Corzine to Replace Geithner as Treasury Secretary?

Despite protestations from Jon Corzine (left), former New Jersey governor, that he has no interest in taking Treasury Secretary Timothy Geithner?s place if Geithner decides to step down, Corzine did manage to have a clause put into his company?s bond offering prospectus that if he did accept the position, bond holders would be paid an extra one percent interest, just in case. Corzine now heads up MF Global Holdings Ltd. which is planning on selling $300 million of five-year notes which includes an unusual ?key man event? clause which pays bondholders an extra one percent:

Upon the departure of Mr. Corzine as our full time chief executive office due to his appointment to a federal position by the President of the United States and confirmation of that appointment by the United States Senate prior to July 1, 2013.

A spokesman for Corzine claimed that This has all been idle speculation. Its just another example of how the 24-hour news cycle, when it has nothing else to report, finds a bunch of coincidental evidence. Whether its idle speculation or coincidence, Corzines previous association with Goldman Sachs as CEO from 1995 to 1999 isnt helping his cause any. Julie Roginsky, a top Democratic strategist pointed out that As much as Wall Street is unpopular these days, they are a huge driver of the world economy and the Treasury Secretary has to understand how it works. However, Goldman Sachs has become a poster child for everything thats wrong with Wall Street.

And Corzine certainly knows how Wall Street and Goldman Sachs work. As Chairman and CEO of Goldman Sachs during the run-up of the dot.com bubble,
Corzine had an inside view of how Wall Street and Goldman Sachs worked together to create and profit greatly from that bubble and its implosion in the late 90s.

Matt Taibbi, in his article The Great American Bubble Machine, explored in detail just how closely they worked together to blow up the bubble through Initial Public Offerings (IPOs) that were overpriced, generating millions in commissions for the firms involved, while ultimately costing investors upwards of $5 trillion.

As Taibbi explains:

> It sounds obvious now, but what the average investor didnt know at the time is that the banks [including Goldman] had changed the rules of the game, making the deals look better than they actually were.
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> They did this by setting up what was, in reality, a two-tiered investment system one for the insiders who knew the real numbers, and another for the lay [read: nave] investor who was invited to chase soaring prices the banks themselves knew were irrational.

Taibbi quotes Jay Ritter, professor of finance at the University of Florida who specializes in IPOs, as saying that Goldman knew that many of the IPOs they sold to the public would never make a dime of profit. Of the 24 companies Goldman took public in 1997, a third were losing money. In 1999 Goldman took another 47 companies public including stillborns like Webvan and eToys. In 2000 Goldman offered IPOs for another 18 companies, 14 of which were losing money.

Nicholas Maier, the syndicate manager for Cramer & Company (a hedge fund which was run at the time by Fox News investor mouthpiece Jim Cramer) told the Securities and Exchange Commission that he was forced to engage in laddering [a form of stock price manipulation] while working with Goldman. Maier told the commission:

> Goldman, from what I witnessed, they were the worst perpetrator. They totally fueled the bubble. And its specifically that kind of behavior that has caused the market crash. They built these stocks upon an illegal foundation manipulated [them] up and ultimately, it really was the small person who ended up buying in.

Besides laddering, Goldman also engaged in the practice of spinning, offering shares of the IPO to the companys executives at below-offering prices, thus ensuring a profit for those executives when the issue went public. Taibbi called it bribery. Eliot Spitzer called it a fraudulent scheme to win new investment-banking business.

There was a moment of astonished hilarity during the SECs investigation of Goldman for spinning and laddering when Corzine was asked about Goldmans role in blowing up the bubble. With a straight face he said, Ive never even heard the term laddering before. His answer was especially astonishing in light of the fact that when Goldman went public itself with its own IPO, Corzine cashed out with a personal gain of $320 million.

Whether Geithner steps down and Corzine steps in to take his place is still an open question. What isnt open to debate is whether or not Corzine knows how the system works. If things work out, hell feel right at home as Secretary of the Treasury. After all, President Obama already refers to Corzine as our Wall Street guy.