Goldman Sachs: it's not Greek to me!

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It’s Greek to Goldman Sachs

> “What is this Goldman Sachs and why has it caused us so much grief?” is a question they must be asking in even the most remote of Greek villages, as they are throughout much of this economically troubled world. The Greek financial scandal in which Goldman Sachs stands accused of selling dubious derivatives that concealed enormous government debt has sent the Greek economy and European markets into a tailspin. But that’s just part of a made-in-the-USA banking hustle that has haunted folks at home and abroad.

At the heart of the worldwide banking meltdown are those mysterious unregulated derivatives that Goldman and JPMorgan led the way in selling. But Greece’s case did not involve the usual questionable mortgages packaged into derivatives with credit default swaps backing them up, but rather expected revenue on airport fees and other potential sources of the cashed-strapped government’s future income.

As The New York Times headlined it: “Wall St. Helped to Mask Debt Fueling Europe’s Crisis.” The story described the scam succinctly: “As in the American subprime crisis and the implosion of American International Group, financial derivatives played a role in the run-up of Greek debt. Instruments developed by Goldman Sachs, JPMorgan Chase and a wide range of other banks enabled politicians to mask additional borrowing in Greece, Italy and possibly elsewhere. ... Critics say that such deals, because they are not recorded as loans, mislead investors and regulators about the depth of a country’s liabilities.”

As a result of such shenanigans back in 2001, Greece was allowed to join the European Union while running up enormous debt that went undetected. Greece’s neighbors will now be forced to bail it out, much as U.S. taxpayers have done for banks as a result of the scams Goldman and other financial houses pulled off in this country. The common denominator is that the packagers of the collateralized debt securities, be they based on subprime mortgages or government airport fees, have no real interest in the integrity of the packages, for they will balance them out with credit default swaps that pay off when the assets prove toxic. And they will make their lucrative commissions coming and going, no matter what goes wrong. Even after all the trouble in Greece, Goldman President Gary D. Cohn was back in that country last November with a new derivative scam based on potential revenue from Greece’s health care system.

Just as it did with mortgages in the U.S., Goldman in effect bet against the collateralized Greek debt obligations. The basic issue is the same. The thing being sold need not be understood or correctly assessed as to its value. In his recent memoir, former Goldman Chairman Hank Paulson confesses that as late as August 2006 when as the newly appointed treasury secretary he briefed George W. Bush on the impending derivatives crisis he did not even know that the packages that Goldman and others had sold were based on mortgages. “I misread the cause, and the scale, of the coming disaster,” he admits, adding, “Notably absent from my presentation was any mention of problems in housing and mortgages.” In recalling when an obviously perplexed President Bush asked him “How did this happen?” Paulson says in his memoir: “It was a humbling question for someone from the

financial sector to be asked—after all, we were the ones responsible.”

He got that right. The financial sector was and is responsible, but it still resists increased transparency and other necessary regulations over the derivatives that gamblers like Paulson themselves don’t understand. As Peter Eavis writes in The Wall Street Journal: “How many more crises will it take? The Greek emergency is a reminder of how little has been done to fix large, potentially unstable parts of the financial system. … The banking lobby is resisting efforts to overhaul the $605 trillion market for derivatives that don’t trade on exchanges.”

The U.S. comptroller of the currency estimates that Goldman Sachs has a derivative “credit exposure” that is a whopping 858 percent of its risk-based capital and that JPMorgan Chase is in second place at 290 percent. That statement calls into question the savvy of President Obama, who crowed just last week in defense of Goldman CEO Lloyd Blankfein and Jamie Dimon, his old Chicago buddy who heads JPMorgan Chase, “I know both those guys; they are very savvy businessmen.” Tell it to the Greeks.

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