent a year, so that he could be sure that, at least in the case of charities, there would be no "run on the bank." I suppose the same calculation is one reason (along with a desire to attract money in the first place) that lay behind his paying feeder fund managers so much money - a four percent commission, while they were also charging their investors a one percent commission plus 20 percent of profits. This would ensure there was no possibility that they would withdraw money. (*Nobody* foresaw the kind of financial meltdown that in 2008 caused feeder funds to need to redeem because *their* desperate investors were conducting a "bank run" on *them*.)

So, if one figures that so many investors were in Madoff for the duration - I would personally bet 90 percent or more, but the Trustee has the ability to know for certain yet has not said - where did the money go? To me, a very logical possibility is that *at least* scores of billions, if not as much as \$150 billion or *more*, were siphoned off by the Mafia.

Further fueling the speculation is the fact that, at least as of now, the billions taken in by Madoff appear so difficult to trace. Difficulty of tracing would seem to be a hallmark of organized crime, wouldn't it?

Then too there was, if I remember correctly, a period when there was great concern that organized crime was attempting to and had to some extent succeeded in penetrating Wall Street. Couldn't Madoff have been a part of that effort?

There is also the question of Madoff's employees on the infamous 17th floor. According to the very little that has appeared in the media about them so far, they appear to generally or exclusively have been uneducated persons without training or experience in finance. Nor did any of them ever talk despite what to many of us seems the impossibility, given the tasks they apparently were performing, of never knowing and never even suspecting that something might be wrong. Where did Uncle Bernie get these people? They couldn't have been recommended to him, even possibly recruited for him, by the Mafia, could they? It's not possible - is it? - that they knew, because of who recruited them, that he or she who talks ends up in the river? Plus, weren't they paid much better than their lack of education might ordinarily have warranted?

Has the government looked into the 17th floor employees' backgrounds and connections, into how they came to be hired by dear old avuncular Uncle Bernie?

Nor did anybody in Bernie's family ever talk though, for reasons often canvassed here and elsewhere, they could not help knowing that something was amiss. Were *they* aware that to talk is to end up in the river?

Indeed, doesn't Bernie's apparent silence and uncooperativeness since being arrested smack of the same thing - of knowledge that to talk would be a death sentence regardless of what prison he is put into? One might ordinarily think that Bernie might

cooperate in tracing the money if, in return, his time in the slammer would be knocked down to, say, five or six years in return for leading the Feds to recovery of monies that might make victims whole or close to it. After all, in five or six years he will be only 75 or 76 and, these days, might be able to look forward to another ten or fifteen years on the outside. Yet he won't talk, the publicly accepted explanation/speculation being that he is trying to protect his family and its secreted money. But is this explanation right? Is it right even though he and his family must know by now that the family and its money will be closely watched, will be tracked, for decades (just like O.J. Simpson)? Might the explanation therefore be something else entirely - might it be that he knows that, if he talks, he'll never live to get out of the slammer in five or six years and, were he somehow to get out of the slammer alive - which would be unlikely to impossible - his life wouldn't be worth a plugged nickel after that because he will soon end up in the river?

Then too, one wonders whether Madoff, in his allocution before the judge may have deliberately given a (perhaps subtle) hint for whatever reasons may have motivated him (perhaps a clever desire to lead the government to try and to succeed in uncovering a mob connection entirely on its own, so that he could get out from under a death sentence). Madoff said in his allocution that he turned to fraud because:

I had received investment commitments from certain institutional clients and understood that those clients, like all professional investors, expected to see their investments out-perform the market. While I never promised a specific rate of return to any client, I felt compelled to satisfy my clients' expectations, at any cost.

In papers it filed with Judge Chin just before the hearing on Madoff's guilty plea and on bail, the government said that Madoff had promised some people returns as high as 46 percent. Dig that - *46 percent*. Now who the hell would you promise 46 percent to except gangsters? That kind of earnings rate just isn't promised to people unless something is very wrong - as when organized crime might be financing you at usurious exorbitant rates. And why else, except to keep organized crime satisfied lest his legs be broken at best or, worse, he be found in a concrete barrel at the bottom of the East River, would Madoff, if he was telling the truth about this in his allocution, have "*felt compelled to satisfy my clients' expectations, at any cost*"? (Emphasis added.) *Compelled to satisfy their expectations - at any cost?* It sounds like a Mafia deal to me.

As well, consider this. When the SEC undertook to investigate Bienes and Avellino in 1992, it feared, as it said, a giant Ponzi scheme. But its fear of a Ponzi scheme was allayed, and it publicly said there was no fraud (a kind of statement it *never* makes, securities experts say), because Madoff came up with about \$450 million to return to investors - if he *did* come up with it instead of just *saying* he had it in order to entice investors to leave their money with him in *direct* investments instead of using *indirect* investments through Bienes and Avellino (whom the SEC kicked out of the business - although the word on the street, everywhere, is that they did not *really* leave the business but just operated underground). *If Madoff really came with \$450 million - did the SEC check the truth of that?* - where did he manage to get such a huge sum so quickly to ward off an SEC finding of a Ponzi scheme? Organized crime would be a logical possibility, would it not? How else could he suddenly come up with \$450 million?

That organized crime may have been involved in the Madoff deal is, at present, only a speculation. But the more one considers the already known evidence and the facts that lead to this speculation, the more likely it appears that the speculation could in fact be the truth. One wonders: are the FBI and the U.S. Attorney considering and

investigating the possibility that Madoff was an organized crime deal? If they are not, why not? If they are, what are they finding and what and when will Madoff's victims and the public be told? In ways that one can only begin to guess at now, the answers to these questions will bear on a host of crucial matters, ranging from various forms of possible restitution to victims to the standing of American markets in the world.

There are people who are in touch with relevant governmental actors. They, and the rest of us among victims, in the public, in the media, and in Congress, should begin to continuously demand to know the answer to the question of whether Madoff was or was not tied in with the Mafia. There seems to have been an awful lot of smoke here. Was there also a fire?

I cannot resist closing with the following: When I was a kid around 1952, 1953, 1954, there were some books that came out about gangs and such and that were popular with and read by youngsters. One was *The Amboy Dukes*, another was *The Hoods*, and I think *A Stone For Danny Fisher* may have involved similar things. (None of these books are to be confused with Meyer Levin's *The Old Bunch*.) An episode in *The Hoods* was very funny, at least to a twelve or thirteen year old or a fourteen year old. A group of gangsters had invented a magical machine. You put toilet paper in one end, turned a crank, and money came out the other end. The machine was called the "crap paper machine." It turned toilet paper into money. It was, of course, a fraud.

The gangsters wanted to sell the machine for lots of money, so they persuaded a businessman to watch a demonstration of it. They put crap paper in one end, turned the crank, and out came money on the other end. The businessman bought it for a fortune (either never thinking to ask why the hoods would *sell* a machine that printed money instead of just *using* it to print money, or being satisfied with whatever explanation the hoods gave).

Anyway, the episode was very funny to a kid. Imagine, a bunch of hoods had sold a machine that ostensibly took crap paper and turned it into money. Ho, ho, ho. But hasn't Madoff created a reverse crap paper machine? Instead of taking in crap paper and turning it into money, his machine took in money and turned it into crap paper. Enough crap paper to service all of New York State for a couple of years maybe.

The *question* here in regard to Madoff's reverse crap paper machine is whether, as in *The Hoods*, the hoods were involved in Madoff's machine. Were the hoods floating Madoff's reverse crap paper machine here just as the hoods created the crap paper machine in *The Hoods*? And is the government focusing on this possibility, which looks like it could conceivably be all too real instead of just speculation.

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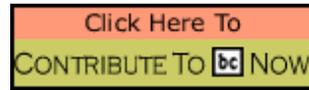
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