The Secret Goldman Sachs Tapes

admin

Probably most people would agree that the people paid by the U.S. government to regulate Wall Street have had their difficulties. Most people would probably also agree on two reasons those difficulties seem only to be growing: an ever-more complex financial system that regulators must have explained to them by the financiers who create it, and the ever-more common practice among regulators of leaving their government jobs for much higher paying jobs at the very banks they were once meant to regulate. Wall Street's regulators are people who are paid by Wall Street to accept Wall Street's explanations of itself, and who have little ability to defend themselves from those explanations.

Our financial regulatory system is obviously dysfunctional. But because the subject is so tedious, and the details so complicated, the public doesn't pay it much attention.

That may very well change today, for today — Friday, Sept. 26 — the radio program "This American Life" will air a jaw-dropping storyabout Wall Street regulation, and the public will have no trouble at all understanding it.

The reporter, Jake Bernstein, has obtained 46 hours of tape recordings, made secretly by a Federal Reserve employee, of conversations within the Fed, and between the Fed and Goldman Sachs. The Ray Rice video for the financial sector has arrived.

First, a bit of background — which you might get equally well from today's broadcast as well as from thisarticle by ProPublica. After the 2008 financial crisis, the New York Fed, now the chief U.S. bank regulator, commissioned a study of itself. This study, which the Fed also intended to keep to itself, set out to understand why the Fed hadn't spotted the insane and destructive behavior inside the big banks, and stopped it before it got out of control. The "discussion draft" of the Fed's internal study, led by a Columbia Business School professor and former banker named David Beim, was sent to the Fed on Aug. 18, 2009.

It's an extraordinary document. There is not space here to do it justice, but the gist is this: The Fed failed to regulate the banks because it did not encourage its employees to ask questions, to speak their minds or to point out problems.

Just the opposite: The Fed encourages its employees to keep their heads down, to obey their managers and to appease the banks. That is, bank regulators failed to do their jobs properly not because they lacked the tools but because they were discouraged from using them.

The report quotes Fed employees saying things like, "until I know what my boss thinks I don't want to tell you," and "no one feels individually accountable for financial crisis mistakes because management is through consensus." Beim was himself surprised that what he thought was going to be an investigation of financial failure was actually a story of cultural failure.

Any Fed manager who read the Beim report, and who wanted to fix his institution, or merely cover his ass, would instantly have set out to hire strong-willed, independent-minded people who were willing to speak their minds, and set them loose on our financial sector. The Fed does not appear to have done this, at least not intentionally. But in late 2011, as those managers staffed up to take on the greater bank regulatory role given to them by the Dodd-Frank legislation, they hired a bunch of new people and one of them was a strong-willed, independent-minded woman named Carmen Segarra.

I've never met Segarra, but she comes across on the broadcast as a likable combination of good-humored and principled. "This American Life" also interviewed people who had worked with her, before she arrived at the Fed, who describe her as smart and occasionally blunt, but never unprofessional. She is obviously bright and inquisitive: speaks four languages, holds degrees from Harvard, Cornell and Columbia. She is also obviously knowledgeable: Before going to work at the Fed, she worked directly, and successfully, for the legal and compliance departments of big banks. She went to work for the Fed after the financial crisis, she says, only because she thought she had the ability to help the Fed to fix the system.

In early 2012, Segarra was assigned to regulate Goldman Sachs, and so was installed inside Goldman. (The people who regulate banks for the Fed are physically stationed inside the banks.)

The job right from the start seems to have been different from what she had imagined: In meetings, Fed employees would defer to the Goldman people; if one of the Goldman people said something revealing or even alarming, the other Fed employees in the meeting would either ignore or downplay it. For instance, in one meeting a Goldman employee expressed the view that "once clients are wealthy enough certain consumer laws don't apply to them." After that meeting, Segarra turned to a fellow Fed regulator and said how surprised she was by that statement — to which the regulator replied, "You didn't hear that."

This sort of thing occurred often enough — Fed regulators denying what had been said in meetings, Fed managers asking her to alter minutes of meetings after the fact — that Segarra decided she needed to record what actually had been said. So she went to the Spy Store and bought a tiny tape recorder, then began to record her meetings at Goldman Sachs, until she was fired.

(How Segarra got herself fired by the Fed is interesting. In 2012, Goldman was rebuked by a Delaware judge for its behavior during a corporate acquisition. Goldman had advised one energy company, El Paso Corp., as it sold itself to another energy company, Kinder Morgan, in which Goldman actually owned a $4 billion stake, and a Goldman banker had a big personal investment. The incident forced the Fed to ask Goldman to see its conflict of interest policy. It turned out that Goldman had no conflict of interest policy — but when Segarra insisted on saying as much in her report, her bosses tried to get her to change her report. Under pressure, she finally agreed to change the language in her report, but she couldn't resist telling her boss that she wouldn't be changing her mind. Shortly after that encounter, she was fired.)

I don't want to spoil the revelations of "This American Life": It's far better to hear the actual sounds on the radio, as so much of the meaning of the piece is in the tones of the voices — and, especially, in the breathtaking wussiness of the people at the Fed charged with regulating Goldman Sachs. But once you have listened to it — as when you were faced with the newly unignorable truth of what actually happened to that NFL running back's fiancee in that elevator — consider the following:

1. You sort of knew that the regulators were more or less controlled by the banks. Now you know.

2. The only reason you know is that one woman, Carmen Segarra, has been brave enough to fight the system. She has paid a great price to inform us all of the obvious. She has lost her job, undermined her career, and will no doubt also endure a lifetime of lawsuits and slander.

So what are you going to do about it? At this moment the Fed is probably telling itself that, like the financial crisis, this, too, will blow over. It shouldn't.