

# Dealscape

## No Goldman conspiracy to see here

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Conspiracy theories involving Goldman, Sachs & Co. (NYSE:GS) are a dime a dozen, and The Wall Street Journal may have added another to the list. The Journal [revealed](#) Monday that Federal Reserve Bank of New York Chairman Stephen Friedman also sat on Goldman's board, owned Goldman stock when the firm applied to become a bank holding company, then bought more without disclosing it.

Now the Fed is a complex beast, so it isn't entirely clear if Friedman in fact violated Fed policy, or did anything untoward. The Fed has policies regarding stock ownership at member banks, and Friedman sought a waiver for them because of the unusual circumstances of Goldman's sudden decision to become a bank. However, Friedman then purchased more Goldman shares. Now that certainly seems fishy, or at least unwise, but again, he may have not broke any rules.

At the time, Friedman had the task of finding a replacement for Timothy Geithner, the New York Fed president who had left to become Obama's Treasury secretary, and the two finalists turned out to be Goldman alum. There may have been no conspiracy here -- maybe Friedman only knows former Goldmanites -- but again it looks bad and feeds the conspiracy nuts.

Meanwhile, there is some indication in the Journal story that Geithner was aware of the circumstances, and took no action. This will further advance those who argue that Geithner is too close to Wall Street -- best exemplified by last week's [New York Times feature](#). Then again, when you think about the Fed, and its structure, none of these alleged shenanigans should surprise anyone.

While most people view the Fed as a government organ, it in fact is not -- or at least not completely. Overlooked by most people is the fact that member banks actually own the regional Federal Reserve Banks that comprise the Federal Reserve System. Consequently, member banks appoint six of the nine board members of each of the 12 regional Federal Reserve Banks (the remaining three directors are indirectly selected by the government by way of the Federal Reserve Board of Governors, who are appointed by the president and confirmed by the Senate). Sure, the president appoints and the Senate confirms the chairman of the Federal Reserve and its seven governors, but the member banks hold a great deal of sway in policymaking given the fact that along with the Board of Governors, five of 12 regional presidents hold rotating votes on the Fed's Federal Open Market Committee, which sets monetary policy. If your head is swimming from this organizational chart, you're not alone.

One thing is clear: Friedman isn't a government official, therefore he doesn't answer to the president or Congress. He also wasn't involved in policymaking or rescues, which the Journal treats lightly and moves on. As chairman of a regional bank, he essentially answers back to all the member banks that own the New York Fed. So with that in mind, where is the conspiracy? - *Matthew Wurtzel*

[See story from The Wall Street Journal](#)

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