Wall Street CEOs testify before financial crisis commission

Andre Damon
14 January 2010

The testimony of four Wall Street CEOs Wednesday before a congressional commission of inquiry showed clearly where the power lies in America. The four men—Lloyd Blankfein of Goldman Sachs, James Dimon of JPMorgan Chase, John Mack of Morgan Stanley, and Brian Moynihan of Bank of America—were given free rein to equivocate, evade and lie. One of them, Blankfein, took the opportunity to shout down the committee chair.

The Financial Crisis Inquiry Commission, which will hold additional hearings tomorrow, convened amid growing official nervousness that the announcement of year-end bank bonuses will provoke a popular backlash.

The origins, operations and personnel of the commission, as well as the timing of its first hearing, all expose the pretense that it represents a serious attempt to investigate the banks and present a serious explanation to the American people of the reasons for the financial crash that has had such devastating social consequences.

The commission was formed under a bill signed into law in May 2009, and has until December 15, 2010 to produce a report. The very fact that the commission has been in existence for eight months without holding any hearings or conducting any investigation points to its fraudulent character.

There is a reason for this unexplained delay. The commission was initially mandated by Congress to conduct a probe and make recommendations for legislation to reform the financial system. Instead, with the knowledge and support of Congress and the Obama Administration, it remained inactive, so that proposals for banking "reform" could be worked out behind closed doors between the White House, congressional leaders, and Wall Street executives and lobbyists.

There was a deliberate decision made not to hold hearings while the bank overhaul bills were being drawn up, and the government bailout had not yet led to a revival of the banks' profits. This was to ensure that nothing would emerge publicly that would interfere with the joint efforts of the bankers and the government to fashion an "overhaul" that, in fact, does absolutely nothing to limit the speculative activities of the banks or the vast profits and bonuses which they reap from their parasitic operations.

As reported by the press in advance of Wednesday's hearing, the commission itself has foresworn any effort to make recommendations on reforming the financial markets.

The timing of its first hearing underscores the commission's real function—to defuse popular anger while carrying out a whitewash. It is hardly an accident that top bankers were brought to testify and be, according to the media, "grilled" on the eve of the release of year-end bonus figures.

The personnel of the commission are indicative of its token role. The chairman is a little-known politician. No one with any significant public following sits on the panel, and no respected economists were chosen.

Congress allocated a paltry $8 million for what was supposed to be a major inquiry. This is less than the combined amount spent by Citigroup, Morgan Stanley and Bank of America for lobbying during the first nine months of 2009.

In his opening remarks, the commission's chairman, Phil Angelides, the former state treasurer of California, set the stage for Wednesday's hearing, saying that "the most important task in front of us is to shed light, not heat; for us to take stock of what has happened and give a true accounting so the important work of restoring faith in our economic system can begin."

In other words, the commission's task was to restore credibility to the profit system. The prospect of holding anyone accountable was off the table.

After Angelides' opening remarks, the floor was yielded to the four CEOs, who, one after the other, argued that the financial crisis was the product of a series of innocent miscalculations by bankers and regulators.

Goldman Sach's Blankfein and his colleagues said that the best solution would be to introduce some minimal regulatory measures, while keeping intact the system that pays the financial elite billions of dollars in salaries, perks and bonuses.

The arrogance of the Wall Street barons and subservience of the government were fully on display. Each of the bankers praised his own company. JP Morgan's Dimon declared, "Throughout the financial crisis, JPMorgan Chase never posted a quarterly loss, served as a safe haven for depositors, worked closely with the federal government, and remained an active lender."

Moynihan observed that "we as an industry caused a lot of damage," but he made no apology, either for his industry, his company, or himself.

The closest the humdrum affair came to a confrontation occurred when Angelides asked Goldman Sachs CEO Blankfein why his firm secretly betted against the mortgage-backed securities it packaged and sold into the market. Angelides compared Goldman's actions to "selling a car with faulty brakes, and then buying an insurance policy on the buyer of that car."

Blankfein was indignant at such effrontery. He raised his voice and repeatedly interrupted the commission chair. "We represent the other side of what people want to do," said Blankfein, implying that if people bought toxic securities from Goldman, it was their own fault.

After this exchange, Angelides asked Blankfein, "Did you always disclose to every investor that you were taking contrary positions? Yes or no?" Blankfein blustered something incomprehensible, and Angelides timidly moved on. This became the procedure for any question Blankfein chose not want to answer.

Angelides later said he was "troubled" by Blankfein's inability to answer basic questions about his firm's activities. But since it was not his intention to make the Wall Street CEOs "say uncle," as he put it, he accepted the banker's evasions.

The basic argument of the four men was that they had no way of grasping the dangers inherent in the vastly inflated housing market. Dimon said his bank carried out internal "stress tests" of every possible adverse scenario. However, when asked whether he had considered the impact of a decline in housing values, he admitted that he had not.

The CEOs' argument is worth considering. In the (unbelievable) event that they were being honest, their statements amounted to an admission of incompetence and recklessness that constitutes, at the very least, criminal negligence, and utterly undermines the claim that they and their fellow financial "wizards" are entitled, by virtue of their unique wisdom and talent, to astronomical pay checks.

In fact, their incompetence was combined with fraud on a gigantic scale, which brought their own firms and the US and world economies to the brink of collapse and precipitated an economic crisis that is consigning untold millions to unemployment, homelessness and poverty.