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The magical thinking behind the government's case.

Another Friday, another set of revelations about [Goldman Sachs](#) [1] (GS), timed to maximize their impact on the Sunday morning talk shows and Sunday opinion pages. Two weeks ago, it was the bright red charges of fraud from the Securities and Exchange Commission. Now those charges have morphed into a [criminal investigation](#) [2], the natural follow-up to congressional hearings at which Senators pummeled Goldmanites with the accusation that they were merely bookies—and dishonest ones at that. Now we know who the real villains are of the financial crisis.

Or do we? From the beginning of the financial crisis, conspiratorialists have been looking for who made money on this, reasoning that since the game of finance is rigged, to find the guilty party you need only know who profited. This is a basic rule of financial disasters. It arrives dressed in the uniform of cold logic, but it's really about magical thinking: If there is a drought, clearly it must have been brought down on the land by the person who dug a well. How, after all, could he have had the foresight to dig a well if he had not planned the drought himself?

The term that recurs in the SEC charges against Goldman and in this weeks hearings is "going short." To "go short" on a security is to bet that the price will fall—that is, that someone else will lose. There is little question now that Goldman went short on the housing market, which is to say that Goldman bet against pretty much every other bank, the entire home-building-and-buying complex, Alan Greenspan, and the average homeowner. And the consequence is that they made money when everyone else suffered.

That's something Goldman has resisted admitting flat-out, probably because they can guess that if there's a formula for public vilification, this is it. You see this in every financial crisis. Most famously—and yes, it's ancient history—there was the outcry about George Soros when he earned \$1 billion dollars [shorting the British pound](#) [3]—and earned it on the back of a tanking British economy. Much more recently, there was the early and [misguided effort](#) [4] to pin the 2008 stock market crash on short-sellers like James Chanos. Magical thinking about economic realities—housing prices will go up forever!—creates speculative manias, and more magical thinking neatly explains those manias as the work of those who didn't fall prey to them.

With Goldman, there is the story of the specific charges at issue, and there is the meta-story. The story of the SEC charges against Goldman is that of one deal—it's not yet clear whether it is the focus of the criminal investigation as well—in which Goldman is alleged to have sold two institutional investors on a miserable bet on

mortgage bonds. What folks at Goldman told those investors and what they should have told them will be (justifiably) argued over the next months.

But it's the meta-story that really matters here. The meta-story is one in which the greedy Goldmanites, knowing what was really going on, fixed the game to make money on incomprehensible derivatives, dragging down the economy with them.

The meta-story takes on a life of its own, distinct from the particular facts of the case. It does not pause to ask just what kind of role this one (fairly atypical) deal had in creating the housing meltdown. It does not question why, if bankers had rigged the game so effectively, others, such as Merrill Lynch, were [losing billions](#) [5] on assumptions more or less the opposite of Goldman's. It even skips over the rough parts of Goldman's own history—it was as culpable as any bank in foisting junk on investors during the dotcom boom—to present a clearer narrative of the descent to the dark side.

Notably, the meta-story assigns a mythically powerful role to the great deceiver. The narrative of real corruption is painfully disjointed. The endgame of a scam is usually an ugly thing: The Ponzi scheme blows up, the Madoff turns out not to have been fabulously wealthy after all, the con artist spends his days furiously trying to move money from account to account before anyone figures out they are all empty. Not so the story of Goldman, in which the blow-up is all the work of the one party that stands triumphant at the end.

This narrative is not just appealing to a public hungering (justifiably) for an explanation of the financial crisis. It is also astonishingly convenient for regulators, bankers and policy makers. A good moment to mark the start of the subprime fiasco is the implosion of the subprime lender New Century Financial in March or 2007. That was three years ago, and in that time there is essentially zero evidence of any progress in calling anyone to account for the misdeeds of the mortgage boom.

The federal government's one meaningful Wall Street prosecution—that of two fund managers of Bear Stearns (an investment bank that, unlike Goldman, truly was at the very center of the mortgage bond business)—[ended in acquittals](#) [6]. The SEC's civil case against [Angelo Mozilo](#) [7], the poster child for the mortgage boom who profited from \$260 million in shares of his failing company, has moved with the stately pace of a barge mired in a trash heap.

Bankers from places like Washington Mutual, responsible for millions of failed mortgages underwritten in an atmosphere of systematic fraud now claim, amazingly, that [they would have been just fine](#) [8] if only the government hadn't taken them over. Developers of condos in Las Vegas and Miami that would never have been possible but for these loans point to how they could never have predicted the market would fall. And for the bulk of the financial services industry, the excuse is the same: Since we ended up broke, at least we must have been honest.

All that stands as a stunning testament to two enormous regulatory failures: a failure to see the bubble building, and a comprehensive failure to meaningfully investigate, let alone convict, those who were responsible for it. Which certainly included the investment banks that packaged and sold toxic mortgage bonds. Certainly Goldman was among them. If indeed the government pursues a case against the banks for this—much as then-New York Attorney General [Eliot Spitzer](#) [9] did for the investment banks' role in pushing dotcom stocks—Goldman should be included in it.

But don't kid yourself: That's not what the current outcry about Goldman Sachs is about. What stands out about

Goldman is not the dishonesty of its deals. It is simply that folks at Goldman saw the crash a little bit before everyone else. That's what makes Goldman such an attractive target for those who did not see it, did not do anything to stop it, and have failed to make much progress in understanding it. That, in itself, is a pretty good subject for investigation—not by regulators or FBI agents, but by anthropologists of popular delusions.

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