The Goldman Sachs indictment

Patrick O'Connor, Barry Grey
19 April 2010

The Securities and Exchange Commission (SEC) filed a civil case Friday against giant investment bank Goldman Sachs charging "fraudulent misconduct" in relation to $1 billion of worthless sub-prime mortgage securities Goldman palmed off to its clients in 2007.

The SEC's submission to New York's Southern District Court provides a devastating glimpse into the criminal activities of a financial oligarchy that was not only indifferent to the destructive social consequences of its operations, but eager to profit from a crisis precipitated by its own speculative activities.

In April of 2007, just prior to the sub-prime mortgage collapse, Goldman Sachs received $15 million from hedge fund operator John Paulson to help put together a package of securitised home loans—a collateralised debt obligation (CDO)—and market it to Goldman's clients. According to the SEC, Paulson and Goldman knew that the CDO, called ABACUS 2007-AC1, was comprised of junk assets, but they led the public to believe that a sound investment was being offered.

Paulson had staked the fortunes of his hedge fund betting on a market collapse. He therefore selected the worst sub-prime mortgage securities on the market for the Goldman CDO, mostly derived from mortgages in Arizona, Florida, Nevada and California—states which were subsequently among the hardest hit by the wave of foreclosures.

Goldman Sachs, the SEC alleges, covered up Paulson's involvement in the CDO's creation when it marketed the investment to its clients. Goldman hired collateral manager ACA and, according to the SEC, falsely told its clients that ACA had decided what mortgages were to be bundled into the CDO. Ratings agencies Moody's and Standard & Poor's rubber-stamped the operation, issuing the CDO a triple-A rating. Paulson then short-sold the CDO.

The Wall Street bank was paid by Paulson to package and market the toxic CDO, then paid by investors who bought into it. By January of 2008, 99 percent of the CDO's loans had been downgraded. Paulson's hedge fund, having bet on precisely this outcome, made approximately $1 billion—about the same amount lost by Goldman Sachs' customers.

This particular Goldman Sachs shake-down operation was by no means an aberration. It was only a fairly flagrant example of the criminality that pervades the American financial and corporate elite. The fall in the market price of leading bank stocks triggered by Friday's SEC announcement reflects the fear that any one of the major US banks and hedge funds could be next.

The public marketing and secret short-selling of junk assets was a common practice carried out by virtually every major Wall Street firm. It was part of a colossal fraud perpetrated on the American people.

The banks lured people into taking out mortgages they knew the purchasers could not afford. They then packaged these toxic loans into securities—collateralised debt obligations—and made billions in profits by selling them to investors around the world, including pension funds, 401(k) plans, insurance companies and private investors. Those involved knew very well they were running the equivalent of a giant Ponzi scheme—a fraud far more massive and destructive than the criminal operation headed by Bernard Madoff.

Before and during 2007, Goldman Sachs, conscious that the entire edifice of CDOs based on the sub-prime

© World Socialist Web Site

mortgage bubble was about to topple, deliberately sought to hasten the crisis. A *New York Times* investigative report published in February revealed that before the American International Group (AIG) bailout in September 2008, Goldman strove to undermine investor confidence in the insurance giant in order to drive down the market value of mortgage-backed securities. When the crash finally came, Goldman—bolstered by $10 billion in public bailout money received at the height of the financial free-fall—cashed in, reporting a record $13.4 billion profit last year.

CEO Lloyd Blankfein and other Goldman executives, as well as John Paulson—who was not named in the SEC indictment—are, in fact, criminals. They should be criminally prosecuted and held legally accountable for their violations of the law and their crimes against society.

Their actions—exhibiting an insatiable and manic drive for personal enrichment—have produced devastating consequences for tens of millions of ordinary people, not only in the United States, but around the world. Millions have lost their jobs, their homes and their life savings. Untold numbers of young people have lost their chance for a college education. Untold numbers of old people have been driven into poverty and an early death.

It is no exaggeration to say that senior executives at Goldman Sachs and other leading banks have blood on their hands. Many lives have been lost in the US and internationally as a result of the economic crisis precipitated by their fleecing operations—through poverty, disease, stress, malnutrition, house fires resulting from utility shutoffs, etc.

The SEC indictment, it can be safely predicted, will result either in a white-wash of Goldman and its executives or, at the most, a financial slap on the wrist.

The SEC's civil case lets senior Goldman executives off the hook. The sole individual named as defendant, alongside the bank, is a 31-year-old who was a junior trader in 2007.

In 2007, Goldman CEO Blankfein, who is not named in the indictment, received, according to Reuters, $100 million in pay and stock. Paulson, exonerated by the SEC, pocketed $3.7 billion in 2007 and another $2 billion in 2008.

The worst Goldman will suffer is a multi-million-dollar fine, a drop in the bucket compared to the financial giant's profits.

The Obama administration, loaded with executives from Goldman and other Wall Street firms, will do nothing to stop the banks and hedge funds from continuing their fleecing operations now and in the future, and none of those chiefly responsible will be held to account.

An independent political intervention of the working class is urgently required. The trillions in ill-gotten wealth of Wall Street operators must be re-appropriated and used to help fund public works programs to provide jobs for the unemployed and rebuild the social infrastructure. This money, stolen from the American people, must be used as well to provide relief for the millions victimized by the financial robber barons.

A full public disclosure of all the operations of the banks and hedge funds is required as the first step in launching criminal prosecutions, not just civil proceedings, against culpable individuals. The commanding heights of the banking and financial sector must be nationalised and placed under the democratic control of the working population as part of the socialist reorganisation of the US and world economies.

Patrick O'Connor and Barry Grey

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site