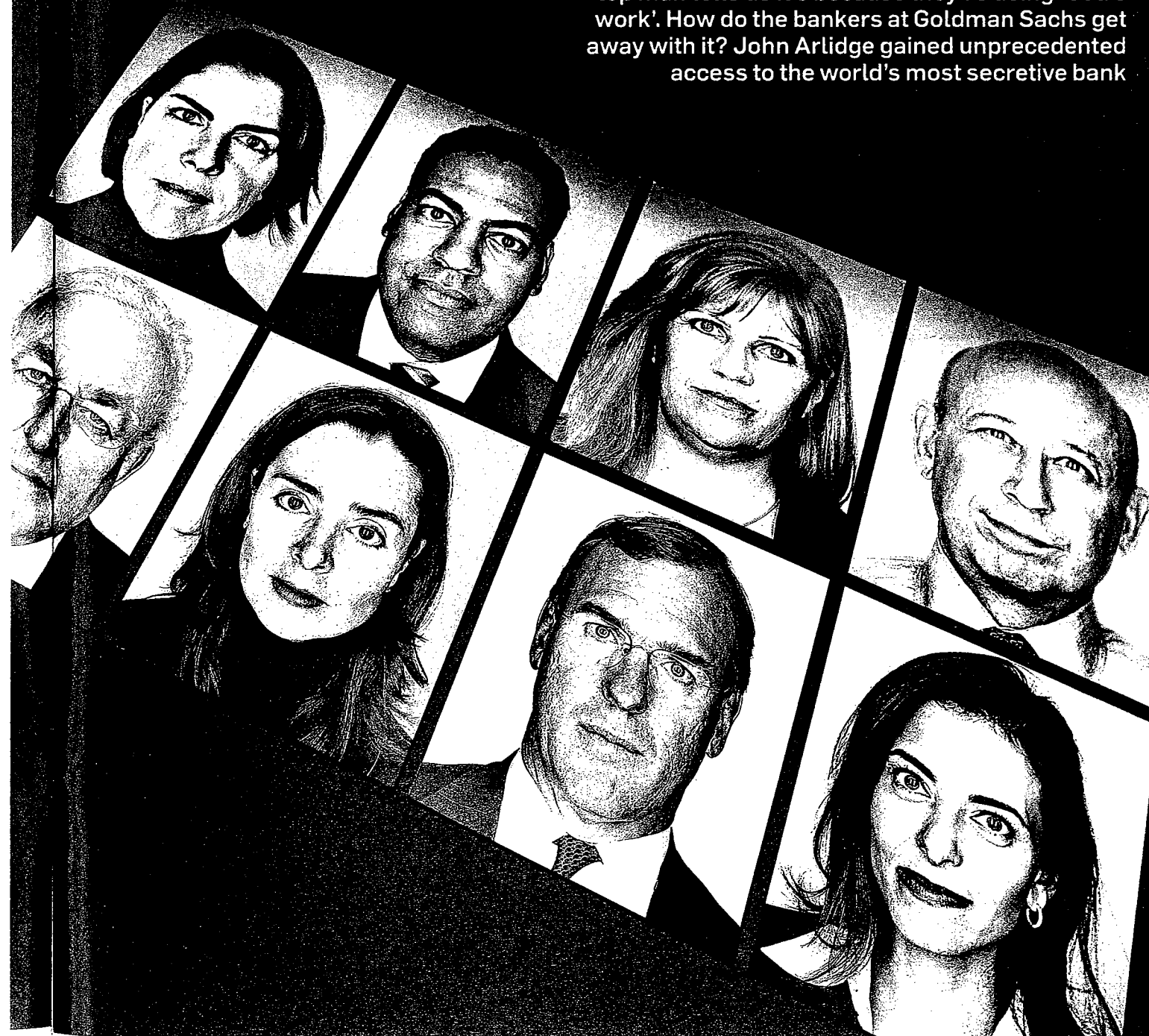


INSIDE THE GOLDMINE

These men and women are in line to take a share of a \$20 billion pay-and-bonus package — and their top man tells us it's because they're doing 'God's work'. How do the bankers at Goldman Sachs get away with it? John Arlidge gained unprecedented access to the world's most secretive bank





THE VIEW FROM THE TOP: GOLDMAN'S KEY PLAYERS
Top row, from left: Eileen Dillon, head of executive operations; Dane Holmes, head of investor relations executive; Sarah Smith, chief accountant; Lloyd Blankfein, chairman and chief executive. Bottom row, from left: Lord (Brian) Griffiths, international adviser; Liz Beshel, global treasurer; Michael Sherwood, co-chief executive, Europe; Dina Powell, head of corporate engagement

Number 85 Broad Street, a dull, rust-coloured office block in lower Manhattan, doesn't look like a place to stop and stare, and that's just the way the people who work there like it. The men and women who arrive in the watery dawn sunshine, dressed in Wall Street black, clutching black briefcases and BlackBerrys, are very, very private. They walk quickly from their black Lincoln town cars to the lobby, past, well, nothing, really. There's no name plate on the building, no sign on the front desk and the armed policeman stationed outside isn't saying who works there. There's a good reason for the secrecy. Number 85 Broad Street, New York, NY 10004, is where the money is. All of it.

It's the site of the best cash-making machine that global capitalism has ever produced, and, some say, a political force more powerful than governments. The people who work behind the brass-trim glass doors make more money than some countries do. They are the rainmakers' rainmakers, the biggest swinging dicks in the financial jungle. Their assets total \$1 trillion, their annual revenues run into the tens of billions, and their profits are in the billions, which they distribute liberally among themselves. Average pay this recessionary year for the 30,000 staff is expected to be a record \$700,000. Top earners will get tens of millions, several hundred thousand times more than a cleaner at the firm. When they have finished getting "filthy rich by 40", as the company saying goes, these alpha dogs don't put their feet up. They parachute into some of the most senior political posts in the US and beyond, prompting accusations that they "rule the world". Number 85 Broad Street is the home of Goldman Sachs.

The world's most successful investment bank likes to hide behind the tidal wave of money that it generates and sends crashing over Manhattan, the City of London and most of the world's other financial capitals. But now the dark knights of banking are being forced, blinking, into the cold light of day. The public, politicians and the press blame bankers' reckless trading for the credit crunch and, as the most successful bank still standing, Goldman is their prime target. Here, politicians and commentators compete to denounce Goldman in ever more robust terms — "robber barons", "economic vandals", "vulture capitalists". Vince Cable, the Lib Dem Treasury spokesman, contrasts the bank's recent record results — profits of \$3.2 billion in the last quarter alone — and its planned bumper bonus payments with what has happened to ordinary people's jobs and incomes in 2009.

It's even worse in the US. There, Rolling Stone magazine ran a story that described Goldman as "a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money". In his latest documentary, *Capitalism: A Love Story*, Michael Moore drives up to 85 Broad Street in an armoured Brinks money van, leaps out carrying a sack with a giant dollar sign on it, looks up at the

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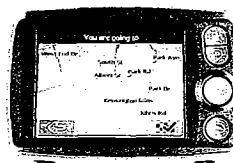
HOW THEY MAKE THEIR MONEY

Goldman Sachs's name may not be on the high street, but if you bank with HSBC, cook with gas, shop with Ocado, watch Big Brother, buy clothes at Gap, use a TomTom satellite navigation system or simply enjoy the odd cheese-and-pickle sandwich, Goldman is part of your life.

The company is split into three divisions. It's an investment bank that raises money for clients and sometimes invests its own money in businesses. In the UK, it has raised capital for HSBC, Centrica (owners of British Gas), and Ocado, the online grocery business

backed by Waitrose that sells more than £400m-worth of food a year.

It helped to fund Endemol, makers of *Big Brother*, and is the biggest single investor in Eurotunnel. It has handled share issues for TomTom and J Crew. It is banker to Gap. It restructured Premier Foods, one of whose brands is Branston pickle. Goldman is also a trading house. It trades commodities, such as oil and gold, equities (shares in companies) and company debt. It raises money for governments by selling interest-bearing bonds to investors. The bank's third division is asset management. It manages





building and yells: "We're here to get the money back for the American people!"

Goldman's reputation is suddenly as toxic as the credit default swaps and other inexplicably exotic financial instruments it used to buy with glee. That's bad for the one thing it values more than anything else: business. Being the prime target for popular and political outrage could put Goldman first in line for draconian new regulation. So it has, reluctantly, decided that the time has come to speak out, to fight its corner. That's how, on one of those bright autumnal New York mornings when anything seems possible — even an invitation to break bread with the masters of the universe — I find myself walking past the security guard who held up Michael Moore and into the building with no name.

"Aha! You catch us plotting in real time," says Lloyd Blankfein, breaking away from a cabal of senior executives discussing his trip to Washington the previous day. Blankfein, 55, Goldman's chairman and chief executive, is wearing a grey suit with a jaunty Hermès tie with little red bicycles on it. In his hand, he's carrying one of those cups of coffee that look bigger than the human stomach. Maybe it's the caffeine, maybe it's the tie — a birthday present from his daughter — but he's in a remarkably jolly mood for a man everyone seems to hate. "It's like a safari here," he jokes. "You've come in to look at the animals."

Blankfein may be Wall Street's Sun God, but, with the economic outlook stormy, he doesn't want to advertise it, so the merest hint of a status symbol or — horror! — ostentation is airbrushed out of his life, publicly, at least. Take his office on the 30th floor. The chairs are the same ones that were there when he became CEO three years ago. There are none of the \$87,000 handmade rugs or \$5,000 wastepaper baskets of Wall Street lore. There's no sign of irrational exuberance. Only coffee, which arrives cold. It sets just the right tone for the job in hand. The grand wizard of Wall Street is steeling himself for the hardest sell of his life: he's here to argue for good ol' capitalism, for investment banks and for Goldman Sachs.

Luckily for him and his firm, he's a damn good salesman. He starts with a little humility. He understands that "people are pissed off, mad, and bent out of shape" at bankers' actions. Goldman played its part in the meltdown that almost destroyed the global financial system. It, like most other banks, lent too much money, made its first quarterly loss for more than a decade last year and ended up taking bail-out cash from Washington. "I know I could slit my wrists and people would cheer," he says. But then, he slowly begins to argue the case for modern banking. "We're very important," he says, abandoning self-flagellation. "We help companies to grow by helping them to raise capital. Companies that grow create wealth. This, in turn, allows people to have jobs that create more growth and more wealth. It's a virtuous cycle." To drive home ➡➡➡

money on behalf of pension funds, insurance companies and wealthy individuals.

It makes money by charging hefty fees to the companies and clients it advises and whose assets it manages — typically 2-4%. It also makes profits from trading using its own cash, as it has done since its inauspicious beginnings.

The bank was founded in New York in 1869 by a Jewish immigrant from Bavaria, Marcus Goldman. His son-in-law, Samuel Sachs, later joined him. Shut out of the clubby, largely

Protestant world of stock and bond trading, Goldman established a profitable, if unglamorous, niche buying and selling short-term corporate IOUs, known as commercial paper. By the turn of the century, the firm was pioneering the

market for initial public offerings, handling the stock-market debuts of blue-chip companies such as Sears and Ford.

As Goldman started outside the cosy Wall Street establishment, it hired the smartest, most driven people it could find, who learnt to exploit market loopholes, snatch business from rivals and win favours from friends in high places. Under Sidney Weinberg, chief executive from 1930 to 1969, the bank forged top business graduates into ad-hoc teams that would work around the clock for clients ■

GAP



his point, he makes a remarkably bold claim. "We have a social purpose."

Social purpose? Those who have lost their jobs or seen their pay slashed thanks to bankers who flogged dodgy mortgages and dreamt up investments so complex not even they understood them, would gladly tell him where to stick his social purpose. But the problem is, Blankfein is a good advertisement for wealth creation. His own. He is no scion of privilege, dispensing plummy-voiced homilies to raw capitalism from his 30th-floor eyrie. Born in a tough neighbourhood in the Bronx, the son of a postal worker and a receptionist, he was the first in his family to go to college and used financial aid to go to Harvard.

Even though he proudly pays himself more in a year than most of us could ever dream of — \$68m in 2007 alone, a record for any Wall Street CEO, to add to the more than \$500m of Goldman stock he owns — he insists he's still "a blue-collar guy".

But what about the charge sheet? Bankers brought the world to the brink of bankruptcy and instead of doing the decent thing and jumping out of the nearest window, they turned up cap in hand to governments to Hoover up taxpayers' money to save their skin. Now, just one year on, they are carrying on as if nothing has happened, gambling, and winning, handsomely, with our cash. Goldman's profits in the second quarter were a record \$3.4 billion. Most of the money is being made in trading in bonds, currencies and commodities.

Goldman is coining it again for two reasons. First, global markets are booming — up 50% from the credit-crunch lows, as new money, much of it from governments, has gushed into the financial system. Second, with Lehman Brothers and Bear Stearns off the street, Merrill Lynch a crippled shadow of its former self, and neither Citigroup nor UBS the forces of old, Goldman has a bigger slice of a growing pie. "We didn't f--- up like the other guys. We've still got a balance sheet. So, now we've got a bigger and richer pot to piss in," is how one Goldman banker puts it. Small wonder the bank is on course to set aside over \$20 billion for salaries and bonuses.

So far, so lucrative. But isn't it simply unfair? Isn't Goldman acting as the modern equivalent of war-time profiteer, taking advantage of global crisis and emergency government action to mint millions? Even the veteran financier George Soros says the big profits made by Wall Street banks are "hidden gifts" from the state.

Blankfein dismisses any suggestion that Goldman needed to be bailed out, and, by extension, rejects any notion that the firm is now profiting from public support. Sure, he took \$10 billion from Washington's Troubled Asset Relief Program (Tarp). But the bank has since repaid the cash, with healthy interest — 23%. Goldman also benefited from the federal bail-out of the huge US insurance firm AIG. Goldman had bought \$20 billion worth of insurance from AIG and received



OVERWORKED, OVERPAID, OVER HERE

Goldman Sachs makes more per employee than any other London bank. This year, each UK staff member will earn on average £450,000. Who are the key players and how do they spend it all?

Goldman Sachs may be a Wall Street bank, but its role and influence in London is huge. Around 5,500 people work in its Fleet Street office, which is, in fact, two former newspaper offices joined together. Traders sit where hot-metal printers used to lay out The Daily and Sunday Telegraph and The Daily and Sunday Express.

It is the most profitable bank in the City. Profits per employee averaged £181,000 a year between 2000 and 2008. Average pay this year is expected to be £458,000.

It is one of the top tax-payers in the City. The Chancellor, Alistair Darling, stands to receive more than £2 billion in corporation tax, VAT and income tax this year.

Staffers enjoy lavish perks. The firm has its own chefs to make sure visiting guests can eat and drink with Goldman partners in style — and away from envious eyes. There is a company gym, a doctor's surgery and a crèche. Every staffer gets private health insurance as standard. Staff can take a taxi on the firm pretty much whenever they want. Lines of black cabs snake around the back of the building at night.

The London office is run by Michael Sherwood (above) and Richard Gnodde.

Sherwood, known as Woody, is the hard man. The former trader seems to model himself on his good friend, the BHS billionaire Sir Philip Green. He talks fast, in a no-bullshit style.

Like Sir Philip, his brash deal-making can get the better of him. In 2006, British Airports Authority asked Goldman to pitch for the brief to fend off a hostile takeover bid from Ferrovial, Spain's construction giant. Goldman, whose team included Sherwood, said one tactic would be for Goldman itself to buy BAA. The move outraged BAA and prompted Goldman's then CEO, Hank Paulson, to send a stern message upbraiding the executives involved. The note became known as 'the spank from Hank'.

By contrast, Gnodde is a suave investment banker. He looks, and talks, like he has stepped out of a 1970s men's knitwear catalogue. He is the velvet — or should that be cashmere? — glove to Woody's iron fist. He is best known for advising the Indian steel tycoon Lakshmi Mittal in his £17-billion bid for the European producer Arcelor.

Sherwood and Gnodde are advised by part-time *eminentes grises*, such as Lord (Brian) Griffiths, one-time special adviser to

Left: Sherwood's home overlooks Regent's Park. Bottom: Jennifer Moses. Bottom right: the Hampstead home she shares with her husband, Ron Beller

Not all Goldmanites avoid the headlines. An abiding tale of the boom years is how three London executives, Jennifer Moses and her husband, Ron Beller, and Scott Mead, had so much cash they did not notice when an assistant, Joyti De-Laurey, stole more than £4m from their accounts.

Goldmanites send their children to the same private schools and if they don't like the ones in their area, they set up their own. Mead co-founded a prep school in Notting Hill, with 200 students from ages 4-14. The wives of Goldman Sachs employees also try to keep a low profile, devoting themselves to charity work and competitive grooming.

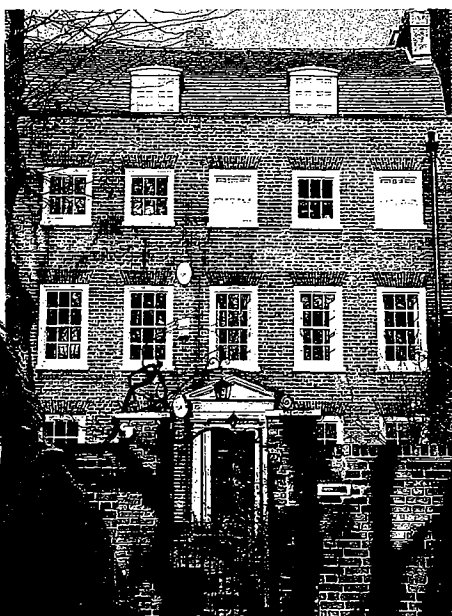
As in the US, the bank is closely linked to the government. Its former chief economist and partner, Gavyn Davies, is married to Gordon Brown's special adviser Sue Nye. Under Tony Blair, Davies became chairman of the BBC. His successor as chief economist at Goldman, the late David Walton, was handed a seat on the Bank of England's interest-rate setting Monetary Policy Committee. Paul Deighton, who is running the London Olympic Games organising committee, used to be Goldman's chief operating officer.

Goldman is a key banking adviser to the government. Brown hired the bank to advise him on the sale of Northern Rock last year ■

Margaret Thatcher who ran the prime minister's policy unit from 1985 to 1990 and is a former director of the Bank of England. He is one of the bank's international advisers and also acts as company pastor. 'I had one guy who came to see me — I thought about his career — but he wanted to talk about the morality of banking. That was a long conversation,' Griffiths recalls.

As a committed Christian and a trustee of the Archbishop of Canterbury's Lambeth Fund, Griffiths is a useful PR tool. It was he, for instance, who spoke out last month to defend big bonuses. 'If we said we're not going to have as big bonuses or the same bonuses as last year, I think you'd find that lots of City firms could easily hive off their operations to Switzerland or the Far East,' he told an audience at St Paul's Cathedral.

Every year, at bonus time, Sherwood and Gnodde remind staff to keep a low profile, not to advertise their wealth. Most do. They invest their millions in property, mostly in secluded parts of Kensington, Regent's Park, Fulham, Notting Hill Gate, Chelsea, Highgate and Hampstead. For many years, one partner, Julian Metherell, proudly drove around in a beaten-up red Nissan Sunny.



billions of dollars — perhaps as much as \$13 billion — when Washington pumped \$90 billion into the stricken giant. But Blankfein insists Goldman was "hedged" against any AIG losses, in the best possible way — with cash. So even if AIG had gone under, Goldman would not have suffered. Critics say that had AIG gone bust, the entire financial system could have collapsed, taking Goldman with it. What's more, at the height of the crisis, the Federal Reserve broke with an 80-year-old tradition and let Goldman turn itself from a pure investment bank into a bank holding company. This meant it could borrow funds at the same cheap rate as commercial banks for as long as it wanted. Blankfein says Goldman changed status not for the money, but because it had become clear, following the collapse of Bear Stearns and Lehman, that the market had lost faith in the ability of the US Securities and Exchange Commission to regulate investment banks. Being regulated by the central bank, the Federal Reserve, would help to restore confidence in the financial system as a whole.

Whatever the truth behind the bail-out, not even the smartest Goldmanite can deny that it is only thanks to government aid that the bank still has a financial system to work with. Washington has bolstered the US economy and banks to the tune of \$12 trillion. Does Blankfein not acknowledge that it is maddening for most of us to watch Goldman gobble up so much cash while we struggle? Quite the opposite. He insists we should be celebrating his bank's success, not condemning it. "Everybody should be, frankly, happy," he says. Can he be serious? Deadly. Goldman's performance, he argues, is the firmest indication of a nascent economic recovery that will benefit not just him and his firm but all of us. "The financial system led us into the crisis and it will lead us out."

Blankfein goes on to say something equally audacious. We should welcome the return of titanic paydays at Goldman. Goldman is exempt from President Barack Obama's cap on bonuses because it has paid back bail-out cash. Paying top dollar to recruit and retain the best bankers won't sink the system, he claims, but save it. Performance-related pay is a guarantee of high-quality responsible banking. "If you examine our practices on compensation, you will see a complete correlation throughout our history of having remuneration match performance over the long term. Others made no money and still paid large bonuses. Some are not around any more. I wonder why."

Many disagree, arguing that in the new, flatter economic landscape, megabucks pay is no longer necessary. Lucian Bebchuk, professor of law, economics and finance at Harvard Law School, says: "These days, it's easier for banks to keep their employees from being raided. The outside opportunities are less attractive now than in 2007."

Okay, forget bail-outs, forget bonuses, forget all the money stuff, if you can. Surely Blankfein cannot dodge the playwright David Hare? Through his latest work, *The Power of Yes*, which ➡

FRIENDS IN HIGH PLACES: GOLDMAN'S POLITICAL WEB

US treasury secretaries, heads of the New York Stock Exchange, White House and Downing Street advisers — you name it, they've worked for Goldman Sachs. Here are just some of the Goldmanites with their fingers in the worldwide political pie

SUE NYE ▼ GORDON BROWN

Gordon Brown's special adviser, Nye is married to Goldman's former chief economist and partner Gavyn Davies. Under Tony Blair, Davies became chairman of the BBC. He resigned in 2004 after the Hutton Report



ROBERT RUBIN ▶ BILL CLINTON

Rubin spent 26 years at Goldman before joining the Clinton administration as an economic adviser. He served as treasury secretary for four years from 1995, and remains an adviser to President Barack Obama



LARRY SUMMERS ▲ BARACK OBAMA

Obama's economic adviser Summers never worked directly for Goldman, but served in Clinton's government under his mentor, Robert Rubin. Goldman paid Summers \$135,000 to appear at a one-day speaking event in 2008 before Barack Obama came to power

tackles the issue of the credit crunch, Hare argues that it is "blackmail" to say that there cannot be a recovery unless we let bankers get on with what they have always done and pay themselves squillions. It's like what the miners did in the 1970s, only this time the National Union of Mineworkers is the City and Wall Street. Blankfein has no time for such soft talk. Bankers are not miners. "I've got news for you," he shoots back, eyes narrowing. "If the financial system goes down, our business is going down and, trust me, yours and everyone else's is going down, too."

Like a patient who has survived a near-death experience, for Blankfein the credit crunch has rekindled his innate passion for moneymaking. Talking to him is like talking to a man who has greenbacks, not blood, running through his veins. He believes he's good at what he does and what he does is good. He has his supporters. Vanity Fair awarded him the coveted No 1 spot in its 2009 New Establishment list, its league table of the 100 top power players in the information age, above such luminaries as the Apple boss, Steve Jobs, and

GOLDMAN SACHS IS CARRYING ON AS IF NOTHING HAS HAPPENED. THEY'RE GAMBLING, AND WINNING, WITH OUR CASH. THEIR PROFITS IN THE SECOND QUARTER WERE A RECORD \$3.4 BILLION

the Google founders, Sergey Brin and Larry Page. Others, such as the New York Times columnist Andrew Ross Sorkin, argue that the public "cannot have it both ways". At the height of the crisis last year, Sorkin recalls, "many crossed their fingers, hoping Goldman and the rest of Wall Street would be saved to halt the downward spiral. But now when the banks finally get back on their feet, we want them to fall flat again".

Like it or loathe it, one thing is unarguable: "Tenacious G" does seem to draw the winning hand in good times and, as we have seen recently, in bad. It begs one simple question. How? What's in the special sauce? To try to find the answer, you have to leave Blankfein's office and take the lift to the 17th floor. On the way, you hear investment bankers, traders, "strats" — strategists — and

"quants", the mathematical lizard brains who dream up whizzy trading formulae, discussing "interest rate swaps", "no credit defaults", "exotic and vanilla options", "bid-ask spreads", "bunds", "bobs" and goodness knows what else. You can't see the cash whizzing around 85 Broad Street as you walk through the place, but you can feel it being shuffled 24 hours a day between central, commercial and investment banks, vast companies, Russian oligarchs, Middle Eastern movers and sheikhs, Texas oilmen and secretive billionaires in Bermuda and the Cayman Islands.

In an office with an ink stain on the carpet, sits Liz Beshel. She's the first ingredient of Goldman's witches' brew. The firm only hires the very, very brightest and they don't come much sparkier than Beshel. The 40-year-old single mother talks ➤➤➤

so fast, and with such insight into financial markets, you practically need a degree from Harvard Business School to keep up. She was snapped up by Goldman straight from college and managed to get an executive MBA from Columbia University, New York, "on Fridays". As you do. She rose quickly though investment banking to become the firm's youngest-ever global treasurer, the keeper of the cash. Today, every pound the firm invests, every yen it borrows, every dollar that flows on and off its balance sheet, is under her watchful eye, all \$1 trillion a day of it. How much cash does the bank have right now? I ask. "\$164.2 billion in cash or cash equivalents," she replies without pausing for thought or breath.

It is thanks to rat-tat-tat intellectuals like Beshel that Goldman Sachs not only has so much money, but tends to be good at hanging onto it. Staff rigorously price — "mark to market", in the jargon — the bank's assets every day, down to the last cent, and forensically examine daily profit and loss. This helps the bank to see market trends clearly and early and, it believes, to manage risk better than most other banks. "We think we make better decisions," says Beshel. There's evidence to support the claim. Take the sub-prime mortgage sector, the ticking toxic debt bomb that detonated the economic crisis. One year before bad home loans brought down Lehman and Bear Stearns, forced shotgun marriages of Merrill Lynch to Bank of America and HBOS to Lloyds, and made Royal Bank of Scotland a national joke, Goldman's daily valuations revealed it had suffered modest losses in its mortgage holdings for just over a week. At most banks, the losses might have gone unnoticed or been dismissed as a rounding error, but Goldman convened a meeting of senior bankers to try to find out what was going on. Even though the housing and mortgage markets were still buoyant, the bank did not like what it saw and began reducing its exposure. When the credit crunch hit, its losses in the mortgage sector were only \$1.7 billion, lower than any other big investment bank. UBS lost \$58 billion.

Being smarter than the average bear is one thing, but to be a Goldmanite you have to work harder than the average bear too. Ask Sarah Smith, 50, a former convent schoolgirl from Bromley in Kent who left Britain to become Goldman's chief accountant. "It's a 24/7 culture," she says. "When you're needed, you're here. And if you're needed and you're not answering your phone, you won't be needed very long."

Smith, whose office is a BlackBerry throw away from the Embassy Suites hotel where Goldman staff go for an hour or two's sleep when they have been up so long that they start sleepwalking along the hallways, only had a few days' holiday last year. How many weeks off does she get a year? "I don't know. No one really knows how much holiday you get because nobody ever takes it all."

The big brains and brutal work ethic help to give



SACHS IN THE CITY

The bank's top five UK earners

Michael Sherwood

The vice chairman and co-chief executive of Goldman Sachs International. Known as Woody, he is renowned for his trading skills. His basic salary in 2008 was £415,000. In a good year, he can expect a bonus to take his package to around £6m. He is one of two head honchos in London.

Richard Gnodde

The co-chief executive of Goldman Sachs International. Gnodde's 2008 salary was £1.3m. A large chunk of this may have been a bonus. He is believed to have been the highest-paid director in London in 2007, taking home £11.7m. He took a 90% pay cut last year.

Matthew Westerman

The global head of equity capital markets. He should take home up to £5m with a bonus in 2009. A former Rothschild banker who cut his teeth in his thirties on stock-market flotations around Europe, he was lured to Goldman Sachs in 2000 to lead the European new issues division. He has been involved in company fundraisings this year, where Goldman has reaped huge profits, so is in line for a bumper bonus.

Yoel Zaoui

The head of European investment banking. He is likely to receive up to £5m in 2009. An employee since 1988, Zaoui has had a meteoric rise. He achieved coveted partnership in just 10 years. He has often locked swords in European takeover battles with his older brother Michael, who had the same role at the rival bank Morgan Stanley.

Karen Cook

An MD of Goldman Sachs International and president of Goldman Sachs, Europe. Cook's salary with bonus in 2009 could be up to £5m. A mother of six, she was co-head of UK corporate finance at the blue-chip bank Schroders before moving to Goldman in 1999. She has been involved in multi-billion-pound takeovers, such as Kraft's £10.2 billion tilt at Cadbury.

Compiled by Philip Beresford

Goldman the edge when it comes to snagging the best, and richest, clients. One veteran Goldman banker explains: "You are programmed at an early stage to go out more than the other guy, to see more people — clients, hedge funds or private equity guys."

Goldman staffers are also trained to "brain pick" contacts and clients harder than the other guy. "You ask what's their best trade. How do they see the market," says one. "You offer something in return, but you always come back with something. Then you feed it to colleagues who go to work trying to use the information to make money." Other banks do not get such good information, and what information individual bankers do get, they tend not to share because they regard it as power they can use to benefit individually. "Goldman is not like that," the veteran banker says. "It's a team effort." Or, as one rival banker puts it, "They're a clever gang — of thugs."

Dane Holmes, 39, Goldman's head of investor relations, is a 6ft 8in tall, 260lb former college basketball player. He looks like he could run straight through opponents — hell, through brick walls! — if he wanted to. But, he says: "That's not the way Goldman works. You can have a great career in banking as an individual, but it won't be here. The system weeds out those who can't play nicely with others."

When Goldman gets behind something, everyone in the giant hive wants a piece of the action. Take this article. Once the bank had agreed to talk, it was hard to get senior executives to shut up. One, Michael Sherwood, 44, co-boss of Europe, flew back to the firm's London headquarters from the IMF meeting in Istanbul, via Moscow, for a 40-minute interview, before jetting off again straight away to see clients in the Gulf. The idea of teamwork goes right to the top. Goldman may not be a private partnership any more — it went public a decade ago — but the bosses work hard to foster a "we're in this together", family-style approach. Others say it feels more like a cult, but they mean it as a compliment. Some of its practices make perfect sense. Bonuses, for example, are not based on personal performance, as they are at many banks, but on the performance of the firm as a whole, and partners receive a sizable chunk of their remuneration in stock that they cannot sell until they leave the firm. It weeds out what Dina Powell, 36, the firecracker Egyptian-American boss of Goldman's philanthropic arm, calls "egomaniac jerks" who might be tempted to bet the farm on red in the hope of skewering a bigger bonus.

Other practices are distinctly creepy. Goldmanites are forced to check their secure voicemail morning, noon and night for the latest *bon mots* of Blankfein and Eileen Dillon, 48, who is officially head of operations for the executive office but unofficially camp counsellor. Goldman is the biggest user of voicemail in the world. The ➤→ 21



THE DAY-GLOBBY
TO THE
BOTTOM 3-5% OF
STAFF EVERY YEAR
RICHARD GNODDE
CO-CHIEF EXECUTIVE
OF THE EUROPEAN
OPERATION



GOLDMAN SACHS HAS
A BILLION IN CASH
WE THINK WE CAN
BETTER DECISIONS
BY BEST
GLOBE/ETRE/CLURE

"mind bullets" consist of anything from the latest profit and loss figures, to reports of what the chief executives of key clients have told Blankfein and his top team over lunch, to instructions to "switch off on holiday, for goodness sake".

No calls to meet in the basement to club baby seals to death first thing in the morning to get in the mood for a hard day's banking? "God, no," one staffer says wryly. "We don't club baby seals. We club babies."

What makes people who are bright enough to do anything they want put up with the days-into-nights-into-days working and the dorkish corporate groupthink? There's the money, of course. Goldman Sachs isn't nicknamed "Goldmine Sachs" for nothing. There's so much of the stuff sloshing around that in an average year a good investment banking partner will make \$3.5m, a good trading partner \$7-10m and a management committee member \$15-25m. Some 953 employees got bonuses of at least \$1m in 2008. Blankfein may insist he is still a blue-collar guy, but he manages to have a \$30m apartment on Central Park West and a 6,500-square-foot home in the Hamptons, the summer playground of New York's elite. One former Goldman banker describes the culture as "completely money-obsessed. I was like a donkey driven forward by the biggest, juiciest carrot I could imagine. Money is the way you define your success. There's always room — need — for more. If you are not getting a bigger house or a bigger boat, you're falling behind. It's an addiction." Addiction is a word Sherwood uses, too. He should know. He's on his second multi-million-pound super-yacht. "I like boats," he says. Not sailing, but boats. It's his way of keeping up with, and in with, his friend the BHS billionaire, Sir Philip Green, who lives for part of the year on his 208ft, £32m yacht, Lionheart, which is moored in Monaco. "How many boats have I bought?" Sherwood says. "It's not a good time to answer that. I'll take the Fifth."

But there's another powerful motivator: doubt. There may be arrogance at 85 Broad Street — behind closed doors, Blankfein likes to joke (but not really) that he has "attained perfection" — but behind the bravado, Goldmanites, curi-

ously, question their ability. "There is a deep and constant paranoia about everything we do," says Sherwood. It applies to an individual's performance and the prospects for the firm as a whole.

Insecurity is hard-wired into the system. You feel it even before you are hired. Most applicants are interviewed at least 20 times before they are made an offer and some more than 30 times. Once hired, each staff member is constantly and confidentially reviewed by those they work with. There's a metric for every aspect of performance and each staffer is measured against their department and the firm as a whole. Every year, staff are put into one of four quartiles by the Human Capital Management department. Note the "Capital". At Goldman, people are money. The top are richly rewarded, while the fourth quartilers? Who cares? They won't be around much longer. It's up, or out. "We say good-

BEHIND THE BRAVADO, GOLDMANITES QUESTION THEIR ABILITY. 'THERE IS A DEEP PARANOIA ABOUT WHAT WE DO' SAYS THE CO-CHIEF EXECUTIVE MICHAEL SHERWOOD

bye to the bottom 3-5% every year [about 1,500 people]," says Richard Gnodde, 49, co-boss of the European operation, based in London.

Taking type-A people, making them feel like type-B people and moulding them into kick-ass teams that work every hour God — sorry, Goldman — sends, is important, no doubt. But it's not Goldman's killer app. That is its extraordinary networking ability. The firm is the greatest talent network in the world. Unlike at other banks, top performers are encouraged to get on, make all the money they will ever need in their thirties, then get out to "do good". The average tenure of a partner is eight years. "You don't join for the retirement programme," says one staffer. "You have your phase of the moon to make money and then f--- off." But doing good does not mean running an HIV clinic in Kinshasa, it means getting top jobs in treasuries, central banks and stock exchanges around the world. The list of former Goldman executives who have held key posts in the US administration and vital global institutions in New York and Washington alone is mind-boggling. It includes: the treasury secretary under Bill

Clinton (Robert Rubin); the treasury secretary under George Bush (Hank Paulson); the current president and former chairman of the New York Federal Reserve (William Dudley and Stephen Friedman); the chief of staff to the treasury secretary Timothy Geithner (Mark Patterson); the chief of staff under President Bush (Joshua Bolten); the economic adviser to the secretary of state, Hillary Clinton (Robert Hormats); the chairman of the US Commodity Futures Trading Commission (Gary Gensler); the under-secretary of state for economic, business, and agricultural affairs under President Bush (Reuben Jeffery); the past and current heads of the New York Stock Exchange (John Thain and Duncan Niederauer); the chief operating officer of the Securities and Exchange Commission's enforcement division (Adam Storch). Moreover, Goldman's new top lobbyist

in Washington, Michael Paese, used to work for Barney Frank, the congressman who chairs the House Financial Services Committee. To put this in perspective, imagine that Alistair Darling, the chancellor, and his key advisers, Mervyn King, governor of the Bank of England, Xavier Rolet, the boss of the London Stock Exchange, and Hector Sants, head of the Financial Services Authority, all used to work at the same City firm before moving into government. Small wonder that another of Goldman's nicknames is "Government Sachs".

Critics say having friends in high places gives the firm the vital edge. Key government officials, they argue, discuss policy — privately — with Goldman chiefs more than executives from other banks. In his new book, *Too Big to Fail*, Andrew Ross Sorkin reports one meeting. Blankfein's predecessor, Paulson, had promised not to talk to Goldman when he moved from the bank to the US treasury, but last June he happened to be in Moscow at the same time that Goldman's board of directors was having dinner there with Mikhail Gorbachev. Paulson got approval from treasury lawyers to meet his old chums, since it

would be a "social event". Paulson proceeded to regale them with stories about his time in the treasury and his predictions for the global economy. Goldman's board questioned him about the possibility of another bank blowing up, like Bear Stearns. Recently released documents reveal that a few months later, at the height of the crisis when Paulson was working on the bail-out of AIG, Blankfein's name appeared on his call sheet 24 times in six days. Big banks that held AIG insurance contracts, including Goldman, were paid off in full, rather than at the 60 cents on the dollar that AIG negotiators had been pressing for, prompting allegations of a "sweetheart deal" between Paulson and Blankfein.

Goldman vigorously denies that having so many former staffers in top political posts means it receives special treatment. "These people are highly principled," says Sherwood. The Moscow meeting and the AIG deal call into question Sherwood's claim, to put it mildly.

The more time you spend in 85 Broad Street, the more you get the feeling that Goldman is the overachieving child of globalisation. It has the best, brightest and hardest-working in global finance and government in its pocket. Even the critics agree. But they add that the well-greased machine does other things that ensure its success, things that the bank is less keen to talk about. While the whizzo teams might manage risk well and get out of bull markets at just the right time, they play their part in inflating the bubbles in the first place — and pocket a fortune doing so. Goldman has benefited from the upside of all the recent booms — dot.com, commodities, housing — and, critics say, was involved in stoking them by handling share offerings for big clients and by trading securities and debt before pulling back.

Detractors also accuse the bank's trading and investment-banking arms of "playing both sides" of the market. Goldman trades securities for big firms and pension funds. It also acts as adviser to many of the companies whose securities it trades. This means the firm has a view on what everyone in the market is doing. Say an investor approaches Goldman and says it wants to buy into the oil market. Goldman can offer an accurate view of what is likely to happen in that market because it knows what its own corporate energy clients are doing on its advice and what other big investors are trading. This also means the bank can do well on its own oil trades. Critics liken this to a huge casino in which the house knows every hand at the table and uses that information to enrich itself at the expense of everyone else. Goldman dismisses charges of "casino capitalism". The more market information it has, it argues, the better it can advise companies and the better it can match buyers with sellers and get the best prices in the markets. It emphatically denies it misuses information or acts unethically. Strict "Chinese walls" between traders and advisers prevent any

Goldman Sachs

STRENGTH IN NUMBERS

In 2007, the Goldman Sachs boss Lloyd Blankfein earned \$68m, a record for any Wall Street CEO. A good investment banking partner at Goldman will make \$3.5m a year, a good trading partner \$7-10m a year, and a management committee member \$15-25m.

Goldman is not the biggest bank in the world. ICBC, the Industrial and Commercial Bank of China, has 11 times the number of employees. Nor is it the richest. HSBC has assets of \$2.4 trillion, against Goldman's \$1 trillion. And it's not the biggest by market capitalisation. It's worth \$95 billion, compared with \$201 billion for HSBC. But it is the most profitable.

Goldman makes more money per employee than any other bank — \$222,000 a year on average between 2000 and 2008. JP Morgan Chase, its nearest rival, made annual profits of \$133,000 per employee in the same period.

Goldman's profits in the second quarter of this year were a record \$3.4 billion.

conflicts of interest. Regulations are so tight that if an investment banker so much as tries to enter a trading floor using their electronic office pass, not only will the pass not work, but he or she will be hauled in for questioning.

Whatever alchemy it uses, one thing is certain: Goldman has dodged the credit-crunch bullet and is emerging from the crisis stronger than ever.

WHATEVER ALCHEMY IT USES, ONE THING IS CERTAIN: GOLDMAN HAS DODGED THE CREDIT-CRUNCH BULLET AND IS EMERGING FROM THE CRISIS STRONGER THAN EVER

To the victor, the spoils. But the patient might find cheating death easier than pacifying the public. Many remain unconvinced that, while Goldman may be big and clever, it is a force for good. Vince Cable warns: "If we've learnt anything, it's that banks have too much power over consumers and governments. Goldman Sachs has never been more powerful. That should alarm all of us."

World leaders and financial regulators are trying to draw up plans to limit what bank like Goldman can do and how they can pay their staff.

With his bulldog-like belief in the purity and efficiency of the free market, you would not imagine this would be a fight Blankfein would relish. But the funny thing is, he's up for it because he thinks it will make banking safer and enable Goldman to make even more money in future.

"Those government pronouncements that have come out so far are on the right track," he says. Paying staff for performance, and paying in deferred stock awards as well as cash to ensure long-term success, is "desirable and something we already do". "Greedy, but long-term greedy," is how Goldmanites describe the bank's investment and payment policies. Blankfein backs proposals to ensure banks are better capitalised. "If we didn't understand the limits of unfettered capitalism before, we sure do now. Anything that makes the system better, safer, is good for us." He might have added: just don't impose any windfall tax on pay.

For Blankfein, in the end, it all comes down to one thing: finding the best, fastest, and safest way to make money with money, then make some more money, with money on top. He's not interested in a reality check, just a bumper pay cheque for his clients, for his firm, for his staff, for his shareholders and, eventually, he believes, for us. His almost religious devotion to the dogma of finance is thrown into stark relief just before I walk out of the building with no name and find myself back in the autumn sunshine. I ask him the question that, in these troubled times, you'd think anyone — from the guy outside 85 Broad selling 99-cent chilli dogs to the gazillionaire King of Wall Street sitting 30 storeys above — would pause before answering. And then, perhaps, offer an equivocal, on-the-one-hand, on-the-other-hand answer, whether he means it or not. Is it possible to make too much money?

"Is it possible to have too much ambition? Is it possible to be too successful?" Blankfein shoots back. "I don't want people in this firm to think that they have accomplished as much for themselves as they can and go on vacation. As the guardian of the interests of the shareholders and, by the way, for the purposes of society, I'd like them to continue to do what they are doing. I

don't want to put a cap on their ambition. It's hard for me to argue for a cap on their compensation."

So, it's business as usual, then, regardless of whether it makes most people howl at the moon with rage? Goldman Sachs, this pillar of the free market, breeder of super-citizens, object of envy and awe will go on raking it in, getting richer than God? An impish grin spreads across Blankfein's face. Call him a fat cat who mocks the public. Call him wicked. Call him what you will. He is, he says, just a banker "doing God's work" ■