America Must Rescue the Bonuses at Goldman Sachs: Michael Lewis

Commentary by Michael Lewis

Sept. 24 (Bloomberg) -- Anyone who caught even a sliver of yesterday's hearings in the U.S. Senate on the proposed Treasury bailout of the mortgage-backed securities market knows that the current financial crisis is far from over. Suddenly all sorts of previously unthinkable catastrophes seem possible.

The total collapse of the global financial system is one thing -- everyone at Davos in January saw that coming. But the shrinkage of the Goldman Sachs Group Inc. bonus pool is another. Whatever else the Treasury achieves it must know that if the employees of Goldman suffer any sort of pay cut, it will be judged to have failed. And our country may never recover.

Last year Goldman paid its employees $20 billion, 44 percent of the firm's revenue. Chief Executive Officer Lloyd Blankfein took home $68.5 million, and many otherwise ordinary human beings took home $10 million or more.

This inspired young people everywhere, many of whom may have privately wondered whether it was still worth their time to become investment bankers. Torn between a future in, say, the law and the manufacture of mezzanine CDOs they sucked up their courage and plunged onto Wall Street. And thank God for that: We needed the best and the brightest to get us into this mess, and we'll need the best and the brightest to get us out of it.

Therein lies the problem: If they see Goldman's salaries and bonuses declining, who among the best and the brightest will be induced to join Goldman?

Goldman's Pain

To its credit the government has thus far done pretty much all it can to prevent any suffering inside the firm. Its extreme sensitivity to Goldman's pain is the only way to explain its actions thus far. But its approach has been crude; it has been using a sledgehammer to do a scalpel's job. For instance, by banning the short-selling of shares in the amazing number of Wall Street-related companies that America apparently can't live without (Moody's Corp.?), it may have prevented Goldman from being driven out of business. Certainly, the ban caused Goldman's share price to fall less than it otherwise would have.

But this wise policy ignores the fact that Goldman Sachs, perhaps more than any other financial firm, makes a lot of money from the short-selling of Wall Street-related stocks -- by enabling its hedge-fund clients to do it.

Bold Strokes

Goldman needs any revenue it can get its hands on right now. A wiser policy would have been to disallow the short-selling of Goldman's shares alone, and let the other 925 financial-related companies collapse. Goldman was already well-positioned to devour little pieces of Lehman

Brothers Holdings Inc. and American International Group Inc. If other firms were allowed to suffer a bit more, Goldman would consume their juiciest bits too, and become stronger for it. (Come to think of it, Goldman should just get it over with and buy Moody's so it can rate its own securities.) Perhaps its share price might cease to fall.

This points to what amounts to a character flaw inside the Securities and Exchange Commission: fear of the bold stroke. Clearly it wasn't enough to ban the short sale of Goldman's shares, as those shares resumed their downhill journey. What's needed is a broader ban on pessimism of any sort. Worrisome newspaper articles, whispered conversations, mildly skeptical thoughts, anything that might adversely affect Goldman's share price: all these, too, must be outlawed.

Paulson's Payday

Lately, for instance, I have heard several hedge-fund managers gossiping about Treasury Secretary Hank Paulson. One of the things they say is that, in leaving Goldman for government service, Paulson made the greatest trade of his life. Not only was he required to sell his half-billion dollars in Goldman stock near the high, but also, as Treasury Secretary, he was exempt from capital-gains taxes. By getting out of Goldman while the getting was good, the guy may have doubled his net worth.

These hedge-fund managers are the very same people who just a few days ago were shorting Goldman's shares and now have nothing better to do with their time than gossip about an esteemed Goldman alumnus. Shame on them. Their idle chit-chat is just the sort of negativity our government needs to ban.

But I don't want to dwell on the government's failure. As I say, so far they've done a pretty good job making sure no one at Goldman Sachs suffers so much as a scratch on his person. I want to look to the future.

Poker Game

The Treasury has proposed using $700 billion of taxpayers' money to buy the shaky investments created by the likes of Goldman Sachs and sold to customers. This is good, for many obvious reasons, and one less obvious one, too. Obviously, it has slowed the market's desire to put Goldman out of business. It also offers Goldman a place to stuff its bad investments at prices well above market levels.

But the Treasury plan also creates this wonderful hidden opportunity for Goldman Sachs to make a killing, and thus preserve its bonus pool for a long time to come.

Think of Wall Street as a poker game and Goldman as the smartest player. It's sad when you think about it this way that so much of the dumb money on Wall Street has been forced out of the game. There's no one left to play with. Just as Goldman was about to rake in its winnings and head home, the U.S. government stumbles in, fat and happy and looking for some action. I imagine the best and the brightest inside Goldman are right this moment trying to figure out how it uses the Treasury not only to sell their own crappy assets dear but also to buy other people's crappy assets cheap.

At any rate, it won't take long for Goldman Sachs to figure out how to make that $700 billion work for Goldman Sachs. This you can trust them to do. After all, Warren Buffett just did.

(Michael Lewis is a Bloomberg News columnist and the author of ``The Blind Side,'' ``Moneyball'' and ``Liar's Poker.'' The views he expresses are his own.

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Bright Side of a Total Financial Market Collapse: Michael Lewis

Commentary by Michael Lewis

Sept. 18 (Bloomberg) -- One of life's rules is that there's bad in good and good in bad. The total collapse of the U.S. financial system is no exception. Even in the midst of the current financial despair we can look around and identify many collateral benefits.

A lot of attractive office space seems to be opening up in midtown Manhattan, for instance, and the U.S. government is now getting paid to borrow money. (And with T-bills yielding 0 percent, they really ought to borrow a lot more of it, and quickly.)

And so as Morgan Stanley Chief Executive Officer John Mack blasts short sellers for his problems, and Goldman Sachs CEO Lloyd Blankfein swans around pretending to be above this little panic, we ought to step back and enjoy the positives.

To wit:

1) We finally get to see what's inside these big Wall Street firms.

We've just witnessed the largest bankruptcy in U.S. history and we know neither the inciting incident (though there is speculation that sovereign wealth funds decided to stop lending to Lehman Brothers Holdings Inc.), nor the deep cause. But there's now a pile of assets and liabilities smoldering in New York awaiting inspection.

The assets include subprime mortgage-backed bonds and no doubt many other things that aren't worth as much as Lehman hoped they might be worth. But it's the liabilities that are most intriguing, as they include more than $700 billion in notional derivatives contracts. Some of that is insurance sold by Lehman, against the risk of other companies defaulting.

Natural Question

The entire pile might be benign, but somehow I doubt it. We may well find out that Lehman Brothers, in liquidation, has a negative value of hundreds of billions of dollars. In that case the natural question will be: How much better could things be inside Morgan Stanley and Goldman Sachs, both of which were engaged in the same lines of business?

2) We are creating the financial leaders of tomorrow.

Remember when everyone believed in Alan Greenspan? When John McCain, running for president in 2000, said that if Greenspan died he'd have him stuffed and propped up against the wall at the Federal Reserve, where he'd remain chairman?

No sooner did Greenspan shuffle off the stage and sell his memoir than the financial system he helped shape fell apart.

He's left not only a mess but a void. No matter how well- educated we become in our financial affairs, we still need public officials to look up to, unthinkingly.

Nothing Like a Bailout

And there's nothing like a government bailout to create new public-sector heroes. Hank Paulson, 62, is probably too old; in any case, he's tarred by his association with both George Bush and Goldman Sachs. But 47-year-old Tim Geithner at the New York Fed is perfectly positioned to make Americans feel as if their financial system is in good hands for many years to come.

I have no real idea if Geithner knows what he's doing and he may not either. (``Bail out that one. No! Not that one -- the other one!'') It doesn't matter. He's in the middle of great events and should, by the end of them, know more about what happened than anyone.

Whatever happens to the U.S. financial system someone is bound to get the credit for something even worse not happening and, as no one really understands what Geithner does, he's the obvious choice.

3) Ordinary Americans get a lesson in low finance.

It's been expensive but, then, so is kindergarten.

Our willingness to believe that we can hire some expert to tell us how to outperform markets is a big problem, with big consequences. It underpins Wall Street's brokerage operations, for instance, and leads to a lot more people giving out financial advice than should be giving out financial advice.

Give Thanks

Thanks to the current panic many Americans have learned that the experts who advise them what to do with their savings are, at best, fools. Merrill Lynch & Co., Morgan Stanley, Citigroup Inc. and all the rest persuaded their most valuable customers to buy auction-rate bonds, telling them the securities were as good as cash.

Those customers will now think twice before they listen to their brokers ever again.

Many, I'm sure, are just waiting to get their money back from their brokers before they race for the exits and introduce themselves to Charles Schwab.

Bank of America Corp. will soon discover that the relationship between Merrill Lynch and its customers isn't what it used to be, but Bank of America's loss is America's gain.

So Many Houses

4) We have lots of new houses.

Not all of them have people in them, sadly, but that's a minor detail. Even better, no one has had to pay for them, and probably never will. I'm betting that the U.S. government will soon have no choice but to take the final step and guarantee every bad mortgage loan ever made by Wall Street.

I can hear you thinking: Doesn't that mean the taxpayer foots the bill? That's so negative! Sure, one day some taxpayer will foot the bill but if the government does what it does best, and continues to borrow huge sums from foreigners, it doesn't have to be you or me.

5) Huge numbers of Wall Street executives will have the time to raise their children.

For years now Wall Street has been far too lucrative for a certain kind of energetic and ambitious person to justify anything but the most perfunctory personal life. Now that the market for his services has collapsed, he has time to go home and figure out which of the children roaming around the mansion are actually his.

In time, he will learn to love them and they him, and they will gain the benefit of his wisdom and experience. Perhaps one day they will put it to use as traders and investment bankers, on the Wall Street of the future, where they will report to those exalted creatures of high finance: loan officers.

There, slowly, they can earn the money they will need to pay off the mortgages defaulted upon by their forebears.

(Michael Lewis is a Bloomberg News columnist and the author, Of ``The Blind Side,'' ``Money Ball'' and ``Liar's Poker.'' The opinions expressed are his own.)

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Let's Start by Finding Some People to Behead: Michael Lewis

Commentary by Michael Lewis

Sept. 17 (Bloomberg) -- With Lehman Brothers Holdings Inc. collapsing, and Merrill Lynch & Co. surrendering, and all hell breaking loose in the financial markets, Bloomberg News sent reporters out to gather some impressions from ordinary non- financial Americans.

Many had no idea what any of it meant but few were happy about it. They sensed they'd just been handed the role of the little fat kid in the game of crack the whip, who, at the start of the game, feels nothing at all but then suddenly finds himself launched headfirst into the neighbor's bushes.

They hadn't suffered yet but were preparing to, and they were perplexed by their inability to figure out who had the idea for this game.

``If I knew more I could find someone to blame,'' said Linda Burke, a 57-year-old service consultant at AT&T in Atlanta, speaking, no doubt, for the American people.

She'll probably never get her hands on the real villains of this piece. They're obscure; their crimes are hard to understand. Who inside Wall Street dreamed up the first subprime-mortgage-backed mezzanine CDO and allowed BBB credit to be laundered through the credit-rating companies and come out the other end as AAA? Who inside the credit-rating companies made the decision to rubber stamp the paper? Who inside Lehman Brothers -- and at all the other Wall Street firms -- fought to get into the business over the objections of saner traders?

This is a pleasant side-effect of Wall Street's complexity. Not only does it enable the firms to hide the risks they run; it allows the people who make fortunes, while at the same time helping destroy vast amounts of capital, to remain essentially unknown to the wider public.

Two Culprits

Even if they were to be somehow dragged out into the square for a shaming, no one would understand what they did. It's impossible to publicly humiliate a derivative.

There are, however, two culprits whose crimes are easy to grasp. I offer them up to Ms. Burke, so she can get to work on her feelings about them.

1) Christopher Cox. He's the chairman of the Securities and Exchange Commission, and so has the job of regulating these companies that helped make it possible for every poor American to get a mortgage and are now, as a result, falling apart.

That, in itself, is no reason to blame him. He inherited a broken operation: the SEC has been morally bankrupt for some time now. The people who work for the place -- especially the ones who call the shots -- have for years had a disconcerting habit of leaving their low-paying government jobs regulating Wall Street firms for high-paying ones at those same Wall Street firms.

Systemic Corruption

They are meant to guard against systemic corruption when they are themselves systematically corrupt. It's hard for people who are paid $85,000 a year to police people who are paid $15 million.

Happily, you can still blame Cox for something. He went as far out of his way as he could to enable the brokerage firms by harassing the small group of informed financial people who have been trying to tell the truth to the markets: the short sellers. They bet against the stock price of a company and so have always had a bad reputation with the public. But in this case, they are the closest thing we have to heroes.

A man named David Einhorn is a case study. He runs a hedge fund called Greenlight Capital, which sells short some stocks and buys others. That is, he doesn't just bet against companies but for them, too.

Blaming Shorts

Still, for some time now, he's been standing up in front of large audiences, announcing that he was short Lehman Brothers stock, and then explaining in great detail its dubious accounting practices. The SEC responded by demanding to see his firm's e- mail, hinting darkly that he was part of some conspiracy to drive Lehman Brothers out of business, and generally making him feel that he'd pay a price for telling the truth.

Christopher Cox is probably a nice man who has no real idea what just happened. But for the way he treated people with the nerve to speak the truth to power you should feel free to blame him anyway.

2) The Wall Street CEO.

Stan O'Neal was the chief executive officer of Merrill Lynch, Dick Fuld was the CEO of Lehman Brothers, James Cayne was the CEO of Bear Stearns Cos. Each took home tens of millions of dollars in pay for making the decisions that destroyed his firm.

Stan the Man

Of the lot, O'Neal deserves perhaps the greatest scorn as he took a business that wasn't well designed to take huge trading risks and wagered it all on a single bet.

He screwed up the lives of more innocent people than the others. But interestingly, if any of these men had behaved well and resisted the pressures and temptations of the moment, his firm would have, for several years, dramatically underperformed the competition. Probably he would have lost his job.

Even O'Neal can probably look back on his performance and say to himself, ``There's nothing I'd do different, given what I knew at the time.''

That's what they all say -- right before they're beheaded.

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This Is the Day Asian Capital Woke Up: Michael Lewis (Correct)

Commentary by Michael Lewis

(Corrects name of Sumitomo Mitsui misstated in the bankruptcy filing.)

Sept. 15 (Bloomberg) -- As important as it seems right now on Wall Street, this isn't a day that most Americans will remember as all that big of a deal.

When Lehman Brothers Holdings Inc. goes out of business, the reaction of the average citizen is either ``Lehman who?'' or, ``I heard of them! What do they do?''

It is a big deal, however, but not because some bond traders are out of work, or that puff pieces in business sections about Dick Fuld's survival skills turned out to be wrong. It's a big deal because this is the day that American financiers, from the point of view of the Asians who sit on top of the world's biggest pile of mobile capital, became a bad risk.

Not so bad as the Sudanese, perhaps, but certainly worse than the Chileans. According to the bankruptcy papers thrown together over the weekend, the list of Lehman's 30 biggest unsecured creditors is dominated by Asian financial institutions: Aozora, Chuo Mitsui Trust, Sumitomo Mitsui Financial, Mizuho Corporate Bank, Shinkin Central Bank, Bank of China and so on.

Who else did you imagine would be left holding this bag? Who else did you imagine was propping up the system?

Ever since the government jumped in to bail out Bear Stearns Cos. -- and whatever else that was, it was a bailout -- the behavior of the U.S. government in the financial markets has felt like a mystery by an author who is cheating and withholding a key piece of information.

In letting Lehman fail the federal government puts a fine point on an obvious question: Why didn't they let Bear Stearns go, too? This business about the markets having time to adjust to Lehman's problems is baloney. The markets didn't adjust to Bear Stearns collapse; the markets looked at what the Fed had done for Bear Stearns and assumed they'd do it for Lehman.

Unfounded Fears

One part of the answer is that the people who sit on top of our financial system simply didn't know what would happen if a big Wall Street firm went down. They have since studied the matter and concluded that their worst fears were unfounded.

But in Lehman's list of creditors we have another part of the answer, I'll bet. It wasn't merely instability the U.S. Treasury and the Federal Reserve feared. It was the loss of the good opinion of the people who supply the U.S. with the capital it no longer generates itself. For 25 years Asian financial firms have been amazingly indulgent of U.S. investment bankers.

What do you think they're saying about them -- and us --now?

(Michael Lewis is a Bloomberg News columnist and the author, most recently, of ``The Blind Side.'' The opinions expressed are his own.)

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Joyous Loathing at Lehman's Collapse: Michael Lewis (Update1)

Commentary by Michael Lewis

Enlarge/Details

Sept. 11 (Bloomberg)-- To see the mental state of financial markets at the moment you need only to sit at a computer with an Internet connection and watch investors respond to journalism.

On Tuesday morning Bloomberg News quoted an unidentified person inside Lehman Brothers Holdings Inc. saying his firm had tried and failed to raise capital from the Korean Development Bank. This report came on the heels of an earlier one in which a named person who regulated the Korea Development Bank denied such a thing had happened -- but no matter.

A few minutes after Bloomberg News posted the piece, it was the most-read news of the day, and Lehman's shares went into a free fall. Fifteen minutes later they had lost almost half their value.

What's interesting, among other things, is the total lack of reflection in the markets. Who had heard of the Korean Development Bank? Who knew what it did, or whether the people inside it were shrewd assessors of subprime-mortgage portfolios?

Basically no one, I'd guess. And yet a single report from an unnamed person inside Lehman that some Koreans had considered, and then passed on, investing in the firm was enough to cause the shares to crash.

And all that had really happened was that KDB proved it may have finally grasped what should be for Asians a cardinal investment principle: Never buy anything an American investment banker is selling.

Lehman Doomed

What one can see from this event is that Lehman Brothers is doomed. It's doomed, in part, because it still owns all sorts of crappy assets at inflated prices.

It holds tens of billions of dollars in subprime-related assets of the sort Merrill Lynch & Co. in July disgorged at 22 cents on the dollar. But that's probably just the beginning.

There's no happy reason they haven't explained in detail their exposure to credit-default swaps. No one -- not its big investors, not the analysts and journalists who cover it, not even, perhaps, the Korean Development Bank -- has had a clear view of its assets and liabilities.

This opacity was once a huge advantage: the people outside assumed the best. It's now an even bigger disadvantage: people outside assume the worst.

But Lehman is doomed for another reason: People are enjoying its failure. The pleasure and interest the markets now take in seeing it fail now exceeds their pleasure and interest in seeing it survive.

Interest in Failure

This is one of the many unintended little side effects of the government bailout of Bear Stearns Cos.: to greatly reduce the interest of the people who do business with Lehman Brothers in the survival of Lehman Brothers.

All those people whose affairs are intertwined with Lehman might have pressured them to handle their problems more briskly and intelligently -- and might also be trying to keep it afloat. The U.S. government has made it possible for them to instead stand back and watch with some detachment and even pleasure as Lehman collapses.

After all, the Federal Reserve will give them their money back, re-insure their credit defaults, take another pile of these distressed assets out of the market. And when the dust settles they can go in and poach Lehman's business and its smarter employees.

The Bear Stearns bailout was supposed to prevent the crisis from rippling through Wall Street. Obviously it hasn't done that. It's merely thrown the crisis into slow motion and prolonged the agony.

And it's given the Korean Development Bank whole new powers.

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