Can US Break with Jihadist Allies?

Exclusive: The Obama administration finds itself caught in the contradictions of its Syrian policy, having backed radical jihadists to achieve another “regime change” but now finding that its opportunism is spreading chaos beyond the Mideast into Europe. But can the U.S. adjust course and abandon its jihadist clients, asks Joe Lauria.

By Joe Lauria (Updated on Jan. 25 with new last two paragraphs)

The passage of a major U.N. Security Council resolution is like a cheap high: the euphoria wears off pretty quickly. Such was last month’s unanimous adoption of a “peace plan” to end nearly five years of Syrian bloodshed.

With Monday’s start date for a planned ceasefire and the launch of negotiations already put off, it’s looking increasingly unlikely that the talks will start any time soon. The major obstacle is deciding who will represent the opposition across the table from the government. And that hinges on the question of who is a terrorist in Syria. It doesn’t help that world governments have failed since the League of Nations to agree on a treaty legally defining terrorism.

Secretary of State John Kerry and Russian Foreign Minister Sergey Lavrov met in Geneva on Wednesday and the two were unable to decide who the Syrian terrorists are that should be excluded from the negotiations.

They agree on excluding the Islamic State and al-Nusra Front (Al Qaeda’s affiliate) who have already been eliminated from participation. But what about the myriad other opposition groups, some of whom collaborate closely with Nusra and other extremists?

A hundred of them were melded together by Saudi Arabia in Riyadh last November. But they want Syrian President Bashar al-Assad to step down immediately. That’s a complete non-starter as the U.N. plan would allow him to stay on for six months making way for a transitional government until a new constitution is written and a general election held in 2017. Kerry has been blasted by neoconservatives for agreeing to this compromise and for allowing Assad to run again in that election.

The U.S. compromised on that point after being spurred on by the refugee crisis that is spreading disorder into Europe and by Russia’s entry into the war against the Islamic State and other jihadist groups. But there is so far little compromise on the question of terrorism.

Putin’s Challenge

Moscow's and Washington's disagreement goes back to the beginning of the Syrian civil war, as I reported more than three years ago. In September, Russian President Vladimir Putin went a step further in accusing the U.S. of supporting terrorists in Syria in his address to the U.N. General Assembly.

"The Islamic State itself did not come out of nowhere," Putin said. "It was initially developed as a weapon against undesirable secular regimes." He said it was irresponsible "to manipulate extremist groups and use them to achieve your political goals, hoping that later you'll find a way to get rid of them or somehow eliminate them."

He made it clear he was speaking of the U.S., when he added: "I'm urged to ask those who created this situation: do you at least realize now what you've done? But I'm afraid that this question will remain unanswered, because they have never abandoned their policy, which is based on arrogance, exceptionalism and impunity."

Putin did not mention clear evidence he was certainly aware of from the U.S. Defense Intelligence Agency. An August 2012 DIA document declassified by a judge says that Washington, Ankara and the Gulf States were helping to establish a Salafist principality in eastern Syria to pressure Assad and that it could team up with extremists on the Iraqi side of the border to form an Islamic State, the document uses that exact phrase. Then DIA chief Gen. Mike Flynn later told Al Jazeera that this was a "willful decision in Washington," not the U.S. merely turning a blind eye to what was happening.

The U.S. has long supported unsavory groups to reach short-term U.S. interests. Washington argues it is vetting what groups it supports, but even the Daily Beast (a big supporter of neoconservative regime-change strategies) has called this into question, reporting that CIA-backed rebels fight in tandem with Al Qaeda.

In his speech Putin called for a coalition similar to the Soviet-U.S. alliance in the Second World War to fight the most fearsome terrorist force in history, Adolf Hitler's Nazis. Putin argued that Syria's military is the only effective ground force (along with the Kurds) against the Islamic State and that all nations who really want to defeat it should work with Assad's army and fight the groups trying to overthrow him.

"Similar to the anti-Hitler coalition, it could unite a broad range of parties willing to stand firm against those who, just like the Nazis, sow evil and hatred of humankind," Putin said.

Russia presented a draft resolution at the Security Council that would have authorized such a grand coalition. But the U.S. flatly rejected it because it still plots Assad's overthrow with groups that Russia says are terrorists. It wasn't a surprise then that two days after Putin spoke that Russia launched its first airstrike was against a CIA-backed group threatening the Assad government. It was a strong message from Moscow to Washington: if you keep supporting extremists in Syria we will strike them.

The U.S. government and its corporate media accused Russia of hitting "moderate" groups instead of the Islamic State (which Russia has repeatedly also targeted). Washington leveled the tired charge that Putin is trying to reestablish the Soviet Empire and takeover the Middle East from the U.S.: a duplicitous case of projecting imperial designs onto another. Perhaps Russia really is worried about terrorism spreading from Syria and really wants to do something to stop it.

Defining Terrorism

Having an international agreement legally defining terrorism would be useful in this circumstance, but coming up with one codified in a treaty has long bedeviled governments. The League of Nations tried and failed. A month after 9/11 the U.N. General Assembly met to agree on an international convention against terrorism, but failed because it couldn't agree on defining terrorism.

Terrorism is only a tactic. But governments seem to conflate it with a cause. It's okay when their side uses it, but not when their enemy does. This has spawned the clichÃ©, "One man's terrorist is another man's freedom fighter."

If you can objectively isolate the tactic from the cause, an agreed definition may be possible. It would be along the lines of terrorism is an act of violence carried out by non-state actors, targeting civilians for any cause, whether just or not.

The cause of the Palestinians under occupation is just, for instance, but blowing up Israeli civilians in a bus is terrorism. The cause of the Islamic State, as an occupying force, is clearly unjust, and it commits terrorism when it targets civilians. The target is essential to the definition. A non-state actor, even the Islamic State, attacking military targets is using guerilla tactics not terrorism. Some groups, like ISIS, use both.

The lack of a definition has helped states to continue sponsoring terrorism, though they do not directly commit acts of terrorism themselves, as many people contend. States commit war crimes, which is worse. Only non-state actors employ terrorism, which is not under the jurisdiction of the war-crimes International Criminal Court and could only in some instances be considered a war crime.

Without a common understanding of what terrorism is, it is difficult to imagine

agreement between Moscow and Washington to get the Syrian talks started without some extremely deft diplomatic maneuvering. That may still happen amid reports that the U.N. will invite two sets of opposition groups to satisfy both the U.S. and Russia.
Without such a compromise to get talks started, however slim the chance they will succeed, there is no prospect in sight of an end to the Syrian war until one side wins it militarily.

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Betting on the Wall Street Crash

Exclusive: The 2008 Wall Street crash resulted from a combination of unrestrained greed and political contempt for government regulators who might have prevented the devastation. In The Big Short, the tale is told from the perspective of a few players who saw the inevitable and made money on the crash, writes James DiEugenio.

By James DiEugenio

If you read Michael Lewis's book *The Big Short* or see the movie by the same name, you won't find much about how the financial crisis of 2008 was set in motion more than two decades earlier. You won't learn much about the roles of Ronald Reagan and his disdain for big government or about Bill Clinton's faith in neo-liberalism, trusting that the modern markets and the supposedly sophisticated investors would keep excesses in check.

Nor will you find much about economist-turned-politician Phil Gramm who incorporated many of Reagan's and Clinton's beliefs into legislative actions, slashing taxes on the rich in the 1980s (and thus incentivizing greed) and, in the 1990s, brushing aside Franklin Roosevelt's painfully learned lessons from the Great Depression about the need for firewalls between the speculation of Wall Street and the hard-earned savings of Main Street.

Also out of Lewis's narrative frame is Brooksley Born, the federal commodities regulator who foresaw the looming danger from the exotic new financial instruments that sliced and diced risky subprime mortgages and packaged them in bonds with ratings far above what they deserved and the even riskier tendency to lay bets on how the bonds would perform.

But Born was out-muscled by bigger financial stars with larger egos, the esteemed Federal Reserve Chairman Alan Greenspan (originally a Reagan appointee) and Clinton's brash Deputy Treasury Secretary Lawrence Summers, a rising star in the neo-liberal establishment which treated the market's "invisible hand" as a new-age god.

Michael Lewis's Treatment

These names and that background are not mentioned because Michael Lewis did not write *The Big Short* as an overview of the economic meltdown. It is not remotely a historical chronicle of the crisis. Lewis chose to write about six characters who were not on the main stage of the crisis. But each knew that Brooksley Born's grim prophecies would be fulfilled and they devised a scheme for profiting from the collapse.

They figured out that buying credit default swaps one of Wall Street's new financial instruments and betting against subprime loans was a very good wager. In fact, the more they examined it, the more they thought it was a sure thing. It was not a matter of if the housing market would collapse, but precisely when it would fail.

That latter point created a concern for them: When the market collapsed, would the investment banks still be around to let them collect on their wagers?

Lewis's book has two main protagonists, one on each coast. The one in New York City is named Steve Eisman, a hedge fund manager whose firm was housed at Morgan Stanley on Wall Street. The other was Michael Burry, who ran a private investment firm in Cupertino, California, called Scion Capital.

There are four supporting characters: Greg Lippmann, a trader at Deutsche Bank who accidentally gets in contact with Eisman and sells him on the idea of betting against the housing market; a Berkeley, California contingent made up of two young and relatively inexperienced investors, Charlie Lealey and Jamie Mai, who run their own investment company called Cornwall Capital; and a retired veteran of Wall Street named Ben Hockett.

Although this choice of a cast seems random, it really was not because, as Lewis notes in his book, there was a small group of people who understood what was happening as early as 2005. They were not famous at the time, neither were they well established as towering Wall Street figures, but they had taken the time to really examine what was going on with derivatives and CDO's. And none of them liked what they saw.

As Burry told *New York Magazine,* he felt like he was watching a plane crash. On the last night of 2007, New Year's Eve, he e-mailed his wife and said he was so filled with dread he couldn't come home. He would spoil their holiday.

Weaving a Narrative

Lewis skillfully weaves the differing strands of the book largely through the eyes and ears of these six men, but stays away from what is going on at the top levels of Wall Street finance. Lewis apparently felt the view was more informative and dramatic from the ground up.

As the narrative unfolds, a friend of Lealey who worked at Deutsch Bank sends him a presentation that Lippmann had made, saying that the mortgages in the lower-level tranches were almost worthless and it would be profitable to bet against them with credit default swaps.

Lealey thought to himself, "How can this even be possible. Why isn't someone smarter than us doing this." [Lewis, e-book version, p. 108]

Another link between the characters was their attendance at the American Securitization Forum in Las Vegas in January 2007, a giant convention of 7,000 subprime lenders and managers of mortgage-backed securities. [ibid, p. 150]

Lippmann invited Eisman there so Eisman could fully understand the people he was betting against. Hockett, Lealey and Mai were there to conclude a deal for the purchase of large amounts of credit default swaps from Bear Stearns (another investment bank that would soon capsize). It is here that Lewis created two memorable scenes.

The first was when Eisman met a manager of mortgage-backed securities, a man named Wing Chau, who explained to Eisman that he sold not just double-A and triple-A backed mortgage bonds, but something else called a CDO, the acronym for collateralized debt obligation. As Wing Chau explained, these were bonds made up of lower-rated mortgage securities, ones that did not sell the first time around. Or as Eisman put it, “The equivalent of three levels of dog shit lower than the original bonds.” [Lewis, p. 139]

Insuring the Collapse

The insurance giant American International Group (AIG) had been the main buyer of these bonds up to the beginning of 2006. (AIG would later be bailed out by the government to the tune of $180 billion.) But when Frank Cassano of AIG’s London office finally got out of the market, smaller brokers like Harding Advisory’s Wing Chau took his place. Chau managed $15 billion worth of CDO’s, with a large amount placed with Merrill Lynch [ibid, pgs. 140-41]

Chau then explained to Eisman something called the synthetic CDO, a creation made out of all the side bets on the original bonds, i.e. those betting the bonds would fail or succeed. As Eisman put it, “They weren’t satisfied getting lots of unqualified borrowers to borrow money to buy a house they couldn’t afford. They were creating them out of whole cloth. One hundred times overI was like: This is allowed?” [ibid, p. 143]

Eisman wondered who was looking out for the investors? Did they know what was in those bonds? He concluded that Chau didn’t really care. After all, a few years earlier, Chau had been making $140,000 a year managing a portfolio for New York Life. In 2006, he would make $26 million. [ibid, p. 141]

The second memorable scene took place in Las Vegas at a talk given in an auditorium by the CEO of a company called Option One, which had had some problems the previous year due to its investment in subprime loans. He assured the audience that was a thing of the past. In the future, he expected no more than a 5 percent default rate on the loans in their portfolio.

Eisman asked the man if that figure was a possibility or a probability. The reply was that it was a probability, to which Eisman raised his hand and made a circle with his thumb and index finger. The CEO asked if he had another question. Eisman said, “No, it’s a zero. There is zero probability that your default rate will be five percent.” Eisman figured it would be much higher. [ibid, p. 153]

After this conference, Eisman decided to bet against the housing market in a big way, realizing that the market was based on a collective illusion. Or as one of the traders on his team declared, “That was the moment when we said, ‘Holy shit, this isn’t just credit. This is a fictitious Ponzi scheme.’” [ibid, p. 157]

Brad Pitt's Interest

Brad Pitt had purchased another Michael Lewis book called *Moneyball,* which he had starred in and produced as a movie. Therefore, Pitt had the inside track on making a film of *The Big Short.* But as Pitt told *New York Magazine,* "the plain truth of it all is that these kinds of movies are hard to make. The studios don't want to make them because it doesn't fit the business model anymore." [11/29/15]

So to give the film marquee value, Pitt had to sign on to play Hockett, and that in turn attracted Christian Bale to play Burry, Steve Carell to play Eisman, and Ryan Gosling to play Lippmann (although the last two characters have their names changed in the film.) With that many big stars, the picture was sure to be made.

But the most surprising thing about the film is that the major force behind its success as a movie is Adam McKay, who co-wrote the script with Charles Randolph and directed the film. McKay started with the famous improv group Second City in Chicago and then became a writer for *Saturday Night Live*. McKay accompanied *SNL* star Will Farrell to Hollywood and directed films like *Anchorman, Talladega Nights, Step Brothers*, and *The Other Guys*. With *The Big Short,* McKay's direction and writing summoned up the best of his past career in comedy.

Not since the heyday of British director Richard Lester in the 1960s and 1970s have I seen such daring inventiveness in a comedy film. Frequently, McKay will have an actor talk directly to the audience. Indeed, half the main cast breaks the so-called Fourth Wall.

In a scene in the lobby of a huge bank, the actors who play Lealey and Mai address the audience. After their meeting with the bank representative ends, they pick up Lippmann's presentation off a table and tell the audience that in real life, that isn't the way it happened. Someone actually mailed them the presentation. Surprisingly, it works and doesn't break the flow of the film, perhaps because the matters we are viewing are so absurd to begin with.

But McKay goes beyond that. Realizing that some of the terms he is using in the film, like CDS or "credit default swap," are not easy for the audience to assimilate quickly, he will have the narrator, Gosling, cut in on the soundtrack and announce that some celebrity who is not playing a role in the film will now explain what this term means.

Explaining the Complexities

The first time its actress Margaret Robbie talking to us from an indoor pool loaded with bubble bath as she drinks champagne. The second time, from a restaurant kitchen, master chef Anthony Bourdain explains a CDO or “collateralized debt obligation” in terms of putting together a stew from leftovers.

The third time, it’s economist Richard Thaler and singer-actress Selena Gomez at a craps table with hundreds of extras behind them, explaining what a synthetic CDO is.

Another reason these scenes worked is because McKay and his editor Hank Corwin have spliced in quick montages showing rappers, dancers, sometimes bag people sitting under a bridge or living in a tent colony. This gives ballast to the “real life” demonstrations of these concepts that caused tent colonies and other depredations to happen. It also gives the film a fast-paced, almost headlong tempo with the specter of surprise lurking ahead.

But the film needed an anchor because although it’s amusing and sometimes laugh-aloud funny, the subject it deals with is a serious one, the biggest American economic blowout since 1929. The film’s anchor is provided by its strong ensemble cast.

Christian Bale as Burry delivers his usual disciplined, dedicated method-acting performance. And considering that Burry has a glass eye and Asperger’s Syndrome, a form of autism, Bale was taking on a technically difficult and unglamorous part. Steve Carell does a nice job playing the worrywart Eisman, the Wall Street shark with a conscience. With his hair dyed black and waved, Gosling is in command as Eisman’s antithesis, the slick trader.

Pitt plays Ben Rickert (Ben Hockett in the book) as something of an eccentric, the man who walked away from a millionaire’s job in Tokyo with Deutsche Bank and now lives in Berkeley and just enjoys walking his dog and playing with his child.

In Las Vegas, after Pitt’s character and the two young traders close their big deal for $15 million in credit default swaps, the two youngsters cannot contain their joy and start whooping and celebrating. Rickert/Hockett turns on them abruptly and tells them to knock it off: “Do you have any idea what you just did? You bet against the American economy. If you win, people lose their homes, their jobs, their retirement funds, their pensions.” Pitt has the quiet authority to make it real.

There is one element of the Lewis book that the film leaves out. At the end of the book, Lewis meets with his former boss John Gutfreund, former chairman of Salomon Brothers where Lewis worked for three years, an unpleasant experience that became the topic of *Liar’s Poker* published in 1989.

A couple of decades later, for *The Big Short,* Lewis asked to meet with his retired old boss. Lewis wanted to meet with Gutfreund because Salomon Brothers was the first major investment bank to go public in 1981, a decision that Gutfreund made. Lewis is convinced that shifting ownership of banks from the partners to the public encouraged the collapse of Wall Street because the losses could be passed on to shareholders. Otherwise, the owners/partners would never have seriously entertained such nonsense as subprime loans, CDOs and synthetic CDOs. No owner/partner would have allowed his investment bank to be leveraged at a rate of 35-1.

Yet, after Salomon Brothers went public, every major trading house did the same and made quick killings in the short run.

An Ironic Ending

McKay ends the film with a fantasy sequence: Gosling says that dozens of people went to jail and all the banks were broken up. He then corrects himself and says the opposite was true.

It is an ironic ending reflecting how the 1980s and 1990s marked a time when greed became good and the pain that Wall Street had inflicted on earlier generations was forgotten in the rush of speculators to amass great fortunes and the hunger of politicians and economists to share in the loot.

So, the lessons of an earlier time were deemed outdated, no longer relevant to the modern era when there was supposedly more transparency in the markets and when investors were allegedly much more sophisticated than in days gone by.

The memories of the Great Depression and the New Deal were so faded, just black-and-white relics from a distant past. Yet, it was from the ashes of the stock market crash of 1929 and bitter years of the Great Depression that President Franklin Roosevelt laid the foundations for decades of American prosperity. He applied a combination of Keynesian economic policies and institutional reforms of Wall Street. After World War II, Roosevelt’s reforms helped create the Great American Middle Class, sharing prosperity at levels never before seen while the American economy became the juggernaut that ruled the world.

To put it mildly, that is not the case today. As Paul Krugman and other economists have written, American economic performance has been unraveling in large part because the checks and balances that FDR installed to control rapacious greed and malpractice on Wall Street were, step by step, removed.

What replaced them was a pretty much “anything goes” ethos involving speculative inventions and risky ventures. For the first time, many investors did not actually own stocks, bonds or mortgages. Often they owned bets on whether or not someone else’s investments, such as a basket of sliced and diced mortgages, would fail. Wall Street investment banks were turned into giant Las Vegas-style casinos.

Busting the House

But there was one big difference. In a casino, it is almost impossible to beat the house, at least for large sums since the house has installed firewalls against such a thing happening. In 2008, however, because of the growth of wild, speculative instruments of credit and the government's lack of supervision of these unsound vessels the Wall Street house collapsed.

And if not for a colossal intervention by both the Treasury Department and the Federal Reserve Board, virtually every investment bank on Wall Street would have fallen along with the entire American economy and possibly the world's.

The same Wall Street voices that disdained and ridiculed government regulation on the ride up suddenly insisted on massive government intervention to avert a large thud on the spiral down.

When everything was rosy, these masters of the universe explained why they deserved their Manhattan penthouses and their Hampton mansions. It was simply a case of them being rewarded for their personal excellence, the result of being the best and brightest in a "meritocracy."

Yet their catastrophic collapse had to be stopped by the federal government and paid for by average taxpayers intervening with an exercise in socialism. If not, the Wall Street warnings went, there would be another Great Depression or worse.

After the 2007-08 real estate/Wall Street crash, many authors wrote that it had been a long time coming with many warning signs along the way. The American economy had sustained a string of internal failures based on speculation and, at times, outright fraud. This trend traced back to the 1980s when President Ronald Reagan embraced a culture of "free enterprise" to an almost metaphysical degree. The pattern continued into the 1990s and into the new century with the anti-regulatory neo-liberalism of President Bill Clinton.

Launching Greed

It was during Reagan's presidency followed by George H.W. Bush's and Clinton's White House years when a long string of domestic economic scandals (and frauds) surfaced: the savings-and-loan crisis, which lasted from 1986 to 1995; the leveraged buyouts of Michael Milken and Ivan Boesky which used insider trading to maximize profits; the collapse of the hedge fund Long-Term Capital Management, in which the government intervened and forced other investment banks to cover billions of dollars in losses; the dot.com bubble, where financial analysts completely threw out traditional standards like P/E ratios for the allure of Silicon Valley; and, of course, the Enron collapse (under President George W. Bush), when it was revealed that the high-flying energy company's profits were largely based on illegal accounting tricks.

Taken as a whole, there were many books written about these and other related scandals, such as *Den of Thieves* by James B. Stewart, *Pigs at the Trough* by Arianna Huffington, *When Genius Failed* by Roger Lowenstein, *Enron: The Rise and Fall* by Loren Fox, *The Predator's Ball* by Connie Bruck. There were also films and documentaries made about some of these episodes, e.g. *Enron: The Smartest Guys in the Room* directed by Alex Gibney and *Barbarians at the Gate*, directed by Glenn Jordan. Those two films were based on best-selling books.

So it's not as if the media and the public were unaware that, recurrently, something was going wrong with Wall Street and corporate America. By all indications, certain people in high positions were repeatedly at work on evading and violating the legal code, such as insider trading, the looting of savings-and-loan assets, or the defrauding and manipulation of company funds. On all these counts and more, a culture of corruption had been gaming the system for two decades.

It got so bad and so endemic that the illustrious attorney and bank regulator William K. Black was forced to invent a new criminal term to describe it: "control fraud." This is when a person with great authority inside an institution subverts the organization and engages in extensive fraud for personal gain. Typical fraud usually referred to some lower-ranking person within the institution cheating the organization. But now the plunder was coming from the top.

Demeaning the Bureaucrats

Another syndrome common to all of these scandals was that the civil servants in charge of regulating these fields arrived well after the fires were raging. And, in each case, that tardiness cost hundreds of millions of dollars, if not billions.

For instance, when the fraud of telecommunications giant WorldCom was finally exposed, the collapse represented the largest bankruptcy in history up to that time, about $100 billion; an example of Black's "control fraud" since the phony accounting practices meant to hide the corporation's financial shortcomings were instituted from the top down.

The collapse of Enron put 20,000 people out of work. And, since Arthur Anderson LLP signed off on the accounting of both Worldcom and Enron, regulators forced the firm to close it doors in 2002, costing another 85,000 jobs.

In retrospect, all of this sordid history extending from about 1985 to 2005 seemed to prove the famous adage of George Santayana: “Those who cannot remember the past are condemned to repeat it.”

Though some accounting procedures were tightened up, there was another financial scandal right around the corner. And it would dwarf all of the previous ones put together.

With political hostility still running high toward “government bureaucrats” and their “red tape” and with Wall Street banks lavishing millions of dollars on politicians and their campaigns there was little interest in regulating areas that had not yet blown up.

But the situation was worse than a lack of prescience. The dominant political forces of Washington actively helped pave the way for the 2007-08 real estate/stock market crash.

A Crucial Politician

A key player was Phil Gramm, a former Texas A&M economics professor who first became a congressman and then a senator from the Lone Star state. As a Democratic congressman, he pushed through the 1981 Gramm-Latta bill, which essentially implemented Reagan’s budget and fiscal policy, including lower taxes (mostly benefiting the rich), social program cuts and higher military spending. After clashing with the Democratic leadership, Gramm switched parties and then ran successfully as a Republican for the House and later the Senate.

As a senator, Gramm was instrumental in passing two epochal bills which proved central to the future economic disasters. The first was the Gramm-Leach-Bliley Act of 1999, which repealed much of Franklin Roosevelt’s 1933 Glass-Steagall Act separating commercial banks from investment banks and insurance companies.

Along with providing government insurance for Main Street savings deposits, Roosevelt wanted to get neighborhood banks out of riskier investment strategies. The idea was that if too many local banks were involved with speculative investments, and the bubble burst, the contagion that brought down Wall Street would also bring down Main Street with it, which is what happened in 1929.

Thanks to Gramm and his fellow anti-regulatory Republican along with neo-liberal Democrats including President Bill Clinton FDR’s New Deal lessons were deemed outmoded. Glass-Steagall was largely neutered.

There were, however, some prophets who foresaw the doom. For instance, Democratic Congressman John Dingell said that the bill would create large financial superstructures that the Federal Reserve would have to protect since they would be “too big to fail.”

The other bill that Gramm sponsored was probably even more destructive to the economy, the Commodities Futures Modernization Act of 2000. This act deregulated some of the more exotic inventions that Wall Street had originated in the 1990s in order to spread risk. For instance, after Lewis Ranieri invented Mortgage Backed Securities (MBS), they evolved into Collateralized Debt Obligations (CBOs). Roughly speaking, these were a collection of mortgage bonds that were then bought by either a government agency like Fannie Mae or an investment bank like Ranieri’s Salomon Brothers.

These collectivized bonds were then divided into tranches, different levels inside the bond as classified by the ratings houses, Standard and Poor’s, Moody’s or Fitch. The lower the rating, the higher the return; but also the higher the risk if the bond went bust.

Spreading the Risk

To limit the chance of such a thing happening, J. P. Morgan created a derivative called the Credit Default Swap (CDS), which was advertised as a form of insurance premium, which the buyer paid to the holder of the bond as long as the bond was afloat. But if the bond collapsed, the buyer who was paying premiums gained a lot of money and the holder of the bond assumed the asset.

With a CDS, the buyer does not actually own anything. He is really a gambler who is betting on a large payoff if the asset fails. (The entire story of how derivatives originated and then contaminated Wall Street was neatly told by Gillian Tett in her book *Fool’s Gold*.)

As derivative products became commonplace on Wall Street, there began to be a debate about their regulation. Stanford lawyer Brooksley Born, chief of the Commodity Futures Trading Commission, realized that companies were using derivatives to mask investments from normal accounting practices. [*All the Devils are Here*, by Bethany McLean and Joe Nocera, p. 101] That was because, though their use had spread exponentially, they were not yet standardized as products for regulation purposes, which she proposed doing.

But Sen. Gramm wanted the least amount of regulation possible. And, he was joined by Clinton’s Deputy Treasury Secretary Lawrence Summers and Federal Reserve Chairman Alan Greenspan. (ibid, p. 105) Outgunned by such powerful figures, Born lost this key battle. She was, of course, correct.

If, for example, an investment bank sold billions of credit default swaps on a poorly credited tranche of a mortgage bond, what if the bond capsized? The bank would have not just a negative performing asset on its books, but it would be out the payment to the holder of the CDS.

But, as Born suspected, it was even worse than that. Because the derivatives market was not formally regulated, traders at the large investment banks could hide them from the asset ledger, so even the Risk Manager officer and the Chief Executive Officer would not know the full extent of how much money the bank had invested on derivatives based upon Triple B rated subprime loans. No one paid much attention because everyone was making lots of money. But the music was about to stop.

Facing the Music

At Merrill Lynch, CEO Stan O'Neal called Risk Manager John Breit in September 2007 because O'Neal had heard rumors that Breit was afraid that their potential losses in the upcoming third quarter report would be much larger than O'Neal anticipated. Those losses would mostly be due to derivatives based upon subprime loan packages.

The CEO thought they would lose a figure in the hundreds of millions of dollars. But Breit had belatedly found out that the figure was much larger. When O'Neal asked Breit how much larger, Breit replied, "Six billion" and quickly added that it could be much worse. [McLean and Nocera, p. 3] O'Neal looked physically ill. He could not believe his employees had acted so recklessly.

And, Breit was correct. It was even worse. The quarterly loss was later billed as $8 billion, leading to O'Neal's departure a month later. From July 2007 to July 2008, Merrill Lynch lost nearly $20 billion. By the fall of 2008, the once proud company had lost nearly $52 billion on mortgage-backed securities. [*Bloomberg News,* Sept. 5, 2008]

But the collapse of fellow investment bank Lehman Brothers was much larger. It ended up being the largest bankruptcy in history, eventually valued at over $600 billion.

To this day, no one knows how much the total private and public loss was in that economic meltdown. Respected conservative economist Charles Morris pegged it at $2 trillion. Others think it was at least twice as large. Because Born had lost her battle with Gramm, Summers and Greenspan, it was almost impossible to get an accurate figure on the total losses because the accounting for many of the derivative wagers on top of the subprime loans was woefully inadequate.

In the end as *The Big Short* describes none of the key villains goes to jail and the big banks are not broken up. After all, President George W. Bush's Treasury

Secretary Henry Paulson, who designed the bail-out plan for Wall Street, had worked at Goldman Sachs for 30 years. We should all have friends like that in Washington.

James DiEugenio is a researcher and writer on the assassination of President John F. Kennedy and other mysteries of that era. His most recent book is *Reclaiming Parkland*.

Encountering a Sophisticated Putin

Pretty much all that Americans and much of the West get to hear about Russian President Putin is heavy-handed propaganda often read over images of him riding shirtless on a horse. He's either a bully or a buffoon. But editors of a popular German newspaper encountered a much more sophisticated figure, writes Gilbert Doctorow.

By Gilbert Doctorow

I was hesitant to write about Vladimir Putin's recent interview in Germany's mass-circulation *Bild* newspaper because I have published many analytical essays of Putin's speeches and public appearances over the past couple of years and do not wish to provide further justification for those who would view me as a composer for one string violin, an inveterate apologist for the Russian president.

Moreover, when a fellow member of the anti-war movement, Alexander Mercouris, published an appreciation of the interview in *Russia Insider* under the heading "Congrats Germans! This Is How You Do a Putin Interview," it seemed churlish to go against his take on the subject.

However, a couple of additional articles on the *Bild* interview subsequently published in *Russia Insider* have challenged Mercouris's kindly view of the German journalists as being "well-informed and intelligent."

"Putin Schools Top German Journalist Who Smeared Him" makes it clear that *Bild*'s chief political editor Nikolaus Blome, formerly with *Der Spiegel*, would never have consciously done Putin a favor. And the latest *RI* article, a translation from *Sputnik Deutschland* entitled "How Putin Turned the Tables on German Magazine 'Bild'" delivers what I had from the beginning considered to be the reality of this interview: that Putin's impressive showing came in spite of and not because of the journalists' predisposition to him and Russia generally.

The Russia expert Alexander Rahr explains here the logic of Putin agreeing to enter the lion's den for the sake of reaching the tabloid's multi-million readership who, by their demographics, are not easily accessible via the internet and electronic media.

To this I would add something that Rahr seems to have overlooked: the German press is incestuous and newspapers regularly give space to articles coming from their "competitors." Thus, the saucier chunks of the Putin interview also appeared on the front page of the *Frankfurter Allgemeine* and other leading newspapers read by the German elites.

In particular, none could ignore the tantalizing message from Putin that Russia was ready to give asylum to Bashar Assad, if necessary, and that it would be less disruptive of relations with the U.S. and other powers than the asylum it had granted to Edward Snowden.

By the same token, excerpts from the televised segments of interview shown on Russian state television also appeared on *Euronews* in Germany and across the Continent, so that the audience that Putin reached with his calm and well-considered statements on the thinking guiding Russian foreign policy was still greater.

Now that I have been drawn into the discussion of the *Bild* interview, I propose to reconsider it using a research tool that no one so far seems to have used: textual analysis. I have compared the transcript published in the German daily with the transcript published by the Russians on kremlin.ru. There were cuts in the German publication as one might well expect given that it is a tabloid with racy photos and a readership having limited patience for serious material.

Insofar as I could tell, the cuts were fairly administered and did not affect the quality of Putin's responses to questions. That, all by itself, is quite extraordinary in our age of dirty tricks. I contrast this upright behavior of the *Bild* editors with *Foreign Affairs* magazine's gutting an article offered in spring 2007 by Russian Foreign Minister Sergei Lavrov in response to the article by Yulia Tymoshenko "Containing Russia," cuts explained at the time with reference to limited space in the journal.

What one might not have expected from *Bild* was the publishers' addition to the transcript of explanatory remarks (not carried in kremlin.ru) which reveal something important about the personal dynamics between interviewee and interviewers, and in passing illustrate why Vladimir Putin is where he is, at the apex of international politics.

Namely, the editors note repeatedly where Putin slipped into German. This made the strongest impression on them when, towards the end of the interview, the interpreter could not keep up and was given some moments to rest. In that pause, we are told: “Putin begins to spontaneously recite in German the beginning of Heinrich Heine’s ‘Lorelei,’ written in 1824, a German classic. Then Putin abruptly and impassively continues in Russian.”

Coincidentally, in an article entitled “This is What Impressed Bild During Its Interview With Putin” published by Sputnik International we find *Bild’*s chief political editor Blome acknowledging: “Although I was aware of that, I was still surprised by how well [Putin] speaks German and understands the subtleties of the language.” Here, too, Blome mentioned the recitation from “Lorelei.”

As Alexander Mercouris observed, Vladimir Putin came to the interview with fresh archival material relating to the meetings that senior SPD politician, and author of Willy Brandt’s *Ostpolitik* policy Egon Bahr had in Moscow in 1990, when the two countries were still feeling their way towards a post-Cold War security architecture for Europe.

He also came to the meeting fully briefed on a wide range of other important issues including details of the Minsk II accords and the obligations of all parties. From the transcript, it is clear that in question after question Putin was better prepared than the journalists and dealt calmly and authoritatively with each in succession.

But cold intellectual superiority would not have had the effect on his interlocutors that his going the extra mile and reaching out to them in German did, all the more so in an area of high culture that revealed his respect. This was in counterpoint to his critical words at the start of the interview about the unconstructive role played by *Bild* and the German media generally in the conduct of bilateral relations. With Heine, he touched them in a human way and won them over, despite themselves.

It is precisely this combination of intellectual rigor and ability to adapt his message to the mentality of his interlocutors that sets Putin apart as a consummate politician.

Doctorow is the European Coordinator, American Committee for East West Accord, Ltd. His latest book *Does Russia Have a Future? (*August 2015) is available in paperback and e-book from Amazon.com and affiliated websites. For donations to support the European activities of ACEWA, write to eastwestaccord@gmail.com **© Gilbert Doctorow, 2015**

The Game of Demonizing Putin

Official Washington influences the opinions of the American people about world affairs by demonizing certain foreign leaders, making them objects of both revulsion and ridicule, thus justifying “regime change” strategies, a particularly dangerous game when played against nuclear-armed Russia, as John Ivens explains.

By John Ivens

On the morning of Jan. 16 at Hillary Clinton’s campaign headquarters in Clinton, Iowa, I met Madeleine Albright. She looked different than I remembered her as the first woman to serve as U.S. Secretary of State during Bill Clinton’s second term. She looked less imposing than before, more like a little barn owl seeking refuge from a bitterly cold Iowa winter.

Secretary Albright was acting as a surrogate for Hillary’s campaign. That Saturday, she was motivating volunteers to canvas and make phone calls for Hillary. I sensed that Secretary Albright came to Clinton, Iowa, to energize older folks on the same weekend Chelsea Clinton was in Davenport appealing to voters of younger generations.

But I thought Secretary Albright might be a good source of insight into Hillary’s perspectives on foreign policy. In Clinton’s 2014 memoir, *Hard Choices*, Hillary identified Albright as her “longtime friend and partner in promoting rights and opportunities for women.”

I asked Secretary Albright how she would advise Hillary Clinton when negotiating with Russian President Vladimir Putin. She replied that we should keep talking to Putin, but we should be wary that he expands Russian influence at every opportunity. Secretary Albright said we should “draw the line” when “little green men” invade other countries (a reference to events in Crimea in 2014, I presume).

Secretary Albright told about when she accompanied Bill Clinton to a summit in June 2000 with Putin. She wore a button showing three monkeys, “Hear no evil, see no evil, speak no evil.” Putin asked why she was wearing this button: “We always watch what pins Secretary Albright wears. Why are you wearing those monkeys?”

And Albright said, “because of your evil Chechnya policy.” Putin was not amused. He protested, “You shouldn’t be dealing with the Chechens.” President Bill Clinton gave Albright this look like “Are you out of your mind? You have just screwed up the summit."

In retrospect, the monkey pin incident might be thought of as a humorous aside, but perhaps Secretary Albright besmirched both nonhuman primates and Russians, a dubious example of tact and diplomacy in one of Bill Clinton's first summits with the new Russian President.

The fighting on both sides of the Chechnyan conflict deserves a great deal of scrutiny by a war crime tribunal; nonetheless, Putin was fighting an insurgency of violent Islamic jihadists in league with Osama bin Laden. This is why Putin was among the first national leaders to express support and sympathy for the United States after 9/11. That is the sad irony of Madeleine Albright's monkey button.

At a $1,500/plate fundraiser in March 2014 during the early phase of the crisis in Ukraine (after a U.S.-backed putsch had overthrown elected President Viktor Yanukovych and as ethnic Russians in Ukraine's south and east were under attack from the new regime and seeking protection from Russia), Hillary was quoted in regards to Putin's response: "Now if this sounds familiar, it's what Hitler did back in the 30s. All the Germans that were … the ethnic Germans, the Germans by ancestry who were in places like Czechoslovakia and Romania and other places, Hitler kept saying they're not being treated right. I must go and protect my people and that's what's gotten everybody so nervous."

In 2014, Bill Clinton was quoted, "Putin wants to re-establish Russian greatness, not in Cold War terms, in Nineteenth Century -empire terms."

In *Hard Choices*, Hillary devotes an entire chapter titled "Russia, Reset and Regression," dealing with her issues with Putin. She narrates her awkward experiences negotiating with Putin, and she seems frustrated about her working relationship with Putin as a negotiating partner. But oddly enough, she makes no such comparisons of Putin to Hitler anywhere in this chapter. Instead, she recommends a "pause" button instead of a "reset" button, adding:

"But we should hit the pause button on new efforts. Don't appear too eager to work together. Don't flatter Putin with high level attention. And make it clear that Russian intransigence wouldn't stop us from pursuing our interests and policies regarding Europe, Central Asia, Syria and other hotspots. Strength and resolve were the only language that Putin would understand."

I thought, "Enough Already! Enough dark arts of demonizing leaders of other countries! Enough references to 'He who's name must not be spoken, the dark lord Vladimir.'"

Former Secretary of State Henry Kissinger, despite his notoriety, is an accomplished negotiator. He has recently advised that such demonization reveals a failure in foreign policy.

As Americans, we don’t get to vote for a Russian president. That particular right to vote belongs to Russians who live in the largest nation on the planet, spanning ten time zones and possessing an arsenal of nuclear weapons comparable in numbers to ours.

Russian national history begins four centuries before American natives had their first encounter with Columbus. Russians are as well educated and typically speak more languages than Americans. There are three nations that need to join together in agreements to address urgent climate change problems in the Arctic: the United States, Canada and Russia.

What Americans can do, is to vote for a president who can make peace with Russian leaders. More questions about peacemaking and diplomacy need to be asked and answered in the 2016 election cycle.

John Ivens is a retired psychology professor and now peace activist, living in DeWitt, Iowa. As a member of Veterans for Peace, he recently helped to organize a speaking tour, “Barnstorming in Iowa” – Sept. 24-30, 2015, by Ray McGovern and Coleen Rowley. During the Vietnam War John was an Air Force pilot, flying C-141 jet transports on global airlift missions.