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Punishing success: What Goldman Sachs says about us

By SETH J. FRANTZMAN
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Learning from mistakes and building wealth should be goals in the wake of the recession.

When Goldman Sachs announced that it had returned to profitability in the spring of 2009, the media were hardly enthusiastic. News reports made it seem it was some sort of gladiator who had received ill-gotten gains. Graham Bowley at *The New York Times* called it part of a “narrowing concentration of financial power.”

Robert Reich, a former secretary of labor, labeled it one of the “last of survivors” as if it was some exotic dinosaur that had emerged from the dust of a meteor strike. In a way it had.

The well-known economist and columnist Paul Krugman was more critical in a July 17, 2009 op-ed. For him, Goldman's success is “bad for America” because its business model is based on the very things that supposedly brought on the financial crises of 2008. Goldman is accused of practicing “bad habits” which make another crises more likely.

According to Krugman it was the financial firms that “directed vast quantities of capital into the construction of unsellable houses and empty shopping malls.” He made no mention of Fannie Mae and the US government's role, and didn't dare point at the home owners for buying houses they couldn't afford.

For those on the Left like Paul Krugman at the *Times* and the populist right-winger Glenn Beck at Fox News, there is a bugbear behind it all. Beck claims Goldman Sachs is in bed with the government, and insinuated that it was involved in some corrupt deal with former treasury secretary (and former Goldman executive) Hank Paulson, all conspiring against the average man.

FINGER POINTING at Goldman has not only come from the US. In the UK the Financial Service Authority has launched an investigation into the firm for allegedly defrauding investors. In February an article in *Der Spiegel* accused the bank of helping Greece “mask its true debt.” So the bank is also being blamed for Europe's problems. Greece didn't drive its economy into the ground through largesse (one in three people is employed by the state) and corruption, rather it must have been a US bank that did it.

There is a desire in many people, even the most reasonable, to find someone to blame for the financial crises of 2008. With many of the apparent culprits, such as Lehman Brothers, destroyed or reorganized after government bailouts, there is a desire to go after those who seemed to come through unscathed.

At the top of the list is Goldman Sachs. Goldman came through the crises because it did what its competitors did not. It not only managed risk better, but it dramatically reduced its exposure to sub-prime mortgages. Like Ford, which survived the slaughter in the US car industry, Goldman should be congratulated. Instead it is pilloried.

There is a change in the culture in the world of free markets. Instead of championing those who succeed and wishing to join them, people want to see them torn down and forced into the dirt like the rest. Americans have an aversion to giant corporate monopolies, and thus fears that Goldman may now be too big are valid. But the insinuation that its success, its profits and its bonuses are somehow ill-gotten represent a cultural disconnect that seems to applaud failure with a sort of *schadenfreude*.

Would it be preferable if Goldman Sachs was still on the federal dole, like AIG which received \$120 billion in taxpayer assistance? Sen. Sherrod Brown of Ohio complained in 2009 that out-of-work Americans have hurt feelings by seeing Goldman's windfall. Douglas Elliot of the Brookings Institute claimed "it does not feel right that bankers should be making so much money." Krugman blames Goldman for profiting when other banks failed; "Goldman made profits by playing the rest of us for suckers."

Being played for suckers is at the heart of the latest SEC allegations against the bank. The details of the case are complicated, but the allegation is that Goldman created a financial product that allowed one hedge fund, Paulson & Co., to bet against the value of housing. Buyers of the same product on the other side knew they were betting on a rise in that market.

In the end, the hedge fund was correct, housing prices collapsed, and those who got fleeced claim Goldman defrauded them. Regulators in the UK and the US are understandably under pressure to bring charges against people for financial wrongdoing that is to "blame" for the financial downturn and job losses. Goldman Sachs, the survivor, is a clear target, and if it turns out it did something illegal, it should pay the price. But we shouldn't applaud just yet.

In the wake of the 1929 crash, a little-known financial analyst named Benjamin Graham began to write a book on investing. That book, *Security Analysis*, became a central influence on capitalist wiz Warren Buffet. Buffet today is not only fabulously wealthy but also, like Goldman Sachs, a major employer of people (246,000 in 2008).

Learning from our mistakes and building wealth again should be a goal in the wake of the recession. Instead, it appears some prefer that we point fingers at those who survived and profited and pull them down like a bunch of children at school jealously destroying a fellow student's winning science project. We have to choose which culture we want to be; one where everyone is equally miserable and poor and where life is, in the words of Thomas Hobbes, nasty and brutish, or one where some succeed and we learn from them so that we too will one day prosper.

The writer is a PhD researcher at Hebrew University and a fellow at the Jerusalem Institute for Market Studies (JIMS).



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