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Immoral - Not - Illegal A Crisis in Ethics Repeating the 1930's

Martin A. Armstrong
Former Chairman of Princeton Economics International, Ltd.

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Late Edition
Today, windy, clouds and sun, a brief shower, high 59. Tonight, partly cloudy, brisk, low 44. Tomorrow, mostly sunny, warmer, high 67. Weather map appears on Page D8.
\$2.00



Lloyd C. Blankfein, chief of Goldman Sachs, told senators that its investments were not meant to fail. Page B1.

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'Controlled Burn' Is Option as Slick Nears Shore

By LESLIE KAUFMAN
With a vast oil slick now within only 20 miles of the ecologically fragile Louisiana coastline, Coast Guard officials said they were considering a "controlled burn" of the oil on the surface of the Gulf of Mexico.

POLITICAL PRESSURE
Coastal-state senators expressed concerns about drilling amid the push for an energy bill. Page A16.

about whether to burn the oil. "We fully understand there are benefits and trade-offs," she said. But she also noted that with the spill, the political reaction has intensified.

done and tested before, Admiral Landry said, and had been shown to be "effective in burning 50 to 95 percent of oil collected in a fire boom." The downside, she said, was a "black plume" of smoke that would put soot and other particulates into the air. The consideration of burning was raised as the spill seemed to enter a direr phase. Short-term fixes have been unsuccessful, and political reaction has intensified.

For Democrats, Bankers Make A Handy Foil

Grilling Goldman and Pressuring G.O.P.

By CARL HULSE
WASHINGTON — Politicians like nothing more than a convenient foil, and Democrats locked in a stubborn impasse with Republicans over new rules to govern Wall Street believe they have found a gold-plated one in Goldman Sachs. Democrats say the convergence of their push for an over-haul of financial regulation and a haul of financial securities case against the prestigious investment firm is a matter of coincidence, not planning. But they have seized on emerging details about Goldman's wheeling and dealing — recounted in a marathon bipartisan questioning of top executives from the firm on Tuesday during a televised Senate hearing — to put pressure on Republicans. "If the disclosures at these hearings are not the final nail that persuades the American people to demand this be done now, I don't know what would be," said Senator Byron Dorgan, Democrat of North Dakota. "To bet against your country, all for the sake of big profits. The timing is insidious but it should increase the pressure on Republicans." Even as current and former Democrats.

FINANCIAL FEARS GROW IN EUROPE OVER GREEK DEBT

BONDS ARE JUNK LEVEL
Portugal and Spain Face Questions on Their Ability to Pay

By LANDON THOMAS JR.
As Greece inches closer to the brink of financial collapse, fear that the debt crisis will spread is engulfing Europe. Increasingly, investors wonder if Portugal, Spain and even Ireland may not be able to borrow the billions of dollars they need to finance their government spending. "It's like Lehman Brothers and Bear Stearns," said Philip Lane, a professor of international economics at Trinity College in Ireland, referring to the Wall Street failures that propelled the financial crisis of 2008. "It is not much the fundamentals as the unwillingness of the market to fund you." A major ratings agency Greece's debt to junk level Tuesday, warning that bond holders could face losses of up to 90 percent of their holdings if the agency downgrades Portugal's credit to two notches. Leading stock indexes: Europe plunged by 2.5 percent, and the euro fell to a low, for a 13 percent drop against the dollar since the Dow Jones index crashed slumped 215.04 to 10,991.99, a fall of 1.9 percent. The downgrades, by Standard & Poor's, pushed up rates that Portugal's 10-year bonds to 10 percent, Spain's costs rose, and already demand for returns

Overhaul Bill Still Stalled
Republicans again thwarted Democrats' efforts to overhaul financial regulation and... Page B1.

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I would like to thank all the former employees, associates, sources, and contacts for their continued support and efforts to contribute to the writings I have been able to continue through their great efforts. I would also like to thank those who have looked after not just myself, but my family, and shown them support and kindness.

Everything at Princeton Economics that was our mission to gather information, and bring together the most widely covered global economic perspective, has been a effort that is now bringing us to that fateful crossroads in history. There are those who are trapped by the past and cannot see the dynamic evolution that causes history to repeat, but like lightning, never quite precisely the same way twice. In 1914, Britain reached its peak as the center of the global economy. It passed that torch to the United States who by 1929 became the leading world economy and was also a CREDITOR nation just as China is today. There will be no 1930s style depression, for the cards are nowhere near the same. Yet China will become the leading world economy by 2016, and then suffer its 1929. The West is doomed and it will collapse from its own debt. We borrow with no intent of ever paying off the debt, and somehow both Congress and the majority ignore this fact just as they had ignored the problems in mortgages that violated common sense.

No matter what country you live in, it is the duty that falls upon the shoulders of every reader to do what you can to get reality to manifest. Feel free to send this report to every government, friend, and member of the press around the world. If we do not get the debate started, we stand no chance of saving the future for ourselves and our posterity. We can reach that next never in political-economic evolution only through the hard work of everyone. For this reason, this is provided as a free service.

There is a NEW DATABASE that will be used for special updates provided exclusively to those who register. I want to thank you all once more for your support and for your contribution to try to help society survive the coming storm.

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GOVERNMENT TO GET POLITICAL CHANGE MOVING**

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This Report may be forwarded as you like without charge to individuals or governments around the world. It is provided as a Public Service at this time without cost because of the critical facts that we now faced economically. The contents and designs of the systems are in fact copyrighted. At a future date, a new edition of the 1986 *The Greatest Bull Market In History* will be released and a new book will soon be published on the model itself - *The Geometry of Time*. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just insanity. Every nation effects all others no different than if one nation were to pour all its toxic waste into the ocean. Everything is interlinked and solutions are never isolated events.

Immoral - Not - Illegal

A Crisis in Ethics

Repeating the 1930's



By: Martin A. Armstrong

Former Chairman of Princeton Economics International, Ltd.
and the Foundation For The Study Of Cycles

GOLDMAN SACHS is becoming a political target for the 2010 elections and now even the State of New York is getting involved. Those who are trying to support Goldman Sachs, do not know their history and are inviting the total destruction of the Financial Services Industry. The nonsense that Goldman acted IMMORALLY but not ILLEGALLY, you better check the hearings of the '30s. Been there and done that! It did not work and pist-off a lot of people. The high volatility in markets is a reflection of the same volatility in politics. Three incumbents in this country and people are just madder than hell. The entire social structure is collapsing. The reason I named our model the **Economic Confidence Model** was just simply because **CONFIDENCE** determines everything, not always reality. At Princeton Economics, absolutely nobody spent more money on research than our firm. We dug up every possible time series for everything throughout recorded history just to create an empirical model that could be reduced to **IF THIS THEN THAT ELSE THE OPPOSITE**. Unfortunately, it quickly emerged that **NO** relationship remained constant for the one thing that swung like a monkey from a tree, was **CONFIDENCE**. The only thing that often mattered was what people believed regardless of its veracity. Hence, the volatility in the marketplace is a reflection of undermined confidence or conviction and thus people will panic very easily compared to before 2007. This is NOT restricted to the markets, for they are merely a reflection of human emotion in that context. It is a undermining of **PUBLIC CONFIDENCE** in every respect including politics.

The greatest downside to representative government, is the representatives have merely replaced the king. We do not live in a real Democracy as it stood in Athens. Anyone could go to the Senate to propose a law. It was literally a place of the people. We live much more in a world of the Roman Republic where

people matter little and the system is very prone to create oligarchy-driving governments where lobbyists and patricians rule the fate of the nation. Senators will not ever reply to anyone outside thier state for they feel they owe them nothing, not even the respect due under the constitution. Thus, our representative form of government failed

to protect the rights of the people for not a single representative in the House or the Senate feel they owe a duty to the nation as a whole, only to (1) their party and (2) the political body that elected them. Thus, we do not have a Democracy as it was designed in Athens, but merely a Roman Republic with all of its short-comings. No American citizen has the right to file a single criminal charge against any person employed by the government. ONLY those in government can bring charges - not the people.

Both the Grand Jury and the Petit Jury were suppose to function as the people. But neither retains any power whatsoever. The prosecutor controls the Grand Jury and there are no rules. The Supreme Court has held the judges have no power over the Grand Jury. Lawyers joke that the process has been reduced to the point that the prosecutor can now indict a ham sandwich for he does not even have to tell the Grand Jury the truth. If he knows someone else committed the crime but wants to just indict you for political or personal reasons, he can. He has ABSOLUTE IMMUNITY to knowingly violate your rights. And if you think there is a difference between a Republican and Democrat, think again. The Obama Administration has argued that the prosecutor must have ABSOLUTE IMMUNITY even when he knowingly violates your right! That was the position they just argued in the Supreme Court. The Grand Jury is now a instrument of absolute tyranny for the Supreme Court held in 1992:

"As a general matter at least, no supervisory judicial authority exists which may be used by the Federal courts as a means of prescribing standards of prosecutorial conduct before the grand jury as such power may be used as a means of establishing standards of prosecutorial conduct before the courts themselves - given that (1) the grand jury is an institution separate from the courts, and (2) the courts do not preside over the functioning of the grand jury; any power that Federal courts may have to fashion on their own initiative, rules of grand jury procedure would not permit judicial reshaping of the grand jury institution so as to substantially alter the traditional relationships between the prosecutor, the constituting court, and the grand jury itself."

Ever since the Supreme Court took this position, criminal prosecutions have gone off the charts. Where in 1980 there was less than 30,000 federal prisoners, today it now is more than 500,000 just Federally including those on Supervised Release. Add the states, and you are into the millions. Today, 10% of the work force are now felons. The image that prisons are filled with rapists and murderers is bullshit. That amounts to 4% are violent crimes. There are people in federal prison for driving on an expired license on federal property. Make a mistake on your taxes and they argue you intended to do so making the state of mind the determining factor. The jury now has to decide, but that costs \$100,000. Most cannot afford it and plead guilty getting 1 year in prison. They can be indicted thanks to this decision in US v Williams, 504 US 36 (1992).

Lawyers will never tell the public how bad things have become. In Chicago, a panel of Appellate Judges Evan, Posner, and Easterbrook, publicly admitted in writing in a published opinion.

"Realistically, Federal grand juries today provide little protection for criminal suspects whom a US Attorney wishes to indict. Nevertheless, that is not a realism to which judges are permitted to yield."

US v Ross, 412 F3d 771, 774 (7th Cir 2005)

The Supreme Court engages in legal fictions that are a masterpiece of how to create tyranny. Not only can prosecutors knowingly indict the wrong person or indict people on pure lies, but then the Supreme Court justifies its result claiming that the Petit Jury, the one at trial that the public sees, will then correct absolutely all and any injustices. The problem is, now the judge controls what can even be shown to the jury and you cannot even appeal any ruling no matter how outrageous. They then protect the illegal political trials by 28 USC §1291 saying you can only appeal from a final judgment. That means the judge can do anything he desires to you and you have NO RIGHT TO APPEAL until the case is finished! Worse still, at common law in 1789, the Petit Jury could refuse to find you guilty if they believed the king was acting illegally or the law he passed was unjust. Courts have stripped this power from the people as well!

When the Founders of this nation wrote in the Constitution **WE THE PEOPLE**, what was to be the ultimate protection from tyranny was the **GRAND JURY** and the **PETIT JURY**. This combination was to (1) prevent indictments of anyone for political purposes because it would be the **PEOPLE** who indict, and (2) only the **PEOPLE** could find you guilty.

Today, the prosecutor can commit fraud upon the **PEOPLE** because he can indict any person he likes for he has no ethical duty at all to present the truth to the **PEOPLE** to decide whether you should be indicted. Thus, the **GRAND JURY** has been eliminated.

"James Madison as a promised quid pro quo for approval of the Constitution by the people of the States, the Sixth Amendment's right to a jury trial in criminal cases solidified and ratified the primary power of the petit jury as one of [the] essential institutions upon which the people's liberties would depend. It was expected to limit the kind of governmental overreaching that led to the Revolutionary War." US v Polizzi (06-Cr-22) Eastern District of New York (4/1/08) by Judge Jack B. Weinstein.

The Polizzi decision is over 100 pages and I believe was to be a legacy of Judge Weinstein for it is an indictment of clearly how degraded American justice has become. This decision pulls together so much good research showing that America has become a joke for there is no longer anything of the intended "courts of conscience." quoting Andrew J. Parmenter, "Nullifying the Jury, "The Judicial Oligarchy" Declares War on Jury Nullification", 46 Washburn Law Journal, 379, 380 (2007).

Wall Street better wake up and look at the state of the law and how it no longer exists. The Founders of this nation were well aware of three historic trials where the tyranny of the king was exposed - John Lilburne, William Penn, and John Peter Zenger.

The Supreme Court admitted "We can find no evidence that the common law recognized that defendants had the right to choose between court and jury trial." Singer v US, 380 US 24, 26 (1965). There was no basis in the Constitution to ever waive a jury trial. That was the **ONLY** way a person could have been convicted.

Today, jury trials are rare. Congress created punishments that are so draconian that if a person goes to trial, the jury is not allowed to know what the penalty is so you can risk life in prison, or plead guilty to a deal and you go home in 5 years. This is extortion that the courts will never entertain such arguments since they are the people doing the extortion. The Constitution does not authorize anything **BUT** a jury trial and today 98.5% do not go to trial.

Colonel John Lilburne had been repeatedly charged with distributing pamphlets that were critical of the government just as I am writing right now. He was repeatedly also acquitted by juries. The jury back then was told what the penalty was and returned a verdict "not guilty of any crime worthy of death." Polizzi, Slip opinion at pg 163.

Like myself, Lilburne was tried before the **Star Chamber**, which was not a court of law and today is a civil proceeding (7½yrs of imprisonment in Civil Contempt was not a crime but equity that is derived from the **Star Chamber**.) It was Lilburne's protest before that notorious tyrannical institution that gave birth to the Fifth Amendment and the right to remain silent, that President Bush's cousin, Judge John Walker Jr, said because I was a corporate officer, I had no personal rights even equal to that of a terrorist. John Lilburne thus was in the same position as I was, outside a court of law where judges claim the power to do as they like. Lilburne made a famous protest that no court will listen to me today.

"Another fundamental right I then contended for, was, that no man's conscience ought to be racked by oaths imposed, to answer to questions concerning himself in matters criminal, or pretended to be so."

Miranda v Arizona, 384 US 436, 459 (1966)

The jury in the case of Lilburne had the common sense not to convict regardless of the law passed by the king. The jury had the right to not prosecute. Today, judges have stripped the Petit Jury of its very constitutional role.

The founder of Pennsylvania William Penn, was also prosecuted in London in 1670 for preaching to an unlawful assembly for the breach of peace. There also, the jury then

acquitted Penn finding that he was not in any way guilty of disturbing the peace. The judge would not release the jury and then deprived them of food, water, and heat, until they would return a guilty verdict. Despite these coercive tactics, the jury stood up to the ruthless corruption of the judge and refused to find him guilty. How many juries would do so today? The judge then fined the jurors for not giving a verdict he wanted for the government and when some jurors refused to pay the fine, he threw them in prison. On appeal, the imprisoned juror was released and it was acknowledged that the jury had the right to determine both the law and the verdict, see Bushell's Case, 124 Eng Rep 1006, 1012-13 (1670). US courts refuse to give back to the PEOPLE that same right that existed in 1789.

The famous colonial trial of John Peter Zenger stands as a monument to what the jury was suppose to be. In 1735, a jury acquitted Zenger after his counsel argued that truth was enough to refuse to convict even though the jury had been told by the judge that they must convict on the law even if they disagreed with the law. Zenger had been critical of the government. The jury disagreed with the law and found him not guilty.

When this nation began, "[i]n many cases judges gave the jury no instructions on the law." (quoting 1 The Legal Papers of John Adams 230 (L.Kinvin Wroth & Hiller B. Zobel eds., 1965)). Chief Justice Jay said when instructing a jury, "to remind you of the good old rule, ... you have ... a right to take upon yourselves to judge of both and to determine the law as well as the fact in controversy." Georgia v Brailsford, 3 US 1 (1794). Yet Judges have usurped powers not there overruling the First Justice. It is now government by Judicial Oligarchy.

Adopting a position that something is not ILLEGAL but IMMORAL is frivolous. If the government wants to do something, there is nothing that stands in their way. Every possible right is gone and the courts have removed the PEOPLE from the entire process. Thomas Jefferson warned that "the germ of dissolution of our Federal government is in the constitution of the federal judiciary; an irresponsible body ... advancing ... like a thief" taking all rights, Writings, Chp XV p331-332.

Can government use prosecutions simply for political purposes? The answer is YES! Investigating Goldman Sachs and J.P. Morgan criminally is no doubt a sea change in the scope of politics in Washington. This would NEVER have taken place previously regardless of who was in power. The critical issue is purely related to the timing.

On top of that, the regulations targeted at the Financial Industry are draconian and will do serious long-term damage. The regs are clearly written by people who do not understand even what the hell it is that they are regulating. They do not understand the market, how does it move, why, and what should be done about anything.

Like the S&L Crisis, the Mortgage Crisis was set in motion by politicians trying to manipulate the free market for political purposes to get votes. Yes, I have been critical of the abuses in CDOs and in the derivatives that blew up. However, this was not a trend that was created by Goldman Sachs nor by J.P.Morgan. They created the fever and accelerate a pre-existing trend, but had there been no AIG blow-up, there still would have been a housing collapse. They contributed toward a trend, but they did NOT create it.

The banking model that we use will ALWAYS AND WITHOUT EXCEPTION result in a banking crisis because of its very nature. Banks take deposits short-term and lend long-term maximizing the spread between short and the long-term trends in rates. However, when the economy turns down as it always does every 8 years or so, we end up with a crisis that we call LIQUIDITY meaning that the money of depositors has been lent long-term and when they DEMAND their cash back, it is not available. This is why we constantly go through these booms and busts in banking. Until we recognize why this takes place, we are never going to get it right even once. The purpose of the Federal Reserve was to simply provide liquidity during periods of crisis. Then politicians viewed that money supply was the key to inflation, so they then expected the Fed to control the effects of government spending. Politicians could now spend what they wanted and pointed the finger at the Fed to blame. That is NOT its purpose and this is where everything simply went wrong. We forgot what is really taking place in the banking world.

The new regulations coming down on the Financial Industry are in part caused by Goldman Sachs for it has given the whole industry a bad name due to its excessive proprietary trading. Goldman Sachs has made the whole industry look bad because neither Investment Banks nor Commercial Banks should be aggressive proprietary traders. Trading is a field that pays big bonuses. The problem that this presents is that it indeed creates the very same images that emerged in the Congressional Hearings both under the Republican Hoover Administration and later in 1933-1934 under the Democrats that back then became known as the Pecora Commission.

Ferdinand Pecora was hired to be the inquisitor of Wall Street who was ruthless, un-American, and designed to gather public support for creating what became known as the SEC. Wall Street just will never learn that immoral actions, even though they may claim them not to be criminal, are nonetheless images that the public sees as just one of those slick con-artist claims. The public expect morality, regardless of any claimed technicalities.

Albert Wiggin, President of the Chase National Bank, was forced to resign in disgrace after it was revealed that he had been shorting his own stock. Granted, there was no crime. However, it was seen as unethical and immoral. Wiggin had served as a director of some 59 corporations that were clients back then. He also steered bonuses to the staff at Chase Securities Corporation. At the hearings, he was asked:

PECORA: You wanted them [Chase Securities staff] to make money outside of their salaries?

WIGGIN: Yes

The paying of bonuses back then was seen as bribes to get staff to do things that were against the people and the nation. The hatred that brewed against Wall Street is perhaps reflected best in the words of one Senator Burton Wheeler:

"The best way to restore confidence in our banks, is to take these crooked presidents out of the banks and treat them the same as [the government] treated Al Capone."

It mattered not what was cause of the Great Depression. It was the banks that were back then engaging in the sale of securities both stocks and bonds of foreign lands. The famous Charles Mitchell was back then the leader of the pack. He was the head of the National City Bank that became Citibank. He was grilled over selling \$90 million in bonds from Peru that defaulted. The blame for sovereign debt defaults turned to the bankers in the United States that sold them.

It may have been true that what they did was NOT ILLEGAL, but just IMMORAL back then as well, but when a government and its people become enraged over something they do not understand, there become no line that one can stand on one side and claim you are safe.

Charles Mitchell was forced to resign his position at Citi. He was a broken man. He was publicly humiliated by Pecora, and was reduced to perhaps the most hated man of Wall Street. Senator Carter Glass, the author of the Glass-Steagall Act, laid the blame upon Mitchell. He publicly stated "Mitchell more than any 50 men is responsible for this stock crash."

Mitchell may have been able to argue as Wall Street is arguing again today that he did not act illegally. But that is just never enough. Mitchell was forced to resign and shortly afterwards, he was arrested and indicted for tax evasion. He was acquitted at trial, but still had to pay \$1 million in penalties. When shit-happens, someone always has to go to jail regardless of the truth. They could not legally blame Charlie Mitchell for the whole crash nor for the sovereign defaults of the various bonds he sold on behalf of foreign governments. But that does not matter. They still have to get that pound of flesh for retribution is always the juice upon which public spectacle thrives.

These type of hearings contribute nothing and show the world that America has no real Constitution. They will drag people before them, attempt to incriminate them and have them incriminate themselves, and then turn and criminally prosecute them. That was the very thing the king did with the Star Chamber and we vowed would never be allowed in America. Right!

There is a real danger that Wall Street and the Financial Press are overlooking. It may sound nice to circle the wagons around Goldman arguing what they did was fair game not ILLEGAL, just IMMORAL, but that argument was rejected in the '30s and pist-off a lot of people. History clearly repeats!

They can support Goldman all they want, but what they are risking is undermining the entire industry. Hearings as we have just watched are intended to gain support from the average person who knows nothing about the technical aspects of Wall Street. There is no distinction in their mind between an illegal act and an immoral act. If Goldman did something wrong, they should be publicly punished regarding the law. That is the real world of politics. Law is irrelevant.

Now we put into the pot the political need for reelection. Politicians have no clue about the Financial industry. They do not understand even how it functions. But the image of bankers reaping huge bonuses is not good for regulation. This is why I maintain that Goldman Sachs should be split no different than AT&T. Banks SHOULD NOT be allowed to engage in proprietary trades for that is a investment company or better put - a hedge fund.

The financial industry in its support for Goldman Sachs is sowing the seeds of its own destruction. They are taking the position that Goldman was immoral, but not illegal in its activities as charged. This distinction is drawn by claiming that the buyers were sophisticated investors who should have known.

The Financial Industry clearly has not bothered to understand how the SEC and Justice Department have corrupted the law. It does NOT matter who the buyer is. The government takes the position that ANY SUCH buyer is like a widow and orphan. Courts traditionally do NOT understand the very transactions at issue, and thus are simply not competent to understand if the degree of knowledge given to the buyer was even sufficient.

What takes place, is the transactions are presented to the jury and the JURY now makes the determination as if THEY were the buyer in question. You DO NOT get to question the actual buyer. The government

presents their case to the JURY and the jury now decides whether or not they feel that they would have been misled by the info that was given. This is the state of an American trial. Claims that the buyer should have known because he was sophisticated are not the way the law is administered in America. There is no FAIR TRIAL process. Mexico who is said to have a corrupt court system has a conviction rate of 85%. Our's is 99%! All the theories as to why Goldman should not be charged sound nice and logical to people in the industry, but wake up and smell the roses! Anyone can be criminally prosecuted and there are no rights any more for the very structure of WE THE PEOPLE has been removed both from the Grand Jury and the Petit Jury.

Whether or not the SEC is really making a serious effort to prosecute Goldman Sachs is highly debatable. There are serious and major issues as to why the charges were filed over such a transaction when there are a bunch of issues that would have been much easier to establish. The major factor that is NOT BEING DISCUSSED is based upon good reliable sources from Europe, Goldman Sachs was going to be charged in Europe. Thereto, we have a host of issues not the least of which was the involvement in acting as a Financial Alchemist involving sovereign debt. Goldman could find itself being now blamed for causing the collapse of the Euro. This may be the real motive to charge Goldman in the United States to in fact protect the United States Financial System. Putting Goldman on trial here, would tend to then relieve the pressure in Europe.

Some press is already defending Goldman and now you will start to see articles that show that the Justice Department is by no means infallible. They would NOT do that for anyone else! So what the hell is going on? The word is already out that it may be indeed immoral, but it is not illegal. This is the spin put on the Goldman case and it reflects how there is unquestionably two standards of justice and who is on board and who is not.

The press never goes against the government. They praise them day in and day out in every criminal matter. The fact that they are already taking sides shows that with a wink and a nod, Goldman is getting a free pass on this whole thing. It will prove to be a huge non-event if Judge Jones dismisses the case

defending the New York banks that own the Federal Courts in that city. Had the SEC filed charges in the Washington DC court, there would have been a higher probability that there was a real prosecution going on and not just a show.

The Southern District of New York and the Second Circuit are the most corrupt in the country. The Judges boldly change the transcripts to alter what took place in court and that is a 5 year felony. But if the judges benefit the prosecution and the people have no right to bring charges, you end up with the most corrupt court to have ever existed. The changing of transcripts was even exposed in a serious case where the Second Circuit said they had no power to make sure judges do not violate the law.

"The problem in the instant case has led lawyers on both sides to highlight a problematic practice in the Southern District of New York and has prompted one of them [the Defense] to ask this court to order that the practice be eliminated.

...

According to lawyers for both the government and defense, as well as Bologna [Court Reporter], the 'standard practice' in the Southern District is for a court reporter to submit the transcript of jury instructions to the district court before releasing it to the parties. ...

...

The district court is free to alter the transcript, and any changes are incorporated in the 'official' transcript without disclosing such changes to the parties.

...

According to counsel, the Southern District is somewhat unique in this practice.

...

Courts do not have power to alter transcripts in camera [chambers] and to conceal the alterations from the parties. Given the issues that arose in this case as a direct result of this practice, there appears to be little justification for continuing the practice in its present form.

...

Nevertheless, whether we have the power to order a change in such a practice is unclear. ... However, we invite the judges of the Southern District to consider revision."

The case is US v Zichettello, 208 F3d 72, pages 97-98 (2nd Cir 2000). When I made a formal complaint and Judge Richard Owen admitted changing my transcripts in front of all the press, Judge John M. Walker, Jr., former President Bush's cousin, ordered me not to ever raise this issue again. This decision in Zichettello, was written then by Chief Judge Winter. Justice Sotomayor was a member of that court at that time and took no action to stop this illegal activity.

I have been asked why won't the press ever write about this practice? There is just no free press in this country. There are plenty of good journalists, but it is not their decision to write such a story. It comes down to the publisher and no matter what the news organization is, there is a line they will not cross. In Britain, the press is fiercely independent. That is not the case in America. It is not patriotic to expose the government. Senator Arlan Specter introduced a bill to protect the press from being thrown in prison on civil contempt limiting that to matters of national security. Once contempt was expanded in my case, they silenced the press in this country. There can never again be any such investigation as Woodward & Bernstein did in Watergate that brought down Nixon. Today, a journalist can be thrown in prison until he dies without a right to appeal, trial or anything that resembles **WE THE PEOPLE**. That is why we have lost the free press in the United States. Government can do whatever it wants to anyone at any time.

The hope of any real reform in the financial industry is about ZERO. They will seriously wipe out the financial industry because the image the public has is one that is making it increasingly more dangerous to even work on Wall Street. This is not at all helped by those in the industry itself.

The front page of Monday April 26, 2010 Wall Street Journal reported:

Buffett Blunts Finance Rule

This is the man who the Wall Street Journal states clearly, had famously called the "derivatives" "financial weapons of mass destruction." Yet, at the same time, Buffett has successfully lobbied Senator Ben Nelson of the Senate Agriculture Committee to alter the rules on derivatives to exclude pre-existing positions that just so happen to be \$63 billion in Mr. Buffett's portfolio. Thank God he regards these

derivatives as "financial weapons of mass destruction" or else he probably would have a position of several trillion dollars.

This illustrates a huge problem. There are so many fingers in the pie, the reform that we can expect is only going to create more serious problems ahead. The whole process is just hopeless. There is never preventing a crisis, it is simply promoting crisis after crisis and then hold hearings when the shit-hits-the-fan to pretend to be concerned.

Buffett came out in support of both Goldman and Moody's, while his partner took a more hard look at the goings-on. This only made things look questionable when Buffett had positions in both firms. But to call out Buffett to convince the investing public that what Goldman did was immoral but not illegal, is feeding into the whole crisis in ethics. Recently, when asked about the state of morality in America, over 70% believe that the nation is no longer moral in its behavior be it the captains of industry or politicians. That is a very sad statement illustrating that we are indeed dealing with a crisis in **Public Confidence**.

The Congressional hearings have only now exposed this division between morals and law. The inquisition of the people employed at Goldman Sachs was a joke. On the one hand, Goldman revealed that the representatives do not have a clue about the subject matter. John McCain could not figure out the questions to ask for he revealed his ignorance of the very financial system as a whole.

To the average person unfamiliar with the industry, Goldman did not come off very well. That is the crowd to which Obama must play his fiddle. Goldman came off arrogant and at best a con-artist. The answers were far from what the average person understands and did more to create a smoke cloud than anything else.

The Financial Press naturally backed Goldman. They write to a audience that at least comprehends the subject matter, but they too did not expose the circular positions that did more to confuse the hell out of everyone in respect to market-making and proprietary trading. Instead of calling the shots without bias, they have circled the wagons around Goldman and in the process placed the entire industry at risk. Unless the industry wakes up and realizes that you can't be all things at the same time, the clash with the real world will grow bigger and bigger.

The Congressional questioning into the financial goings-on at Goldman Sachs merely revealed that there was a vast area of new finance that nobody seems to understand. It became clear that Goldman was able to spin everyone regarding any distinction between proprietary trading and market-making. The way Goldman explained it, as long as you in some way took a position against a client, that made you a market-maker. They then said they could take a position and keep it on the books for even a year.

Proprietary trading, according to Goldman, somehow involved using research. This is the biggest crock of shit I have ever heard. Unless we truly restructure the whole industry **HONESTLY**, then the political forces will destroy it by decree.

Market-making is limited to specific products. It is NOT determined by who is on the opposite side of those trades. You also do not hold any positions for one year. Now you are speculating, not making markets.

This is all just a show. Market-making is limited to a market one specializes in, and the profits are not exponential. I had retired from market-making in gold after the high in 1980 because it became obvious as spreads collapsed, if I had to speculate to make money, it followed that I should retire and just trade my own account. Proprietary trading is directional speculation. Market-making objectives is the spread, while being directional neutral as much as possible.

Goldman spun Congress like a dance partner. They walked out of those hearings ensuring that nobody on Capitol Hill has a clue as to what the hell is really going on. I have NO problem with Goldman being a lean mean trading machine. I have a problem when that is done as an investment bank. The mere term "bank" misleads everyone and the average person in a riot is now more likely than not to drag a banker out of a local savings bank and hang him for the sins of Goldman.

Goldman should be **SPLIT** up and if a firm makes the bulk of its money trading, it is a hedge fund, not a bank. Paying big bonuses to traders is justified - not to bankers! If those who are bought and paid for stop just once kissing the ground that Goldman walks on, maybe we could restore Wall Street.

If it is impossible for Congress to in fact simply define the difference between market-making and proprietary trading, you can bet the farm that shorting government debt will be the easy money coming down the pike. There isn't a prayer in hell that we can avoid what is coming. Congress will not even conduct a hearing to investigate the future, and will hold hearings only when the crisis takes place in order to blame someone other than themselves. This is what I call the "Nero Complex" for when the great fire of Rome took place and the people had suspected Nero, he quickly turned and pointed to the Christians starting the persecutions to deflect blame from himself. It matters not what period in history we live. Those in power ALWAYS, AND WITHOUT EXCEPTION, respond the same way each and every time. These very Goldman Sachs hearings are precisely that, to appease the public and pretend they are doing something. To the keen eye, they reveal only Congressional incompetence in the entire subject matter. This is dangerous for the regulations that come can easily destroy as well.

There will be those in the New York Financial Industry that just hate my guts for exposing how corrupt things are in that city. But they are sowing the seeds of their own destruction. Goldman Sachs flew too close to the sun assuming that stacking the political arena with their own shills they could control the beast. Sometimes lion trainers do still get killed.

I have dealt with government around the world and once upon a time I was very naive. I had a meeting with the senior people in Australia when the Labour Party was in power in an attempt to try to negotiate the sale of land to Hong Kong to allow the people there to relocate. After interesting negotiations, it came down to NO! It was not based upon price. It was not even based upon economics. I was told (see memoirs) that they were just not "Labour people." It had nothing to do even with racism. The fear was that these were people fleeing communism and thus it was now assumed they would not vote Labour. The fear was that the political dynamics of the nation would change.

Princeton Economics was a behind-the-scene facilitator around the world. That gave me a lot of political experience and got to see everything from every view point. This is

what the US financial industry had better wake-up and stop being so arrogant. Morals do count. Buyer beware is not acceptable!

Government WILL eat its own if it comes down to them or someone else. No matter how close you get to that flame, it will turn on you and bite you very fast. In my own case, we purchased toxic portfolios from major public Japanese corporations. We did not even solicit money for management. It had nothing to do with that. Not only did the government lie about the nature of the transactions, it would never allow me to go to trial. Worse yet, when my case began, the Wall Street Journal plastered pictures of myself and former Prime Minister Margaret Thatcher together. I was very angry. I asked my lawyer why they were using such photos? Nothing in my case had anything to do with Britain. They explained it was a signal to the political forces to stay away or they would find themselves in magazines pictured with myself as well. This was a deliberate message sent by the prosecutor using the press to get a point across.

The Justice Department used those very contacts as threats against politicians to ensure they would keep their distance. Ironically, some in the press are actually now trying to defend Goldman with this line that their clients should have known because they were sophisticated and that means what Goldman did was IMMORAL but not ILLEGAL.

If the case against Goldman is dismissed on that theory, it will show how corrupt the system truly is and while the politicians must keep their distance, the court remain firmly in the pocket of New York banks.

So the "conventional wisdom" is that Judge Barbara Jones will dismiss the case and if not, Goldman will perhaps settle rather than becoming a spectacle of news as the trial will become the latest thing since OJ Simpson with a worldwide audience.

What is lost in this is what the polls show - the lack of any ethics. Doing any business in New York is coming close to that of Nigeria where you have to count your fingers after shaking hands. I took orders as a market-maker way back during those 1970s on the "word" of a client. If he did not honor his position, he would be blackballed in the whole industry. Then came recorded

phone lines and little by little the bond that use to be, was broken. Now, the client is an adversary and the press is supporting this view of buyer-beware. What happened to ethics?

What I find truly astonishing, is the attempt to distinguish the actions of Goldman as "immoral" but not "illegal." This shows just how degraded our society has become and indeed how we are not that far from the big complete collapse that is the sign of the final stages in the death of all great major empires and societies.

Ethics, or as some call it moral philosophy, is the area of philosophy which has been based upon the principles of governing human actions in terms of their goodness, badness, rightness, and wrongness. So when the press says Goldman acted immorally, but not in any way illegally, what they are saying in truth is that Goldman acted corruptly, but since there is not a precise law that covers what they did, they should walk.

Ethics use to be an important aspect of civilization. It was the very root of being civilized. It was a philosophy that directed our attention not only to human morality, but to our values as mankind in general. This was the area of philosophy that once was suppose to define a gentlemen, honor, and dignity. Today, all of that is out the window and it is reduced to buyer beware.

Aristotle pointed out that when we talk about something as good or bad we usually mean whether it satisfies the purpose or a function. Is Goldman serving a function that is good from a society perspective, or is it just all about show me the money? If the purpose of Goldman serves a worthwhile goal for society, then it is serving some specific end. Thus, there should be a means/end form of analysis that is called teleological (in Greek telos means end or purpose). If the end purpose is simply to gather as much of the spoils as possible and buyer beware, now the philosophy approaches hedonism suggesting that self-pleasure dominates with no regard for any social restraint or duty. If this pleasure is for the agent alone, then it is **egotistic hedonism**. If there was a end goal for the greater good of society, it becomes **utilitarianism**, which is not very practical for then you disregard self-interest. It is impossible to disregard self-interest, for that leads to communism.



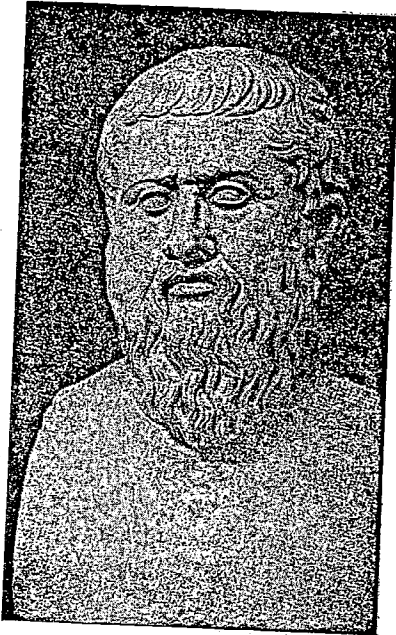
Immanuel Kant (1724-1804)

We now arrive at Immanuel Kant (1724-1804) who insisted that the teleological view that we judge things on a mean and end basis, should take into consideration motive of the actor. This created **deontological ethics** that comes from the Greek work meaning obligation. The entire foundation of law in the criminal aspect boils down to this ethical approach - one **mens rea** (state of mind). If you are backing your car out of the driveway and kill a little old lady walking on the sidewalk, the question for the jury is simple. Did you target her and deliberately run her down (1st Degree Murder) or was it negligent becoming manslaughter? One is death and the other a prison term.

Under Kant, we all owe a "duty" to our fellow man. The ethics of duty is usually associated with the position that principles of ethics are universal, absolute, and invariable, applying to indeed everyone and at all times in all circumstances. If something is ethical for one person, it is supposed to be ethical for all. This gives rise to the ideas embodied in the Constitution that we are suppose to have **certain inalienable rights** and there is to be **justice for all** meaning equal protection of the law.

The mere fact that people are justifying that Goldman acted immorally but not illegal in any way, illustrates the very problem with the rule of law and how degraded the principles that once made America the beacon of liberty

to the world. Those days are long gone. The lights have been turned out and not merely has tyranny resurfaced, but what is left is simply the morality of might, and nothing more.



Plato (428/427BC - 348/347BC)

This form of corruption is known as the **Morality of Might**. The majority of the press are defending Goldman Sachs warning that the corruption may become widespread. It first surfaced in Plato's "Republic" recorded in a debate with Socrates on justice. While the optimists would like to proclaim that Socrates won the debate, I beg to differ. I love the ideas of Socrates, but he gave his life for them, and that proves the sad point that he was in fact **WRONG!** Socrates believed that in a Democracy, justice would always gravitate to what was right and not toward tyranny when one man dictates his will. It may be true that Socrates viewed Draco as the example of pure tyranny and whose laws today are still known as "DRACONIAN." However, the group behavior of the mob is not inherently more just nor honest. The character of the group can be just as ruthless as any individual. From that view, Socrates was wrong, and his trial proves that point.

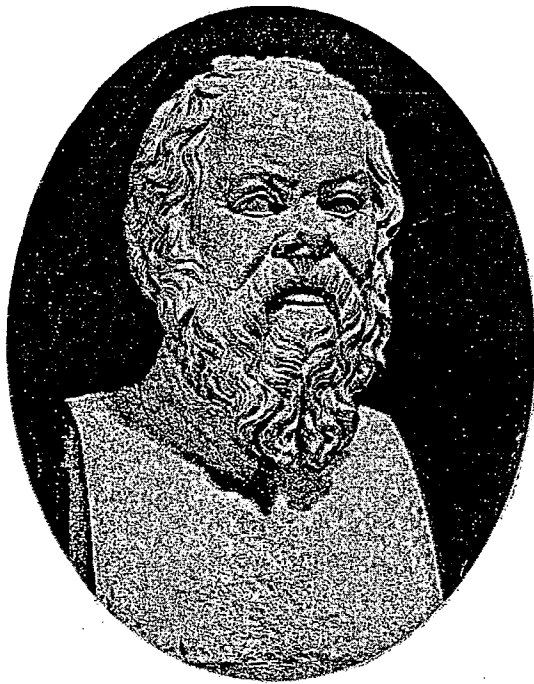
Socrates' debate has two characters who I believe spoke to reality, even though it is not what we may want to hear. Nevertheless, we cannot ignore that there is a **morality of pure might** than can be public or private.

Those who defend Goldman Sachs thus are endorsing the **Morality of Might**. They stand against Wall Street and applaud the demise of honor, dignity, and ethics. They endorse buyer beware and **egotistical hedonism**. This is the complete breakdown of the very purpose of civilization. Why should anyone deal with another if they have to count their fingers after shaking hands? Why is it that in EVERY other case when it is between two professionals, never will we ever see the supporters of Goldman defend anyone else on this theory? Whenever the SEC charges someone, they care not who is the buyer if it is a professional or a old lady. It has ALWAYS been the same! Until now. Suddenly the press defends Goldman on this buyer beware duty. Truly amazing.

In Plato's Republic, we find the first argument of **Glaucon**.

What people say is that to do wrong is, in itself, a desirable thing; on the other hand, it is not at all desirable to suffer wrong, and the harm to the sufferer outweighs the advantage to the doer. Consequently, when we have had a taste of both, those who have not the power to seize the advantage and escape the harm decide that they would be better off if they made a compact neither to do wrong nor to suffer it. Hence they began to make laws and covenants with one another and whatever the law prescribed they called lawful and right. That is what right or justice is and how it came into existence; it stands half-way between the best things of all - to do wrong with impunity - and the worst, which is to suffer wrong without the power to retaliate. So justice is accepted as a compromise, and valued, not as good in itself, but for lack of power to do wrong; no man worthy of the name, who had that power would ever enter into such a compact with anyone; he would be mad if he did that.

John Stuart Mill (1806-1873) wrote in his celebrated "On Liberty" published in 1859, "let us not flatter ourselves that we are yet free from the stain of legal persecution." Id./p34. The **Morality of Might** is by far, the only real justice for no matter what government, it always devolves back to this simple rule.



Socrates. (c 470 - 399 BC)

The second person in this debate with Socrates is **Thrasymachus**, who I believe has most correctly described the turmoil that has long afflicted civilization and is the root of all evil - not money, but power! **Thrasymachus** thus described justice in its true form.

[T]he different forms of government make laws democratical, aristocratical, tyrannical, with a view to their several interests; and these laws, which are made by them for their own interests, are the justice which they deliver to their subjects, and him who transgresses them they punish as a breaker of the law, and unjust. And that is what I mean when I say that in all states there is the same principle of justice, which is the interest of the government; and as the government must be supposed to have power the only reasonable conclusion as, that everywhere there is one principle of justice, which is the interest of the stronger.

In **Magna Carta** 1215, we find the same complaint that the king is stacking the courts with conservative or pro-government judges who deprive the people out of their rights in the self-interest of the king. At Chapter 45 the king had to agree that he would stop putting pro-government judges in the courts and no one would be appointed as judge unless they "are competent and willing to uphold the law."

In the Declaration of Independence, the injuries again are to deny the people justice and even "For depriving us in many cases, of the benefits of trial by jury." Id./paragraph 20. **Charles Dickens** wrote about how corrupt the courts were in 1853. He wrote, "Suffer any wrong that can be done you, rather than come here!" Today, the US courts are once again stacked. The right to trial by jury is extorted away by threatening 10 times the penalty if you dare go to trial. This is why the US has the highest conviction rate that has even now exceeded that of Adolf Hitler - 99%.

Thrasymachus got it right! We may not care to admit that fact. Yet it is reality. Thus, he also said:

So entirely astray are you in your ideas about just and unjust as not even to know that justice and the just are in reality another's good, that is to say, the interest of the ruler and stronger ... The just is always a loser in comparison with the unjust. First of all, in private contracts: wherever the unjust is the partner of the just will that, when the partnership is dissolved, the unjust man has always more and the just less. Secondly, in their dealings with the State, when there is an income tax, the just man will pay more and the unjust less on the same amount of income ... But all this is reversed in the case of the unjust man ... My meaning will be most clearly seen if we turn to that highest form of injustice in which the criminal is the happiest of men, and the sufferers or those who refuse to do injustice are the most miserable - that is to say tyranny, which by fraud and force takes away the property of others ...

There is no question that **Thrasymachus** may not describe what we want to hear, but he has described reality. There is NO other person who has been able to argue that a fraud is not a fraud if there are two professionals involved. NEVER has such an argument been accepted. Goldman will make this argument and if the case is dismissed, then you will know that it has been just a show. If there is a real prosecution of Goldman, it is more-likely-than-not for political reasons considering the elections where the Democrats may lose given the volatility in public confidence.

CERTAINLY, there is only ONE practical way to protect the industry, that is to separate COMMERCIAL BANKING from Wall Street. INVESTMENT BANKS must change their name to INVESTMENT HOUSES to prevent the confusion that exists now in the minds of everyone outside the industry. We MUST prohibit proprietary trading from both the Commercial Banking and Investment Banking/Brokerage roles. This can be accomplished by limiting hedging positions to the face value of the portfolio. Take proprietary trading/market-making out of banking and thus there should be NO bailouts for investors. This whole problem comes in when bankers need bailouts because of risky trading! DO THIS AND WALL STREET WILL PROTECT ITSELF FROM WITCH HUNTS!

It is time that Wall Street and the Financial Press stop drinking their own bath water and open their eyes as to how others see them from outside the industry looking in. Supporting Goldman Sachs on this claim that what they did was IMMORAL and not ILLEGAL is inviting political disaster. Just read the transcripts of the questions the inquisitors hurled at the best and the brightest during the 1930s. It is so easy to use Marxist style questioning and suffer the blame for everything because of industry arrogance. The industry is judged on MORALS, not LAW. History proves that!

Nothing has been learned from the Great Depression. Many were put in jail on other charges like taxes just to inflict retribution even if laws were not broken. You can try your best to talk-up Goldman and defend them, but you are endangering the entire industry if not yourself. As the political elections come closer, Goldman can find itself as the target of all the pain and suffering. Just as Charles Mitchell did not cause the Great Depression, neither did Goldman nor JP Morgan cause the collapse in housing. At best, they contributed to volatility, but that's it!

It is time to wake up and smell the roses before they nail the coffin shut. Let us get trading and bonuses back into the hedge fund arena where it belongs. It is WRONG to be so high profile under the term "bank" creating the image in the minds of the people of speculating with their deposits.

There has been a breakdown in ethics because of the merger of two industries, commodities and securities, for latter prohibits insider-info where the former is all about following who has what position. Wall Street has to open its eyes and see itself from the outside. It did not create the sovereign debt crisis in 1931, but it took the blame for selling the debt. Do you really think that governments will now blame themselves? Wall Street could be hanged easily and it is handing the very fuel in which the public will burn it to the ground in a modern Bonfire of the Vanities. Wall Street, and the press that covers it, had better realize that perception very much counts, not reality.

We have to save the Financial Industry and look at how and why it keeps getting blamed for everything. It is time to start being smart about IMAGE and how will this effect the markets in the eyes of the public. The blame should be squarely placed on government and the regulators. But they will divert that blame by pointing to the arrogance of Buyer-Beware Philosophy.

Either we get back to the world of ethics when you did not have to count your fingers after shaking-hands, or we will wake up in a new world of communistic-style socialism. Just look at May 6th, for they cancelled trades with no evidence of any game playing and now want to regulate to prevent a market movement that was natural. This whole thing is nuts and we may see the destruction of the Financial Industry unless we start paying attention to morals, not just laws.