Economic Club of New York

Lloyd Blankfein
Chairman and Chief Executive Officer
Goldman Sachs

June 19, 2018

New York City

Interviewer: John Micklethwait
Editor in Chief, Bloomberg News

Introduction

Chairman Terry J. Lundgren

...forum for speeches and conversations on economic, social, and political issues. Over 1,000 prominent speakers have appeared before our Club over the last century and have established a strong tradition of excellence. I'd like to take a moment to recognize the tables in the front section which belong to our Centennial Society members. These are individuals and companies who have contributed somewhere between $10,000 and $50,000 to the organization. And I just want to thank them because they really do produce the lifeblood, financial lifeblood, of our organization, and for that we are grateful to you and looking for more of those Centennial seats to be filled at future events. We also want to welcome our 2018 Fellows, many of whom are in attendance today – a program that we started just recently and we're very proud of our new member program.

And now, on to the main event. It is my great pleasure to introduce a longtime good friend of mine, Lloyd Blankfein, Chairman and Chief Executive Officer of Goldman Sachs. He has served in this role since June 2006 and as a Director since 2003. Previously, he has been the firm's President and Chief Operating Officer and prior to that he was Vice Chairman of Goldman Sachs with management responsibility for Fixed Income Currency and Commodities Division and the Equities Division.

So, Lloyd has a long tenure with Goldman Sachs. In fact, if you include J. Aron, the company where Lloyd worked and they were acquired by Goldman Sachs – it's a commodity trading company and they were acquired by Goldman Sachs – he's racked up about 36 years, coming this fall, of tenure, which you don't really hear that much, very often any more. So, for all of our millennial members, I just want you to know it's worked out for some of us to have long careers in the same company. And before that, he worked at the law firm of Donovan, Leisure because he did, in fact, get his degree from Harvard, from Harvard Law School.

He's affiliated with non-profit organizations, including the Dean's Advisory Board at Harvard Law School, the Board of the Dean's Advisors at Harvard Business School, the Dean's Council at Harvard University, and Advisory Board of the Tsinghua University School of Economics and Management, and the Board of Overseers at the Weill Cornell Medical College, and he remains on the Board of the Partnership for New York City.

And I recall the day when I took over for Lloyd as Co-Chairman of the Partnership for New York City and it was supposed to be my day, you know, it was supposed to be like a big celebration for my day, and Lloyd sort of grabbed the microphone and says, Terry, congratulations. I just want you to know I hope your two or three years as chairman of this organization are better than mine because these were the worst freakin' years of my life. (Laughter) And it happened to be following '08 and '09. So, I don't think it was related to the Partnership of New York City, but his message was delivered loud and clear. And I don't remember anything else about any praise for me or recognition of me that day because it was all about, all about Lloyd.

The format today is going to be a conversation. And we're delighted to have as our interviewer, John Micklethwait. And John is the Editor in Chief of Bloomberg News and you've seen him before. He is a member of the Economic Club of New York. We're very proud to have him as a member and as our interviewer today. And I would like to invite both Lloyd and John up to begin that conversation. (Applause) And as I do, and as they approach, I would just like to remind everyone that this is a program that will be on-the-record, and we have quite a bit of media – electronic and print – that will be covering us today. Gentlemen, begin.

Conversation with Lloyd Blankfein, Chairman and CEO, Goldman Sachs

LLOYD BLANKFEIN: By the way, Terry, I don't think of myself as sounding the way you made me sound.

JOHN MICKLETHWAIT: He was complaining throughout the speech. Thank you Terry. And thank you Lloyd. What we're going to do is we're going to sweep through the world economy and then maybe talk a bit about finance, the future of Goldman, and anything you want to interrupt about. Shall we begin with the main economic news. You saw this morning, China promising to fire back against the Trump tariffs. Are we in a trade war? Are we in a huge game of chicken? Or is this just a sideshow from your point of view?

LLOYD BLANKFEIN: I'll let you know, I mean, the problem is how many times can you be on the edge of your seat waiting for the shoe to drop, it doesn't drop? And how many times can you get that anxious about it? I would say I don't know if this is going to be the pattern of North Korea – a lot of bluster. I don't think we're in a suicide pact on this, so I suspect that we're not going to cause the economies to collapse with a, you know, Smoot-Hawley on steroids. But I do think that, so I don't think that's what's going on. I do think, as some people have commented, that this is kind of a negotiating pattern. That would be my best take.

JOHN MICKLETHWAIT: And you went to China with Trump all those months ago, are you disappointed with his China policy?

LLOYD BLANKFEIN: Well, I met him in China. It was a trade mission. And I have to say, you know, let me give credit, it didn't occur to us to go on the trade mission. I got called up by the White House and said, do you guys have a pending transaction that's near enough to close that we could close it as part of our trade mission to China? And I just said, no, we don't. And I got a call back – and we have a lot of things going on in China – I got a call back from them a couple of weeks later, just before, it's not like I was looking for an extra trip to China, and they said, remember what we asked you, it turns out, yes, you do. The Chinese said you do. And so, we went there. In fact, we closed an important transaction, which is kind of a joint venture between ourselves and the sovereign wealth fund of China to go out and each raise an amount of money, put it in a private, our managed private equity fund, and invest in U.S. businesses that will be able to export into China. So, this was an early effort, you know, symbolic in the scheme of the whole level of U.S. trade, but an important symbol of what China wanted to do to spur U.S. trade.

JOHN MICKLETHWAIT: Do you think China's attitude has changed? Back then, China seemed to be looking outward. They were doing things like the deal with you. And now suddenly, you know, they are retaliating at the moment.

LLOYD BLANKFEIN: I think the whole thing with China is there's a lot of frustration with China from here. I know that China is very frustrated with the sudden aggressive of U.S. policy. But anybody who has transacted with China appreciates the potential of China, has had good experiences in China and frustrating experiences in China, and at various times one or the other comes to the fore. We, ourselves, to be quite honest, 15 years ago almost, set up our joint venture in China that was to lead to us being able to own our own investment bank in China, which seemed imminent at the time. And there have been a lot of suggestions that that was going to happen very quickly. And, in fact, statements that said it's already available, and then oftentimes that gets announced at the senior-most level and when it gets into the ministries that have to affect these things, we've found out recently that now these many years later, that in order to own our own entity, it has to be capitalized at a level that would make it totally not sensible for us to do. And so, we feel back at square one. You know, again, we're in finance, but we're advisors to people in other industries and other industries have similar experiences. And again, this would not be the course I would have done, not necessarily recommend, but I can see what happens at times. A lot of the people who are expressing too publicly, this is a very, you know, difficult thing, Americans is a very bad thing, which of course we know from taking economic courses that it is at the end of the day, and publicly making these statements, because they do business in China and you have to pay homage to your clients in China and your customers in China. And at the same time, when they're not in public, could very well be going to the U.S. government and saying, you know something, what you're doing may not be such a bad thing. And so, I can understand how we get to the place that we get to.

JOHN MICKLETHWAIT: But do you see the argument that that was maybe acceptable at $50 billion worth of tariffs but now you've got $200 billion and you've got the prospect of a full-blown, it's gone beyond, the game of chicken has gone...

LLOYD BLANKFEIN: It's not my style, but if what you want to show is, if you want to give somebody an incentive to see the world from your point of view, it doesn't help to remind them of your negotiating position if it's a better one. And the fact is if we go tit-for-tat, by the time you get to 100, they run out of things to apply a tariff to and we don't. And so, if you want to make that point, you make that point. Now, that's what you would do if you were crazy and really wanted to end free trade. And that's what you would do if it was a negotiating position and you wanted to remind your negotiating counterparty of just how much fire power you had to bring to the negotiation. Which one is it?

JOHN MICKLETHWAIT: But do you think Donald Trump is a protectionist? He disliked NAFTA. He has this long record...

LLOYD BLANKFEIN: Well, remember Rosencrantz and Guildenstern played...you can't even play this flute, how could you play me? Who am I to say what he thinks? He doesn't, I don't know what he would do, what I would do in his place, and I'm not sure, I'm certainly not sure what he would do in his place. But if you ask me, can I give a narrative about how this is a useful thing to do, I can't say – as a lot of people do, with respect to almost everything he does – this makes no sense at all. It does not make no sense to me at all.

JOHN MICKLETHWAIT: Okay. If you look around the world at the moment, you have what we just talked about. You've got the China situation. You've got Italy, it would seem, hellbent on leaving, challenging the Eurozone. You've got Brexit. You've got Argentina. You've got Turkey. You've got the possibility of a populist in Mexico. You've got all these things. And yet the markets just seem to shrug their shoulders. Is political risk not really a factor now?

LLOYD BLANKFEIN: Well, two things. You can separate them, talk about the risk. A lot of the risk in the world today, or a concentration – there's a lot of risks in the world – but a big concentration of risk today, you know, is sovereign risk. You know we're looking at the politics, but you can look at, you know, the economic situation. A lot of the, you know, if you look at it, a lot of the leverage in the world that was with the banks didn't, you know, didn't disappear from the world. They migrated over to the sovereign. So, you see that the sovereign and the U.S., we have a $4.5 trillion balance sheet. You look at euro, similar amounts, Japan, similar amounts, $14, $15 trillion of debt on sovereign balance sheets that the banks are de-leveraged, but now the risks are with the sovereign.

JOHN MICKLETHWAIT: Does any of those particular sovereigns worry you? I suppose Italy would be the...

LLOYD BLANKFEIN: Well, of course, for a variety of reasons. One, it's got a huge amount of debt. The debt might be big, the debt might be big for its partners. You know, in 2011, when there was a sovereign debt crisis in Southern Europe, the issue was, is there the willingness of the ECB, i.e., is there the willingness of Germany to sort this out and to back it up, to back up this Southern Europe situation? Now, you know, those lines never converged. The sovereign debt of the Southern European countries, especially Italy, have continued to widen out. They were getting an interest rate subsidy for being connected to Germany, but they didn't deploy that to reduce their debt. And so, I think at this point now the question is not the willingness, but the capacity to do it. Now, one thing about the U.S., we print the money we borrow in. Japan prints the money it borrows. And there's a lot of risk and consequences to printing too much money, but that's not necessarily a systemic moment. You know it will cause inflation if you over-print too much money, but that's not exactly going off a cliff. On the other hand, in Europe, everybody borrows in a foreign currency. Italy doesn't print euros. It doesn't borrow in lira anymore. It borrows in euros, so it's always more worrisome how one would deal with that. And, of course, there are rules that the countries in Europe use to protect, you know, fiscal policy. And again, I would say that issue, and obviously immigration are the big risks to the whole construct of Europe at this point.

JOHN MICKLETHWAIT: You see Italy as the biggest, sort of sovereign threat?

LLOYD BLANKFEIN: Well, it was in the news yesterday, but look it is, and also because of its size, and that was there for a while, but also because more recently their election of a more, of a more...

JOHN MICKLETHWAIT: An unusual coalition.

LLOYD BLANKFEIN: Well, getting more usual all the time. If you look at what happened in, obviously in central Europe, might even say what happened in the United States, the weakness of Mrs. Merkel in Germany, you're getting a, again I don't want to merge these two things, but you know, the financial risks of these countries, and also the kind of immigration issue which creates some stress on the establishment governments, which feed into the financial, you know, the financial crisis, and that creates the geopolitical risk that we see.

JOHN MICKLETHWAIT: Do you see, especially what's happening to Merkel at the moment, do you see this wave of populism sweeping around the world linked to immigration?

LLOYD BLANKFEIN: Well, I think it happens. Look, we're seeing this in the United States now on our southern border, where obviously, you know, horrible, tragic situations, but it's an immigration issue that splits, you know, the immigration debate has split the country. And more realistically, in Europe, and more dramatically, and consequentially in the near term, the immigration issue in Europe, where magnanimously you'd say, Germany admitted a couple of million people. One would say the right thing. But hard cases make bad law, and, of course, with open borders in Europe. Brexit is a direct link to the consequence, I think is a consequence to the immigration crisis. You know, they're talking about a soft Brexit. If you get at the soft Brexit that people are now speaking of, the only thing that Britain will have accomplished in Brexit is the immigration matter. And you look at the populism in these states, what's going on in Italy, and certainly the relatively right-wing movements in Central Europe, those are reactions to immigration questions.

JOHN MICKLETHWAIT: There's an interesting balance, though. On the one hand...

LLOYD BLANKFEIN: Again, don't get me wrong, hard cases make bad law because I wouldn't want to be in the position we find our government in now with respect to the tragedy that's going on in the border.

JOHN MICKLETHWAIT: You wouldn't know which to choose out of...

LLOYD BLANKFEIN: Well, I would say I couldn't do it. I couldn't do what obviously is being done now, so I agree with all the things. But when you watch TV and you listen to the pundits, I don't hear anybody talking about the consequences. How long would it take for millions of people to appear on our southern border if we permitted it and permitted people to pass through. The same thing that happened, you saw the tragedy and the consequence of what was happening along the Mediterranean. And again, you learn this, you know, one of the clichés of law school, hard cases make bad law. When you want something, when it appeals to you and to your heart, and you make something work out as a matter of your sense of justice as opposed to a rational progression, you can end up with a hard case but bad law.

JOHN MICKLETHWAIT: Do you think that politics is much harder than business? I mean you have all these people from Goldman that went into the White House. It was sort of like the House of Lords for ex-Goldman employees. (Laughter) Friends of yours did that. Now they've come back. Do you look at those sort of decisions which they make, people like Merkel, people like Trump, do you just think that is much harder than the sort of decisions that business people have to make?

LLOYD BLANKFEIN: Look, we can change our mind. We do things – I mean some days I do things out of the public eye, some days I do things in the public eye. I just think the consequences, and again when I watch, you know, the punditry, you know, it's all right, and look, again, let me establish, what we're watching now is heart-rendering, and again I wouldn't be on that side, but thank God, I'm not there because I would, you know, in my role, and certainly in government where you have to make these choices, look, it's never right against wrong, good against evil. The issues are always right against right, now what do you want to do? Both sides are right. You admit millions of people into Germany and what happens? The European construct that worked for 60, 70 years, which arguably ended a pattern of every generation warfare, that is put at risk by immigrants. Is that right to do? No. Is it right to leave people, babies strewn on beaches? Of course not. You know what the right thing to do, both sides, what do you want to do? So, I would say what's hard, it's easy to criticize and it's easy to say what you would do if you didn't have to bear the consequences for what you decided. But when you have to bear the consequences and you have to realize that there are adverse consequences on both sides, that's what's really tough, and I have a lot of sympathy, on the one hand, but appreciation for the decision making. And when something doesn't quite work out right, I don't want to kill the person that made the decision.

JOHN MICKLETHWAIT: Does that put you off any idea of having a later career in public life?

LLOYD BLANKFEIN: No, because I can't imagine being more miserable than I was made to feel outside of public life, so why not? But, no, I don't know.

JOHN MICKLETHWAIT: There's a fashion for financiers of your age to run for mayor of New York City. That would be...Laughter.

LLOYD BLANKFEIN: You know, somebody put that out there and they said would you...I said, oh, no, I would be mayor of New York City, I don't know if I'd run for mayor of New York City.

JOHN MICKLETHWAIT: What about, I'll take that as a no. But all the same, on the general impression you get, it's interesting, you seem relatively sanguine about the markets and the economy, but you've just run through all these political risks.

LLOYD BLANKFEIN: Oh, I have a lot more.

JOHN MICKLETHWAIT: The idea that Italy could get into trouble with Brexit, all these different things, Trump trade wars, and yet the markets just say...

LLOYD BLANKFEIN: How about rising interest rates which usually have an effect on valuation?

JOHN MICKLETHWAIT: How high do you think interest rates can go in this country?

LLOYD BLANKFEIN: How high can they can go? I mean I lived through, I mean when I got out of school, you know, short-term government interest rates were in the, kind of, in the teens, and not the low teens. By the way, while inflation was also above 10%, by the way, while unemployment was above 10%. So, these things can happen. I know everybody's debating and, you know, lips are quivering, is the Fed going to raise three times this year or four times this year and next year? I remember sitting, you know, in '94, I remember Fed raising 50 basis points between meetings. So, I don't think people are braced for what the potential is if the Fed feels that it gets beyond the curve, and what would be the consequences of that? And just think, every bond that's been bought since interest rates have been low and trending low for so long, everybody wants higher interest rates so you'll have a higher return, but don't forget, every instrument in anybody's portfolio will then drop in value. And whether you mark-to-market or not, it will be worth less. And just think of all the assets in the world that are priced off of a discount model. How about real estate and almost everything else? And you think what happened, you know, to the finances of the world and the economies of the world because when you had a dramatic and unexpected and rapid drop in real estate prices, well, I would think the falloff of rapid rise in interest rates, unexpected, would have even a more dramatic. Is this my base case? No. But I'm in the business of risk management and I'm forced to spend about 98% of my time worrying about the 2% of the things that would go wrong. And I could occupy more than time you have here to tell you the things that I have to worry about.

JOHN MICKLETHWAIT: There's another strange thing about that. Out of the many things, many areas that people worry about, one is consumer...

LLOYD BLANKFEIN: By the way, I'm optimistic. (Laughter) I'm just saying I'm wallowing in the 2% at this point.

JOHN MICKLETHWAIT: You just terrified everyone here that...

LLOYD BLANKFEIN: No, I live in terror, I live in a state of terror, so that's all right.

JOHN MICKLETHWAIT: We'll come back to that. But in the basic idea, you have just, many people would say consumer debt is one of the first things that should get hit by higher interest rates. I think...

LLOYD BLANKFEIN: Did I say that?

JOHN MICKLETHWAIT: Well, it would probably get...New York Fed just said there's $13.2 trillion worth of consumer debt, and yet that's the field that Goldman is choosing to go in, to expand. You're trying to hit consumer debt, personal finance, that sort of area. Does that make sense at this stage of the cycle?

LLOYD BLANKFEIN: Well, we intend to be in business, I don't know how long this cycle lasts, and we intend to be good risk managers in this business through all the cycles. We're not going to time it and get into and out of businesses that are franchise businesses for a cycle. We're going to acclimate our risk and how we land in our protocols and our profile to what we feel the market is. But, let me just say, just as a predicate, you know, the predicate in your question, is in a way, we're going into the consumer business but not so much that we're chasing a consumer business that's so foreign to us, which a consumer business generally is foreign to Goldman Sachs, a wholesale, an institutional firm, but really what's happened as a result of movements in technology, the opportunity in the consumer space has moved to us. If you're lending to 500 people, the kind of decision making you'd make in consumer lending, it's like, you know, Jimmy Stewart in "It's a Wonderful Life", you look into somebody's soul, your neighbor, and you're a good credit, you're an honest person, I'll lend you that much money, Mrs. So and So. But if you're lending to 50 million people, it's math. It's algorithms. It's macro-risk management, which is the stuff we're kind of good at and have been good at for a very long time. And if they're not your neighbors, but they're coming to you online, then it's digital delivery and digital platforms which we're kind of good at and we've done for a long time. There obviously is a big customer experience to this and we have to import that into the firm, but a lot of the risk management decisions, the distribution decisions, the algorithms that one would go into in making these kinds of decisions kind of is in our wheelhouse. And one of the reasons why that represents a big opportunity for us is that we don't have legacy stores. We don't have thousands and thousands of branches that we have to protect on the one hand and the normal disruptors in this space – the Silicon Valley crowd that would normally come into this space – aren't licensed deposit takers and don't have balance sheets and really can't do it. They have to kind of jerry-rig and securitize these loans and have to make them all kind of the same so they can be securitized. And so, there's a very good opportunity, it's very rare that you get a big bank like ours that doesn't have a legacy consumer business that needs to be protected.

JOHN MICKLETHWAIT: Just challenge you on one thing, it just being math. It strikes me that Goldman at the moment, you deal with lots of big companies, sometimes you have to say no to them. In this particular case, if things do go down, if things change, you've got, I think, up to 20% subprime, it's going to be normal people in houses who you're going to have to say, look, we need the money back. And this is going to be a different, going back to what you said earlier, this is going to be a different political...

LLOYD BLANKFEIN: We're unsecured...what we're doing so far is unsecured lending. So, if they lose money and they don't want to pay us back, there's no house to repossess, no car to take over. So that would be we made a poor risk decision.

JOHN MICKLETHWAIT: You feel happy with...

LLOYD BLANKFEIN: I won't feel happy if they don't pay us back.

JOHN MICKLETHWAIT: Obviously. What about, Hank Paulson came here...

LLOYD BLANKFEIN: But we're still assuming that there are people who would be caring about their credit ratings and their positions and people tend to pay back when they can. And we'll have to make the right macro, again macro risk decision. Again, to make a judgement about one person or 500 people, it's a very sketchy thing. It's easier to make a judgement about 50 million people, how 50 million will act – the law of large numbers.

JOHN MICKLETHWAIT: What I'm saying is if the politics come back, you see all these banks who had to go through the hell of 2008 and 2009, which you did in a very different way, this particular one will – if it does go bad again in consumer debt – this is something where people will use images which may not be as helpful.

LLOYD BLANKFEIN: Well, I will tell you we will be the ones that will suffer because, again, these are not mortgages on people's homes or secured lending. If they don't pay us back, we'll be the ones on TV that you'll feel sorry for. (Laughter)

JOHN MICKLETHWAIT: That's possible.

LLOYD BLANKFEIN: Obviously, by the way, we have other consumer verticals too and there's more to be rolled out in this space, but it looks very attractive. Again, it's the migration of the opportunity, not us trying to be what we otherwise would have been ten years had we chased this business ten years ago.

JOHN MICKLETHWAIT: I'll come back to Goldman in a second. Hank Paulson apparently came to this room and said in 2003, in 2013 that you should expect a financial crisis every eight years.

LLOYD BLANKFEIN: Me personally?

JOHN MICKLETHWAIT: Not you, he probably told you that already.

LLOYD BLANKFEIN: Yes, he has.

JOHN MICKLETHWAIT: Do you think that's about; does it feel as if there is another financial crisis in the works somewhere? You said consumer debt, you're happy with, sovereign debt you're worried about. Where do you look when you get worried?

LLOYD BLANKFEIN: Not necessarily. We have them periodically. It's obviously more than eight years since the last one. In Europe, you know, people, you know for a few hundred years people were told to expect a war every generation and it hasn't happened. So, I'm not, I look for these things. I don't think the mere passage of time causes it. You need, you know, in the metaphor, you need kindling on the floor of the forest, you need some things, you need leverage, some things that could blow up, and then you need the spark that would...

JOHN MICKLETHWAIT: What are the signs you look for?

LLOYD BLANKFEIN: Too much leverage, bad behavior in the context of the last financial crisis – bad origination practices. And then, of course, the spark could be some macro event, some default. That happens. A bad play by the sovereign. Bad fiscal policy, a bad monetary policy could be the spark. But something that if in a period of time in which there wasn't, again, this kindling, wasn't this leverage or this opportunity, might pass unnoticed, but at a time when it was ripe for it, would cause it. And I would say if you were looking for some signs now, you know, earnings are good, you're not really seeing the kind of leverage, but maybe you don't see the leverage until after the fact and you look back and you say, aha, it was there and I didn't know it. I'd say credit is too, seems relatively easy. But, on the other hand, it's not remotely close to the leverage that one would have, people like us would have financed in the runup to the 2007-2008 crisis in terms of the transactions. So, you don't see it, look, you don't, you know, you don't see the things you can't see. The reason why these things become bubbles is they're not easily seen. You know the advantage of your job versus my job is I have a P&L and I can't remember having seen it. You can always claim to have seen it.

JOHN MICKLETHWAIT: Yes. Well, that's the advantage, you do get some other benefits from what you do. (Laughter) In terms of that, you look back at that period, what do...

LLOYD BLANKFEIN: Sometimes it's even worth it. Not always.

JOHN MICKLETHWAIT: In terms of that period that you've now had a long time to reflect on it, what's the thing you think you did badly during that crunch? And what's the thing you think you did best?

LLOYD BLANKFEIN: I think the worst thing we did, look, our risk management was pretty good. We participated in the market for real estate. I mean the crisis was real estate, real estate prices went down and that was the crisis. There was real estate went down and all the debt in the world that was collateralized by real estate went down as a result. And that was the, that was 95% of it. So, on the risk management, we didn't know what would happen. We bought stuff. We sold stuff. We basically ran a balanced book. The crisis was really two halves for us. It was the existential part. Did you lose a lot of money? Do you have existential risk? Could you be insolvent? Which we navigated very well. And then the reputational part of it for having navigated it pretty well. It went from how did you do it, admiringly, to how did you do it? You mean when you were hedging you sold things to people. You must have known, you know, you should have known, blah, blah, blah, and therefore, you, you know, we didn't make money in the financial crisis, we didn't lose money in those years. But, we lost a lot of reputation in those years and a lot was inflicted on us. And I think the thing we did the most, the worst at, was under-appreciating, we were a wholesale firm, we never advertised, we didn't have our name on our building. We moved to a new building. I'm thinking of putting our name on our old building now. (Laughter) Other people, if they have some sort of crisis, they change the copy of their ads and they go out and they talk to their customers. But we took the position always, we had the view, you know, keep our name out of the papers, put our customers to the forefront. We represent them in M&A, but it's really not us to get the attention. We had no real advertising budget at all. And it turns out that, you know, all those, you know, we didn't have a consumer business, but other names for consumers are taxpayers and citizens. And so, we had an important, all of a sudden we discovered that they, they discovered that they had a relationship with us. We had a big effect on them. And, of course, we discovered they had a big effect on us. Not because they were consumers and we were a bank, but because of their role as taxpayers and consumers and our position in the financial system as a very big influential firm that was influential in the context of a financial crisis that affected everybody. And so that was an adjustment that we had to make very quickly. Prior to the financial crisis, I never would have appeared at anything. Now my predecessors certainly didn't. And it wouldn't have occurred to me, and I realized that if you don't describe what you do and help define yourself, you'll have left a vacuum that someone will very easily define and describe for you. And so, that was a very important lesson, and I learned a lot of little lessons for crisis management that I never expected to need to know.

JOHN MICKLETHWAIT: And if you look to finance now, through the eyes of those stakeholders I suppose would be the way of describing them – consumers, taxpayers – do you think the government has represented their interests well? You've had all this role of regulation...

LLOYD BLANKFEIN: Well, regulation, and I think the most important regulation and the most important role is the way that the banking system has been de-leveraged forcibly and aggressively. And even though it looked in some cases like a medieval fair with all these noises and hearings at the end of the...and people around the world would watch this stuff and dismay about this public display, at the end of the day the U.S. did it. The regulators did it. People will write dissertations, you know, in the tranquility of some carrel in some library, about they should have done this, they shouldn't have done that, and they got it wrong, but at the end of the day, almost in the heat of battle they did all this stuff and it got done. And the stress tests were done in such an aggressive way – and let me tell you, I was the focus of a lot of the aggression – were done in such a way that there was no issue about whether it was convincing from the point of view whether it was just soft or whether it was real and it actually persuaded the credit world that this was real and that the banks were credit-worthy – something that in some parts of Europe are still not quite certain many years later. And so, I'd say regulation, which, of course, in my point of view, and in the view of a lot of people, was thrown together very quickly and there's time for an adjustment, not to repeal it, but to adjust things.

JOHN MICKLETHWAIT: What's the bit you would most like to get...

LLOYD BLANKFEIN: You know there's things about the Volcker Rule. There's a lot of redundancy. There's leverage tests. And, you know, there was supposed to be a catch-all bank, you know, you're supposed to have capital related to the riskiness of the assets on your balance sheet. And then there was a general worry that maybe we weren't assessing riskiness the right way because in the financial crisis, we underestimated the riskiness of certain mortgage assets. So, in addition to using a normal test of leverage based upon the risk of your assets, let's have a general catch-all where we don't assess riskiness of assets, we'll just look at all the assets on your balance sheet including dollars in banks. And that was supposed to be a catch-all to make sure that nobody, kind of the tax version of an alternative tax, if you will. Well, it got to the point where that catch-all is now the binding constraint and it was never intended. So those things have to be adjusted. The Volcker Rule, which was added kind of as, in addition to making sure that people had capital against their risky assets and were able to, you were able to wind down an institution that was failing, Volcker imported a state of mind test. What was the reason why you engaged in that transaction? To support a client's business or because somebody wanted to buy low and sell higher? Real world people aren't really thinking that way, kind of market making and doing that. And so that's been a little bit counterproductive because the regulators, in turn, put the bias, we'll assume everything is for a bad purpose unless you prove your state of mind was for a near-term expectation of a client flow. It created, I mean for a time the bulk of our IT was set to provide metrics that would prove that and it was actually interfering with the safety and soundness because it didn't contribute to safety and soundness. So, there's things like that

that are kind of, I think everyone recognizes have to be changed. Some people don't want to get into any changes for fear that if you open it up, you'll wreck everything. But, I think, you know, after, the way this was put together and after a period of living with it, I think there's room for some adjustment. But I don't want to get away from lauding the regulators at the time and the people in the public sector for the way they handled the war that was and the fog of war and the aftermath. And all you have to do is juxtapose how the U.S. financial system has responded and how quickly that regained its footing compared to everybody, compared to our counterparties in Europe.

JOHN MICKLETHWAIT: There's another thing going on at the moment. People look and they say, look at money, money has gone increasingly into the sort of darker areas of finance or away from public markets. It's gone, you know, towards bitcoin and cryptocurrencies on the one hand, but it's also gone towards private equity, venture capital, away from public companies. Is that a trend that is going to continue?

LLOYD BLANKFEIN: That's a real problem for all of us and that didn't obviously start with the financial crisis. There was Sarbanes-Oxley, which was a big contributor to that.

JOHN MICKLETHWAIT: But it's been...it's increased...

LLOYD BLANKFEIN: Look at the, you know, the anguishing that you're seeing in the press now for where Aramco is going to list. In other words, we have, in an effort to make our markets pristine, which is a laudatory goal, and complex, and the litigation standards, it is, I mean I will tell you, not everything about being a public company CEO is as attractive as it must look to you.

JOHN MICKLETHWAIT: But how would you change it? Because it is a real structural...

LLOYD BLANKFEIN: Well, we'll make it tougher and tougher and tougher and companies won't want to be public. And so, all of a sudden you'll get a two-track system where you'll have very, very tough regulation on companies that are public companies and increasingly companies that defer going public with the consequence that their investors are not remotely as well protected and possibly a Theranos. And so, what do you want? And so, I'm saying, by the way this is something, and again, he didn't use the example I used per se, but this is something that the Chairman of the SEC said. There are half as many, the number of public companies in the states, half is what they want. Is that a good, I mean if we wanted to really toughen up, five public companies and everybody else was dealing in private markets and we increased the liquidity available to private markets, would we have accomplished safety and soundness objectives of the system? No. And so I'm not arguing for a collapse and abandonment of systems, but, you know, once you do a cost benefit analysis of some kind, on whatever incremental benefit you're getting compared to the burdens and the costs you're putting on the system.

JOHN MICKLETHWAIT: Do you think Goldman could go back, would Goldman have worked better if it was an old-style partnership?

LLOYD BLANKFEIN: I think parts of our business, but it's not something we can recriminate about or wring our hands. We could not have stayed public with who we were in the financial system. We could have elected, in order, the way the world evolved, we started out as an advisor, but in order to be an effective advisor you had to be able to give effect to the advice you were giving. So, I could tell you, you should do this merger, I should tell you, you could do this financing, I could tell you, you should grow your business in this way, but to be an effective adviser I had to put capital on the table for you or your benefit or help you raise it so that you could achieve that objective that you and I would agree was our good advice. If we were merely advice givers, we could have had a very important role in the system. There are a lot of great investment bank boutiques. They do very well. They don't have 90% of the problems or issues I have in my life as somebody who runs Goldman Sachs. On the other hand, they're not as important in a lot of ways and not the influential institutions that we are. And we decided, as a firm, that we liked the position that we had as a very, very important institution and driver of growth and change in the financial system and the evolution of business. We liked who we were, and in order to do that we had to have a balance sheet. And in order to have a balance sheet, we had to have permanent capital. And to do that, we had to go public. And we were the last public ones to go public.

JOHN MICKLETHWAIT: How does Wall Street change over the next five, ten years? To pick on one thing, people here have asked about cryptocurrencies, does that become a real issue or not? Are you worried about them? Have you put your toe in the water?

LLOYD BLANKFEIN: I worry, not really in any kind of systemic way. The people, you know, it would be very painful for somebody who put his or her entire net worth into cryptocurrencies, but it's not a systemic issue at this point. People are passionate for it, passionate against it. I remember when they came out first with, when they came out with cell phones, I remember thinking, God, who the hell is going to lug this thing around? And I'm saying, and besides there's ten phone booths on every corner, I'm not going to carry...this is a fad, nobody's going to carry a cell phone. So, I just passed on that whole thing. It turns out to have worked. (Laughter) So, now they have cryptocurrency. And, you know, I always thought, I can't say why it should work, but if it did work, I'd be able to explain it in hindsight why it did.

JOHN MICKLETHWAIT: That has been your secret to success.

LLOYD BLANKFEIN: Well, you have to look at things from both sides and say if, sometimes in a risk thing, I say will this happen? What are the chances if it happened? And sometimes I find it easier to think about something, okay, let me postulate, this did happen, tell me why it did. And I find that it's sometimes an easier way of seeing it. And I look at the evolution of money and I say, you know, you started out with gold as money and people would only take hard currency and you made gold coins. And a gold coin was like $5, you could have $5 of gold. And eventually they would give you a piece of paper with the promise that there was $5 in gold to back the $5 piece of paper and you could go in and redeem it. Then they gave you a piece of paper and said there's $5 of gold but you can't redeem it. And at some point they give you a paper and say it's worth $5. We're not going to redeem it and we don't even have the $5, even if you wanted to. And we're still doing that today and I see that morphing. And I'm saying that if you could go through that morphing, if you could go through that fiat currency where they say this is worth what it's worth because, I, the government says it is, why couldn't you have a consensus currency? And so, it's not for me. I don't do it. I own no bitcoin. Goldman Sachs, as far as I know, unless nobody told me, has no bitcoin. But if it does work out, I can give you the historical path why that could happen, have happened. And so, I'm not in the school of saying, gee, because it's uncomfortable, maybe because it's unfamiliar, this can't happen. That's too arrogant.

JOHN MICKLETHWAIT: What about something completely different which many people should say should happen is that no woman has run a big Wall Street company? I think you did something yesterday where you set up a $500 million initiative to help, sort of, women fund managers, that you, I think you say amongst the people, have the possibilities to succeed you at Goldman. There wasn't an obvious woman. There were only five out of the 31 on your management committee like that. Explain to me, looking back in five years' time, whether there will be a woman running a big Wall Street firm?

LLOYD BLANKFEIN: Five years' time?

JOHN MICKLETHWAIT: And explain it.

LLOYD BLANKFEIN: You know, other firms have more senior women. Sometimes it's, you know we've had very senior women. People take different career paths. The most senior woman at Goldman Sachs was the person who ran our…until, actually until three days, until the end of this month because she submitted her resignation, and you know, it's sometimes, you know, people have to work harder at this and get it done. And we're working very, very hard at this. And you're right, there's nobody who is that proximate. Other firms may have different experiences. We certainly, our metrics in some cases, senior women, partners at the highest level, but at that absolute highest level, you know it's sad to say, you know, blame, and some of it is fortune and where people have put themselves or taken themselves. This is not a unique problem to any of us. But that said, it's a problem and people are going to have to work harder at this, and we're trying different ways of doing it.

JOHN MICKLETHWAIT: I think people could say it is a problem generally for Wall Street.

LLOYD BLANKFEIN: Of course, it is. No, it's a problem generally for business as a whole, and you can look way outside of business too. It's a problem for institutions, it's a problem in walks of life, to have more of an equivalence between the demographics of the country and it's a gender issue and it's not just a gender issue. And there's no, nobody wants to explain it away because it looks, there's no explanation and it looks like you're trying to be exculpatory if you try. So, let's just say we all have to work harder at this and we try various things. You were about to point out to a fund that we're committing to that will invest in startups for women-managed venture funds. We have other programs that are like this that support women's initiatives, women in the workplace initiatives. And we have, again, a very good record sponsoring, a very good record of bringing women into the firm, and like everyone else, a very poor record of bringing people into the top leadership position in the firm.

JOHN MICKLETHWAIT: What else? You know you've worked in finance all this time, as Terry pointed out, what has been the biggest thing that has changed in those 36 very quick years?

LLOYD BLANKFEIN: Well, obviously the most, when I started, because that was a long time ago, that was a generation and a half ago, the big thing I would have said at the beginning of my career was globalization, which sounds like quaint term now and something that has gone through its cycle that we're all trying to kill. People are now hostile. That's gone full cycle. But when I came into the firm and I came into the foreign exchange department, we could not issue a confirm in sterling or in any currency other than the dollar. It didn't print it. And so, I rode the crest of the wave of globalization. Now, in the last 15 years, it's the crest of the wave of digitalization and technology. And today, if you want a price on an equity or an instrument, 98, 99%, and it could be 100% of the prices that we make on a mark-to-market basis are made by algorithms and are made systemically. It's not just distributed that way; the prices are made off of inputs that are input digitally. And that's kind of a new phenomenon and I'll tell you another observation is that the decision making – of course, there's judgement in this – but the decision is being made by programmers and software experts. And a lot of times I look at somebody, what used to be called judgement, oh, that's a judgement decision, saying, oh, judgement decision, that's just a few million extra lines of code.

JOHN MICKLETHWAIT: Doesn't that frighten you?

LLOYD BLANKFEIN: In a variety of ways, of course it does. By the way, it creates an interesting phenomenon. The same thing for Uber, you're going to have drivers, and gee, why did you drive through that stop light and into that storefront and injure those people instead of swerving into that wall and killing yourself? Well, you would say, I didn't know, I didn't think so, it was a natural instinct. I couldn't help, it just happened the way it happened, and it's all a blur to me. It won't be a blur. Some programmer is going to say if you see, you know, if you see that wall, drive into the wall. Or it won't say that and they'll come back and they'll say, why didn't you drive into that wall instead of into that storefront and risk more lives than your own? And those are things that are going to happen. What did you take into consideration when you made that risk judgement? Well, let me see, let me subpoena your software and your lines of code and see exactly what you anticipated to have done in this situation. So, it's an interesting set of phenomenons.

JOHN MICKLETHWAIT: I'm sure there's an investment banking equivalent of driving into the wall.

LLOYD BLANKFEIN: There is, of course there is. That's the point I'm making.

JOHN MICKLETHWAIT: But putting that to one side...

LLOYD BLANKFEIN: Having driven into several myself...

JOHN MICKLETHWAIT: But the other effect of technology is that people can, in a sense, work anywhere. Computers can be based anywhere. You're doing stuff in Salt Lake City. This is the Economic Club of New York. How does New York prosper in this new age of algorithms? Does it still retain its position? What would you worry about from a New York perspective?

LLOYD BLANKFEIN: Well, it turns out, remember *The World is Flat*, everybody will go to the lowest cost place. And so, you know, you'll work out of some place on the steps of Central Asia, and it doesn't work that way. There was this book by, I think, Richard Florida, it turns out that people in the kind of creative class like to live amongst each other. They like to go to the theater. They like to aggregate together. And, of course, it's not going to be a world of automatons.

There's going to be creation of things. And, by the way, even the lines of code have to be written, there's not going to be a lack...and the people who create and the people who get together and the people who engage are going to want to aggregate together. And there's, New York has had quite a head start on aggregating together people who are like that and has the infrastructure that tends to attract more people who are like that and those people attract each other. And so, I tend not to worry about New York as long as they don't keep making it so very expensive to be here versus other very, very attractive places.

JOHN MICKLETHWAIT: If you became mayor, you could solve that problem.

LLOYD BLANKFEIN: Well, I would say if I advocated moving out of New York, it would really hurt my chances. (Laughter)

JOHN MICKLETHWAIT: Lloyd Blankfein, thank you very much.

LLOYD BLANKFEIN: Thank you very much. (Applause)

CHAIRMAN TERRY J. LUNDGREN: Thank you John and Lloyd. John, thank you as always for your great questions. And, Lloyd, thank you for your candor and straightforwardness. And I would also say that, you know, few CEOs, particularly on Wall Street, but in general, have had the tenure that Lloyd has had and the ups and downs that he's had – many of them public ups and downs – and very few, even fewer have had the continuous success of coming back and building an even stronger team and a stronger company at the end of the day. So, congratulations on all of that. Just a reminder to everyone, we're coming to the close of our season for the Economic Club of New York. We have one final session tomorrow morning and that will feature Nobel Laureate, Jean Tirole, on the topic of regulating the digital economy. It should be of interest. I hope to see you here. Enjoy your lunch. (Applause)