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"Will Dems allow Goldman to manipulate a cap-and-trade market?"

By William Tate

Goldman Sachs, the Wall Street leviathan that is heavily invested in the cap-and-trade carbon market scam, has admitted it has developed and used software that can manipulate such financial markets.

The revelation came during proceedings in a legal case with enough plot twists to make even John Grisham proud; it was made, not by Goldman, but by an assistant U.S. Attorney.

> "(B)ecause of the way this software interfaces with the various markets and exchanges, the bank has raised a possibility that there is a danger that somebody who knew how to use this program could use it to manipulate markets in unfair ways," Joseph Facciponti told a federal magistrate in an unusual Saturday afternoon bail hearing -- and not just any Saturday afternoon, but the Fourth of July.

Facciponti's comments came at a hearing for Sergey Aleynikov, a former Goldman Sachs programmer, who had been arrested the day before, disembarking from a plane at Newark's Liberty International Airport. Aleynikov is accused of absconding with the code for the Goldman program and uploading it to a server in Germany, shortly before leaving the firm to take a job with a Chicago start-up for three times his $400,000 a year Goldman salary.

Aleynikov denies the charges.

Goldman uses the program for all of its trades

While Facciponti's remarks that the Goldman computer program could "manipulate markets in unfair ways" have received attention in the financial press, another, almost equally important statement made by Facciponti has gone virtually unnoticed. According to transcripts of the hearing, as posted at the Wall Street Journal:

> "What the defendant is accused of having stolen from the investment bank (later identified by defense counsel as Goldman Sachs) is *their proprietary, high-quantity, high-volume trading platform with which they conduct all of their trades in all major markets in the United States and other places*." (emphasis added)

In other words, Goldman already uses the software. Implicit in Facciponti's court statements is that Goldman can be trusted not to manipulate markets but others can not.

Even if Goldman hasn't actually rigged markets, the program could be used to give Goldman other unfair advantages; business commentator and author of *Bailout Nation* Barry Ritholz outlines some possibilities at his blog:

Theoretically, this would allow GS to buy (or sell) stocks, selling (or covering) them back to the now compromised trader towards the end of their purchase (sale). Or, they could take a position, assuming there was more flow behind the initial order. Or, they could arbitrage a few fractional cents each trade.

Coincidentally or not, Bank of America analyst Guy Moszkowski says that Goldman Sachs is on pace this year to beat its trading-revenue record in 2007.

Goldman wouldn't manipulate markets, would they?

But what are we to make of Facciponti's comment that "there is a danger that somebody who knew how to use this program could use it to manipulate markets in unfair ways."

Which leads the inquiring mind to ask, How does Goldman know that its program has that capability?

Goldman, being the good corporate citizens they are, would never have used it that way. Or would they?

A recent article by Matt Taibbi in Rolling Stone accuses Goldman of manipulating markets to create speculative bubbles, including the internet bubble, last year's crazy ride in oil prices, and the current economic bust initiated by the sub-prime mortgage meltdown.

In his thoroughly-researched and well-sourced book, *House of Cards: A Tale of Hubris and Wretched Excess on Wall Street* ($27.95 Doubleday), William D. Cohan writes of a crucial moment in that meltdown. He quotes an unnamed Bear executive describing how they were trying to value, or "mark", mortgage-backed securities, a process by which the SEC required that they averaged the highest and lowest marks provided by other firms. The executive said the marks were coming in at 97 or 98 cents on the dollar, when Goldman Sachs pushed the market over the cliff:

"Suddenly we get these marks. Except these marks are not 98 to 97. They go from 98 to 50 and 60... and that is game f****ing over. By the way, the firm that sent us the 50 made a s**t pot full of money in 2007 shorting the f***ing market."

The effect of the new marks from Goldman Sachs ... was immediate and devastating... With the hindsight of a few months, the Bear executive's fury at Goldman had not abated. "If everybody's getting overwhelmed by a tsunami and a couple of guys are making a f***ing fortune, that usually is grounds for at least taking a closer look to see what is going on, as to why they were making a fortune... I just told you a story that as about as relevant and about as potent as nitroglycerin, if you ask me." -*House of Cards*, p 337

And, suddenly, mortgage-backed securities were melting like cheese on a summer picnic's hamburger.

Goldman defended their slashing of subprime securities prices in half, almost overnight, and a Goldman official told Cohan the firm "did not make nearly as much money in 2007 betting against the mortgage market as people think it did."

Just as Goldman's finger may have helped pop the housing bubble, its fingerprints are all over the start of that bubble as well, through its influence on Clinton-era policies.

Economist Dennis Sewell noted in The Spectator magazine:

> The main thrust of the Clinton housing strategy was to increase home ownership among the poor, and particularly among blacks and Hispanics... standing in the way of the realisation of this dream were the conservative lending policies of the banks, which required such inconvenient and old-fashioned things as cash deposits and regular repayments - things the poor and minorities often could not provide.

The Clinton administration initiated its strategy through reforms to the Community Reinvestment Act, announced in December, 1993.

Well-respected analyst Meredith Whitney has noted that home ownership in the U.S. "had been 64% prior to 1994 for as far back as the eye can see." After the new government policies, that rate climbed to 69%. Whitney told Business Week last December that she expects the financial crisis caused by the mortgage meltdown to last through mid-2010 because, "For 15 or 20 years cheap credit was extended to a lot of people who were not worthy. Now you've got to resize that business back to traditional, normalized credit."

Sewell in his Spectator article, wrote that to make sure the new policies were implemented, the administration set up "a network of enforcement offices across the country, manned by attorneys and investigators, and primed to spearhead an assault on the mortgage banks, bringing suits against any suspected of practicing unlawful discrimination, whether on the basis of race, gender or disability."

In other words, the Clinton administration, using the full force and authority of the U.S. government, bullied lenders into making questionable mortgages, accelerating -- if not initiating -- the housing bubble through its CRA reforms.

Goldman Sachs played a major hand in these Clinton-era financial policies through Robert Rubin, former Co-Chairman of the firm, who actually announced them on December 8, 1993. Rubin boasted that, "*CRA reform will generate billions of dollars in new lending* and extend basic banking services to the inner cities and to distressed rural communities around the country." (Emphasis added.) Rubin was then Clinton's influential Assistant for Economic Policy and later went on to become an even more influential Secretary of the Treasury.

Taibbi wrote in Rolling Stone:

> During his (Robert Rubin's) tenure at Treasury, the Clinton White House made a series of moves that would have drastic consequences for the global economy - beginning

> with Rubin's complete and total failure to regulate his old firm during its first mad dash for obscene short-term profits.

Taibbi adds that other Goldman graduates played a major hand when the market crashed, including another Goldman-ex turned Treasury Secretary, Henry Paulson:

> Paulson elected to let Lehman Brothers -- one of Goldman's last real competitors -- collapse without intervention... The very next day, Paulson greenlighted a massive, $85 billion bailout of AIG, which promptly turned around and repaid $13 billion it owed to Goldman. Thanks to the rescue effort, the bank ended up getting paid in full for its bad bets: By contrast, retired auto workers awaiting the Chrysler bailout will be lucky to receive 50 cents for every dollar they are owed.

The next bubble?

From the mortgage bubble, Goldman learned an important -- and very valuable -- lesson: Government policies, especially if shaped by a network of former Goldman officials, could be used to create vast profits, indeed whole markets.

This leads us to what Taibbi calls "the new game in town," cap-and-trade. Or cap-and-tax, if you prefer.

It is a potential trillion-dollar market, that had its beginnings in Chicago about the time that Bill Clinton signed the Kyoto Protocol, even though the U.S. Senate had spurned the international agreement by a 95-0 vote. And Barack Obama has been involved in the potentially lucrative market almost from the start.

The Chicago Climate Exchange was formed to implement the carbon emissions trading gold rush Kyoto would have opened up; however, when President Bush withdrew from the protocol -- forever earning George Soros' enmity -- it looked like the exchange was dead. Enter Chicago's Joyce Foundation, a senior board member of which was one Barack Obama.

From Fox News:

> Obama served as one of 12 directors on the Joyce Foundation board from July 1994 until December 2002, according to a Joyce foundation spokesman. But it was only in 2000 and 2001 that the foundation gave money to the Climate Exchange -- funds deemed by the exchange itself to be fundamental to its successful launch, and in fact to its early survival.

Having survived, thanks to the million-dollar bailout from Obama and the Joyce Foundation, the Chicago Climate Exchange went on to merge with Climate Exchange Ltd in 2006. Goldman Sachs took a 10% stake in the firm at the time and later increased its holdings to at least 19%. CCX is also 10% owned by Generation Investment Management, a firm founded and chaired by Al Gore and co-founded by the above-mentioned former Goldman CEO, Hank Paulson.

According to EnergyRisk.com,

"Goldman Sachs is a major trader of European Union allowances and is set to be a key player in the US emissions markets that are planned to start up at the end of the decade."

But the markets have to be created first.

Trading firms sometimes call themselves 'market makers' for creating the markets in which securities and other investments are traded. Goldman learned from the housing bubble that it could forego that risk by getting the U.S. government to take it for them. So, now Goldman is turning to Washington to do its bidding, specifically the Democrats in Congress and the White House that it expects to approve and sign cap-and-trade legislation. Democrats that Goldman has bought and paid for.

Taibbi writes that Goldman personnel -- it's not legal for the corporations, themselves, to make political contributions -- donated nearly four-and-a half million dollars to get Democrats elected last fall. And the Center for Responsive Politics (CPR)'s OpenSecrets.org reports that almost a million of that went to the man who helped keep the Climate Exchange alive back in 2000 and 2001, Barack Obama.

In fact, Goldman was Obama's largest private contributor and "was the biggest business donor to Democrats in 2008, according to a (CPR) report. Some 73 percent of Goldman Sachs's millions in 2006-08 donations went to Democrats," according to a March article by Kevin D. Williamson in National Review.

And Goldman wasn't alone. Sniffing the profits that Wall Street's biggest shark expects to make from the new market, other investment firms, like smaller sharks sniffing blood in the water, went all-in last year, too. According to OpenSecrets, investment and security folks shelled out $14,788,852 to Obama, while hedge fund personnel invested just over three million dollars on their man. Both figures are almost twice the amounts donated to the Republican candidate, John McCain.

Overall investment and financial institution personnel donated $87,965,961 to Democrats, or about 57% of their total donations, a sharp break from years past, when Republicans generally held a slight edge. The numbers are even more lopsided going into next year's congressional election with 66% of the money donated so far going to the cap-and-trade party.

These figures, of course, do not include donations made to certain PACS or 527's or George Soros's relentless efforts to get willing Democrats elected.

Taibbi accuses Goldman of riding from bubble to bubble, sucking all of the public's money it can from each bubble before moving on to the next. With Goldman's push for cap-and-trade, "now they're preparing to do it again, creating what may be the biggest and most audacious bubble yet."

But, of course, Goldman Sachs would never manipulate markets.

William Tate is an award-winning journalist and author
44 Comments on "*Will Dems allow Goldman to manipulate a cap-and-trade market?*"