

**Lloyd Blankfein Interview at Economic Club of New York**  
**June 19, 2018**  
**Unofficial Transcript via Bloomberg Government Transcripts**

*The below unofficial transcript was obtained via Bloomberg Government Transcripts and has been edited for clarity:*

SPEAKERS:

LLOYD BLANKFEIN, CEO, GOLDMAN SACHS

JOHN MICKLETHWAIT, BLOOMBERG NEWS

MICKLETHWAIT: Thank you Terry, and thank you Lloyd. We're going to sweep through the world economy, 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?

BLANKFEIN: -- I'll let you know. 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 -- 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, smooth (INAUDIBLE) on steroids, but I do think that -- so I don't think that's what's going on. I do think that some people have conned into that this is a -- this is clouded with a negotiating pattern. That would be my best take.

MICKLETHWAIT: You went to China with Trump all those months ago. Are you disappointed with his China policy?

BLANKFEIN: Well, I met him in China. There was a trade, a trade mission and I'll 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 you -- 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 yeah, we have a lot of things going on in China.

I got a call back from -- you know, from them a couple 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, that I didn't want to -- which is a 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 we'll 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.

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

BLANKFEIN: Look, 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 sudden aggressiveness 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 we get into the ministries that have to affect these things.

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We 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 it and so we feel back at square one.

That level, you know, again, we're in finance, but we're advisors to people in other industries; other industries have similar experiences -- and again, this would not be the course I would have done; not necessarily recommend, but I could see what happens at times.

A lot of the people who are expressing too publicly -- this is a very, you know, difficult thing -- Americans... this 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 they have to pay, you know, pay homage to your, 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.

MICKLETHWAIT: Do you see the argument, that that was maybe acceptable, that \$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 --

BLANKFEIN: -- again 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 -- your negotiating counter-party of just how much firepower you had to bring to the negotiation. Which one is it? You know.

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

BLANKFEIN: Well, remember Rosencrantz and Guildenstern played this? You can't even (INAUDIBLE) --

MICKLETHWAIT: (INAUDIBLE)

BLANKFEIN: How could you, 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 -- 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.

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 hell bent on leaving the -- 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?

BLANKFEIN: Well, two things. It can separate then talk about the risk. A lot of the risk in the world -- today, or 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.

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So you see that the sovereign in the U.S. -- we have a \$4.5 trillion balance sheet. You look at Euro, similar amounts; Japan similar amounts. You know, 14, 15 trillion dollars of debt on sovereign balance sheets that the banks have de-leveraged, but now the risks are with the sovereign and you know --

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

BLANKFEIN: Well, of course, for a variety of reasons. One, it's got huge amount of debt. 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 ECU, i.e. if their willingness of Germany to take, 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 these 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. -- it's sovereign -- the U.S., we print the money we're borrowing. Japan prints the money it borrows, so there's a lot of risk and consequences to printing too much money, but that's not necessarily a systemic moment, you know, cause inflation if you overprint too much money, but that's not a, 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. You know, 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 their, 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.

MICKLETHWAIT: You see Italy as the biggest sort of sovereign threat --

BLANKFEIN: Well, it was in the news --

Look, it is, and also (INAUDIBLE) because of its size and that was there for a while. But also because more recently, their election of a more, you know, of a more --

MICKLETHWAIT: An unusual coalition.

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 of governments, which feed into the financial, you know, the financial crisis. And that creates -- the geopolitical risk that --

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

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, that splits, you know, the immigration debate has split the country and more realistically, in Europe and more, you know, dramatically and consequentially in the near term, the immigration issue in Europe where magnanimously you say Germany admitted a couple of million people -- (INAUDIBLE) 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 cons-, what I think is a consequences to the immigration crisis.

You know, you'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

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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.

MICKLETHWAIT: There's an interesting balance though. On the one hand you're --

BLANKFEIN: But again, don't get me wrong. Hard cases make bad law. Because I wouldn't want to be in the position where we find our government now with respect to the tragedy that's going on in the border --

MICKLETHWAIT: You wouldn't know which to choose, other --

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 of 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 -- same thing that happened -- you saw the tragedy and the consequence of what was happening along the Mediterranean.

And again, we learned this -- you know, one of the things, one of the cliches 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 could end up with a hard case, but bad law.

MICKLETHWAIT: Do you think politics is much harder than business? I mean, you have all these people from Goldman, went into the White House -- it was sort of like the House of Lords, for ex-Goldman employees. Now -- all 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?

BLANKFEIN: Look, we can change our mind. We don't -- we do things, I mean, some days I do things out of a public eye. Some things 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, you know, what we're watching now is, is heart-rendering, again, I wouldn't be on that side and thank God I'm not there because I would -- you know, in my role and certainly in government, we have to make these choice -- 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. Could you op-... with this cou-... you admit millions of people into Germany, 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 immigrant -- 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 we 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.

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

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

(LAUGHTER)

But no, I don't, I don't know.

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MICKLETHWAIT: It's a fashion for financiers of your age to, to run for mayor of New York City, that would be --

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

(LAUGHTER)

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

BLANKFEIN: I have a lot more.

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

BLANKFEIN: How about rate rise? How about rising interest rates, which usually have an effect on valuation?

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

BLANKFEIN: How high can they go? I mean, I lived through (INAUDIBLE) -- I mean, when I got out of school, I, you know -- you know, governing a short term -- short term government interest rates were in the, in the kind of, in the teens and not the low teens. By the way, while inflation was also above 10 percent, by the way, while unemployment was above 10 percent. So these things can happen. I know everybody's debating and the hands, you know, 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, '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 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. I mean, you think what happened with a, you know, to the -- finances of the world and the economies of the world because you had a dramatic and unexpected and rapid drop in real estate prices -- well, I would think the fall-off in, you know, 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 the, you know, I'm forced to spend about 98 percent of my time worrying about the two percent of the things that would go wrong and I could, I could occupy more than the time you have here to tell you the things that I have to worry about.

MICKLETHWAIT: There's another strange thing about that is the many things, many areas that people worry about. One is consumer --

BLANKFEIN: By the way, I'm optimistic.

MICKLETHWAIT: Yeah, you make me feel so --

BLANKFEIN: I'm just saying -- I'm wallowing in the two percent at this point.

MICKLETHWAIT: You've just terrified everyone here with that.

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

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MICKLETHWAIT: We'll come back to that. But in the basic idea, you, 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 the ideal --

Well, it would probably get -- New York Fed has just got, just said there's \$13.2 trillion worth of consumer debt and yet, that's the field you, Goldman's going 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?

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 gonna time it and get into and out of businesses that are franchise businesses for a cycle. We're going to acclimate risk our risk and how we landed 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 we, that's so far into us, which consumer businesses generally is foreign to Goldman-Sachs, the wholesale and institutional firm -- but really what's happened as a result of moving to 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 will 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 you are -- and if they're not your neighbors, but they're coming to you online, then it's a 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 that are making, the distribution decisions, the algorithms that one would go into making these kind 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 the space, the Silicon Valley crowd that would normally come into this space, don't have, aren't licensed to deposit takers and don't have balance sheets and really can't do it. They have to kind of Gerry-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.

MICKLETHWAIT: Just challenge you on one thing. It just being math. Is that it strikes me that Gilbert (INAUDIBLE) --

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, I think up to 20 percent subprime, there'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 different political --

BLANKFEIN: We're unsecure -- this is unsecure --- 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, there's no house to repossess, no car to take over. So that would be, you made a poor risk decision.

MICKLETHWAIT: Do you feel happy with --

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

MICKLETHWAIT: Yes, OK.

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(LAUGHTER)

MICKLETHWAIT: What about the last -- Hank Paulson came here --

BLANKFEIN: But we're still assuming that there are people who will 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 risk - to make a judgment about one person or 500 people, it's a very sketchy thing.

It's easier to make a judgment about five - 50 million people, how 50 million people act. The law of large numbers.

MICKLETHWAIT: I suppose 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 of - which may not be as helpful.

BLANKFEIN: Well, I will tell you we will be the ones that will suffer because again, we have not - 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.

MICKLETHWAIT: That is possible.

(LAUGHTER)

BLANKFEIN: Obviously by the way 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 in 10 years had we chased this business 10 years ago.

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

BLANKFEIN: Me personally?

MICKLETHWAIT: No, not you but we could have told you that - he probably told you that already.

BLANKFEIN: Yes, he has.

MICKLETHWAIT: But 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?

BLANKFEIN: Not necessarily. We've had them periodically. It's obviously more than eight years since the last one. In Europe people for a few hundred years people were told to expect a war every generation. 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 - in the metaphor you need kindling on the floor of the forest. You need somethings, you need leverage. Something that could blow up and then you need the spark that

MICKLETHWAIT: What are the signs you look for?

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 events, some default that happens, a bad play by the sovereign. Bad fiscal policy, a bad monetary policy would be the spark.

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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're looking for some signs now, your earnings are good, you're not really seeing the kind of leverage but maybe you don't see the leverage until after the fact when you look back and you say ah ha 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 run up to the 2007, 2008 crisis in terms of the transactions. So you don't see - look you don't see the things you can't see.

The reason why these things become bubbles is they're not easily seen. The advantage of your job versus my job is I have a PNL, and I can't remember having seen it. You can always claim to have seen it.

MICKLETHWAIT: Yes. That's the advantage. You do get some other benefits from what you do.

(LAUGHTER)

MICKLETHWAIT: In terms of that, you look back at that period, what do you -

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

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

BLANKFEIN: I think the worst thing we did - look our risk management was pretty good. We participated in the market for real estate, you know the crisis was real estate. Real estate prices went down and that was the crisis. The 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 - it was 95 percent of it.

So when 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 - how did you do it admirably to how did you do it. You mean when you were hedging you sold things to people? You must have known, should have known, blah, blah, blah and therefore you were - we ran - 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 being we did the most - the worst at was under-appreciating. We're a wholesale firm. We never advertise in the light. We didn't have our name on our building. We moved to a new building, we're thinking of putting our name on our old building now.

(LAUGHTER)

BLANKFEIN: But the -- 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 keep our name out of the paper, 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 and other name - we didn't have a consumer business but other names for consumers are tax payers and citizens. And so, we have an important - all of a sudden we discovered that they had a - they discovered they had a relationship with us, we had a big effect on them.



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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 tax payers and consumers and our position in the financial system as a very big influential firm that was influential in the context of the national crisis that affected everybody.

And so, that was a - that was an adjustment that we had to make very quickly. Prior to the financial crisis I never would have appeared at anything. You know, my predecessors certainly didn't. And it wouldn't have occurred to me, 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.

MICKLETHWAIT: If you looked to finance now through the eyes of those stakeholders, I suppose as would be the way of describing them, like consumers, tax payers do you think the government has represented their interests well? You've had all this role of regulation.

BLANKFEIN: Well, regulation and I think the most important regulation and the most important role is the way that the banking system has been deleveraged 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 everything and people around the world would watch this stuff in dismay about this public display, at the end of the day, the U.S. did it.

The regulators did it. People write dissertations in the tranquility of some carol 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 test was done in such an aggressive way and let me tell you I was the focus of a lot of the aggression but 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 view of a lot of people who've stormed together very quickly and there's time for an adjustment not to repeal it but to adjust thing -

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

BLANKFEIN: There's things about Volcker Rule, there's a lot of redundancy, there's leverage tests. And there was supposed to be a catchall bank of - 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 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 catchall where you don't assess riskiness of assets. We'll just look at all the assets that are on your balance-sheet including dollars and banks.

And that was supposed to be a catchall to make sure that nobody, kind of attacks version of an alternative tax, if you will. Well it got to the point where that catchall is now the binding constraint and it was never intended and those things have to be adjusted. Volcker Rule, which was added kind of as an 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 it low and sell higher?

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In the real world people aren't really thinking that way, there's kind of market making in doing that and so that's been a little bit counter-productive because the regulators in turn, put the bias rule, assume everything is for a bad purpose unless you improve your state of mind was for a near-term expectation of a client low.

It created - - I mean for a time, the bulk of our IT was set to prove - - provide metrics that would prove that and that was actually interfering with the safety and the soundness of the system because it didn't contribute 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 and you know, 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 in the fog of war and the aftermath and all you have to do is juxtapose how the U.S. financial system has responded, how quickly that regained its footing compared to every - - compared to our counter-parties in Europe.

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

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

MICKLETHWAIT: But it's been exponentially increased by that --

BLANKFEIN: Look at the anguish that you're seeing in the press for where Aramco is going to list.

(LAUGHTER)

BLANKFEIN: 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.

MICKLETHWAIT: How would you change, but how would you change it? Because it is a real structural shift.

BLANKFEIN: Well you 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 company 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 not to use - - didn't use the example I used per se, but this is something that 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, had 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 abandoning systems, but you know, once you do a cost benefit analysis of some kind on whatever incremental benefits you're getting compared to the burdens and the cost you're putting on the system.

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

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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 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 advisor, 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've 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 - they don't have 90 percent 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 - as a firm that we like the positioning 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 permitting capital. And to do that, we had to go public.

MICKLETHWAIT: How does Wall Street change--

BLANKFEIN: And we're the last public ones to go public.

MICKLETHWAIT: How does Wall Street change over the next five, ten years? Does - take on one thing, people here have asked about cryptocurrencies. Does that become a real issue or not? Are you worried about them? You've put your toe in the water--

BLANKFEIN: I worry - not really in any kind of systemic way. But people you know, it's - it would be very painful to somebody who put his or her entire net worth in to cryptocurrencies, but it's not a systemic issue at this point. People are passionate for, passionate against it.

I remember when they came out first with - well, when they came out with cell phones. I remember thinking, God who the hell's going to lug this thing around?

MICKLETHWAIT: Yes.

BLANKFEIN: And I'm saying - and besides, there's a - there's ten phone booths on every corner. I'm not going to - 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.

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 have explained it in hindsight why it did. Because --

MICKLETHWAIT: That has been your secret to success.

BLANKFEIN: Yes, well you have to look at things from both sides and say if it - 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, OK let me postulate this did happen, tell me why it did.

And I find that sometimes it's an easy way of seeing it. And I look at the evolution of money and I say you start out with gold as money. And people only take hard currency, and you make gold coins.

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And a gold coin was like \$5 -- \$5 in gold. And eventually they would give you a piece of paper with a promise that it was \$5 in gold back to \$5 piece of paper and you can 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 gave you paper and says it's worth \$5, we're not going to redeem it, 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 though if you can 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 could 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 with me, because it's unfamiliar, this can't happen, that's too arrogant.

MICKLETHWAIT: But 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.

But you - I think you say amongst the people as a possibility to succeed you at Goldman, there wasn't an obvious women - only five out of the 31 on your Management Committee are like that.

Explain to me, looking back in five years time whether there will be a woman running a big Wall Street firm.

BLANKFEIN: Five years time?

MICKLETHWAIT: And explain it.

BLANKFEIN: You know, other firms have more senior women. You know, it's sometimes, we've had very senior women. People take different career paths. I just - we just - the most senior woman at Goldman Sachs was the person who ran our.. until actually until three days - yes, until the end of this month because she announced her resignation --

MICKLETHWAIT: Yes--

BLANKFEIN: 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, sad to say and, you know, blame and some of it is, you know, fortune and where people have put themselves or taken themselves. This is not a unique problem to any of us. But it's -- that said, it's a problem and people are going to have to work harder at this and we're trying at doing that--

MICKLETHWAIT: -- people could say it is a problem, generally, for Wall Street, isn't it?

BLANKFEIN: No, 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 -- 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 not -- it's a gender issue and it's not just a gender issue.

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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. 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 -- 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.

MICKLETHWAIT: What else? You know, you -- 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?

BLANKFEIN: Well obviously, 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 a quaint term now in something that has now gone through its cycle that we're all trying to kill. Global -- 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 a 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.

Today, if you want to -- if you want a price on an equity or an instrument, 98, 99 percent, it could be 100 percent 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 made off of inputs that are input digitally. And that's a -- kind of a new phenomenon.

I'll tell you another observation, is that the decision-making, of course, is judgment in this. But the decision is being made by programmers. And software -- you know, software experts. I'm not sure -- you know, and a lot of times I look at somebody what used to be called judgment -- oh, that's a judgment decision, saying oh, judgment decision? That's just a few million extra lines of code. Because eventually you can --

MICKLETHWAIT: Doesn't that frighten you?

BLANKFEIN: In a variety of ways, of course it does. By the way, it creates an interesting phenomenon. Look at where -- the same thing for Uber. You're going to have drivers and gee, why did you -- 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's going to say if you see the -- you know, if you see that wall, drive into the wall or it won't say that. And they'll come back and they say why didn't you drive into that wall instead of into the 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 judgment? 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.

MICKLETHWAIT: I'm sure there's an investment banking equivalent of driving into the wall, but --

BLANKFEIN: There is. Of course there is. That's the point I'm making.

MICKLETHWAIT: But putting -- but putting -- putting that to one side --

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BLANKFEIN: Having driven into several myself.

MICKLETHWAIT: But -- but the other -- 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 do you worry about from a New York perspective?

BLANKFEIN: Well, it turns out -- remember the -- the world is flat, everybody would go to the lowest cost place and so, you know, you'll work out of, you know, some place on the steps of Central Europe and -- Central Asia. And it doesn't work that way. There was this book -- I think Richard Florida would be -- 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 an -- a world of automatons, there's going to be creation of things -- and by the way, even those lines of code have to be written. There's not going to be -- 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 a -- New York has had quite a head start on aggregating together all -- people who are like that and have 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.

MICKLETHWAIT: If you became mayor, that would all be solved. If you -- if you became mayor, you could solve that problem.

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

MICKLETHWAIT: Lloyd Blankfein, thank you very much.

BLANKFEIN: Oh, thank you very much.

\*\*END\*\*