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EDITORIAL

The Show Must Not Go On

Political theater and public scolding are good ways to draw attention to important issues and bad behavior, and Phil Angelides, chairman of the Financial Crisis Inquiry Commission, made use of both last week. As he swore in four of the nation's top bankers, it was impossible not to think of that famous scene with executives from the tobacco industry. During the questioning, he rebuked Lloyd Blankfein, head of Goldman Sachs, for his firm's practice of selling mortgage-related securities and at the same time betting they would fall in value.

Now that he has everyone's attention, Mr. Angelides and his fellow commissioners can get to the hard part.

Inconclusive sparring at hearings will not fulfill the mandate Congress gave the panel to investigate the causes of the crisis. Indeed, the bankers who testified last week did not say much they had not said before.

The commission must uncover what bankers, investors, government officials and other people in positions of power, past and present, would prefer not to say — or perhaps do not know or understand — about the crash and the bailouts. The primary aim is not to air issues and foster debate, but to test views, resolve contradictions and arrive at evidence-based conclusions.

Yet the commission — which is supposed to file a final report by Dec. 15 — has not issued a single subpoena for documents. Instead, investigators have apparently been relying on voluntary cooperation, public records and information-sharing agreements that have been negotiated with federal agencies. A thorough investigation requires source documents that reveal what people were thinking and doing at the time of the events and that illuminate, buttress or contradict testimony.

Take, for example, Mr. Blankfein's explanation that the clients Goldman bet against were sophisticated investors who demanded the doomed securities that Goldman sold them. Apart from the fact that the notion of "sophisticated investors" has been discredited by the crisis, does that explanation go far enough?

Without peering into the internal workings of Goldman and other financial firms that engaged in similar practices, it is hard to know how far bankers went in creating demand rather than responding to it, or if the securities were purposely designed to perform poorly.

The answers could cast light on when Wall Street practices cross the line from prudent hedging to excessive speculation.

A crucial related issue is whether Wall Street's role as the underwriter of securities, which implies a level of approval of the investments being offered for sale, misled investors into buying questionable securities, and thus contributed to the credit bubble. If so, that would make the argument for barring too-big-to-fail banks from operating hedge funds all the more compelling.

Given the stakes, the chances seem remote that Wall Street will voluntarily hand over the papers that could get to the bottom of it all.

The inquiry is getting under way at a critical moment. The House has passed a financial regulatory reform bill that was enfeebled in important respects by bank lobbyists. The Senate banking committee recently rejected a generally robust proposal by Senator Christopher Dodd. It has yet to produce an alternative, but it is likely that lobbying and partisan politics will generate a weak bill. President Obama’s call for a new tax on big banks is a good idea, but must not pre-empt other needed changes, including a tax on bankers’ bonuses and more direct regulation to limit the size of financial firms.

Serious investigative work is the only way to counter the banks’ political power and alter the course of a reform effort that is headed in the wrong direction.