God’s Work?

In fact, political leaders and regulatory authorities have given in to all the demands of the financial world regarding deregulation in all directions, under the pretext of establishing universal prosperity. Thus, the advisor to President Reagan and end analyst of his environment, Francis Fukuyama was surprised at the incestuous relationship between the largest financial institutions and partisan economists of efficient markets. He noted the collusion of this beautiful world with the world of power: “Wall Street seduced the economics profession not through overt corruption, but by aligning the incentives of economists with its own. It very easy for academic economists to moved from universities to central banks to hedge funds – a tightly knit world in which everyone shared the same views about the self-regulating and beneficial effects of open capital markets. It very easy for academic economists to moved from universities to central banks to hedge funds – a tightly knit world in which everyone shared the same views about the self-regulating and beneficial effects of open capital markets. The alliance was enormously profitable for everyone: The academics got big consulting fees, and Wall Street got legitimacy”. It is therefore understandable that no one has stumbled upon the 1998 collapse of the funds of Long Term Capital Management (“LTCM”), the dress rehearsal for the 2007 subprime mortgages. A more important start-up in the world history of investment funds of up to $1 trillion, does not LTCM count among its prestigious staff two future Nobel Economics Prize winners? The interconnection between an institution such as Goldman Sachs and two Treasury Secretaries (Robert Rubin and Henry Paulson) was only the final proof – indeed, anecdotal – but in addition to this policy which was nothing more than ex-financial growth, too content to render service at the slightest opportunity. The closeness between regulators, politicians and economists completed the compromise of a few for the benefit of finance which then occupied the public forum. Lobbying thousands of politicians by the financial world was no longer necessary since the eagerness for deregulation was unanimously shared between these two worlds. The policy officially attained the Stockholm Syndrome status: it was in love with finance which had gradually deprived it of most of its powers. With the essential firewall between politics and finance having been deliberately disabled, is it no wonder that certain blatant types of
deregulation directly led to these crises, such as compensation of rating agencies by banking establishments or the hiring by banks of former regulatory agency bureaucrats..., unless it was the reverse? The rest, like Mario Draghi and Mario Monti, respectively presidents of the European Central Bank and the Italian Council, are they not the products of Goldman Sachs where they held responsible positions? As noted, the “Sachs government” is in no way restricted in the Anglo-Saxon world. In summary, if it is true that collusion between governments and oligarchies is ongoing which leads to a systematic confiscation of profits and a sharing of losses, our democratic western nations borrowed from the banana republics and accommodated very well the systematic defense and preservation of certain private interests with public funds.

Strengthened by deposits amounting to approximately $800 billion, Citibank reigned supreme and almost absolute before the crisis. Robert Rubin, the U.S. Treasury Secretary from 1955 to 1999, had stifled a bill from his own Democratic administration which was to divide and clearly distinguish commercial financial institutions from investment banks. Citibank could then proceed legally at a juncture to combine traditional commercial banking with massive speculation on Wall Street and global financial markets. In reality, this firm was not only one “too big to fail”, it was also a much too massive business to be sanely and rationally managed. Its size made it ungovernable and uncontrollable. In fact and from 2002, Citigroup was embroiled in all the financial scandals, from Enron to Worldcom through insider trading and other conflicts of interest involving some of its managers or analysts... so much so that it was also one of the financial institutions most affected by the subprime crisis since it only survived at the price of capital injections of hundreds of billions of dollars taken from the taxpayers of its country. Strange derives from a megabank whose management and board of directors were regularly adored by the press and their alter ego, since considered one of the most brilliant management teams in the financial world. Who could forget Chuck Prince, its arrogant chairman of the board who, however, was dismissed in 2007 due to monumental losses suffered by his establishment. Or the inevitable Robert Rubin, former Treasury Secretary, appointed member of the board of directors and executive director until shown the door in 2009, under pressure from critics and the quasi-collapse of his bank? Prominent figures who, interviewed by the committee of U.S. Congress charged with investigating the reasons for the subprime crisis, asserted, “like a great many others”, not having “anticipated the unprecedented collapse of the market” (according to Prince) despite structured products and systematic securitizations of toxic assets held in commercial quantities for their balance sheets. “C’est l’ensemble de la profession qui n’a pas perçu le potentiel négatif de cette crise”, as Robert Rubin would say to this
committee by completely ignoring his responsibilities *vis-à-vis* the staggering failures of this once top bank in the world that he co-managed. He, who was supposed to monitor risk management due to his leading position as president of Goldman Sachs which he held before becoming the U.S. Treasury Secretary…!

Goldman Sachs – iconic group among all –, which, in 2006, distributed subprime shares to its clients while it anticipated the debacle of the U.S. property market on which it speculated downward for its own equity. Goldman had understood all too well since, far from leaving itself open risk on one-directional bets like Lehman, Bear Stearns, Merrill Lynch or Citigroup –, this institution played with velvet gloves on and earned on both fronts. That of commissions on sales (for its clients) of putrid assets while making off with the placing on markets which gradually realized the excess in property valuations. Thus, while almost all the Wall Street institutions persisted in ignoring the warning signs of the subprime disaster, Goldman Sachs – inducted/crowned the most profitable institution in U.S. financial history – created and distributed CDOs (collateralized debt obligations), financial derivatives linked to real estate, to its main clients… while one of its most important managers (Paulson & Co) was betting on the collapse of these assets, and one of its executives (the Frenchman Fabrice Tourre) acknowledged in February 2007 in an e-mail to a friend that “the business of CDO had died”! Such are therefore the record profits recorded by the collapse of the subprime and the success of Lloyd Blankfein, Chairman of Goldman Sachs, who, having replaced Henry Paulson in 2006, himself called nominated to be Treasury Secretary by Bush, earned in 2007 – the year the U.S. property market collapsed – the largest bonus in the history of U.S. finance, i.e. $70 million! According to Blankfein, interviewed by a London newspaper, Goldman performed more or less “God’s work”. In other words and in the words of Fabrice Tourre in the January 2007 e-mail: “The entire building is about to collapse at any moment now. Only potential survivor, the fabulous Fab, standing in the middle of all these complex transactions, highly leveraged, exotic, that it created without necessarily understanding all the implications of those monstrosities!”

From the megalomaniac boss of Goldman Sachs entrusted with a mission that he qualified as “divine” to the rest of the sprawling U.S. financial system which continually relied on its contribution to the enrichment of society, Wall Street had therefore definitely lost all sense of reality. The disclosed figures were from the rest vastly out of step with the daily life of the average citizen: $26 million for the Blanfein’s apartment, $2 billion, the estimated value of the Goldman Sachs headquarters in Manhattan or even $550 million paid by this same institution in settlement of its litigation with the SEC (Securities and Exchange
Commission), the U.S. regulator. This number of zeros in a world where virtual reigns sucked the life out of the real economy without bringing the slightest added value to society in return. Who could curb or contain a world of finance in spectacular expansion and whose contribution to economic activity continued to gain in importance since roughly 150 years? Equivalent increases in salaries in the financial world, since they were within a range of 60 to 70% above the salaries of the average employee in the “real” economy. However, how did the dizzying growth of the finance profit from the long-term productivity and prosperity of the economy? Paul Volcker – always him – had wished that “someone would give (him) one shred of neutral evidence that financial innovation has led to economic growth”.