Greg smith goldman sachs 2020

The resignation letter heard around the world proves what we already know: Washington would like to think it can change Wall Street culture - and it can't.615 goldman sachs.jpgReutersOK, so who do we trust? In a cover story in New York magazine last month melodramatically titled Wall Street Emasculation, journalist Gabriel Sherman made the case that large financial firms were engaged in what might be called soul-searching about their many sins and their wildly compensated contributions to the U.S. economy. Wall Street, under the whip of the giant Dodd-Frank Act, was taught to behave. Reduced compensation packages and increased capital requirements were supposed to tame or stifle some of the riskier and most reckless practices that brought the nation to the brink of another Great Depression, Sherman wrote. Best of all, taming Wall Street would redirect the nation's best minds back into useful things like real engineering, not financial engineering. Cool! NJ logo. JPG MORE FROM NATIONAL JOURNAL Romney's Bad Poker Face 2012's Known Unknowns Say Bye-Bye to the Mommy Wars Now comes Greg Smith, apparently a conscientious outlaw from Goldman Sachs, who tells us that not only has nothing changed in the company's culture, but he can honestly say that the environment is now as toxic and destructive as I've ever seen it. Could these two things be true? Actually, maybe yes. But the bigger thing is we have to pay a lot more attention to Greg Smith than to Gabriel Sherman. There is, above all, every reason to think that Smith was telling the truth. Some savvy Street watchers, such as Pulitzer Prize-winning author Liaquat Ahamed, say that while Sherman is right to say wall street is much more restrained at the moment, much has not changed. Greg Smith is dead right, Ahamed wrote to me in today's e-mail. Goldman and all other investment banks are affected by the conflict of interest. The problem is that over time, all of them, but especially Goldman, have shifted from a client consulting or capital raising business for clients to trading into their own account. I get the impression (from the pecora hearing books) that in the 1930s Glass Steagall was equally motivated by outrage over conflicts of interest (e.g. Citibank famously stuffs the accounts of its deposit holders with foreign bonds that then went bankrupt) as a desire to make the banking system more stable. But we didn't get a new Glass-Steagall. Instead, thanks to Tim Geithner and Co., we got the milquetoasty Volcker rule (which the Treasury only supported, after a year of ignoring Paul Volcker, when Barack Obama insisted on it, as I wrote earlier), dubious rules on unwinding still-giant Wall Street firms in crisis, and a Consumer Financial Protection Bureau that floored attack on Capitol Hill. So it beggars common sense to think that we're really getting a new Wall Street.and none other than Goldman CEO Lloyd Blankfein-- who Smith attacked yesterday for losing hold on the culture company-- has already acknowledged this point. As I wrote in my 2010 book Capital Offense, Goldman Sachs became the highest earner and most prestigious company on Wall Street in part because it had no scruples about simultaneously betting against the products it sold. Goldman justified this by saying it had more sophisticated customers, like large institutional and professional investors, who didn't mind if Goldman put protection from the very investments itself that touting to other clients. Back in 2010, Blankfein admitted, in fact, exactly what Greg Smith now claims. At the now-well-known hearings of sen. Carl Levin, Levin tried to get Blankfein to admit that Goldman was morally wrong to bet on solid securities that he considered solid investments to his clients. No, no, Goldman CEO demurred, that's not how the financial system works anymore. There has been a change in the sociology of business in the last 10 to 15 years, Blankfein patiently explained. Somewhere along the line, he said, large clients stopped seeking good advice from investment banks and started looking for them just to make deals for them -- just to confirm transactions and be on the other side. This forced Goldman to transform itself from a private partnership in the late '90s into a publicly traded company to get the big capital needed to create such deals. He also apparently had Goldman carte blanche shaft any helpless investor on the other side of those transactions. Liquidity was everything. Nothing else mattered. We've heard over and over again over the past two years how Dodd-Frank is delivering the new Wall Street to us, how banking is becoming blessedly boring again. But Greg Smith now joins a very small group, an absurdly small group of truth-telling ones who tell us that, for the most part, things are still working the way they did. One of Smith's predecessors in this chosen company, Frank Partnoy, exposed Morgan Stanley's practices back in the 1990s - a company he wrote evolved from a stodgy white shoe bank to a raging for-profit machine that was mostly involved in speculation and scams, using arcade derivatives and complex new debt and interest payment packages that Morgan foisted on customers who barely understood them. Another whistleblower, Eric Kolchinsky, the former CEO of Moody's, revealed at congressional hearings in late 2009 that he was not going to be a member of The New York Times. How much can we really expect Change? not much. Yes, as Gabriel Sherman wrote, Wall Street is going through an existential crisis. The Volcker Rule, however many loopholes there are, can help prevent FDIC money earmarked for traditional banks from being used to rescue companies that continue to roll out hedge fund practices. But if Sherman was right, and the habits and culture that pervaded Goldman and Morgan Stanley were fundamentally altered and boxed in companies since they were forced to turn into banking holding companies during the crisis (to touch the Fed's discount window), then why is Greg Smith writing it even after Dodd-Frank. , Levin's hearings and the giant civil suit that Goldman settled (without admitting wrongdoing), the company is as vicious as it's ever been? Even after S.E.C., Fabulous Fab, Abacus, god's work, Carl Levin, vampire squid? No humility? I mean, come on. Integrity? Eroding, writes Smith. So there's even less integrity than there used to be? This is especially frightening given that giant banks are still giants and will remain so and still have trouble taking stress tests, as we saw this week. There is nothing to solve too much of a problem except for the multitude of as yet unwritten living wills that should tell regulators how to liquidate banks in crisis. The largest surviving banks -- mainly Goldman, Citi, JPMorgan Chase, Bank of America, Morgan Stanley and Wells Fargo -- are getting bigger and more global relative to the rest of the industry. They crowd out smaller banks in key areas, having increased their overall market shares in deposits, mortgages, credit cards, housing equity loans and small business loans. In addition, at more than $700 trillion, the derivatives trade is already much larger than it was during the 2008 crisis. And as scarce as it is, Dodd-Frank is in the process of being destroyed by the GOP-led House (never mind what might happen if Mitt Romney is elected president, because he has vowed to repeal it). Regulators are starving for staff. Eric Kolchinsky, a former derivatives expert at Moody's, in a conversation with me today, said things clearly haven't changed. Dodd-Frank in my estimation doesn't really do much at all, especially to change ethics on Wall Street or to help protect Wall Street clients from the snow because of the super-complex derivatives they still sell. Instead, Dodd-Frank is really just focusing on paperwork without any changes in practice, Kolchinsky said. What happened was that some of the products that made that kind of money were directly banned. You can't do what you did last time. But the attitude [on Wall Street] is, 'Let's find something else.' That hasn't changed. What Greg Smith was doing, as head of equity derivatives, is another complex product, and in that complexity can make a lot of money. Indeed, it's no surprise that the bank lobby threw most of its energy during the Dodd-Frank legislative process into watering down rules requiring over-the-counter derivatives to trade on a more open and supervised stock exchange. This is because derivatives and structured financial products traded outside the stock exchange continued to be a major source of Wall Street profitability as they were not exposed to market valuation and risk assessment. And the more complex they are, the easier it is for banks to charge their customers for huge spreads. In other words, the market is still rigged and full of scams, just as Frank Partnoy warned back in the 1990s. Who do you trust? I think I'm going to go with Greg Smith through Gabriel Sherman. You can take it to the bank. More From The Atlantic Click the box below to tell us you're not a robot. 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