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Applying Contextual Anomie and Strain Theory to Recent Acts of Corporate Deviance

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Abstract:
In this paper, the authors use Contextual Anomie and Strain Theory (CAST) to explain recent acts of white-collar and corporate deviance involved in the near collapse of the US economy (e.g., fraud in big banks and on Wall Street). One goal of the article is to demonstrate how CAST can be used to help understand these kinds of acts of elite deviance. Another is to illustrate how the key tenets of the theory can be assessed against real-world deviant acts. Using a methodology of inferential logic—whereby general truths are discovered by analyzing specific incidents as laid out by scholarly and governmental investigations of the deviant acts under study—we are able to demonstrate that CAST is a valid explanation of white-collar and corporate crime.

Introduction

Although research shows that white-collar and corporate crimes receive far less attention in mainstream media than what are commonly referred to as serious street crimes (Robinson, 2017), it is also true that the careful consumer of news will regularly see stories describing harmful acts committed by elites. In the past 15 years, for example, the media have covered the actions of elites on Wall Street, in big banks, and even among members of Congress, that helped cause the economic collapse in the United States. This collapse caused between $12 and 22 trillion in losses, the equivalent of about 600-1,100 years of property street crime (Robinson, 2015). The media also devoted coverage to serious safety violations associated with some Toyota cars and the role that white-collar elites in the company played in trying to keep auto defects a secret, as well as serious deviance among executives in General Motors (GM) associated with defective ignition switches that led to more than 100 deaths. Prior to that; the media covered the explosion aboard a deep sea oil rig operated by British Petroleum (BP) in the Gulf of Mexico, (which killed 11 employees and resulted in the largest oil spill in US history), and the role that negligence and recklessness among corporate managers played in the disaster (Friedrichs, 2009; McLean & Nocera, 2010).

Still, since most Americans do not see even these acts as crimes—in spite of the culpability of elites involved and the enormous harms they cause—people remain largely preoccupied with serious street crimes even as they remain relatively rare and occur at much lower levels than in decades past (Reiman & Leighton, 2012). Even criminologists spend the great bulk of their time thinking, reading, and writing about street crime, meaning explanations of corporate and white-collar crime lag far behind those of even minor, ordinary criminal violations. Without understanding why such acts occur, it is much less likely that we can prevent them (Robinson, 2013). And obviously, without arrests and prosecutions of these offenders, achieving justice for victims is not possible.

Theories of white-collar and corporate crime exist (Rosoff, Pontell, & Tillman, 2009; Strader, 2011). One example is the theory of *desire-for-control*, referring to the desire or wish to be in control over everyday life events (Piquero, Exum, & Simpson, 2005). Persons who have a high desire-for-control are assertive, decisive, active, influential, manipulative, and tend to be leaders. Piquero and colleagues (2005: 260) speculate that powerful people such as corporate managers with a high desire-for-control "may come to believe that they have to do something—even if it is criminal—in order to survive, get by and perhaps more importantly, get ahead." Thus, desire-for-control may help us understand criminal acts of elites in contexts such as corporations. Yet, no such theory has come to dominate the field of criminology or even gain widespread attention like say the theory of low self-control does in explanations of street crime. (Robinson & Beaver, 2009).

Of all the theories that exist in criminology, perhaps the one that holds the most promise for understanding the criminal and deviant acts of the powerful is the theory of institutional anomie theory, which posits that pursuit of the American Dream is criminogenic. Specifically, an imbalance in societal emphasis in favor of economic institutions over other non-economic institutions in society such as the family can produce crime. (Messner & Rosenfeld, 2012). Although the theory is not intended to explain white-collar and corporate crime and has commonly been applied to street crimes; it has recently been extended to some forms of elite deviance including bank fraud, tax evasion, and bribery. (Bame-Aldred, Cullen, Martin, & Parboteeah, 2013; Farrall & Karstedt, 2006; Messner, 2012; Otusanya, Lauwo, & Ajibolade, 2013; Piquero & Schoepfer, 2006; Simon, 2007; Zhou, Han, & Wang, 2013).

In this paper, we summarize the theory, *Contextual Anomie and Strain Theory* (CAST) —which is built on institutional anomie theory as well as Merton's theories of anomie and strain—and is specifically meant to explain white-collar and corporate crime (Robinson & Murphy, 2009). The major purpose of this article is to demonstrate how the theory can be used to explain the harmful acts of elites. We do this by applying the theory to the "financial crisis" which rocked the country in 2008 and show that the theory is well-suited to explain property crimes committed by elites.

Literature Review

Contextual anomie/strain theory (CAST) is an integrated theory of crime focusing on elite deviance, particularly corporate crime (Robinson & Murphy, 2009). The theory builds on Robert Merton's anomie and strain theories, as well as Steven Messner & Richard Rosenfeld's institutional anomie theory. Its main assertion is that greed produces crime, especially acts of elite deviance (e.g., corporate crime). Elite deviance tends to be committed by already extremely wealthy individuals who nevertheless experience strain and anomie in the context of their jobs and have enhanced opportunities for criminality at work. Below we briefly summarize the theories on which CAST is built.

Robert Merton's Strain and Anomie Theories

Robert Merton gave us two related theories of crime—strain theory and anomie theory—both dealing with the American Dream. The *American Dream* refers to the overriding institutionalized goal in our country. Stated simply, the American Dream means "making it," "winning the game," or achieving independence and wealth. Achieving the American Dream is the primary goal of Americans, Merton asserted, and the overriding goal is money … "money *signifies* success; it is the *metric* of success" (Messner, 2003: 98-9).

Merton's first theory—strain theory—asserts that a disjunction between societal goals and the means one has to achieve them produces crime. When people embrace the goal of acquiring wealth associated with the American Dream but do not have the institutionalized, legitimate means (e.g., work) to achieve that goal, they experience *strain*; strain refers to stress on the institutional norms, which "lose their legitimacy and regulatory power" when people have difficulty achieving their goals legally (Cullen & Messner, 2007: 11).

Strain can produce forms of crime, including those "innovative" acts aimed at achieving more wealth. According to Merton, the adaptation of innovation is responsible for the greatest share of crime (especially street crime among the lower classes). Merton explained: "The greatest pressures toward deviation are exerted upon the lower strata" (p. 141). Yet, Merton (1938: 676-677) never thought of his theory as limited to crime committed by the poor: "Fraud, corruption, vice, crime, in short, the entire catalogue of proscribed behavior, becomes increasingly common when the emphasis on the *culturally induced success-goal* becomes divorced from a coordinated institutional emphasis." That is, Merton's theory can easily be applied to acts of the powerful, including white-collar and corporate crimes (Robinson & Murphy, 2009).

Even the rich—who, by definition, have a lot of money—seek more. This is because "in the American Dream there is no final stopping point. The measure of 'monetary success' is conveniently indefinite and relative. At each income level … Americans want just about twenty-five percent more (but of course this 'just a bit more' continues to operate once it is obtained)" (Merton, 1957: 136). This can potentially help us understand deviant acts of even the wealthy (e.g., corporate crime), for the logic is no matter how much you have, it's never enough. Yet, a recent search of several academic databases of "strain" and "corporate crime" found zero articles.

Merton's second theory—anomie theory—suggests that when culturally prescribed goals overcome and completely dominate consideration of culturally prescribed means, crime may also occur: "There may develop a very heavy, at times virtually exclusive, stress upon the value of particular goals, involving comparatively little concern with the institutionally prescribed means of striving toward these goal" (Merton, 1957: 132). When emphasis on institutionalized means relaxes and goals are overemphasized, the result may be *anomie* and criminality. Thus, the goal of pursuing success itself can encourage people to commit crime when "winning" or "making it" according to the rules becomes secondary to "winning" or "making it" by *any means necessary*. That is, the American Dream, by emphasizing individualism and materialism, "encourages people to adopt an 'anything goes' mentality in the pursuit of personal goals" (Chamlin & Cochran, 2007: 45).

Logic suggests this would also apply to harmful acts of the wealthy (e.g., corporate crime). Yet, only a few studies have examined relationships between anomie and corporate crime. These studies generally found support that anomie within organizations is associated with a higher likelihood of bank fraud, tax evasion, and bribery (Bame-Aldred, Cullen, Martin, & Parboteeah, 2013; Otusanya, Lauwo, & Ajibolade, 2013; Zhou, Han, & Wang, 2013).

<u>Steven Messner & Richard Rosenfeld's Institutional Anomie Theory</u>

Steven Messner & Richard Rosenfeld (1994: 6) also attribute high crime rates in the United States to our allegiance to the American Dream. These authors define the American Dream as the "broad cultural ethos that entails a commitment to *the goal of material success*, to be pursued by everyone in society, under conditions of open, individual competition." It can be better understood in terms of four values—achievement, individualism, universalism, and the "fetishism of money" (Messner & Rosenfeld, 1994: 62-63). *Achievement* refers to making something of oneself whereby "the failure to achieve is readily equated with a failure to make any meaningful contribution to society." *Individualism* refers to the status of one person above society whereby people are "encouraged to make it on their own" by, if necessary, disregarding normative restraints on behavior. *Universalism* refers to the fact that everyone is encouraged to pursue the American Dream, as Merton suggested. Finally, the *fetishism of money* refers to "preeminent role of money as the 'metric' of success," as noted by Merton.

Part of the problem with the American Dream, according to Messner and Rosenfeld, is *cultural,* (whereby messages inherent in the American Dream create criminal motivations through innovation and anomie) and part of the problem is *structural,* (whereby the economy dominates other societal institutions). The cultural argument asserts that American culture is characterized by a strong emphasis on the goal of monetary success and a weak emphasis on the importance of the legitimate means for the pursuit of success, as suggested by Merton decades earlier.

Like Merton, Messner and Rosenfeld (1994: 10) agree that the American Dream encourages an exaggerated emphasis on monetary achievement while devaluing alternative criterion of success, it promotes a preoccupation with the realization of goals while de-emphasizing the importance of the ways in which these goals are pursued." The American Dream thus "creates pressure to achieve but minimizes the pressure to play by the rules. Under these circumstances, people become more likely to use the 'most technically efficient means necessary' in reaching their goals. The result is a higher rate of predatory crime" (Bernberg, 2002: 732). In some cases, the cultural emphasis on achievement, which promotes productivity and innovation, also generates pressures to succeed at any cost. Stated simply, "In the 'rush to get ahead,' it is sometimes necessary to 'find an edge,' 'cut a corner,' bend 'principle to circumstance,' 'cheat a little,' 'lie a little'" (Messner & Rosenfeld, 1994: 61). Clearly then, the theory is capable of explaining acts of elite deviance including corporate crime.

As for the structural part of the argument, Messner & Rosenfeld argue that the American Dream also exerts an indirect effect on crime through its interconnections with the institutional balance of power in society. Messner & Rosenfeld (1994: 65-6) identify significant institutions in American society (i.e., economy, polity, family, and education) and claim that the economy is the most important. According to Messner & Rosenfeld (1994: 68), in order for society to function appropriately, these four institutions must be coordinated and cooperate. However, America's most cherished values— "a strong achievement orientation, a commitment to competitive individualism, universalism, and, most important, the glorification of material success"—are rooted in economic concerns, meaning the economy comes first. Further, the other social institutions are unable to "tame economic imperatives." This occurs in three ways: when noneconomic institutional functions are devalued; when other social institutions make accommodations to the economy; and when economic norms penetrate other institutional domains (Maume & Lee, 2003; Savolainen, 2000).

Antisocial and criminal behavior will be more likely when non-economic institutions are weakened (Messner & Rosenfeld, 1994: 10). That is, "when other institutions such as polity, religion, education, and the family are unable to regulate human impulses generated by the economy, criminality and deviance are more likely" (Chamlin & Cochran, 1995: 411). Some studies are supportive of institutional anomie theory (Chamlin & Cochran, 1995; Maume & Lee, 2003; Piquero &

Piquero, 1998; Savolainen, 2000). Yet, in spite of the likelihood that institutional anomie is related to corporate crime as well as street crime, a recent search of different academic databases of "institutional anomie" and "corporate crime" found only a handful of articles.

The Gaps Left by these Anomie and Strain Theories

Although anomie and strain theories make important contributions to the understanding of criminality, together they leave two significant gaps that must be filled in order to fully understand criminality. The first gap is that none of these anomie and strain theorists applied their theories to harmful acts of elites (e.g., corporate crime). This is problematic because these acts are far more damaging than all street crimes combined. The second gap is that no anomie and strain theorists considered the possibility that people respond to anomie and strain with conformity and innovation simultaneously. This is problematic because people concomitantly engage in conformity and innovation, something that is known to be common in the corporate world (Fooks, 2013; Salinger, 2013; Spollen, 2013). Contextual anomie and strain theory (CAST) thus posits that, in addition to legitimate or institutional means of opportunity for success; we must consider illegitimate or noninstitutional means of opportunity for success. Doing this produces a new mode of adaptation to strain called *maximization*. This new mode of adaptation is shown in Table 1. CAST is built around this new mode of adaptation to strain.

Table 1. Modes of Adaptation to Strain, Extended

Mode of adaptation	Cultural Goals	Legitimate Means	Illegitimate Means
Conformity	Accept	Accept	Reject
Innovation	Accept	Reject	Accept
Ritualism	Reject	Accept	Reject
Retreatism	Reject	Reject	Accept
Rebellion	Reject/Replace		Accept
***Maximization**	***Accept***	***Accept***	***Accept***

**Maximizers accept both legitimate and illegitimate means to achieve their goals and engage simultaneously in Conformity and Innovation.*

The goal of CAST is to demonstrate the ways in which greed is promoted as part of the American Dream, and how corporate elites satisfy greed through maximization—the simultaneous use of legitimate and illegitimate means of opportunity to achieve goals. Thus, the theory fills two major gaps of anomie and strain theories. Below, we summarize the theory and then illustrate how it can help explain corporate crime.

Contextual Anomie and Strain Theory

The main propositions for CAST are shown in Table 2. As shown in the table, the theory is built around the concept of *greed*—the desire for having more than one needs. CAST suggests that greed promotes crime and thus crime should be seen as normal in American society since greed is so greatly emphasized in American culture. (Johnston, 2007; Madrick, 2011). As hinted at by anomie, strain, and institutional anomie theories, CAST asserts that greed is part of the American Dream—which emphasizes the cultural goals of society over the institutionalized means to achieve those goals—thereby weakening norms of law-abiding behavior. Greed and the American Dream generate crime because the cultural goals of society are not actually reachable due to of their infinite nature, thereby causing perceptions of strain for people regardless of their level of monetary success (as posited by Merton).

Table 2. Major Propositions of CAST

CAST makes the following propositions as part of the theory:

1. Greed promotes crime.
2. Greed is emphasized in American culture.
   a. The American Dream promotes greed by emphasizing the cultural goals of society over the institutionalized means to achieve those goals; this weakens norms of law-abiding behavior.
   b. The American Dream promotes greed by emphasizing cultural goals of society that are not reachable because of their infinite nature; this leads to perceptions of strain for people regardless of their level of monetary success.
   c. In America, the health and welfare of the economy are emphasized over the health and welfare of other institutions such as the family, education, and the polity.
3. The cultural goals of the American Dream are learned in schools and promoted by parents and the polity, acting as surrogates for corporate and capitalistic interests.
4. The primary means of satisfying greed by elites is *Maximization*—using illegitimate means (i.e., criminality, deviance) in conjunction with legitimate means (i.e., work).
Elites simultaneously engage in innovation and conformity to achieve even greater wealth.
5. Maximization is accepted, expected, and even celebrated in given contexts in American society (e.g., corporations).
6. Maximization is learned and promoted in social contexts (e.g., the corporate subculture).
   a. The corporate subculture encourages and at times mandates elite deviance through Maximization.
   b. The corporate subculture provides justifications for elite deviance through Maximization.
   c. The corporate subculture teaches workers how to commit elite deviance through Maximization.
7. Maximization is contingent upon individual personality characteristics, social and personal control (including degree of reward and threat of punishment), loyalty, ideology of executives, and opportunity.

Greed is also promoted as the health and welfare of the economy are emphasized over the health and welfare of other institutions such as the family, education, and the polity, thereby weakening the social institutions that are best able to prevent crime (as laid out by Messner & Rosenfeld). CAST suggests that the cultural goals of the American Dream are learned in schools and promoted by parents and the polity, acting as surrogates for corporate and capitalistic interests, in line with conflict theory (Bonger & Turk, 1969). That is, all of us are raised to concern ourselves first and foremost with economic issues like getting a job, performing well enough at work to keep our job, having enough money to pay our bills, and providing for our families.

CAST is well-suited to explain deviant acts of elites because it asserts that the primary means of satisfying greed by elites is maximization—using illegitimate means (i.e., criminality, deviance) in conjunction with legitimate means (i.e., work). Elites thus simultaneously engage in innovation and conformity to achieve even greater wealth because opportunities exist for both forms of behavior, as predicted by differential opportunity theory (Cloward & Ohlin, 1961). An example of this is false advertising, a form of fraud occurring when a company selling a product makes false claims about it, misleading people into buying that product (Salinger, 2004). False advertising is a good example of maximization because it entails simultaneously engaging in conformity (i.e., legally selling a product in pursuit of goals associated with the American Dream) and innovation (i.e., committing fraud, a crime, in furtherance of the same goals). Research demonstrates that aximization is commonplace within corporations (Bakin, 2005; Cullen, Cavender, Maakested, & Benson, 2006; Jackall, 1988; Rowland, 2005; Simon, 2006).

As one clear example, a recent analysis of 50 convicted, high-level and notorious white-collar criminals found direct evidence in support of the argument that maximization is the norm in big business, that it is "ubiquitous" in larger corporations (Soltes, 2016). Soltes (2016) found that the offenders did not feel remorse for their crimes for several reasons: first, they viewed their greedy acts as normal; second, they believed everyone else also did it, third, they often even denied victims and harm to people based largely on the large distance from the victims; and fourth, they saw their acts as good for the company and their own careers. Often the offenders didn't even think about the potential consequences to potential victims or even their companies when under intense pressure to perform and produce higher and higher profits. When they did, the offenders confessed that they told him their individual morals simply "went out the window" in the context of their work. It might be understandable, based on what the offenders reported about the context of their crimes. They told Soltes (2016) that their criminal behavior was rewarded not only with "props" but also with financial incentives from managers.

Application of CAST to Recent Corporate Crimes: The "Financial Crisis"

The Financial Crisis

One of the worst economic crises in US history occurred in 2008 and was caused largely by greed and fraud on the part of people on Wall Street, in big banks, in the regulatory industry, and even in government. That is, this was a crime.

Two independent groups, one part of the US government and the other appointed by it, investigated the 2008 financial crisis. First, the US Senate's Permanent Subcommittee on Investigations was tasked with conducting a bi-partisan investigation into the origins of the 2008 financial crisis. Second, the Financial Crisis Inquiry Commission was a group created to "examine the causes of the current financial and economic crisis in the United States" and report back to the President of the United States, the US Congress, and the American people. According to the Commission: "Our task was first to determine what happened and how it happened so that we could understand why it happened" (p. xv).

An examination of the findings of these investigations corroborates evidence consistent with the major tenets of CAST. That is, the economic collapse was caused by greed in pursuit of great wealth achieved through maximization. Below we summarize the investigatory findings and identify evidence that is consistent with CAST. Before we do that, it's first important to discuss the nature of the crisis itself.

According to the General Accountability Office (GAO, 2013: 1), this was a *financial crisis*, and specifically a *banking crisis*:

> There is no universally accepted definition of a financial crisis. Some academic studies identify three major types of financial crises: banking crises, public debt crises, and currency crises. The most recent financial crisis in the United States is widely considered to have been a banking crisis. While researchers have defined banking crises in different ways, their definitions generally focus on indicators of severe stress on the financial system, such as runs on financial institutions or large-scale government assistance to the financial sector. The large increases in public debt that tend to follow the onset of a banking crisis can make a country more susceptible to a public debt crisis (p. 9).

The crisis was costly to everyone in the US because it…

> ... threatened the stability of the U.S. financial system—composed of financial institutions, markets, and infrastructure— and the health of the U.S. economy. At the peak of the crisis, the federal government introduced unprecedented support for financial markets, providing hundreds of billions of dollars of capital and over a trillion dollars of emergency loans to financial institutions. Many households suffered as a result of falling asset prices, tightening credit, and increasing unemployment.

This banking crisis caused the average American household about $5,800 in income ("due to reduced economic growth during the acute stage of the financial crisis from September 2008 through the end of 2009"), plus $2,050 (due to the government's "interventions to mitigate the financial crisis"), plus about $100,000 (in "loss from declining stock and home values"). Thus, the average US household lost about $107,000 because of the economic collapse (Pew, 2010).

The combined costs to Americans of the economic crisis are shown in Table 3. They total more than $12 trillion, roughly equivalent to 600 years' worth of all property crimes committed on the streets of America (FBI, 2011).

Table 3. Costs of the US Economic Crisis

- Income – The financial crisis cost the U.S. an estimated $648 billion due to slower economic growth, as measured by the difference between the Congressional Budget Office (CBO) economic forecast made in September 2008 and the actual performance of the economy from September 2008 through the end of 2009. That equates to an average of approximately $5,800 in lost income for each U.S. household.
- Government Response – Federal government spending to mitigate the financial crisis through the Troubled Asset Relief Program (TARP) will result in a net cost to taxpayers of $73 billion according to the CBO. This is approximately $2,050 per U.S. household on average.
- Home Values – The U.S. lost $3.4 trillion in real estate wealth from July 2008 to March 2009 according to the Federal Reserve. This is roughly $30,300 per U.S. household. Further, 500,000 additional foreclosures began during the acute phase of the financial crisis than were expected, based on the September 2008 CBO forecast.
- Stock Values – The U.S. lost $7.4 trillion in stock wealth from July 2008 to March 2009, according to the Federal Reserve. This is roughly $66,200 on average per U.S. household.
- Jobs – 5.5 million more American jobs were lost due to slower economic growth during the financial crisis than what was predicted by the September 2008 CBO forecast.

Source: http://www.pewtrusts.org/our_work_report_detail.aspx?id=58695

The Government Accountability Office (GAO) estimates that the true cost was actually higher, at about $22 trillion. This cost includes losses in Gross Domestic Product (GDP), as well as large declines in employment, household wealth, and "other economic indicators." This figure is equivalent to 1,100 years of property crime.

So, how did this happen? According to GAO (2013: 11):

> ... around mid-2007, losses in the mortgage market triggered a reassessment of financial risk in other debt instruments and sparked the financial crisis. Uncertainty about the financial condition and solvency of financial entities resulted in a liquidity and credit crunch that made the financing on which many businesses and individuals depend increasingly difficult to obtain. By late summer of 2008, the ramifications of the financial crisis ranged from the failure of financial institutions to increased losses of individual savings and corporate investments.

These are some of the causes of the crisis by GAO (2013: 10-11):

- *financial innovation* in the form of asset securitization, which reduced mortgage originators' incentives to be prudent in underwriting loans and made it difficult to understand the size and distribution of loss exposures throughout the system;
- imprudent business and risk management decisions based on the expectation of continued housing price appreciation;
- faulty assumptions in the models used by credit rating agencies to rate mortgage-related securities;
- gaps and weaknesses in regulatory oversight, which allowed financial institutions to take excessive risks by exploiting loopholes in capital rules and funding themselves increasingly with short-term liabilities;
- government policies to increase homeownership, including the role of Fannie Mae and Freddie Mac in supporting lending to higher-risk borrowers; and
- economic conditions, characterized by accommodative monetary policies, ample liquidity and availability of credit, and low interest rates that spurred housing investment.

GAO does not mention the actual means used by elites to cause this crisis but they are subsumed under the term *financial innovation* in the first bullet point above; they include things like subprime mortgages, residential mortgage backed securities, Alt-A mortgages, payment option adjustable rate mortgages, synthetic securities, tranches, credit enhancement, high loan-to-value lending, credit default swaps, collateralized debt obligations, collateralized debt obligations squared, multi-sector collateralized debt obligations, inflated home appraisals, no doc loans, yield spread premiums, and triple-A ratings. In essence, these are methods used to speculate on Wall Street by betting for or against various forms of home mortgages (McClean & Nocera, 2010). These means were legal and thus people utilizing them to produce profit were engaged in conformity, yet the deviance and fraud involved in their sale is indicative of innovation; thus, this whole process is consistent with maximization (e.g., selling stocks, which is legal, but knowingly selling worthless stocks, which is deviant).

<u>Senate Permanent Subcommittee on Investigations.</u>

Beginning with the US Senate's Permanent Subcommittee on Investigations, it identified "four root causes" of the crisis: "high risk lending by U.S. financial institutions; regulatory failures; inflated credit ratings; and high risk, poor quality financial products designed and sold by some investment banks" (p. 2). Those "poor quality financial products" were created, promoted, and sold by elites who often knew that they were either worthless or would ultimately become worthless. Thus, banks, regulatory agencies, credit rating agencies, and Wall Street agents were responsible for the economic collapse. So, it makes sense to attribute the harms of the economic collapse to acts of elite deviance.

The financial crisis started in the housing market; the value of the housing market was inflated to levels that were not real based on numerous forms of fraud committed by people in big banks and in the regulatory and government agencies that were supposed to be protecting consumers. Here is how it happened: People who were too risky to receive loans to buy homes were being given loans by banks even when it was thought and in many cases known that they would default on their loans; the US government played a role here by encouraging homeownership even among people who could not afford it. Wall Street agencies then sold these bad loans in numerous forms, dividing them up into new financial products guaranteed by the US government due to their high ratings even though it was in many cases known that people would default on the loans; thus, some investors bet against the loans (thinking they would fail and therefore create enormous profit for those betting against repayment). This is consistent with maximization, for these actions involved legal and illegal acts committed simultaneously, and thus conformity and innovation.

The securitization in the housing market was like a giant pyramid scheme whereby people were profiting in the banks (as they made too many loans) and on Wall Street (as they sold and invested in the loans and newly created financial products based on these loans), even though the original products on which they were profiting were worthless. That is, the housing market rose to record levels in the form of an enormous housing bubble, and that bubble would inevitably pop and create the massive economic collapse in the United States. Record numbers of home foreclosures—even those that had been obtained with Triple-A ratings by people who were victims of predatory lending practices and subprime mortgages—caused the collapse of the entire US economy after the securities based on these mortgages proved worthless. Companies that had invested in these securities who had taken on much greater risk that was reasonable based on the amount of cash they had on hand lost hundreds of billions of dollars; many of them were bailed out by the US government (i.e., tax payers), thereby driving up national debt.

The crisis began when banks pursued higher and higher risk loans, backed by mortgage securities. When the loans failed, so too did the securities based on them. The Subcommittee reports that, during this process, large banks knowingly engaged in fraudulent loan practices, pushing loans that they knew would lead to default. Such behavior makes them culpable for the outcomes produced by this practice. That is, this is elite deviance. Again, this exemplifies maximization, for providing loans to customers is legal (conformity) but when accompanied by fraud, it is illegal (innovation).

Among their wrongful behaviors, the banks "engaged in a host of shoddy lending practices that produced billions of dollars in high risk, poor quality mortgages and mortgage backed securities" (p. 3). This is maximization that included

> qualifying high risk borrowers for larger loans than they could afford; steering borrowers from conventional mortgages to higher risk loan products; accepting loan applications without verifying the borrower's income; using loans with low, short term "teaser" rates that could lead to payment shock when higher interest rates took effect later on; promoting negatively amortizing loans in which many borrowers increased rather than paid down their debt; and authorizing loans with multiple layers of risk (p. 3).

Major banks also "failed to enforce compliance with their own lending standards; allowed excessive loan error and exception rates; exercised weak oversight over the third party mortgage brokers who supplied half or more of their loans; and tolerated the issuance of loans with fraudulent or erroneous borrower information."

Finally, they "designed compensation incentives that rewarded loan personnel for issuing a large volume of higher risk loans, valuing speed and volume over loan quality" (p. 3). That is, employees were rewarded for reckless behavior, one possible explanation for the widespread deviance there. Again, all this falls under the category of maximization. Some of the rewards were financial, others came in the form of awards won by salespeople in the institutions. This is proof that financial incentive drove the actions of banking officials including loan originators, consistent with anomie and strain theories.

The Subcommittee noted that "lenders created compensation incentives that encouraged their personnel to quickly produce a high volume of loans. They also encouraged their staffs to issue or purchase higher risk loans, because those loans produced higher sale prices on Wall Street." In many cases, loan officers "received more money per loan for originating higher risk loans and for exceeding established loan targets" and also received more money for charging borrowers "higher interest rates or points than required in the lender's rate sheets specifying loan prices or included prepayment penalties in the loan agreements." And loan processors "were compensated according to the speed and number of the loans they processed." Meanwhile the investigation found that lenders "employed few compensation incentives to encourage loan officers or loan processors to produce high quality, creditworthy loans in line with the lender's credit requirements" (p. 25).

One bank official who testified to the Subcommittee noted: "Because of the compensation systems rewarding volume versus quality and the independent structure of the originators, I am confident at times borrowers were coached to fill out applications with overstated incomes or net worth to meet the minimum underwriting requirements. Catching this kind of fraud was difficult at best and required the support of line management. Not surprisingly, loan originators constantly threatened to quit and to go … elsewhere if the loan applications were not approved" (p. 103). This is consistent with how maximization is learned and promoted within corporations, according to CAST.

Even a Quality Assurance Controller in testified to the Subcommittee "that the pressure to keep up with the loan volume was enormous." Goals were measured in "dollar value and the number of loans funded" and "[a]t the end of each month the pressure to meet those goals intensified." She reported working "from 6 a.m. until midnight reviewing loan files. Monthly rallies were held, and prizes were awarded to the underwriters and loan processors who had funded the most loans" (p. 151). As explained by CAST, individual morals go out the door and lose any controlling impact as a result.

A rule change in 2002 by the US Department of the Treasury which allowed significant reductions of capital reserves for securitized mortgages "created opportunities for banks to lower their ratio of capital to assets through structured financing" and "created the incentive for rating agencies to provide overly optimistic assessment of the risk in mortgage pools" (p. 18). This suggests larger, structural incentives at play, as well. Note that this is consistent with the proposition in CAST that economic concerns take precedence over other institutions in society.

Why did large banks pursue these practices? The Subcommittee writes that they did so "because higher risk loans and mortgage backed securities could be sold for higher prices on Wall Street." In other words, it was greed. Such loans and securities "garnered higher prices because higher risk meant the securities paid a higher coupon rate than other comparably rated securities, and investors paid a higher price to buy them. Selling or securitizing the loans also removed them from [the banks'] books and appeared to insulate [them] from risk" (p. 4).

The Subcommittee investigation indicates that "unacceptable lending and securitization practices were … present at a host of financial institutions that originated, sold, and securitized billions of dollars in high risk, poor quality home loans that inundated U.S. financial markets." Ultimately, since the securities were generally investments on worthless loans, they "plummeted in value, leaving banks and investors with huge losses that helped send the economy into a downward spiral. These lenders were not the victims of the financial crisis; the high risk loans they issued were the fuel that ignited the financial crisis" (p. 4).

The Subcommittee found that regulators knew of deficiencies in banks and did not take steps to stop them, requested corrective action but did not demand it, and continued to rate them as financially sound even when they knew they were not. Instead of "policing the banks" to protect the US economy and the American people, regulators deferred to the managers of banks and counted on them to police themselves. The Subcommittee calls this "a regulatory approach with disastrous results" (p. 5), sort of like allowing burglars and bank robbers to police themselves. CAST asserts that maximization will only occur in the absence of effective social controls.

The lack of effective regulation "allowed high risk loans at the bank to proliferate, negatively impacting investors across the United States and around the world … The result was a mortgage market saturated with risky loans, and financial institutions that were supposed to hold predominantly safe investments but instead held portfolios rife with high risk, poor quality mortgages." The inevitable result of such practices was that as people started to default on loans "in record numbers and mortgage related securities plummeted in value, financial institutions around the globe suffered hundreds of billions of dollars in losses, triggering an economic disaster." According to the Subcommittee: "The regulatory failures that set the stage for those losses were a proximate cause of the financial crisis" (p. 5). Thus, allowing criminal companies to police themselves was a second cause of the crisis.

The largest credit rating agencies—Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Financial Services LLC (S&P)—charged with rating loans and financial instruments based on those loans, failed by rating even the most speculative and risk loans at their highest possible levels. These agencies were thus clearly negligent in their duties, another form of elite deviance. This is also an example of maximization, as regulators were involved in legal activity (conformity) but failed to actually do their jobs effectively due to deviance in the industry (innovation).

The Subcommittee notes that multiple problems were "responsible for the inaccurate ratings, including conflicts of interest that placed achieving market share and increased revenues ahead of ensuring accurate ratings." What role did Moody's and S&P play in the crisis? The Subcommittee writes: "Between 2004 and 2007, Moody's and S&P issued credit ratings for tens of thousands of U.S. residential mortgage backed securities (RMBS) and collateralized debt obligations (CDO). Taking in increasing revenue from Wall Street firms, Moody's and S&P issued AAA and other investment grade credit ratings for the vast majority of those RMBS and CDO securities, deeming them safe investments even though many relied on high risk home loans" (p. 6).

Once these high risk mortgages "began incurring delinquencies and defaults at an alarming rate … Moody's and S&P continued for six months to issue investment grade ratings for numerous RMBS and CDO securities" (p. 6). That is, even after knowing that high risk RMBS's and CDO's were failing, these rating agencies knowingly gave highly risky and speculative products high ratings, making them also responsible for the subsequent economic collapse. Such behavior meets the standard of recklessness and thus makes credit ratings agencies a third cause of the crisis. This is also an example of maximization because it is comprised of simultaneously legal and unethical behaviors.

Starting in July 2007, "as mortgage delinquencies intensified and RMBS and CDO securities began incurring losses, both companies abruptly reversed course and began downgrading at record numbers hundreds and then thousands of their RMBS and CDO ratings, some less than a year old." When this happened, "banks, pension funds, and insurance companies, who are by rule barred from owning low rated securities, were forced to sell off their downgraded RMBS and CDO holdings, because they had lost their investment grade status." This caused major losses because RMBS and CDO securities lost their value (p. 6).

According to the Subcommittee: "The subprime RMBS market initially froze and then collapsed, leaving investors and financial firms around the world holding unmarketable subprime RMBS securities that were plummeting in value. A few months later, the CDO market collapsed as well" (p. 6).

The problem with rating risky loan products with the AAA rating is that, normally, such products have less than a one percent probability of failing. This sends a message to investors that such products are excellent investments even though, because of the dishonesty of banks, regulators, and credit rating agencies, "the vast majority of RMBS and CDO securities with AAA ratings" were in actually just junk: "Analysts have determined that over 90% of the AAA ratings given to subprime RMBS securities originated in 2006 and 2007 were later downgraded by the credit rating agencies to junk status" (p. 6). The junk status was often known by those selling them and even betting against them in the markets, another example of maximization.

The result? Not only were hosts of people financially devastated, but "widespread losses led, in turn, to a loss of investor confidence in the value of the AAA rating, in the holdings of major U.S. financial institutions, and even in the viability of U.S. financial markets." The Subcommittee thus concludes: "Inaccurate AAA credit ratings introduced risk into the U.S. financial system and constituted a key cause of the financial crisis. In addition, the July mass downgrades, which were unprecedented in number and scope, precipitated the collapse of the RMBS and CDO secondary markets, and perhaps more than any other single event triggered the beginning of the financial crisis" (p. 6).

The "inherent conflict of interest arising from the system used to pay for credit ratings" was also problematic because Wall Street firms paid credit rating agencies and then used the ratings to promote their products. This amounts to paying someone to help you sell a product, like a salesperson, but in this case the salesperson is supposed to be a neutral actor meant to protect the consumer rather than represent the seller. According to the Subcommittee: "The rating agencies weakened their standards as each competed to provide the most favorable rating to win business and greater market share. The result was a race to the bottom" (p. 7).

Within the rating agencies, other problems contributed to the ultimate collapse, including:

> rating models that failed to include relevant mortgage performance data; unclear and subjective criteria used to produce ratings; a failure to apply updated rating models to existing rated transactions; and a failure to provide adequate staffing to perform rating and surveillance services, despite record revenues. Compounding these problems were federal regulations that required the purchase of investment grade securities by banks and others, which created pressure on the credit rating agencies to issue investment grade ratings. While these federal regulations were intended to help investors stay away from unsafe securities, they had the opposite effect when the AAA ratings proved inaccurate (p. 7).

What makes the credit rating agencies culpable? The Subcommittee concludes that they "were aware of problems in the mortgage market, including an unsustainable rise in housing prices, the high risk nature of the loans being issued, lax lending standards, and rampant mortgage fraud. Instead of using this information to temper their ratings, the firms continued to issue a high volume of investment grade ratings for mortgage backed securities." This is maximization in pursuit of greed. The Subcommittee concludes that investors would have been discouraged from making such risk investments had the credit rating agencies just done their jobs (p. 7). Yet, since "the credit rating agencies' profits became increasingly reliant on the fees generated by issuing a large volume of structured finance ratings" Moody's and S&P had a financial incentive to provide AAA ratings to tens of thousands of high risk RMBS and CDO securities. As with the banks and investors, ratings agencies engaged in high-level deviance for monetary reward, consistent with the major premises of anomie and strain theories.

Finally, there is Wall Street itself. The Subcommittee rightly notes that the "complex financial instruments" designed and promoted by Wall Street agents—including RMBS and CDO securities, as well credit default swaps (CDS), and CDS contracts linked to the ABX Index (a measure of the overall value of mortgages made to borrowers with subprime or weak credit) —gave them the opportunity to create enormous wealth from financial products not even understood by the average person (p. 8).

The products work this way: A family gets a loan from a bank to buy a house. That loan is protected by a federal agency in case of default. Similar loans from across the country are then packaged and sold as securities so that investors can bet for or against these products. According to the Subcommittee: "From 2004 to 2008, U.S. financial institutions issued nearly $2.5 trillion in RMBS and over $1.4 trillion in CDO securities, backed primarily by mortgage related products" (p. 8). If the loans themselves are bad, then so too are the securities on which they are based.

Yet, since investment banks charged fees of anywhere from $1 to $8 million to underwrite an RMBS securitization, and $5 to $10 million to be the placement agent for a CDO securitization, investment banks were generating enormous revenues by handle mortgage related securitizations, even when they were bad. According to the Subcommittee:

> Investment banks sold RMBS and CDO securities to investors around the world, and helped develop a secondary market where RMBS and CDO securities could be traded. The investment banks' trading desks participated in those secondary markets, buying and selling RMBS and CDO securities either on behalf of their clients or in connection with their own proprietary transactions. The financial products developed by investment banks allowed investors to profit, not only from the success of an RMBS or CDO securitization, but also from its failure. CDS contracts, for example, allowed counterparties to wager on the rise or fall in the value of a specific RMBS security or on a collection of RMBS and other assets contained or referenced in a CDO. Major investment banks developed standardized CDS contracts that could also be traded on a secondary market. In addition, they established the ABX Index which allowed counterparties to wager on the rise or fall in the value of a basket of subprime RMBS securities, which could be used to reflect the status of the subprime mortgage market as a whole. The investment banks sometimes matched up parties who wanted to take opposite sides in a transaction and other times took one or the other side of the transaction to accommodate a client. At still other times, investment banks used these financial

> instruments to make their own proprietary wagers. In extreme cases, some investment banks set up structured finance transactions which enabled them to profit at the expense of their clients (p. 8).

Incredibly, major banks began quickly selling off and writing down their subprime RMBS and CDO inventory and began building short positions that would allow them "to profit from the decline of the mortgage market." Large banks made hundreds of billions of dollars in profits betting against products that they knew to be worthless while simultaneously selling and promoting the products to their clients and without telling them that they were themselves betting against the products (p. 9)! Thus, these actors knowingly sold bad loans to clients in order to profit from them, recognizing the only way they would profit is if the loans failed, which means they'd only gain if their own clients lost. This, too, is exemplifies maximization.

According to the Subcommittee, investment banks "were the driving force behind the structured finance products that provided a steady stream of funding for lenders originating high risk, poor quality loans and that magnified risk throughout the U.S. financial system. The investment banks that engineered, sold, traded, and profited from mortgage related structured finance products were a major cause of the financial crisis" (p. 11).

The kinds of fraud that occurred in this case could not have occurred under previous US laws that were meant to reduce the risks associated with such behaviors. For example, the Banking Act of 1933 (aka, Glass-Steagall) prevented large banks from operating both commercial bank activities and security firms. Banks were forbidden, for example, to purchase securities for customers or invest in securities for the bank, issue or underwrite securities, and so forth. Beginning in the 1960s, the law was interpreted by legislators (under pressure from lobbyists) allow banks to participate in more and more securities investing and the law was finally overturned by the Gramm–Leach–Bliley Act of 1999. Once large banks were allowed to engage in the securities business, the money held in commercial banks was could be lost through speculative Wall Street activity.

The Subcommittee concludes by providing an excellent summary of the four identified causes of the collapse and how they impacted each other to produce the crisis:

> The four causative factors examined in this Report are interconnected. Lenders introduced new levels of risk into the U.S. financial system by selling and securitizing complex home loans with high risk features and poor underwriting. The credit rating agencies labeled the resulting securities as safe investments, facilitating their purchase by institutional investors around the world. Federal banking regulators failed to ensure safe and sound lending practices and risk management, and stood on the sidelines as large financial institutions active in U.S. financial markets purchased billions of dollars in mortgage related securities containing high risk, poor quality mortgages. Investment banks magnified the risk to the system by engineering and promoting risky mortgage related structured finance products, and enabling investors to use naked credit default swaps and synthetic instruments to bet on the failure rather than the success of U.S. financial instruments. Some investment banks also ignored the conflicts of interest created by their products, placed their financial interests before those of their clients, and even bet against the very securities they were recommending and marketing to their clients. Together these factors produced a mortgage market saturated with high risk, poor quality mortgages and securities that, when they began incurring losses, caused financial institutions around the world to lose billions of dollars, produced rampant unemployment and foreclosures, and ruptured faith in U.S. capital markets (p. 12).

Financial Crisis Inquiry Commission.
As for the Financial Crisis Inquiry Commission, it examines the role of fraud, greed, lack of regulation by managers and regulators, as well as innovation and financial incentives in the crisis. Its conclusion was:

> While the vulnerabilities that created the potential for crisis were years in the making, it was the collapse of the housing bubble—fueled by low interest rates, easy and available credit, scant regulation, and toxic mortgages— that was the spark that ignited a string of events, which led to a full-blown crisis in the fall of 2008. Trillions of dollars in risky mortgages had become embedded throughout the financial system, as mortgage-related securities were packaged, repackaged, and sold to investors around the world. When the bubble burst, hundreds of billions of dollars in losses in mortgages and mortgage-related securities shook markets as well as financial institutions that had significant exposures to those mortgages and had borrowed heavily against them. This happened not just in the United States but around the world. The losses were magnified by derivatives such as synthetic securities (p. xvi).

The Commission concluded that the financial crisis was avoidable because it resulted from "human action and inaction" and specifically from the "captains of finance and the public stewards of our financial system" who engaged in reckless behavior and ignored clear warning signs. Among the actions identified by the Commission that led to the crisis included "widespread failures in financial regulation and supervision" as well as "dramatic failures of corporate governance and risk management at … financial institutions" who took on far too much debt with far too little collateral on hand to justify it, "excessive borrowing, risky investments, and lack of transparency" within economic institutions, and a "systemic breakdown in accountability and ethics" in business and government (p. 6). Again, CAST predicts that such crimes can only occur in the presence of weak regulations.

The Inquiry then goes on to identify and discuss the role that mortgage-lending standards, the mortgage securitization process, over-the-counter derivatives (e.g., credit default swaps, collateralized debt obligations, and other derivatives), and failures of credit rating agencies played in the crisis. According to the Inquiry, it was elite deviance that caused the economic collapse, maximization through selling legal products (conformity) through fraudulent means (innovation).

The Commission also agrees that deregulation is largely to blame for allowing fraudulent activities to go unnoticed. The view in banks and on Wall Street was that regulation was bad for *innovation* in loans and of financial products. The Commission noted that financial innovations by these actors "had lowered borrowing costs for consumers and moved risks away from the biggest and most systemically important financial institutions" in a way that would benefit consumers as well as smaller financial institutions (p. 6). In fact, evidence presented to the Commission suggested that certain regulations were opposed as "regulatory overreach" by the American Bankers Association and Mortgage Bankers Association (p. 21). The term innovation above is key for it indicates the importance of anomie and strain theories of explaining the deviant behavior within the banks that led to the financial crisis.

According to the Commission, the Treasury Department "issued an extensive study calling for the elimination of the old regulatory framework for banks" in 1991. This included removing "all geographic restrictions on banking and repeal of the Glass-Steagall Act" to allow large banks to be "more profitable and more competitive with the largest banks from the United Kingdom, Europe, and Japan." The Treasury Department saw that its ideas "would let banks embrace innovation and produce a 'stronger, more diversified financial system that will provide important benefits to the consumer and important protections to the taxpayer'" (p. 36). The view of Federal Reserve officials was that financial institutions had "strong incentives to protect shareholders, would regulate themselves by carefully managing their own risks" (p. 53). Officials within financial institutions shared this view, saying they "had strong incentives to protect their shareholders and would therefore regulate themselves through improved risk management. Likewise, financial markets would exert strong and effective discipline through analysts, credit rating agencies, and investors" (p. 35). Again, note the use of terms like innovation and incentives, both consistent with anomie & strain and social learning propositions that comprise CAST.

Without effective regulation, banking and investing became more like gambling. The Commission notes that "The advent of synthetic CDOs changed the incentives of CDO managers and hedge fund investors. Once short investors were involved, the CDO had two types of investors with opposing interests: those who would benefit if the assets performed, and those who would benefit if the mortgage borrowers stopped making payments and the assets failed to perform" (p. 191). Yet, "Even the incentives of long investors became conflicted. Synthetic CDOs enabled sophisticated investors to place bets against the housing market or pursue more complex trading strategies. Investors, usually hedge funds, often used credit default swaps to take offsetting positions in different tranches of the same CDO security; that way they could make some money as long as the CDOs performed, but they stood to make more money if the entire market crashed" (p. 191-192).

<u>How Does CAST Explain the Financial Crisis</u>

As we noted at the outset, we have used inferential logic to demonstrate that CAST is a valid explanation of white-collar and corporate crime—in this case, the financial collapse caused by the banking crisis of 2008. The specific incidents that caused the collapse allow us to arrive at general truths about the causes of these kinds of acts of elite deviance. The two investigations into the collapse, by the US Senate's Permanent Subcommittee on Investigations and the Financial Crisis Inquiry Commission, found evidence of questionable, unethical, and even illegal behaviors committed by elites in pursuit of great wealth at the expense of investors as well as taxpayers. And their reports make it abundantly clear that the primary means to achieve this wealth was through maximization—simultaneous conformity and innovation. As our review of the reports show, the official investigations of the financial crisis pointed to factors such as shoddy lending practices, failure to enforce compliance with lending standards, significant compensation incentives rewarding unethical and illegal behavior, intense pressure by managers to pull in as many customers as possible even with knowledge that mortgage failure was imminent, conflicts of interest in ratings agencies, and deregulation of banking—all motivated by pursuit of profit and greed—caused the economic collapse.

Our contention that the harmful and costly behaviors of elites on Wall Street and in big banks over the years are motivated by financial gain, and specifically greed (which is defined as wanting more than you need), is thus supported by the evidence. Greed is emphasized in the broader American culture, as suggested by anomie and institutional anomie theories, incorporated into CAST. The goal of more and more wealth weakens norms of law-abiding behavior when it is emphasized more than the legitimate means to achieve wealth, as in the context of corporations who pursue wealth by any means necessary. Even successful corporations don't stop trying to grow and earn more money because one can never achieve enough wealth, which is predicted by strain theory incorporated into CAST.

Of course, greed itself cannot fully explain the behaviors which created the financial crisis. One CAST proposition states that criminality is contingent on other factors, including in the case of the financial crisis, poor social controls (i.e., weak regulation), enormous opportunities for deviance within banks and on Wall Street, and enormous pressures exerted on employees from corporate managers.

Wealthy individuals, seeking to maximize profits, engage in legitimate business activities (i.e., conformity) simultaneous to illegitimate business activities (i.e., innovation) because this has become normalized within large corporations, banks, and on Wall Street, as well as in broader society and the American polity. That is, what matters is that you make money, not how you make it. The primary means of satisfying greed by those who caused the banking crisis is maximization—using illegitimate means (i.e., criminality, deviance) in conjunction with legitimate means (i.e., work). And maximization is accepted, expected, and even celebrated and rewarded among those who caused it.

Both investigations, one by the US Senate's Permanent Subcommittee on Investigations and the other Financial Crisis Inquiry Commission, discussed the realities of maximization within large banks, Wall Street investment firms, and even in regulatory agencies. For example, the Senate Subcommittee discussed and wrote about efforts within banks to "maximize the dollar amount of the loans they issued" (p. 148), to "maximize profits by originating loans with the highest profit margins" (p. 171), to use "lax underwriting standards to maximize loan production" (p. 236), and to "maximize the profit potential from its net short positions" (p. 441). The Subcommittee also noted that Wall street firms aimed to "maximize the market share and the gross margin with insufficient resources" (p. 274). Further, the Financial Crisis Inquiry Commission wrote about tens of thousands of loan originators in banks "were willing to do whatever it took to maximize the number of loans they made" (p. 14), that "property values were being inflated to maximize profit for real estate appraisers and loan originators" (p. 22), were "seeking to maximize returns for investors" (p. 28), and to "maximize returns for shareholders" (p. 29). It is evident that the term maximization which occurs throughout the investigatory reports suggests that maximization is normal and widespread in large corporations like those that caused the financial crisis.

Both investigations also identified culpability among specific individuals and financial institutions, which caused the collapse, allowed it to continue and to even expand. Starting with the Senate investigatory body, they wrote that "senior managers knowingly sold delinquency-prone loans to investors" (p. 3). Further, some lenders ignored "signs of loan fraud" and issued and securitized loans "suspected of containing fraudulent borrower information" (p. 20). The Subcommittee identified specific individuals and financial institutions that were knowing committing fraud as well as not responding to evidence of fraud when it was reported to higher ups. Such banks were often located in lower-income areas and being run by officials who had been rewarded for producing high loan volumes. The impact of reward and incentives on executive behavior in the financial collapse is consistent the arguments of CAST.

In some cases, the fraud was known within banks for several years, yet nothing was ever done about it. Even at offices where investigations determined that more than half and as many as eight of ten loans were fraudulent: "No one was fired or disciplined for routinely violating bank policy, no anti-fraud program was installed, no notice of the problem was sent to the bank's regulators, and no investors who purchased RMBS securities containing loans from those offices were alerted to the fraud problem underlying their high delinquency rates" (p. 98).

Amazingly, even when poor securitization products were known to credit rating agencies due to issues like "an unsustainable rise in housing prices, the high risk nature of the loans being issued, lax lending standards, and rampant mortgage fraud," ratings were not downgraded. Instead, "the firms continued to issue a high volume of investment grade ratings for mortgage backed securities. If the credit rating agencies had issued ratings that accurately reflected the increasing risk in the RMBS and CDO markets and appropriately adjusted existing ratings in those markets, they might have discouraged investors from purchasing high risk RMBS and CDO securities and, slowed the pace of securitizations" (p. 7).

Even the SEC Chairman Christopher Cox testified to Congress that "the credit default swap market 'is completely lacking in transparency" … "is regulated by no one … "is ripe for fraud and manipulation" (p. 40). No steps were made to stop this.

The Financial Crisis Commission investigation also discovered fraud that was known to people in the banks, on Wall Street, and even to the Federal Reserve. According to the investigation:

> These trends were not secret. As irresponsible lending, including predatory and fraudulent practices, became more prevalent, the Federal Reserve and other regulators and authorities heard warnings from many quarters. Yet the Federal Reserve neglected its mission "to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers." It failed to build the retaining wall before it was too late." (p. xxiii)

The fraud started at the lowest levels in the banks themselves, loaning to people they knew could not pay back the loans. Just as one example:

> According to an investigative news report published in 2008, between 2000 and 2007, at least 10,500 people with criminal records entered the field in Florida, for example, including 4,065 who had previously been convicted of such crimes as fraud, bank robbery, racketeering, and extortion. J. Thomas Cardwell, the commissioner of the Florida Office of Financial Regulation, told the Commission that "lax lending standards" and a "lack of accountability… . created a condition in which fraud flourished." (p. 14).

The shenanigans occurred in states all the way from Florida to California. An example in California cited by the Commission was a single house "listed for sale for $565,000 and was recorded as selling for $605,000 with 100% financing, though … it actually sold for $535,000." This practice allowed "insiders to pocket $70,000" (p. 14).

Evidence cited by the Commission show that it became industry-wide practice to shift from loans "that pay" to those "that could be sold" (p. 105). According to the Commission: "When originators made loans to hold through maturity—an approach known as originate-to-hold—they had a clear incentive to underwrite carefully and consider the risks. However, when they originated mortgages to sell, for securitization or otherwise—known as originate-to-distribute—they no longer risked losses if the loan defaulted" (p. 89). Industry-wide practice suggests a subculture of maximization within these corporations.

Within loan-originating banks, it became commonplace for questionable practices such as "loan flipping (repeated refinancing of borrowers' loans in a short time), high fees and prepayment penalties that resulted in borrowers' losing the equity in their homes, and outright fraud and abuse involving deceptive or high-pressure sales tactics." They were also "incidents of forged signatures, falsification of incomes and appraisals, illegitimate fees, and bait-and-switch tactics" which "often preyed on the elderly, minorities, and borrowers with lower incomes and less education, frequently targeting individuals who had 'limited access to the mainstream financial sector'—meaning the banks, thrifts, and credit unions, which it viewed as subject to more extensive government oversight" (p. 78).

The Commission even identified specific individuals within specific financial institutions who acknowledged that they deterred fraud within their companies but "senior management did nothing with the reports" they sent in. One such person said "other departments were complaining he 'looked too much' into the loans." This person was "downgraded from 'manager' to 'supervisor'" and ultimately was laid off (p. 12)! Another individual working for another institution suggested to the Commission that "It didn't take Sherlock Holmes to figure out this was bogus." When he tried to figure out why his company "would make such obviously fraudulent loans, a friend suggested that he 'look upstream'" as in to upper management (p. 12)! This is consistent with the argument of CAST about how maximization occurs within corporations.

When fraud was known about or suspected by real estate and banking executives, they were told that they needed to netter "police their own organizations" (p. 15). This suggests a lack of effective external regulation by officials charged with doing that very thing. Allan Greenspan, reflecting on this reality, stated to the Commission that "If there is egregious fraud, if there is egregious practice, one doesn't need supervision and regulation, what one needs is law enforcement" (p. 93-94). Yet, there was literally no enforcement of the law when it came to the people and industries who caused the financial collapse. CAST asserts such deviance occurs in the absence of effective regulation.

So, there was clearly culpability by high-level agents in banks and on Wall Street. The Commission concludes that

> dramatic failures of corporate governance and risk management at many systemically important financial institutions were a key cause of this crisis. There was a view that instincts for self-preservation inside major financial firms would shield them from fatal risk-taking

> without the need for a steady regulatory hand, which, the firms argued, would stifle innovation. Too many of these institutions acted recklessly, taking on too much risk, with too little capital, and with too much dependence on short-term funding (p. xviii).

The word innovation above links this clearly to the key tenets of anomie and strain theories. One person who testified to the Commission even said "Securitization was one of the most brilliant financial innovations of the 20th Century" (p. 6). He continued: "If it had been done responsibly, it would have been a wondrous thing because nothing is more stable, there's nothing safer, than the American mortgage market…It worked for years. But then people realized they could scam it" (p. 10). This illustrates the realization that scamming—i.e., fraud—was a significant part of what led to the financial collapse.

Not only was significant innovation involved in the crimes that collapsed the US economy, so too was the "pressure" within banks and Wall Street investment firms as well as within the credit rating agencies that contributed to the crisis. Both investigations discovered and documented the pressure felt by loan originators, investment firms, and rating agency officials who were doing their best to operate under conditions of immense stress and high expectations from managers. For example, the Senate Subcommittee investigation wrote about how "new earnings targets" within some banks "created pressure … to shift from … more conservative practices toward practices that carried more risk" (p. 60). Individual loan officers were under "[tremendous] pressure to get the necessary documentation … and they had been told to get the loans funded 'with whatever it took'" (p. 101). The investigatory body even wrote about "pressure on the credit rating agencies to issue investment grade ratings" produced by "federal regulations that required the purchase of investment grade securities by banks and others" (p. 7). The pressure on rating services also came from the "inherent conflict of interest … to issue favorable ratings to attract business" (p. 31).

The Financial Crisis Inquiry Commission agreed, discussing "pressure on traditional banks to follow suit" with other banks who were writing thousands of "really poorly underwritten loans" (p. 11). The Commission also noted the "growing pressure to compete aggressively against other investment banks" who were pushing and selling poor securitization products (p. 18), "a lot of pressure on institutions to get higher-rate performing assets" (p. 34), and "competitive pressure for the banks and thrifts to start following suit" in pursuing riskier investments (p. 79). The Commission also talked directly to loan officers and appraisers who reported feeling intense pressure to inflate the value of homes from "mortgage brokers … real estate agents, lenders, and in many cases borrowers themselves" (p. 91). Appraises nationwide reported feeling "pressured to ignore missing kitchens, damaged walls, and inoperable mechanical systems" to inflate values of homes (p. 91). The pressure was felt also within investment firms who reported "pressure" and the "risk of falling below [their] return aspirations" (p. 183). The Commission also documented that the that ratings agencies were under "pressure from financial firms that paid for the ratings" as well as a "relentless drive for market share" (p. xxv), and pressure to investment firms who were "give favorable ratings so that they might remain competitive" (p. 150). The Commission claims that "the pressure came from two directions: in-house insistence on increasing market share and direct demands from the issuers and investment bankers, who pushed for better ratings with fewer conditions" (p. 210).

Pressure to compete and to maximize income and profit is consistent with the fundamental arguments of anomie and strain theories that comprise CAST. According to the official investigations of the financial collapse, all parties involved from the banks to the investors to the regulators to the ratings agencies felt this pressure, typically from parties above them, which, according to CAST, is a significant source of deviance within corporations.

Conclusion

In this article, we have demonstrated that corporate crimes such as the immensely harmful and damaging acts of elites on Wall Street and in big banks emerge out of the intense competition of American capitalism as a means to handle or adapt to performance pressures. As such, corporate crime can be seen as response to anomie and strain. We used the crimes of the financial industry to illustrate our theory, contextual anomie/strain theory (CAST).

CAST asserts that corporations simultaneously use legal (i.e., conformity) and illegal means (i.e., innovation) to earn wealth, a phenomenon we call maximization. Maximization, we believe, is commonplace within corporations, and we assert it is *the primary* means of achieving their financial goals, even as they employ marketing companies and public relations firms to convince us otherwise. Stated simply, crime as part of legitimate business activities is the norm in the corporate subculture. It is not something corporations do on the side, it is *part* of their legitimate business.

Future analyses along the lines of that offered here should test CAST by applying it to other forms of elite deviance, including corporate crimes in a wide variety of other industries, and in all other contexts where it occurs. The major challenge to such tests is access to data. Unless and until corporations release data and documents and give testimony in criminal and/or civil trials, or grant access to researchers who want to interview employees, CAST must be tested using inductive reasoning by applying it to the behaviors of specific corporations, as shown in this article. We invite others to analyze corporate behaviors, including acts of violence by corporations (e.g., British Petroleum, Massey Energy).

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