



THE GOLDMAN SACHS ARGUMENT

Sunday, January 17, 2010

Every week CUIP's president Jacqueline Salit and strategist/philosopher Fred Newman watch the political talk shows and discuss them. Here are excerpts from their dialogues compiled on Sunday, January 17, 2010 after watching selections from "The Charlie Rose Show," "PBS NewsHour" and "The Chris Matthews Show."

Salit: Did you know the story of the South African World Cup before the movie *Invictus* came out?

Newman: Yes.

Salit: There were two things that struck me in the interview that Charlie Rose did with Morgan Freeman, who plays Nelson Mandela in the movie. One was that Morgan Freeman talked about how, as an actor playing a living person, you can find the inner energy of that person. And he spent a fair amount of time with Mandela over the years getting to know him and discovering his pulse or his temperament. Freeman and Rose seemed to agree that Mandela contained, even quiet temperament, in addition to his political skills, enabled him to handle a very complicated and dangerous situation when Apartheid was dismantled and he became president of South Africa. The other thing that I found interesting, and this is what the movie is about, is how the World Cup was a turning point in post-Apartheid South Africa. Mandela succeeded in motivating both the team and the public across the very divided communities that made up South Africa at that time to root together for the South African team to win the World Cup. And Freeman says, if you talk to anyone in South Africa today who was alive in 1995, they remember that, they talk about that the way Americans talk about the Kennedy assassination. He says South Africa never went back to its own self after that, that it was a game-changing experience.

Newman: Well, it was a nation-changing experience.

Salit: When you create plays that have historical figures in them as characters, do you think in the terms that Freeman and Rose used, as in having to find the *voice* that defines a person?

Newman: No. Nor do I think of people in those terms.

Salit: How do you think about creating a character from history for a cultural piece?

Newman: I think of who a person is as largely determined by how they are related to by the *other* and if they are a political figure, as Mandela was, by the people. I don't think it goes from inside-out. It goes from outside-in. But, I thought that one problem with how Freeman and Rose talked about the ways that Mandela's prison experience shaped his character is that they assumed that because he was in prison he wasn't dealing with the political and human issues affecting South Africa. But that's ridiculous. While he was in

prison for those 27 years he was both a political force and was personally impacted upon by all that was going on. I presume there were other people who were in prison for those 27 years who didn't get elected president upon their release.

Salit: Have you ever thought about writing a play with Mandela as a character?

Newman: No. I don't know that that's my play to write.

Salit: Then we watched the coverage of Haiti.

Newman: The Haitian crisis is a terrible disaster. My thoughts were Haiti never gets a break. But if you think about it a moment longer, it's like what happened in New Orleans. This is the face of international poverty. And it's a human disgrace that this poverty exists anywhere. It doesn't handle normal times very well. And, equally, it doesn't handle hard times very well. But the bottom line is we can't allow masses of people to live under those conditions. Not just the conditions from the quake.

Salit: But conditions before the quake.

Newman: Yes. But we do. Human beings do. And so, don't blame nature. It can't do any differently. It simply does what it does. What about us?

Salit: Turning to the investigation of the causes of the financial crisis by the Financial Crisis Inquiry Commission, they asked the head of Goldman Sachs, "How can you reconcile the bonuses you're giving with the current economic situation?" Essentially, Lloyd Blankfein's answer was, "The bonuses are tied to earnings and to profits. That's always been true, and there's no reason why that shouldn't be true today." If you were on that panel, would you ask that question? Do you think that is a useful question to ask?

Newman: I'd probably ask it. But I'd answer it differently if I were the CEO of Goldman Sachs.

Salit: How would you answer it?

Newman: I would answer it by saying, "This system has been created and sustained by leaders who wanted that relationship to be, roughly speaking, exactly what it is. So don't blame me for being the person for whom it's true. And don't blame me for the president having so much power. That's the way the Constitution was written."

Salit: In other words, "I'm just operating within that system."

Newman: Yes.

Salit: I guess what you're saying is that you would kick it back to the political leadership of this country.

Newman: No, I would respond by kicking it back to the history of the country, of what the country is. I wouldn't kick it back to the political leadership. I'd kick it back to the framework the elected leaders are following. In being the elected leaders, they've sworn to do that.

Salit: So, the commission is charged with finding out the root causes of the crisis. Leaving aside the politics of that for the moment . maybe you'd say you can't . but can you find the root causes?

Newman: Yes. The root causes of the crisis are the system as constructed.

Salit: And the investigators would say, *OK, but we're trying to discover what aspects of the system don't work*. By this, they mean, the regulatory system. Are you saying something different than that?

Newman: Something different than what?

Salit: The commission agrees with you. They're saying *The structure of the system doesn't work. The structure of the system produced this crisis. We want to restructure the system so that it doesn't...*

Newman: *No, you don't. That's a lie.*

Salit: Alright.

Newman: *You don't want to restructure the system.*

Salit: The reformers would argue that. They say *There has to be more accountability in the financial industry. The levels of accountability and regulation were eroded. By acts of Congress, by both political parties, but in any event, the industry has been allowed to function in a freewheeling and unchecked way and that's what produced this crisis and now we have to install some kind of accountability and regulations to make sure that same thing doesn't happen again, that the system doesn't get overleveraged.*

Newman: Well, maybe if I were Blankfein I'd say *I'm not so sure you do, because if it's a system, and it is, which creates substantial wealth, do you want to eliminate that? Because that feature of our system will be undermined if you do what you're suggesting. Don't forget that the system overall, by your own account, and by the account of most of the public, has prospered dramatically for all people. If I'm still doing their voice, I'd say I've taken pride in referring to our system as the wealthiest in the world. It's not just the wealthiest for wealthy people. That goes without saying. It's the wealthiest for all people.*

Salit: That's their argument, certainly.

Newman: *So, why would you want to change it? Or do we want to change it? Or do you really want to change it?*

Salit: Their answer would be *No, we don't want to change it in its entirety, but we want to eliminate the bottoming out that we saw because that's too dangerous to the system.*

Newman: Answer: Systems have ways of being totalities. It's not so transparently obvious that you can change this portion and not have that change affect the rest of the system as a whole.

Salit: How much of a political tinderbox do you think this situation is?

Newman: I'm not sure I know what you mean by the question.

Salit: Well, Obama comes out with a set of strong statements about wanting to impose taxes on the financial industry and the back story is he has to do that because the American people are very on-edge about how the banks are going to be related to. We just gave them all this money, and the country has taken a too-big-to-fail attitude toward these institutions and now they've been restored to health. They're making significant profits. They're giving bonuses to their people, at what most Americans think are unimaginable levels. And so the story is that this thing is explosive politically.

Newman: What's the explosion going to look like?

Salit: This takes us back to what we talked about last week, to the Independent Paralysis. What's the explosion going to look like? I don't know. In the short term, it might look like electing more Republicans just to punish the Democrats because they're in power.

Newman: Oh, some punishment.

Salit: Exactly.

Newman: Are you asking is this going to lead to a serious and deep change of the overall structural system which produced it? Apparently not.

Salit: No.

Newman: If Obama was going to do that, he would have done it already.

Salit: Your question is such a good one: what does that explosion mean? What would it look like? What it would mainly look like is some kind of anti-incumbent movement which would hit Democrats where the Democrats live and Republicans where the Republicans live and you would basically throw a bunch of people out of office and largely replace them with people from the other party. Now, what is the net effect of that?

Newman: Well, the net effect is Bush vs. Obama. And people have different feelings about that, different interpretations of what that means. But, no one's talking about changing the overall system which produces that.

Salit: No. But, there are some forces who are talking about . and maybe it is the difference between Bush and Obama . bringing the financial industry to heel. They're saying, if you're going to make that level of profit it has to be taxed at a higher level. There's going to be a higher tax rate and that's going to be the price of doing business in the United States of America. And roughly speaking, you could say that's the difference between Obama and Bush.

Newman: Oh. It's also the difference between the United States and Belgium.

Salit: Yes, the cost of doing business in Belgium is more expensive than the cost of doing business here because of healthcare and other levels of taxation and so on.

Newman: And so we're wealthier than they are.

Salit: Yes. We're the wealthiest of all. Thanks, Fred.