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Summary speech by Prof. William K. Black, USA

Goldman Sachs: Doing "God's Work" by inflicting the Wages of Sin Globally

(Check against delivery)

The central point that I want to stress as a white-collar criminologist and effective financial regulator is that Goldman Sachs is not a singular "rotten apple" in a healthy bushel of banks. Goldman Sachs is the norm for systemically dangerous institutions (SDIs) (the so-called "too big to fail" banks). Impunity from the laws, crony capitalism that degrades democracy, and massive national subsidies produce exceptionally criminogenic environments. Those environments are so perverse that they produce epidemics of "control fraud." Control fraud occurs when the persons who control a seemingly legitimate entity use it as a "weapon" to defraud. In finance, accounting is the "weapon of choice." It is important to remember, however, that other forms of control fraud maim and kill thousands.

Large, individual accounting control frauds cause greater financial losses than all other forms of property crime – combined. Accounting control frauds are weapons of mass financial destruction. One of the crippling flaws of the World Economic Forum (WEF) is ignoring private sector control frauds. Control fraud makes a mockery of "stakeholder" theory. Accounting control fraud, for example, aims its stake at the heart of its stakeholders. The principal intended victims are the shareholders and the creditors (which includes the workers). Other forms of control fraud primarily target the customers. If the WEF wishes to effectively protect stakeholders it is imperative that they undertake a sea change and make the detection, prevention, and sanctioning of control fraud one of their central priorities. WEF does the opposite, it wishes away fraud with propaganda because the alternative is to admit that many of its dominant participants are the central problem – they are degrading the state of the world. In 2012, in response to endemic, elite financial frauds, the WEF declared the following without citation or reasoning in its 2012 report on "Rethinking Financial Innovation."

Consumer Disservice

> Malfeasance and outright fraud [in finance] are extraordinarily damaging but also, fortunately, extremely rare.

This passage Report demonstrates that WEF was unable to escape its dogmas and conduct a fundamental rethinking of what caused the crisis. In a criminogenic environment fraud is common, not "rare." That is an empirical fact if one has competent investigators. The national commission to investigate the savings and loan debacle found that control fraud was "invariably" present "at the typical large failure." We obtained over 1000 felony convictions in cases designated as "major" by the Justice Department. The (2001) Nobel Laureate in Economics, George Akerlof and Paul Romer published their classic article in 1993 entitled "Looting: the Economic Underworld of Bankruptcy for Profit" explaining accounting control fraud. Akerlof and Romer emphasized five points:

1. They had supplied the missing economic theory of control fraud, so economists no longer had an excuse for ignoring such frauds
2. The regulators in the field recognized that deregulation was "bound" to create widespread fraud because it created a criminogenic environment in which fraud paid
3. Accounting control fraud was a "sure thing" – if lenders followed the fraud "recipe" three results were certain: (a) the bank would promptly report record (albeit fictional) profits, (b) the controlling officers would promptly be made wealthy by modern executive compensation, and (c) the bank would suffer catastrophic losses
4. If many banks in the same area followed the same strategy the result would hyper-inflate a bubble and delay loss recognition because bad loans could be refinanced, and
5. Now that we had an economic theory confirming that the field regulators had gotten it right from the beginning the economists could prevent future fraud epidemics if they supported the regulators rather than pushing deregulation

The accounting control fraud recipe for a lender has four "ingredients":

1. Grow like crazy by
2. Making really crappy loans at a premium yield, while
3. Employing extreme leverage, and
4. Providing only trivial reserves for the inevitable, massive loan losses

Akerlof had identified another control fraud variant – anti-purchaser fraud – in his seminal article on markets for "lemons." He identified a critical principle in that article – the "Gresham's" dynamic. Akerlof explained that if a seller gained a competitive advantage over his honest competitors through fraud market forces would become perverse and "bad ethics would drive good ethics from the marketplace."

WEF has been acting for decades to make banking criminogenic. They have pushed the three "de's" – deregulation, desupervision, and *de facto* decriminalization. They have favored executive compensation systems. They have pushed for ease of entry. And they have spread the myth that fraud by corporate elites is "rare." WEF has optimized the intensely criminogenic environments that produce recurrent, intensifying fraud epidemics, bubbles, and financial crises.

WEF's complacency about accounting control fraud has led to its embarrassing failures in finance. It's "competitiveness" scales and "financial market development" scales have praised the most criminogenic financial systems – Iceland, Ireland, the UK, the U.S., and Spain – even as the largest banks in those Nations were (in reality) destroyed along with the much of the national economy. Similarly, the WEF's "global risks" series has proven unable to identify the major financial risks until the hurricane has roared through the system. The central problems are the same – the WEF "stakeholder" premise and the WEF's domination by powerful corporations is an elaborate propaganda apparatus that assumes away the reality of how CEOs running control frauds use compensation (and the power to hire, promote, and fire) and political power to deliberately create the perverse incentives that produce widespread fraud. The irony is that the WEF's dogmas have encouraged elite frauds to drive stakes through the stakeholders.