Goldman Sachs CEO Lloyd Blankfein Views the World from Wall Street

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Excerpts from Mr. Blankfein's Remarks

Outlook for Global Economy? By and large, I'm optimistic, partly as a personality matter and partly because statistically things do work.
Going Over the Fiscal Cliff? The fiscal cliff as a major uncertainty in the world is responsible for a real burden and a real diminution of value and wealth in the world, just because uncertainty makes everything worth less.
Resolving Uncertainty? I wrote a note early today arguing militantly for moderation and compromise, because this is really a march of folly to have things go between two extremes, first, because nothing will get done, but second, if one side wins, as one wide will, you don't accomplish this certainty because immediately after one side wins and then takes all, the other side will be plotting and planning to reverse it 2 years later…. Any kind of stability in our system could be achieved only if everybody throws in at least a little so that it is stable. And it's that stability that helps things to go forward.
What About the Libor Scandal? The biggest impact is once more undermining the integrity of a system that has already been undermined substantially. So in other words, there was this huge hold to dig out of in terms of getting trust back, and now it's just that much deeper. And I think that that's going to be a big burden for all of us in the narrowest part of the financial industry, the broader part of the financial industry, business in general, because in a way, uncertainty is something that puts a burden on things, makes spreads wider, harder to transact. But also a lack of trust, you know, is certainly at least a cousin of that.
Do You Foresee a U.S. Recession in the Next Year or So? I don't.
Would You Be Happy to See Dodd-Frank Removed Tomorrow? The vast bulk of it I think is good. If I could push a button and eliminate Dodd-Frank, no, I would not want to have that field unregulated.
TARP and the Federal Government Response to the Economic Collapse? I think unfair is the way the community of the official sector is being viewed in hindsight. Because the world didn't blow up, they say, gee, you took these steps, aha, that was bad, it was unnecessary. Well, maybe it was rendered unnecessary because they did it. And it might have been, you know, it might have been necessary had they not done it.
What Could Everyone Have Done Better? Everyone should have had more capital. If you're us and people like us, you needed more capital. But you never would have needed it other than the event that produced the realization that you needed more capital.
Goldman Sachs in Hindsight? While we didn't necessarily have to have a good dialogue with consumers, it turns out in hindsight we should have had a better dialogue with taxpayers and

citizens, because it turns out – and we should have known this – we play a very big part in their lives. And now we know ourselves that they play a very big part in our lives.

Future of Goldman Sachs as a Bank? It's not a question of saying, should we do banking activity? What are the costs versus what are the revenues? We already have the regulation and the expenses and that part of the business. The question is what incremental costs – incremental to what we are already committed to – would drive what kind of revenues? And from that point of view, we really should extend ourselves to do more private banking.

Now, it's not our intention to compete with the big commercial lenders or the big consumer lenders in the bank. We're going to stay true to who we are. And so we view the banking that we want to do – which will be a much smaller scale than the biggest firms – to be an extension of our private wealth management, which is helping private clients manage their assets, helping them with the liability side of their balance sheet, lending to them, mortgages, other kinds of financing arrangements. It's that kind of private banking that we want to grow – and also certain lending activities we can go into more.

But you know, we don't have the aspiration to have a trillion-dollar balance sheet dedicated to that banking. But at $50 billion, we could certainly grow it more than we are now.

No Plans to Leave Goldman Sachs? That's correct.

What Would You Like Ultimately to Be Your Legacy? To be thought of as somebody who brought the firm through good times better than our competitors and made big contributions to the growth of the world when things were very, very good.

And when things turned back, I'd like to be thought of as someone who led a very important financial institution, made a contribution to remind people about the reality of things and not let people dissolve into and succumb to bad sentiment and made sure that we were resilient – proved ourselves to be resilient and came out, as a firm, stronger on the other side financially and in terms of contributions we make and, frankly with an enhanced reputation with the general public, which is not something that would have been an aspiration before, because we didn't realize the relevance of that to us.

What Do You Strive to Do? This is not a zero-sum game that we're in. We're not competing against each other for a pie. Our job is to grow the pie and make everybody wealthier, not for the venality of trying to get richer and more wealthy, but wealth in the sense of making the world stronger and healthier and, for lack of a better word, better. That's what we strive to do.

DAVID RUBENSTEIN: Welcome to members and guests of The Economic Club of Washington. Welcome to this luncheon at the Ronald Reagan Building and International Trade Center. I'm David Rubenstein, President of The Economic Club of Washington.

We are very pleased today to have Lloyd Blankfein as our special guest. He is Chairman and Chief Executive Officer of The Goldman Sachs Group, which is one of the leading financial institutions in the world. Lloyd has been the Chairman and CEO of Goldman Sachs since 2006, when his predecessor Hank Paulson left to become Secretary of Treasury. Lloyd had been at Goldman for most of his career, but actually started out as a lawyer.

Let me give you a bit about his background. Lloyd grew up in Brooklyn. His father, like my father, worked in the Post Office and didn't have a lot of money, but he got scholarships and did quite well in school, was valedictorian of his class in high school at Thomas Jefferson High School. He went to Harvard College on a scholarship and graduated in 1975. From there, he went to Harvard Law School, where he graduated in 1978, and then joined Donovan Leisure, a law firm in New York. Prior to that, he had actually thought about joining a firm called Goldman Sachs, but was turned down by Goldman Sachs. Later, after practicing law for a few years, he went to work at J. Aron, which was a commodities trading firm that was subsequently acquired by Goldman Sachs, and then worked his way up and became the co-head of J. Aron and later the Vice Chairman of Goldman Sachs and the President and Chief Operating Officer of Goldman Sachs and then of course Chairman and CEO of Goldman Sachs, and he's been doing that since 2006.

Lloyd is actively involved in philanthropy as well. He has been involved as Chairman of the New York City Partnership; involved in the Robin Hood Foundation, and has had the Goldman Sachs Foundation be involved in a lot of really good philanthropic causes, including 10,000 Women.

So, Lloyd, when you were growing up in Brooklyn, your father was working at the Post Office, and I know from experience you don't usually think when your father's working at the Post Office that you're going to wind up running one of the most prestigious financial institutions in the world. What was your goal when you were growing up in Brooklyn? Was it just to get out of Brooklyn, or was it to do what? What was your goal?

MR. BLANKFEIN: I wanted to get out, and I wanted to see the world. I knew there were other things to do and I didn't know who I was, and frankly, I wanted to get out and have my eyes opened.

MR. RUBENSTEIN: So when you went to practice law, did you really want to be a lawyer, or did you think about getting into finance for quite a while in your career?

MR. BLANKFEIN: When I was young, when I was having an argument, somebody said, you know, you're like a Philadelphia lawyer. I had no idea what that meant. I know now what that means – it refers to the Zenger trial and all that – but at that time it stuck to me, and I said, wow, it's fate; I must have to be a lawyer. And then when you go to school and you major in liberal arts like I did, law school is kind of an extension of liberal arts and so I kind of drifted along into the profession.

MR. RUBENSTEIN: Now, did you ever think you were going to be an athlete, because you were a great swimmer in high school?

MR. BLANKFEIN: No.

MR. RUBENSTEIN: When you went to Harvard did you try out to be a swimmer there, and what happened?

MR. BLANKFEIN: You were right; I thought I was a great athlete in high school. And I'd say I was a great swimmer in the context of a huge community that didn't swim. [Laughter.]

MR. RUBENSTEIN: So what happened? Did you try out for the Harvard swim team?

MR. BLANKFEIN: Well, actually I did, because I was so stupid, I didn't know these things. And I got in and they say, what do you like to swim? And I said distance; the longer the better.

This was in 1971, and the coach of the Harvard team, Coach Gambril, actually coached the Olympic team in 1972 and brought some people with him. And so there was some long race. All I remember was that when I got out of the pool, the people I started with were already dressed. [Laughter.] So I got myself out of the water, and without turning around, I walked – I didn't even dry myself off – I walked out of the building and over to the boathouse and I said, I'm going to try something else. [Laughter.] And so then not only was I a bad swimmer in school, I was also a bad rower at school. I had the right volume, I just didn't have the right height. [Laughter.] You know what I'm saying?

MR. RUBENSTEIN: So you got into finance. When you joined Goldman Sachs, did you ever aspire to be the head of Goldman Sachs, you joined kind of through the back door as a commodities trader. Did you have any aspirations to be a commodities trader? How did you get into that?

MR. BLANKFEIN: No, I had aspirations each day to survive till the next one. But, you know, over time you get, I guess like everybody else here – more comfortable and more interesting things to do. I would say I never lived my life looking ahead at the next and next and next thing and trying to plot and plan where I should be. I decided that – early on that I was getting too old to keep deferring gratification. I had to enjoy what I was doing at any given moment.

And so I liked markets. Basically what it was is, I found something where my near-ADD was actually an advantage. And so there was a lot of noise, and there was a lot of inputs, and you can watch screens all day, and so I kind of liked markets. And then liking markets led to liking economics. Liking economics led to liking business. Liking business led to the world that we're in now.

MR. RUBENSTEIN: So the business that you headed up was one of the most profitable parts of Goldman Sachs. So you became an effective number-two person at Goldman Sachs. What was your expression when Hank Paulson called you up and said: I'm going to be leaving to be Secretary of Treasury? Were you shocked, or were you sure you were ready to be the CEO?

MR. BLANKFEIN: When you think succession in big institutions – and many people here are in big institutions – you have a euphemism for these things. You think of long-term succession and what happens if the person at top gets hit by a bus – in other words a sudden. This was the equivalent of the CEO getting hit by a bus. Now, I was in line. I was a member of the board. And so I knew I would have been in that succession plan, but we all thought that Hank was planning to stay a lot longer.

And the one thing that was kind of like getting hit by a bus without it being a bus, although it later turned into a bus, was that there was no transition. So when I got that call, he was saying, I'd like you to join me; I'm going to the Rose Garden tomorrow. The day after that announcement was made, he wasn't coming back to Goldman Sachs to introduce me, to, you know, show me where the keys were.

MR. RUBENSTEIN: So now let's go forward for a few moments before we go back to those days when you took over. Today – as you look at the economy today – you're now running one of the largest financial institutions of the world; you have offices throughout the world. Are you optimistic about the U.S. economy? And are you optimistic about the global economy?

MR. BLANKFEIN: Look, there's always – near term, short term – I think you have to put things in perspective. Sentiment is very bad and for real reasons, but by and large the world advances and gets better most of the time. I'm in the risk management business. So I'm in the business of trying to separate sentiment out from, you know, what's real. And now there's an iteration because sentiment helps drive reality, and they iterate with each other. But most of the time things do get worked out, and they do muddle through, and they always have. There's just a rhythm and a cycle to things.

So we can spend a long time talking about all the problems that I have to go home and worry about and risk-management against and try to hedge and adjust for. But by and large, I'm optimistic, partly as a personality matter and partly because statistically things do work out, and you have to figure that out. And I could go through the periods of the markets that we share together, all the times that everybody was throwing in the towel, and it was just wrong.

MR. RUBENSTEIN: Well, in Washington we often now talk about the fiscal cliff. Suppose the President of the United States called you up and said: Many people from your firm have given advice to government leaders. What can I do to solve the fiscal cliff problem? Should I extend the Bush tax cuts? Should I veto them? What should I do to avoid a recession? What would you advise the President?

MR. BLANKFEIN: Well, I'd say that the fiscal cliff as a major uncertainty in the world is responsible for a real burden and a real diminution of value and wealth in the world, just because uncertainty makes everything worth less.

And resolving that kind of an uncertainly is not just one side or the other assigning it. I wrote a note early today arguing militantly for moderation and compromise, because this is really a march of folly to have things go between two extremes, first because nothing will get done, but second, if one side wins, as one side will win, you don't accomplish this certainty because immediately after one side wins and then takes all, the other side will be plotting and planning to reverse it 2 years later, much as happened in the beginning part of the current term and as happened after the House of Representatives won its election. Any kind of stability in our system could be achieved only if everybody throws in a least a little so that it's stable. And it's that stability that helps things to go forward.

MR. RUBENSTEIN: So would you recommend an extension of the Bush tax cuts or you would not recommend an extension? [Laughter.] I'm the President of the United States. I need your advice.

MR. BLANKFEIN: You know, let me tell you, if I had to do something, I would almost capitulate to either side rather than have these things go on. Everyone comes out ahead if there's a resolution.

MR. RUBENSTEIN: But you mean certainty is what you're most interested in.

MR. BLANKFEIN: Yes, knowing that things can always adjust. And I'll tell you something, when you're dealing with tax cuts and you're dealing with numbers, there's some things in life it's either/or. When you're dealing with rates, you can split differences. That's one of the things that you can get across.

I think one of the things that's a little bit lunatic is the idea of backing yourself into a corner and saying: I cannot compromise on this. This is matter of principle. I'll tell you what's a matter of principle, the matter of principle is that this is a country. And if you want to manage the country, you better not leave a 49% minority carping at you – whichever side is the one that's lucky enough to get the 51% – carping at you and trying to undermine you and biding its time so it can reverse your majority. So that's what I would strive for.

MR. RUBENSTEIN: Well, many of your predecessors have actually wound up as senior government positions – Secretaries of Treasury for example.

MR. BLANKFEIN: And to Administrations on both sides.

MR. RUBENSTEIN: Right. I think five of your six predecessors have been senior government officials. Do you have any aspiration to ever go in government?

MR. BLANKFEIN: I'll tell you, I have aspirations to be desired. [Laughter.]

MR. RUBENSTEIN: OK. All right. By a President of the United States?

MR. BLANKFEIN: By any President on any limit – I didn't mean to limit it to the United States. [Laughter.]

MR. RUBENSTEIN: Now, you mentioned rates, and you were talking about tax rates, but talk about interest rates for a moment. The Libor scandal has caused a lot of attention around the world. Your firm was not involved in helping to set Libor rates, but what you would you think the impact was of the problems that arose in Libor and the falsification, apparently, of what the actual Libor rates should have been?

MR. BLANKFEIN: The facts aren't laid out. We don't know how much it was affected. We don't know what they would have been had they not been affected. You know, there was a calculation these weren't so wide. Things are coming up as a factual basis. What were the motives for why it was done? Was it done to, you know, people who had the good intention of stabilizing the system?

Putting all that aside, and also the liability that could come from it, I think the biggest impact is once more undermining the integrity of a system that has already been undermined substantially. So in other words, there was this huge hold to dig out of in terms of getting trust back, and now it's just that much deeper. And I think that that's going to be a big burden for all of us in the narrowest part of the financial industry, the broader part of the financial industry, business in general, because in a way, uncertainty is something that puts a burden on things, makes spreads wider, harder to transact. But also a lack of trust, you know, is certainly at least a cousin of that.

MR. RUBENSTEIN: Right. Now, let me ask you, you spend a lot of time in Europe. You're a very prominent firm in Europe as well. Are you worried that the euro will dissolve or do you think euro will survive?

MR. BLANKFEIN: I'm worried and I think it will survive. Again, I spend about 98% of my time worrying and trying to manage the risks of 2% probabilities or even less. So I think there is a not-insignificant possibility that there could be an unraveling, but I really, really don't think it will happen. And I would say, I do spend a lot of time in Europe and in the last 3 weeks, I was in Germany and I was in Italy and other countries as well.

And the one thing I come away with – and I could tell you, I know all the stuff before I get there, but it had such a big impact on me even so – is there is no doubt the intensity of everyone – all business leaders and government leaders – to want to preserve the eurozone and the euro – how important this is. And I think people who live in the United States who grew up in our country and didn't grow up with that history can be more cynical about it than people who grew up over there. And there's an absolute commitment by the wealthier states like Germany and the peripheral states at the moment. There's an absolute unanimity.

That being said, by itself, is not dispositive, because in addition to the will you have to have the capacity. And there's always a risk that if a snowball starts rolling down a hill, by the time it gets midway down the hill it gets too big to stop, so that's a worry. And another one, which is that you have to have the capacity, you have to have the mechanisms to be effective to stop it. And when you look at the governance and the structure of the euro, it's flawed. It's flawed that no country in Europe can borrow in a currency that's its own currency. No one has its own currency. And the governance and the mechanisms in place – it's a form of federalism, but with very incomplete mechanisms for achieving the results that are sought and the results that you even have the wealth to accomplish. So I'd say all those elements are troublesome.

But if you ask me, I think the most important thing is that there's the will and there's the capacity. And so I think in all likelihood – in fact, predominate likelihood -- that it goes well and it muddles through, although there will be difficult moments.

MR. RUBENSTEIN: Now, you manage money – your firm does – for lots of wealthy people and institutions around the world. Suppose I was one of your clients and I wanted advice and I said, should I invest in Europe, should I invest in the United States, or should I invest in the emerging markets like China and India, what would you recommend that I do with my money?

MR. BLANKFEIN: We're not talking about corporate investments, per se, or in business, we're talking about personal investments. I would say for a long timeframe, it's easier to forecast the growth markets of the world and the emerging markets of the world 10 years forward than it is to forecast them 10 months forward.

I think the BRICs countries, the growth markets, there are certain things that are going on now that are clearly cyclical. But one of the great secular changes in the world today is the creation of wealth in these growth countries where that genie is out of the bottle. That's going to keep on going. And they're going to have very high growth rates and we're going to wring our hands and bemoan.

And one of the things that's troubling the world right now is that China's growth rate may be going from 11% to 7½%, but it's 7½% for crying out loud. And maybe they'll have other problems, but over time the population – it's terrific population, they've got the feel and the value of markets and investment. This is going to be the century of those BRICs and maybe even China specifically.

Now, the 20th century was the century of America. Doesn't mean we owned every year in the 20th century. There were some pretty bad years, you know, there was a panic in 2007. If you took your money out in 2007, you would have missed the last ninety-three years of the American century.

MR. RUBENSTEIN: Well, someone in your firm, Jim O'Neill, invented the terms BRICs, which stood for Brazil, Russia, India, China. China you're very bullish on, I guess, from what you just said. What is your view on Russia? You were just in Russia, do you have a view on that?

MR. BLANKFEIN: Sure. Let me moderate for a second. We put out – you know, we put out reports and we analyze this to death. And don't forget, we stare at things in real time. You're going in and out and intermittently and want to know where do you invest money for the longer term. You know, we're bullish on all these countries for the long term. And each one has a separate dynamic that might make us cautious in the short term.

I think at a point in time when there's global growth around the world, that a group of countries that has much more of their wealth and growth predicated on commodities and the demand for commodities will have a better time when the whole world is growing and not as good a time when the world isn't. So with a high oil price, the fortunes of Russia look good and with a lower oil price, you know, they're going to have a little bit more of a speed bump along the way. But on the whole their success is not predicated on that; it's predicated on, you know, its population and a broadening out of their economies.

MR. RUBENSTEIN: What about Brazil? What's your view on Brazil?

MR. BLANKFEIN: You know, a similar story. Now we're dealing with these countries. They've had, you know, problems in their markets and there's a global slowdown. And by the way, historically, when we've had these other moments in time when the emerging markets, subsequently called emerging markets, the second that the developed world would sneeze, they would catch the biggest cold and a fever.

That's really not happening now, but it is going to represent some kind of a slowdown because those markets are all riskier and consequently more leveraged to things going well, and therefore the trajectory would seem to come down more. But they're coming down to a growth rate that's still pulling up the global growth rate. In other words, the global growth rate today in this recession with, you know, recessionary and deflationary mindset, is still 3½% or more for the world, while the developed world is much, much lower. And that's still being pulled up by these countries.

MR. RUBENSTEIN: Now, today do you foresee or do your economists foresee or based on your own experience a recession likely in the United States in the next year or so?

MR. BLANKFEIN: No, they don't.

MR. RUBENSTEIN: And you don't.

MR. BLANKFEIN: And I don't. But you know, when you're talking about recession, you're talking about a very technical – whether something is – you know, the difference in a recession and not a recession could be two quarters in a row where something – you know, where a country goes up by a ¼% or shrinks – the economy shrinks by a ¼%.

The point is not so much whether it's a technical recession, it's whether we're in a period of, you know, recessionary tendency and where the trajectory of growth is not quick enough to change the sentiment and get people to start moving. These are virtuous circles or vicious circles, but if people start to feel more positive, they actually go out and do the things that make things more positive, and that creates more positive thoughts.

MR. RUBENSTEIN: Now, you came out with earnings yesterday. And your earnings were down a bit from before. The press account said that this was due to the fact that the regulatory environment was forcing firms like yours to change their business model. Do you think that's a fair summary? And what is your view on the Dodd-Frank's bill?

MR. BLANKFEIN: Sure. I'd say the biggest effect – and, you know, we're quite open in this and have been open at this in good times and bad times – all of our businesses correlate with growth. We advise companies who make acquisitions and want to sell divisions and implement new strategies, which don't happen. And volumes of that go very low when people are insecure and not feeling good about the world. We finance transactions, and there are fewer transactions to finance when nobody's acquiring assets or investing in their businesses. And we manage money in the asset management business where the value of what we do and the fees that we take in are better and there's more opportunity when people are confident enough to pursue riskier assets.

And I could tell you, you could not find a part of the cycle where all of those volumes and all those activities would be at a lower ebb. To me, that's the cyclical part of it. And that's what we're living through. And it wasn't that long ago – you know, we had, you know, record years as recently as 2009, as things were going down. Now that they're down, we're not necessarily waiting, of course we're not waiting, but there are certain things that are cycles that it's not very good for us to overreact to. And of course, things that are more secular, which might include regulation, we of course have to react to.

I should say, by the way, react to cycles too, because cycles can be severe and they can last a long time. And if you get killed in the bad part of a cycle because you don't manage your business closely enough, when the cycle turns, you're still dead. So –

MR. RUBENSTEIN: And Dodd-Frank, if it could be removed tomorrow, would you be happy or sad? Do you think it's a good piece of regulation or a not good piece of legislation?

MR. BLANKFEIN: No, well, the second question was narrower than the first part of it. I think it's a good piece of – it's good to address legislatively. And the vast bulk of it I think is good. And there are parts of it that like, you know, the swinging of a pendulum, that will go too far and ultimately, I think, get adjusted.

And I think the regulator – you know, a lot of Dodd-Frank as a bill was skeletal and a lot of the very, very important details were left to a regulatory process. And the regulators themselves are having problems coming to the right conclusions in filling those in. There was a little bit of a pass to the regulators, and that's happening now. And so it's not all determined, but if I could push a button and eliminate Dodd-Frank, no, I would not want to have that field unregulated.

MR. RUBENSTEIN: What about the Volcker rule part of it? Are you happy with that?

MR. BLANKFEIN: No, I think the Volcker rule, which actually came in very late, actually addressed issues that were not the problems of the systems, and raised the rule of whether institutions, like ourselves, will be able to easily carry out all the important financial functions that are – you know – frankly, are needed. So I think that the Volcker rule, as passed, is an outline, and it remains to see how the regulators interpret it.

MR. RUBENSTEIN: Now, you joined an investment bank because it was a place that people aspire to join, let's say, 10, 20 years ago. Do you think young people have as great a career in investment banking today? And people graduating from the best colleges and business schools, or from any college or business school, should go into investment banking, and do your children want to go into investment banking?

MR. BLANKFEIN: And I think, for my children, there's the additional complexity of getting closer to me as opposed to further away. Kids this age, where they're talking and thinking, they're at the age where we would be thinking of careers when we were their age. I think kids now are thinking, what do I want to do for the next 3 to 5 years?

And I will tell you, that suits us, because what we have provided to generations of people was great training. In other words, we bring people in; we work them very hard; they learn presentation skills, how to think, how to learn rigor. And you know something? There are people who join us, and they think they're going to stay only 3 years, and some of them stay 30. And some people come to us and think they're going to stay 30, and they stay 3, and they go to other places.

But for us, we always get great kids out of school, some of whom really intend to stay in investment banking, and for some of them it's the furthest thing from their mind. They come because whatever else they will go into, understanding finance, understanding how to become a professional, to work hard, to have presentation skills, to have, you know, to stay up a couple nights in a row to get a piece of hard work done.

MR. RUBENSTEIN: Do you still find you're able to recruit the best young people?

MR. BLANKFEIN: We had 12% more applicants than we had the year before. Last year when we gave out job offers, the acceptance rate we got back was in the mid or high 80s, and I think, you know, Harvard would be pleased with that yield.

MR. RUBENSTEIN: I think theirs is about 75% or so.

MR. BLANKFEIN: That's why I know they'd be pleased with that yield. [Laughter.]

MR. RUBENSTEIN: So, historically, Goldman was famous for being an adviser to people or to companies. And now you've shifted more of your business towards it being called proprietary investing or trading. Or is that fair to say? Do you get the bulk of your earnings now from things where you are the principal rather than the adviser, or is that not fair or accurate?

MR. BLANKFEIN: Well, we always distinguish. We have these words that mean something to us and that doesn't necessarily mean anything to anybody else. But we have always been in the principal business; much less so in the proprietary business. And the difference is, most of the activities we do are principal-based, where we're taking risk and managing it. The difference is, proprietary would be a subset. It's not when we're the other side of what other people want to do. It's where we decide to put on a position because we like it.

We always did some of that. It was never the driver of our business or what we mostly did. Most of the time, the principal risk that we take, the economic risk, is you want to finance something; we have to decide whether we can make a commitment. You have a company that has commodity risk; you come to us and you say, can you take me out of my risk? And we take that risk on ourselves. To the traders and the quantitative strategists and the people who analyze the risk and are great marketeers, it's the same thing. But we're in the business of facilitating other people's activities by lending capital on the one hand and risk profile and expertise on the other. And that's always been the bulk of what we did.

In addition we said, we're such good marketeers we set up other groups in the firm that didn't interact with clients. And they became proprietary traders who didn't interact and just put on risks that they wanted. That is something that Volcker addresses quite clearly. When the writing was on the wall 2 years ago for that, we shut off that activity. But we're left with a substantial principal activity that we wield, frankly, so that other people can do their business without risks that would otherwise impede them, and we shoulder those risks.

MR. RUBENSTEIN: Now, you are a licensed bank, your bank. There was an article the other day in *The New York Times* suggesting that you're going to become a larger and larger bank, or at least a private bank. Is that article accurate?

MR. BLANKFEIN: Yeah, it's accurate. You know, they focused on that particular thing, so it has the risk of looking disproportionate. But one of the things – one of our big strategic pillars and directions to move in is saying, look, it's not a hypothetical at this point. It's not a question of whether we want to be a bank. We are a bank. We have the costs of meeting the regulations, the burdens of all that, the expenditures, the compliance, the features, the limitations on other behaviors, of being a bank.

So it's not a question of saying, should we do banking activity? What are the costs versus what are the revenues? We already have the regulation and the expenses and that part of the business. The question is what incremental costs – incremental to what we are already committed to – would drive what kind of revenues? And from that point of view, we really should extend ourselves to do more private banking.

Now, it's not our intention to compete with the big commercial lenders or the big consumer lenders in the bank. We're going to stay true to who we are. And so we view the banking that we want to do – which will be a much smaller scale than the biggest firms – to be an extension of our private wealth management, which is helping private clients manage their assets, helping them with the liability side of their balance sheet, lending to them, mortgages, other kinds of financing arrangements. It's that kind of private banking that we want to grow – and also certain lending activities we can go into more.

But you know, we don't have the aspiration to have a trillion-dollar balance sheet dedicated to that banking. But at $50 billion, we could certainly grow it more than we are now.

MR. RUBENSTEIN: Now, going back to where we were before, when Hank Paulson left he became Secretary of the Treasury. You are now the CEO and Chairman of the organization. And you were 50 years old or something like that?

MR. BLANKFEIN: Yeah, I think at the time I was – yeah, 50 or 51.

MR. RUBENSTEIN: OK. All right.

MR. BLANKFEIN: Now I'm 150.

MR. RUBENSTEIN: Right. [Laughter.] So then the world collapsed, and the economy had all those problems we know about, did you ever fear that Goldman would not survive or that all these firms wouldn't survive in the worst parts of the recession or the crisis?

MR. BLANKFEIN: If you ask me what I thought would – well, I'll answer that question: Of course. I worry. You know, we sit around, and we do contingency planning for epidemics. We study the path of the influenza virus, because if there's an epidemic in the world, we want to know how we staff our offices. I mean, we're in the risk management business. We spend tremendous amounts of time contingency-planning and coming up with ways of dealing with minor risks.

I didn't think we were going to go under at all. But I got to tell you, I spent a lot of time worrying about much more remote risks than that was at the time. So in other words, it was not a risk that I enjoyed going – it was at a level that I didn't enjoy going to bed every night with as much of a risk as it was. It doesn't mean I believed it.

And so we got on our horse very, very quickly. So I know you had him here as a speaker, Warren Buffett and Berkshire Hathaway. We did an equity raise before TARP was announced, and from Berkshire Hathaway pulled in $5 billion of preferred shares and then did a capital market transaction with the general public for another five and three-quarter billion dollars, of which we had a lot more offered to us.

So I would say that we thought we were doing quite well and it's quite sustainable. And the external market did too, because we were always able to raise money in the public markets. That isn't to say that the level of risk wasn't so high that I wasn't relieved that the regulators and the legislators were taking steps.

You know, one of the ways which I think is disappointing and I think unfair is the way the community of the official sector is being viewed in hindsight. Because the world didn't blow up, they say, gee, you took these steps, aha, that was bad, it was unnecessary. Well, maybe it was rendered unnecessary because they did it. And it might have been some, you know, it might have been necessary had they not done it.

MR. RUBENSTEIN: But if the situation were to arise again, and you had to live through this again, what would you recommend the government do differently, and what would you do differently?

MR. BLANKFEIN: Well, I'd recommend that Hank call somebody else.

MR. RUBENSTEIN: Right, OK. [Laughter.]

MR. BLANKFEIN: Do differently? Look, you plan for remote conditions, but the world has a tendency of surprising you and coming up with ways that you couldn't have thought of. But certain pundits in hindsight said, well, you should have thought of that, et cetera. No one knew that was happening. This won't happen again, because people will have contingency-planned for this.

In hindsight, what do I wish we – everyone -- could have done better? Everyone should have had more capital. If you're us and people like us, you needed more capital. But you never would have needed it other than the event that produced the realization that you needed more capital. And so now, of all the things that are being done, what will be the most important thing and the most effective and the least damaging to the system is the requirement that every institution like ours and others similar to ours carry more capital. To be prescriptive – you can do this, you can't do this, you can do this if you think that -- all that may turn out to be counterproductive. The thing that's most is have more capital.

From the people who engineered the relief – I think you should cut some latitude. There were a lot of people who took a lot of personal risk to interpret their responsibilities broadly and took risk. In other words, they didn't have a personal interest at stake. They didn't get paid a lot of money for doing it. Out of a sense of duty and public responsibility, they interpreted their – themselves broadly and did and implemented things that worked. So it's a little bit carping to kind of second-guess them in hindsight.

Now, in hindsight, notwithstanding that, you know, they could have been more open, more descriptive; confided more, you know, been more open. But there wasn't a lot of time to do things.

MR. RUBENSTEIN: Now, after the recession is over, some people criticize major investment banks. Goldman received its fair share of criticism. Private equity firms got their share as well. Why do you think Goldman….

MR. BLANKFEIN: Yeah, we got our fair share and some other people's fair share. [Laughter.]

MR. RUBENSTEIN: Well, why do you think Goldman was picked on perhaps more than others or got more than its fair share? And do you think that that was a misperception of the roles you guys played?

MR. BLANKFEIN: We went first in some analyses. I don't want to put away the fact that there was some, you know, bad behavior by certain individuals. The real thing is not that there weren't issues. The real thing that was extrapolated was, you know, a very big firm with very good relationships and an over-century-long history of being very, very important to clients.

So I don't want to put, you know, the real issues that we had to deal with away. But I will say, I think part of the place that we held was a bit because we were a wholesale institution. We weren't active in people's lives. We had no consumer business. We didn't advertise; our advertising budget was zero. We had no dialogue with consumers, because we simply weren't a consumer bank. There's no bank branches. People didn't know what we were doing. We were a little mysterious. And that was a big problem.

And then of course in hindsight that was a mistake, because "consumers" is another word for citizens and taxpayers. And while we didn't necessarily have to have a good dialogue with consumers, it turns out in hindsight we should have had a better dialogue with taxpayers and citizens, because it turns out – and we should have known this – we play a very big part in their lives. And now we know ourselves that they play a very big part in our lives.

MR. RUBENSTEIN: You've made changes in that direction, then.

MR. BLANKFEIN: And so we've made changes. And we know we have to reach out more and make ourselves aware. Now, we were always engaged in the public debates. The general public didn't know our views of things. But congressional staffs, sovereigns around the world, big companies came to us, used us for advice. Look at the number of people – and this became a liability to us, it shouldn't have – the numbers of people at Goldman Sachs at the height of their careers who would leave our business, our firm, and our industry and go into public service because they had that kind of mindset and that kind of commitment.

And so we were always very much involved in the big public issues and debate and a very big resource for public policy decision makers. But we weren't known to the general public for that. And that was, you know, more than inconvenient. It was – it was bad, and it was a misstep.

MR. RUBENSTEIN: What would you like to see as – you know, when you are finally finished as being the Chairman and CEO of Goldman Sachs, which presumably is many years in the future – you have no plans to leave, I assume?

MR. BLANKFEIN: That's correct.

MR. RUBENSTEIN: So what would you like ultimately to be your legacy at Goldman Sachs? You've had a lot of distinguished predecessors. Is there something you would like to say, this is what you did for Goldman Sachs?

MR. BLANKFEIN: Look, I'd like to be thought of as somebody who brought the firm through good times better than our competitors and made big contributions to the growth of the world when things were very, very good.

And when things turned bad, I'd like to be thought of as someone who led a very important financial institution, made a contribution to remind people about the reality of things and not let people dissolve into and succumb to bad sentiment and make sure that we were resilient – proved ourselves to be resilient and came out, as a firm, stronger on the other side financially and in terms of the contributions we make; and frankly, with an enhanced reputation with the general public, which is not something that would have been an aspiration before, because we didn't realize the relevance of that to us.

MR. RUBENSTEIN: So no regrets about giving up the practice of law? You're very happy with what you did, and you're very pleased with your situation today in terms of the role that Goldman's playing and the role that you're playing at Goldman. Is that right?

MR. BLANKFEIN: I think that I am not altogether sorry that I gave up the practice of law, although I did enjoy the practice of law. But we could never be satisfied with where we are. You know, all of us – we're all strivers. And so let me tell you, if the birds were chirping and the sun was shining, we'd find new things to do and new places to do them in.

This is not a zero-sum game that we're in. We're not competing against each other for a pie. Our job is to grow the pie and make everybody wealthier, not for the venality of trying to get richer and more wealthy, but wealth in the sense of making the world stronger and healthier and, for lack of a better word, better. That's what we strive to do.

MR. RUBENSTEIN: Well, Lloyd, I appreciate very much your giving us your perspective. And I think you've given us a great oversight of what your perspectives are. And I want to thank everybody for coming today. Lloyd, thank you very much. I have a gift to give you. Let me give you a replica of the original map of the District of Columbia. So thank you all for coming, Lloyd, thank you very much.

MR. BLANKFEIN: Well, thank you, David. [Applause.]

Lloyd Blankfein

Lloyd Blankfein is Chairman and Chief Executive Officer of The Goldman Sachs Group, Inc. He joined the J. Aron Currency and Commodities Division of Goldman Sachs in 1982 after working as an attorney in a law firm. Mr. Blankfein was named partner in 1988 and co-head of the J. Aron Division in 1994. He became co-head of the Fixed Income, Currency and Commodities Division as of its formation in 1997 and was based in London in 1998 and 1999 in that capacity.

Mr. Blankfein served as Vice Chairman of Goldman Sachs from 2002 through 2003, with management responsibility for the FICC and Equities Divisions. Prior to assuming his current responsibilities, he served as the firm's President and Chief Operating Officer from December 2003 through June 2006.

Among his affiliations with nonprofit organizations, Mr. Blankfein is a member of the Dean's Advisory Board at Harvard Law School, a member of the Dean's Council of Harvard University, a member of the Advisory Board of the Tsinghua University School of Economics and Management, an overseer of the Weill Medical College of Cornell University, and a board member of the Partnership for New York City. Mr. Blankfein earned a JD from Harvard Law School in 1978 and an AB from Harvard College in 1975. He resides in New York City with his wife and children.