The Story of the Financial Debacle: Goldman Plays, We Pay

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The story of the financial debacle will end the way it began, with the super-hustlers from Goldman Sachs at the center of the action and profiting wildly. Never in U.S. history has one company wielded such destructive power over our political economy, irrespective of whether a Republican or a Democrat happened to be president.

At least the robber barons of old built railroads and steel mills, whereas Goldman Sachs makes its money placing bets on people losing their homes. On Tuesday, Goldman announced a 91 percent jump in profit to $3.46 billion for the quarter, while the dreams of millions of families continue to be foreclosed and unemployment hovers at 10 percent because of a crisis that that very company did much to cause.

It was Goldman-Vice-Chairman-turned-Treasury-Secretary Robert Rubin who pushed through the radical financial deregulation during the Clinton presidency that made the derivatives madness possible. When Bill Clinton was asked on ABC's Sunday show "This Week" if he now regretted the advice he received back then from Rubin and his protégé Lawrence Summers, now a top Obama adviser, he responded: "On derivatives, yeah, I think they were wrong and I was wrong to take it. …"

Thanks to that bad advice, Clinton signed off on the Commodity Futures Modernization Act, which categorically exempted those derivatives from any existing law or regulatory body. It was that exemption that freed Goldman Sachs and others on Wall Street to run wild in packaging collateralized debt obligations, and their attendant swaps, which turned people's home into nothing more than gambling chips. The more suckers to be conned into those mortgage obligations, the better for the financial casino—until it had to be saved by taxpayers from spiraling completely out of control.

And it was Goldman-Chairman-turned-Treasury-Secretary Henry Paulson who engineered the Bush-era bailout that left Goldman holding the high cards. The corporation was allowed to suddenly become a bank holding company, a privilege denied Lehman Brothers, and hence eligible for TARP funding and a sharp discount in the cost of borrowing money. Treasury Secretary Timothy Geithner, then head of the New York Fed, worked with Paulson to give Goldman the federally protected status of a commercial bank and also worked on the deal that passed taxpayer money through AIG to Goldman.

It wasn't surprising, then, that last week Geithner formally opposed the section of a bill by Sen. Blanche Lincoln that would ban banks from dealing in swaps and other derivatives. Now that it is a bank, Goldman would have to drop that lucrative business or give up its right as a bank to borrow from the Federal Reserve as well as the protection of federal deposit insurance.

The test for serious financial reform could well be that if it's good for Goldman Sachs, it's bad for the country. But with scores of Goldman alums as well placed in the Obama administration as they were under Clinton and George W. Bush, it is a test the government is likely to fail as far as taxpayers are concerned. Or should we simply trust Mark Patterson, who is chief of staff to Geithner and a Goldman lobbyist for three years before he entered the Obama administration, to do the right thing for the rest of us?

Maybe he will. After all, Gary Gensler, a former Goldman partner who now heads the critically important Commodity Futures Trading Commission, does seem to have had a change of heart from his days in the Clinton administration, when he thought that bringing "legal certainty" to the trade in what turned out to be "toxic derivatives" was a great thing. The SEC civil suit is also a sign of progress. There are other positive stirrings, as in President Barack Obama's most recent speeches, but what is needed now is a profound populist commitment among those who elected Obama to demand he throw the money-changers out of the temple of democratic governance.

Instead they are crowding in. The New York Times reported: "With so much money at stake, it is not surprising that more than 1,500 lobbyists, executives, bankers and others have made their way to the Senate committee that on Wednesday will take up legislation to rein in derivatives." That's the committee that Sen. Lincoln heads, and she needs the president's support rather than Geithner's opposition to her plan to ban banks like Goldman from trading in derivatives.

It is insulting to the spirit of populist revolt, which has been fundamental to the success of America's grand experiment in democracy, that a fat-cat Republican-funded tea party revolt is now the vessel of popular anti-Wall Street discontent. That vessel ought to be our president, who campaigned as a champion of the common people.

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