

PRINT

Slate

MONEYBOX

Goldman Sachs, Welfare Queen

Wall Street's most storied firm is surviving on taxpayer dollars.

By Daniel Gross

Posted Thursday, March 19, 2009, at 6:09 PM ET

While it was singled in the credit meltdown, Goldman Sachs, the alpha male of Wall Street, has emerged as a survivor. The [cover](#) of last week's *Barron's* heralded the resurrection of Goldman and Morgan Stanley—"the sole standouts," as Andrew Bary called them. The company's shares have rallied back above \$100, and its market capitalization is nearly \$47 billion. Goldman's emergence from the wreckage could be seen as yet another glorious chapter for the firm. Charles Ellis, in his book about Goldman, *The Partnership*, lionized the firm as the only company "with such strengths that it operates with almost no external constraints in virtually any financial market it chooses, on the terms it chooses, on the scale it chooses, when it chooses, and with the partners it chooses." For the paperback, Ellis might want to add the following proviso: so long as the government is willing to give it billions of dollars.

People sometimes refer to the firm as Government Sachs because so many of its former employees wind up in high positions in Washington (Robert Rubin, Henry Paulson, etc.). But the sobriquet sticks today because the company is heavily reliant on the government for support. Tally up the various forms of direct and indirect taxpayer assistance Goldman has received in the last several months, and it turns out that you and I are providing billions of dollars to bail out the proud firm. The former undisputed heavyweight champion of the financial services sector has become one of New York's biggest welfare queens.

Last fall, in the wake of the failure of Lehman Bros., Goldman transformed itself from an unregulated investment bank into a [bank holding company](#) so it could accept deposits. Like other banks, Goldman participated in the TARP program. On Oct. 28, Goldman sold \$10 billion in preferred stock to the government, which bears an interest rate of 5 percent through 2013 (after which the rate bumps up to 9 percent). Like other TARP recipients, Goldman received capital on pretty easy terms. Just a month earlier, when Goldman [raised \\$5 billion](#) from investor Warren Buffett, it sold preferred shares that carried a 10 percent interest rate. (At the same time, Goldman also [raised](#) \$10 billion in a public offering of stock.) The difference between borrowing \$10 billion at 5 percent and borrowing \$10 billion at 10 percent—in other words, the value of the government subsidy—is \$500 million per year. David Viniar, the chief financial officer of Goldman, has [made noises](#) about paying back the TARP funds soon. But the firm hasn't made any moves to do so yet.

But wait—there's more! Last fall, concerned that financial firms could raise funds only by issuing expensive debt to the likes of Buffett, the [Federal Deposit Insurance Corp.](#) established a [program](#) to guarantee new unsecured debt sold by banks. Many banks felt they didn't need to participate. (Here's a [list of those that have opted out.](#)) While the FDIC discloses the [amount of debt that has been issued](#) under the program (about \$250 billion by the end of January), it doesn't disclose which firms have tapped into this program. In November, Goldman [was](#) the first company to tap the program, issuing \$5 billion in three-year

What is the most critical issue facing government today?

- Health Care
- National Security
- Economy
- Environment

notes at a 3.367 percent rate. On March 12, it [sold](#) another \$5 billion. In all, the company says it has sold \$21 billion in such bonds. Thanks to the government guarantee, and accounting for fees, Goldman is saving several hundred million dollars per year in interest.

And there's still more! A good chunk of the money taxpayers gave to AIG as part of the bailout found its way to financial institutions—including Goldman Sachs. Here's the [full list of AIG counterparties](#), which documents payments made by different entities. AIG's securities lending unit paid Goldman \$4.8 billion, Maiden Lane III (the entity created to unwind credit default swaps) paid Goldman \$5.6 billion, and AIG has posted another \$2.5 billion in collateral to Goldman. Goldman, and many other firms, [made the mistake](#) of a) buying insurance from a company that, it turned out, couldn't make good on its insurance contracts, and b) borrowing securities from, and lending securities to, a company that essentially went bankrupt. In normal bankruptcies, firms in these situations have to get in line with other creditors and ultimately settle for a fraction of the amounts they're owed. As Eliot Spitzer [pointed out](#), because the government didn't let AIG formally file for bankruptcy, Goldman, and so many others, have instead been made whole.

Goldman may still be an outstanding company, as *Barron's* argues. But without the expensive federal crutches, the firm would likely be limping.

*Daniel Gross is the Moneybox columnist for **Slate** and the business columnist for Newsweek. You can e-mail him at moneybox@slate.com and follow him on [Twitter](#). His latest book, [Dumb Money: How Our Greatest Financial Minds Bankrupted the Nation](#), has just been published in paperback.*

Article URL: <http://www.slate.com/id/2214076/>

Copyright 2009 Washingtonpost.Newsweek Interactive Co. LLC