

“Government Sachs” and the Trump Administration:

The New Golden Age of Goldman Sachs

AFR Americans for
Financial Reform



Introduction

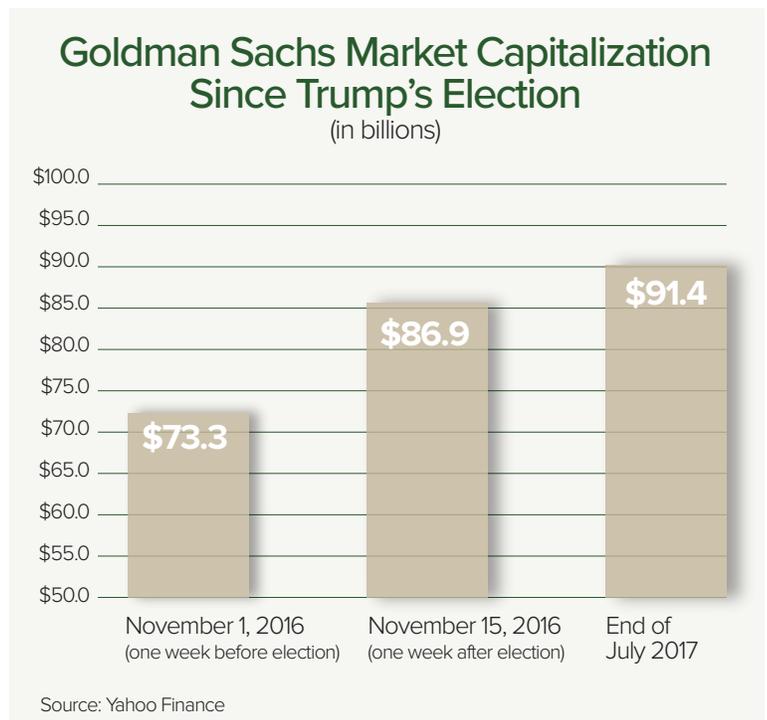
The first Golden Age of Goldman Sachs came at the end of the 1920s, according to economist John Kenneth Galbraith. In the eleven months immediately preceding the Great Crash of 1929, Goldman and its executives made flash fortunes by fueling a stock market mania that helped bring on the Great Depression.¹ In those days, the company benefited not so much from deregulation as from no regulation.

A second Golden Age of Goldman arrived in the 1990s, with a wave of financial deregulation that eventually allowed the bank to make billions by peddling mortgage-backed securities to unsuspecting customers. Goldman got out of the market just before the financial crisis of 2008, which laid the U.S. economy low.

Now we are witnessing what may be a new Golden Age for Goldman Sachs, thanks to the presence of a coterie of one-time Goldman executives occupying top economic policy positions in the Trump Administration. Goldman alumni such as Gary Cohn and Stephen Mnuchin, director of the National Economic Council and Treasury Secretary respectively, are advancing policies that would benefit their former employer tremendously.

In areas ranging from financial regulation to taxes to trade to infrastructure, this Goldman-heavy Administration is promoting policies that would boost Goldman Sachs's profits, in many ways, at the expense of taxpayers and the broader public. Goldman's stock price has already soared. Goldman Sachs' market capitalization has increased by \$18 billion—about 25 percent—since Trump won the presidency, as shown in Figure 1 below. At one point in early February, fully one quarter of the overall rise in the Dow Jones Industrial Average in the immediate aftermath of the election was due to gains in Goldman shares alone.²

This report outlines what the new era of power for Goldman Sachs could mean for the Trump Administration's priorities and for the public. Based on Goldman's history, corporate interests and longtime lobbying agenda, the appointment of top Goldman executives to key positions in government moves actual policy in the opposite direction than the populist economic promises that played such a big part in the Trump campaign. That is perhaps especially obvious in the area of financial regulation. But it's also true in other areas such as tax policy, trade policy, and infrastructure policy—areas where the interests of Goldman Sachs and other major Wall Street inside players are sharply at odds with those of the majority of Americans. For example, Goldman has consistently lobbied for trade agreements that empower multinational corporations, and the company stands to make giant profits from policies that fund economic development through the privatization of public infrastructure.



Perhaps more than any other Wall Street firm, Goldman Sachs embodies the combination of Wall Street excess and Washington power.³ Goldman and its executives have made billions inflating unsustainable bubbles in the prices of stocks, complex derivatives, and commodities. Goldman has been a leader in a Wall Street-centric business model which relies on market manipulation and unsustainable financial bubbles that enrich a few insiders, but that produce disastrous consequences for the rest of us when they collapse.

A History of the Golden Ages of Goldman

Founded in 1869, Goldman Sachs has been one of Wall Street's most powerful and influential investment banks for well over a century. While turning thousands of its partners into multi-millionaires, it has also turned dozens of its executives into senior government officials around the world. Ex-Goldmanites have recently filled key roles in the governments of Australia, Italy, and Egypt, as well as many others.⁴

The bank has also played a significant part in many of the economic crises of the past century. From selling millions of ultimately worthless trust securities before the Great Depression, to promoting overhyped dot-com companies in the 1990s, to selling toxic mortgage-backed securities in the early 2000s, Goldman has been a conspicuous presence at the scene of one incipient disaster after another. In every case, Goldman and its executives have found ways to make millions while the public was being set up to lose billions.

Prior to the Great Crash of 1929 Goldman Sachs was a leader in the creation of "investment trusts," an early version of the mutual fund. Without any strong federal regulation, these trusts grew increasingly leveraged, and their investments became increasingly speculative. When investors started to have doubts, banks like Goldman misled them. By the time it all collapsed, the banks had already pocketed their fortunes. Shares in the Goldman Sachs Trading Corporation, one of the major investment trusts, fell from \$104 at release to less than \$2 a share.⁵ That left the many ordinary investors who had invested in this Goldman-sponsored fund nearly destitute. But since Goldman itself had invested only a small amount of its partners' own capital in the fund, the company escaped comparatively unscathed.

GOLDMAN SACHS HAS BEEN A CONSPICUOUS PRESENCE AT THE SCENE OF ONE INCIPIENT DISASTER AFTER ANOTHER IN THE PAST CENTURY. IN EVERY CASE, GOLDMAN AND ITS EXECUTIVES HAVE FOUND WAYS TO MAKE MILLIONS WHILE THE PUBLIC WAS BEING SET UP TO LOSE BILLIONS.

During the technology boom Goldman was again an important figure among a set of banks which systematically misled investors about the proper valuation of emerging internet companies, manipulated prices upward by bribing institutional investors to buy such stocks, and massively profited from the initial public offerings (IPOs) of those companies.⁶ The collapse of the late 1990s tech bubble eventually led to a stock market collapse and triggered a recession. But because Goldman was just the initial broker of these shares, the company once again avoided major losses.

The dot-com bubble wasn't the only case in the go-go 1990s financial markets where Goldman Sachs managed to dodge the fallout from its financial decisions. In the 1990s, Goldman was a major investor in the Mexican economy, both by underwriting government privatization initiatives and by funneling client money to Mexican markets. When the Mexican peso collapsed in 1994, Goldman and other major Wall Street banks stood to lose big. Fortunately for them, Treasury Secretary Robert Rubin—who had recently been the co-chair of Goldman Sachs—pushed through an unprecedented \$50 billion bailout of Mexican debt. The bailout, while doing little to help Mexico's poor, did a great deal to protect U.S. financial interests against losses.⁷

But it is Goldman's leading role in the 2008 financial crisis, which cost millions of Americans their jobs, their homes, and their sense of security, which is most disturbing today. Goldman Sachs created billions of dollars of the mortgage-backed securities that devastated the U.S. economy, inflating their prices by deceiving investors about their quality and then selling the securities into the inflated market.⁸ As Goldman spotted the inevitable collapse of the market it had itself inflated, the bank quickly offloaded its risks onto its customers.⁹

Goldman's involvement in the headline subprime crisis wasn't the only role it played in the events of 2008. It was also a central player in energy markets, contributing to a massive speculative bubble that drove oil prices up to over \$140 a barrel in the summer of 2008, before they eventually plunged in the face of the economic slowdown.¹⁰

The bank's misconduct, during and after the financial crisis, landed some of its executives before Congress and the Financial Crisis Inquiry Commission to explain what they had done.¹¹ Despite all the destruction their actions caused, though—and despite all the evidence of deception and market manipulation—nobody from Goldman's top ranks has gone to jail or faced any government sanctions.¹²

In addition to advocating for the bailout of AIG and its creditors at 100 cents on the dollar (a decision that produced billions of dollars for Goldman), the company received \$10 billion in taxpayer money from the Troubled Asset Relief Program and tens of billions more from its discount-window access, asset guarantees, and other bailout-related programs. Rather than fire its senior executives, the bank doled out more than \$16 billion dollars in bonuses just months after being bailed out.¹³

Goldman's drumbeat of scandal continues right on up to the present. Since 2010 alone, according to one recent study, Goldman Sachs has paid over \$9 billion in total fines and penalties associated with thirteen different patterns of fraud, abuse, or misconduct.¹⁴ To take just a few examples:

- The bank defrauded its customers—including pension funds, endowments, and retirement accounts—by selling them toxic mortgage-backed securities. Goldman falsely assured its customers that the securities it sold were backed by high-quality loans, when the bank knew full well that the securities contained subprime mortgages that were likely to fail. Goldman paid over \$5 billion to settle its liability for these misrepresentations, which contributed directly to the financial crisis of 2008.¹⁵
- Goldman traders have frequently appeared to manipulate the markets they trade in. Goldman recently paid over \$100 million to settle charges stemming from strong evidence that its traders conspired with traders at other firms, through chat rooms, to rig foreign exchange markets, generally by sharing client orders and then trading against their own clients.¹⁶ In another recent case, Goldman traders conspired with traders from other banks to manipulate a benchmark rate determining payoffs from financial derivatives contracts, again so that they could profit at the expense of clients. As a result, Goldman paid almost \$200 million in government fines and private settlements.¹⁷
- Just over the past few years, Goldman has also been accused of manipulating prices in the aluminum market by using its control of storage facilities to limit supply.¹⁸ The company has been fined for failing to comply with a rule designed to prevent Wall Street traders from illegally betting against stock prices.¹⁹ It has also been penalized for “pay to play” violations involving illegal campaign contributions to public officials intended to get business from local governments.²⁰

Goldman's Drumbeat of Scandal

\$5 billion

Amount Goldman Sachs paid to settle liability for defrauding its customers by selling them toxic mortgage-backed securities.

\$100 million

Amount to settle charges that its traders conspired to rig foreign exchange markets.

\$200 million

Additional fines paid when Goldman traders conspired with other traders to manipulate payoffs from financial derivatives contracts.

Penalties continue to add up

- > accused of manipulating the aluminum market;
- > failed to comply with a rule against illegally betting against stock prices; and
- > committed “pay to play” violations involving illegal campaign contributions.

Suspicion is also growing that Goldman may have been involved in manipulation of the U.S. Treasury markets—one of the world's largest and most important financial markets, and a market with profound implications for American taxpayers.²¹ Since the Trump Administration is responsible for completing this investigation, the extensive Goldman Sachs influence in the Administration creates a major conflict of interest.

Goldman and the Trump Administration— a New Golden Age?

The two most critical Presidential economic advisors have typically held the titles of Treasury Secretary and Director of the National Economic Council (NEC).²² The Treasury Secretary generally plays a key role in developing tax policy; overseeing the funding of the government, including the sales of U.S. government debt; developing financial regulatory policy; and coordinating economic policy within the U.S. and with foreign regulators.

The Director of the NEC, while a less visible figure than the Treasury Secretary, can play an even more important role. Unburdened by any institutional apparatus, the NEC typically functions as the President's lead economic policy development arm. In recent years, the NEC Director has played a pivotal part in determining Administration policy on how much individuals and corporations should pay in taxes, proposing changes in financial laws and regulations, and negotiating budget agreements.

President Trump has turned to former Goldman employees to fill both these leading economic policy positions. In addition, he has selected a former Goldman lawyer as Chair of the Securities and Exchange Commission (SEC).

Such influence is in one sense nothing new for Goldman. With President Trump's choice of Steve Mnuchin, three of the past four Presidents have now turned to Goldman executives for their Treasury Secretary.²³ The bank has truly earned the nickname "Government Sachs."²⁴ But this Administration stands out for the sheer number of Goldman-connected appointees, the weight of their influence under a President who lacks economic policy expertise, and their connection to firm's recent scandals.

"THE BANK HAS TRULY EARNED THE NICKNAME "GOVERNMENT SACHS." BUT THIS ADMINISTRATION STANDS OUT FOR THE SHEER NUMBER OF GOLDMAN-CONNECTED APPOINTEES."

In his most important economic pick, President Trump chose Goldman President and Chief Operating Officer Gary Cohn as NEC Director. Cohn has emerged as a powerhouse with unrivaled economic policy influence in the Trump Administration.²⁵

Cohn began his 26-year career at the bank in its commodities trading unit.²⁶ He later took over the entire Fixed-Income, Commodities, and Currency (FICC) division, where he oversaw the bulk of Goldman's market trading activities. As a veteran of the trading divisions of the bank, rather than the more traditional investment banking unit, Mr. Cohn was at the cutting edge of Goldman's aggressive moves into new securities markets activities.

This included his oversight of Goldman's mortgage securities activities, where he increased Goldman's trading more than 50-fold in a "successful push to rev up risk-taking and use Goldman's own capital to make a profit."²⁷ This kind of proprietary trading in mortgage-backed securities helped feed the market for the shaky mortgage assets that eventually crashed the economy. Cohn oversaw the bank's forays into accumulating and trading massive inventories of mortgage backed securities.

When the mortgage bubble began to collapse and it became evident that a major market crisis was going to occur, Cohn shifted Goldman's sales and trading teams to shorting the market and reducing the bank's inventory of bad loans. They did this by using deceptive sales tactics that offloaded much of the bank's inventory of bad mortgage assets on unsuspecting investors.²⁸ Internal firm emails obtained by the Senate Permanent Subcommittee on Investigations show Cohn's personal involvement in Goldman's "big short" strategy.²⁹ While both Goldman and Cohn initially denied that the "big short" involved fraudulent or misleading behavior, the company eventually acknowledged wrongdoing and paid over \$5 billion in a settlement with the Justice Department over misconduct during this period.³⁰

Government Sachs

How Trump stacks the decks with Goldman Sachs executives



As one would expect given his high rank in the firm, Cohn was directly involved in many of Goldman's major steps (or missteps) over the past decade. He helped push Goldman's rapid expansion into commodities trading. He was at the center of Goldman's ramp up into the mortgage market. And he personally flew to Athens to help the Greek government hide its debt troubles by using complex financial products designed by Goldman.³¹

In the aftermath of the financial crisis, many expected Cohn to be discredited for his role in Goldman's mortgage-related sales practices. After weathering some public criticism in 2009 and 2010, however, he emerged as the likely successor to Lloyd Blankfein to lead the company.³²

Because NEC Director is not a Senate-confirmed position (like White House Chief of Staff), public information about Cohn's wealth and holdings is limited. Goldman has acknowledged, however, that it allowed Cohn to immediately cash out of \$285 million in equity, options, bonuses, and stakes in company-run investments when he left the company to join the Trump Administration.³³ Goldman had to make a special exception in his case, since under the original terms of these grants he would have had to remain with the company in order to earn them.

In his second most important economic policy appointment to date, Trump named controversial financier and former Goldman Sachs executive Steve Mnuchin to be his Treasury Secretary. After graduating from Yale, Mnuchin came to join his father and brother at Goldman Sachs, where he was involved in creating and selling some of the first collateralized debt obligations and asset-backed securities.³⁴ At Goldman, he was in charge of the firm's sales of mortgages, U.S. government securities, and municipal securities.³⁵

After working at the firm for 17 years, Mnuchin left in the early 2000s with more than \$46 million.³⁶ After that, he led a buyout of IndyMac, one of the largest failed banks in U.S. history, in a deal that was heavily criticized at the time as a bad bargain for the government.³⁷ Mnuchin went on to gobble up other failed banks as well. Ultimately, his investment team reaped billions in profits while foreclosing on tens of thousands of homeowners.³⁸ Based on extensive investigations by the California Attorney General's office, the firm appears to have actually bent the rules to speed up foreclosures, including using illegal "robosigning" and backdating documents to facilitate foreclosures.³⁹

Finally, the Trump Administration also selected a Goldman lawyer, Jay Clayton, to chair the Securities and Exchange Commission (SEC), which oversees the financial markets. Clayton had a large hand in shaping the arrangements for Goldman's bailout by the Federal government (with an assist from Warren Buffett).⁴⁰ Unlike Cohn and Mnuchin, Clayton's role as SEC chair will not be to directly advise the President, but he will have significant control of writing the financial regulations that directly bind Goldman Sachs and other major investment banks.

These appointments add up to a level of inside influence that is unusual even by Goldman's historic standards. And future picks could produce even more Goldman influence. Gary Cohn may yet be a contender to be the next Chair of the Federal Reserve Board when current chair Janet Yellen's term expires.⁴¹ This position is the single most important direct regulator of the US economy at the Federal level, exercising crucial control over both bank regulation and monetary policy.

Goldman's Economic Policy Agenda— What Does It Mean For the Rest of Us?

As Goldman Sachs alumni bring their corporate priorities to government, their deregulatory prescriptions will pave the way for more of the kind of financial-industry behavior that has repeatedly led to massive profits for Goldman and enormous risks and losses for the country writ large.

In addition to deregulating Goldman and other financial institutions, these advisors are perfectly placed to push tax cuts that disproportionately benefit Wall Street.

During his presidency, Trump has laid out a number of key pieces of his economic agenda:

1. Rolling back Dodd Frank, thus weakening Wall Street regulation and reducing protections for consumers and the economy as a whole.
2. Cutting business and investment taxes.
3. A large new infrastructure package.
4. Changing trade policy to prioritize American interests.

The first two of these items would directly benefit Wall Street bankers like the former colleagues of the Trump Administration's Goldman appointees. Indeed, the Trump Administration has laid out a deregulatory agenda that significantly favors big banks.⁴² They have also set out plans for extensive corporate tax cuts that would shower billions of dollars of benefits on the largest banks.⁴³

Depending on how they were executed, the last two items might not benefit Wall Street. But indications thus far are that the Trump Administration will pursue a privatization-based infrastructure agenda that promises to deliver high profits to Goldman Sachs and other big banks and private equity firms. And everything we know about Goldman Sachs' positions on trade and trade pacts indicates that company executives will do what they can to push trade policies that favor the interests of globalized financial institutions over those of American workers.

CUTTING BACK WALL STREET OVERSIGHT AND REDUCING CONSUMER PROTECTIONS

The Trump team has targeted reducing or eliminating financial regulations. President Trump himself has said he would “do a big number” on America's post-crisis financial reforms, adding that “we expect to be cutting a lot out of Dodd-Frank, because frankly, I have so many people, friends of mine that had nice businesses, they can't borrow money.”⁴⁴

Following the 2008 financial crisis, it became clear that financial regulations that had protected the economy since the Great Depression had been gravely weakened and no longer provided adequate protections for consumers or for financial stability. Those old restrictions had included both protections against fraud at the expense of investors and consumers, restrictions on bank risk-taking, and measures to separate ordinary commercial banking from Wall Street trading activities.

The Dodd-Frank Act was enacted in 2010 to restore and modernize those basic protections. In developing that legislation, Congress paid particular attention to the pre-crisis conduct of the big banks, citing some of the activities of Goldman Sachs as prime examples of the need for key reforms such as the Volcker Rule which prohibits proprietary trading by banks, and restrictions on conflicts of interest in securitization.⁴⁵

Since then, regulators have largely implemented hundreds of rules designed to protect American families and businesses from abuses that could lead to yet another collapse. Some of these new rules prohibit exploitative business practices, such as selling mortgages that borrowers clearly cannot afford to repay, or rigging mortgage-backed securities to fail and betting against the customers who buy them. Other rules are designed to guard against activities that could put the stability of the financial system as a whole at risk. For example, the Volcker Rule sharply restricts the ability of banks to place speculative bets with depositor and taxpayer-backed funds. Still other rules limit bank borrowing and require enhanced transparency for previously under-regulated markets, such as those for financial derivatives.

Collectively, these rules—while still far from enough to address the full scope of the problems revealed in the financial crisis—take major steps towards restoring stability to the financial system and reining in abuse of consumers.⁴⁶ And they enjoy broad support from the majority of Americans.⁴⁷

Nevertheless, Wall Street banks, particularly Goldman Sachs, have staunchly opposed many of the new rules for a simple reason: preserving their profit margins at the highest possible levels. Since the Dodd-Frank Act was adopted, Goldman has continued to be profitable, but it has been forced to shed many of its riskiest investments and activities and to raise additional capital to support others in order to come into compliance with new protections.⁴⁸

Because the public and politicians are unlikely to support a naked plea for higher profits, the banks have taken another approach in their public relations push. The new rules, they claim, are damaging the economy. If the banks are restricted in any meaningful way they argue, they will be hampered in their ability to lend to businesses, and the country as a whole will suffer.

This is a line of argument that can only be based on “alternative facts.” Contrary to Wall Street’s claims that the Dodd-Frank Act hurts the economy, as the new rules have come into effect, the U.S. economy has grown twice as fast as other advanced economies which, in almost all cases, have passed weaker financial regulations than the U.S. has.⁴⁹ Although all advanced economies are growing slowly compared to previous recoveries, extensive research shows that this pattern is typical of post-financial crises economic recoveries.⁵⁰

A closer look at financial markets shows no evidence of a regulatory burden that is holding them back. U.S. capital markets have been setting new highs in trading volume, while customers’ overall trading costs have fallen.⁵¹ Bank lending has increased rapidly as well, with bank lending to businesses recently reaching an all-time high.⁵²

The megabanks’ real complaint is that their return on equity—the rate of profit they can promise to their owners—has decreased.⁵³ Much of that decrease is driven by the fact that regulators have required banks, especially the largest ones, to rely less on borrowed money and hold more capital; putting banks in a position where they can absorb losses without turning to taxpayers. In 2007 Goldman Sachs reported borrowing almost thirty dollars for every dollar of equity invested by the company—a very risky level of leverage, but one that allowed them to deliver an astronomical 31.5% return on equity. Today, Goldman borrows about eleven dollars for each dollar of invested equity. That has made the company much more stable, but in recent years has reduced its return on equity to around 10%—still a passable profit margin but no longer extraordinary.⁵⁴ Changes in even seemingly arcane or technical rules that would permit banks to purchase riskier assets using more borrowed money hold the potential to increase the profits of major Wall Street banks by tens of billions of dollars.⁵⁵

Although regulators are forcing bankers to run with safer levels of leverage, they are still earning record revenues. That is true of both community banks and the commercial banking industry as a whole.⁵⁶ Nevertheless, with Goldman alumni looming large in the inner councils of the Trump Administration, Wall Street has found a set of eager believers in its dubious argument that financial regulations hold back the economy.

Goldman is at the center of Wall Street trading markets and would benefit from the repeals and pullbacks of many of the post-crisis financial rules. To give just one example of the scope of their role, Goldman holds a notional value of more than \$45 trillion in derivative contracts, the complex financial products which were the cause of AIG's collapse in 2008.⁵⁷ That is the third largest holding of any U.S. financial firm, and the largest derivatives holdings of any bank relative to its size.

Current financial regulations and new post-crisis rules, if effectively enforced, have required and would require numerous changes in Goldman's operations. By cutting off the ability to manipulate markets and forcing Goldman to operate with more of its own capital and lower leverage, those rules could also significantly impact returns to Goldman's owners. Here are a few of the major rules which Goldman Sachs has lobbied to weaken or undermine and that are being targeted by the Trump Administration:

- The Volcker Rule bans proprietary trading practices that let banks act like hedge funds, trading in the markets purely for their own profit instead of as a form of customer service. Goldman Sachs has lobbied hard against a strong Volcker Rule while testing the boundaries of the rule as it was put in place.⁵⁸ As the major bank that is most dependent on revenues from aggressive trading practices, Goldman Sachs is in the forefront of efforts to entirely eliminate the Volcker Rule or weaken it to the point of complete ineffectiveness.⁵⁹

AS THE MAJOR BANK THAT IS MOST DEPENDENT ON REVENUES FROM AGGRESSIVE TRADING PRACTICES, GOLDMAN SACHS IS IN THE FOREFRONT OF EFFORTS TO ENTIRELY ELIMINATE THE VOLCKER RULE OR WEAKEN IT TO THE POINT OF COMPLETE INEFFECTIVENESS.

- New rules limiting excessive borrowing by banks and forcing them to raise additional equity capital, either from investors or by reserving their own earnings against losses. This protects the public against the possibility that banks will be unable to pay their own debts and will once again turn to the taxpayer for a bailout. But since borrowing amplifies the returns paid to equity owners (including executives of the company), banks such as Goldman are fiercely resisting these changes.
- New rules on derivatives trading are intended to make trading in these complex financial instruments safer and fairer, requiring better risk management and bringing trading into the light of day on transparent exchanges. This will benefit end users by improving competition, but will negatively impact the profits earned by the giant dealers who dominate the markets—such as Goldman Sachs.⁶⁰ Goldman is the third largest holder of derivatives in the US, behind only the behemoths JP Morgan and Citigroup.
- New securities rules, as well as better enforcement of previously existing SEC rules on securities sales, prevent traders from deceiving customers about the quality of the securities they buy. This reduces the ability to manipulate markets and to exit overpriced markets by passing off low-quality securities on unsuspecting customers. For example, one key section of Dodd-Frank banning banks from betting against securities sold to their customers, was directly motivated by Goldman's pre-crisis practices, but is now unlikely to go into effect under this Administration.⁶¹
- Regulators are proposing to limit the ability of big banks to play a large role in markets for key commodities, such as oil and gas, as well as their ability to control non-financial companies. As a prominent player in commodities markets as well as merchant banking, Goldman Sachs strongly opposes these efforts and has urged that they be significantly weakened.⁶²

As it has put new regulatory appointments in place, the Trump Administration has indicated that it will pursue weakening rules in most or all of these areas. For example, the Secretary Mnuchin's Treasury Department has laid out proposals for significantly weakening bank regulation in areas ranging from the Volcker Rule to limitations on risky borrowing.⁶³ The Comptroller of the Currency, who regulates large national banks, is already soliciting comments on "reducing the burden" of Volcker Rule limits on proprietary trading.⁶⁴ The Trump Administration selected a new chair of the Commodity Futures Trading Commission, the main regulator of U.S. derivatives trading, who has been vocally opposed to forceful implementation many key derivatives reforms mandated in the Dodd-Frank Act.⁶⁵ And the continuing reviews of key regulations indicate that this is could be just the beginning of the deregulatory wave.⁶⁶

These are only some of the most prominent areas of financial regulation on which Goldman Sachs has deep economic interests and has lobbied for weaker rules. Other areas of financial regulation targeted by the Trump Administration, including oversight of consumer lending through the Consumer Financial Protection Bureau (CFPB), may intersect with Goldman's interests as well. Goldman has been rapidly and aggressively expanding into the retail banking and personal lending space, exploring small-dollar personal loans through their new internet platform Marcus and other avenues.⁶⁷ These new businesses will be regulated by the CFPB as well as other banking and securities regulators, which are only now making crucial determinations about the oversight of small-dollar and on-line lending.

PRIVATIZING GOVERNMENT INFRASTRUCTURE

The Trump campaign promised to "Make America Great Again"—and a massive infrastructure package was a big part of that promise. But from what the Administration has said so far, its infrastructure plan would do more for the greatness of Goldman Sachs and other big Wall Street players than it would for ordinary Americans.

As presented thus far, the infrastructure plan would rest heavily on the idea of giving Wall Street investors tax

"INSTEAD OF PEOPLE IN CITIES AND STATES AND MUNICIPALITIES COMING TO US AND SAYING, 'PLEASE GIVE US MONEY TO BUILD A PROJECT,' AND NOT KNOWING IF IT WILL GET MAINTAINED, AND NOT KNOWING IF IT WILL GET BUILT, WE SAY, 'HEY, TAKE A PROJECT YOU HAVE RIGHT NOW, SELL IT OFF, PRIVATIZE IT, WE KNOW IT WILL GET MAINTAINED, AND WE'LL REWARD YOU FOR PRIVATIZING IT,'" COHN TOLD THE EXECUTIVES AT THE WHITE HOUSE. "THE BIGGER THE THING YOU PRIVATIZE, THE MORE MONEY WE'LL GIVE YOU." 69

credits in exchange for contracting with the government to finance, construct, maintain, and operate critical infrastructure.⁶⁸ That amounts to a government-subsidized privatization of infrastructure through so-called "Public Private Partnerships," known as P3s. Addressing a group of corporate executives at a White House meeting, Gary Cohn himself underscored the central role of privatization in the infrastructure plan as currently envisioned:

In addition to qualifying for Federal government tax credits by kicking in some of its own money, Wall Street would also get a stream of continuing benefits. For example, rather than build a road that everyone can ride for free, private investors could charge fees for its use. Alternatively, government could commit to paying regular "availability fees" as long as the infrastructure remains available for use.

Wall Street banks like Goldman, who assemble these deals, can make a tidy profit advising the government and helping them sell off infrastructure. The banks can also profit from their own investments in infrastructure. Goldman has already raised over \$10 billion for a private infrastructure fund which it manages.⁷⁰ Goldman Sachs has also been a major lobbying force for infrastructure privatization, while making clear in its SEC filings that it regards the benefits of infrastructure privatization as an important part of the company's strategic plans.⁷¹

Since first gaining popularity in the U.S. about a decade ago in Chicago, Indiana and Texas, among other places, these privatization arrangements have increasingly come under fire as bad deals for the majority of Americans.⁷² Put simply, despite initially lower government outlays, the total costs ultimately borne by taxpayers are often significantly higher than if the public had financed the investment in the first place. Infrastructure privatization schemes have frequently resulted in returns well in excess of 10% at a time when government bond rates are at 3 to 4%, and promoters of privatization arrangements are promising still higher returns now.⁷³ While there can certainly be cases where public-private arrangements make sense, it's hard to see how these kind of returns to Wall Street investors can be consistently sustained and have the projects serve the public interest at the same time.

In the long run, any short-term cost savings due to additional private funding from Wall Street financiers will likely turn out to be smaller than the additional payments and tax subsidies demanded by private bankers for their participation in these deals. And this is true without even attempting to count the costs to democracy of lost public control over the infrastructure itself.

Not surprisingly, the Trump economic plan appears to contemplate the largest such privatization in U.S. history, with a goal of \$1 trillion in infrastructure funding.⁷⁴ The appointment of D.J. Gribbin, a former executive of Macquarie Capital, the leading private infrastructure financier, as the key White House staffer on the effort underlines the intent to put privatization at the center of any infrastructure plan.⁷⁵

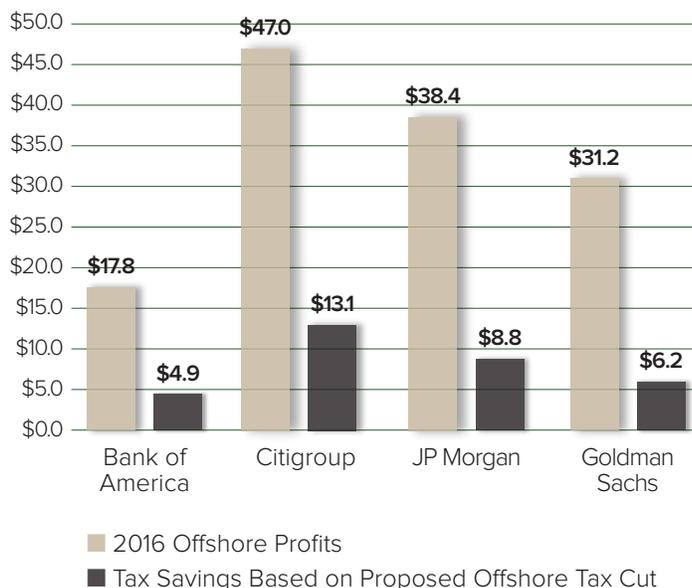
This would undoubtedly mean tens of billions of dollars in new deals for private financiers like Macquarie and Goldman Sachs, but higher costs for the rest of us. And with deals that sometimes last for 75 years or more, the public can have the privilege of paying Wall Street to use public goods for generations.

CUTTING BUSINESS AND INVESTMENT TAXES

Goldman Sachs is already an expert tax dodger. The bank avoided \$5.5 billion in taxes between 2008 and 2015.⁷⁶

And under Trump's tax plan it will be well positioned to avoid much more.

How Goldman and Other Firms Benefit from Tax Cuts (in billions)



Source: Institute on Taxation and Economic Policy, *Fortune 500 Companies Hold a Record \$2.6 Trillion Offshore*. Report, March 2017. Accessed August 24, 2017. <http://bit.ly/2g91Hg9>

The Trump Administration has repeatedly argued that its “number one priority” is business and investment tax reform.⁷⁷ At the center of their plan are massive cuts in taxes for corporations and partnership entities as well as wealthy individuals.⁷⁸ The corporate top rate would be slashed from 35% to 20%, with a substantial cut in the tax rate for business partnerships as well.⁷⁹ The top individual rate would be slashed as well. In addition, the plan would move corporate taxation to a “territorial” system, exempting foreign earnings of multinational corporations and permitting foreign earnings accumulated under the old system to be “repatriated” at a lower rate. While key details are still uncertain, the plan would be highly beneficial to wealthy Americans and large corporations.⁸⁰

This is a vision that echoes the priorities and interests of major global businesses like Goldman Sachs and their executives. The

exemption for overseas earnings would generate windfall profits for Goldman and other large corporations, but the evidence of past cuts in taxes on offshore profits suggest that there would be no benefit for U.S. workers.⁸¹ Goldman currently has some \$25 billion in foreign earnings technically held overseas to avoid U.S. taxes.⁸² As Figure 2 shows, Goldman and other banks earn tens of billions in offshore income every year.

When it comes to U.S. earnings, cuts in the overall corporate tax rate also disproportionately benefit major Wall Street banks. That's because financial firms typically have fewer deductions for their on-shore earnings than do other companies such as manufacturing firms. Goldman's effective U.S. income tax rate in 2016, for example, was in the range of 28%, which would translate to a massive tax cut of almost 10 percentage points based on the proposed new lower corporate rate of 20%.⁸³

Other cuts in the Trump tax plan benefit wealthy individuals and Wall Street professionals, in particular. In addition to slashing the top rates for the very highest earners, the plan would abolish the inheritance tax, allowing the country's richest families to pass along yet more of their massive wealth tax-free to their heirs. By significantly cutting tax rates on business entities structured as partnerships or pass-through entities, the plan would cut taxes on hedge fund managers and owners. Managing an investment fund is a frequent choice for Wall Street professionals when they decide to leave major firms like Goldman. Steve Mnuchin built a considerable share of his post-Goldman fortune by managing an investment fund.

These tax changes are gold to Goldman and its executives, but threaten the rest of us by draining away revenue needed to pay for crucial public goods. Reform of the tax system to benefit the majority of Americans would include having Wall Street pay a larger share of taxes, not a shrinking share.

CHANGING THE RULES OF TRADE POLICY

Another promise of the Trump campaign was to change trade agreements in order to benefit American workers and bring jobs home. With Goldman in charge, that's unlikely to happen. The firm has been a longtime champion of pro-corporate and pro-outsourcing trade policies. In fact, Goldman's influence will tend to steer trade policy in the direction of greater economic globalization and less power for American workers.

THIS IS ONLY THE LATEST CHAPTER IN A MULTI-DECADE EFFORT BY GOLDMAN TO LIBERALIZE GLOBAL TRADE RULES SO AS TO MAKE IT EASIER FOR FINANCIAL MULTINATIONALS TO INVEST WITHOUT REGARD FOR NATIONAL REGULATIONS OR BOUNDARIES. GOLDMAN'S CAMPAIGN HAS BEEN CONDUCTED ON A GLOBAL SCALE, WITH THE ACTIVE ENGAGEMENT OF GOLDMAN SUBSIDIARIES IN OTHER COUNTRIES AS WELL AS THE U.S.

Goldman was a prominent member of the U.S. business coalition lobbying for the Trans-Pacific Partnership (TPP)—a trade agreement that Trump railed against in his campaign.⁸⁴ We know from emails obtained through the Freedom of Information Act that Goldman executives made frequent personal contacts with top Obama Administration officials urging not just passage of the TPP, but more corporate-friendly modifications to the text.⁸⁵ For example, Faryar Shirzad, the head of Goldman's Government Affairs Department, urged the inclusion of "investor state dispute settlement" (ISDS) provisions in trade agreements. Such provisions would allow businesses making cross-border investments to sue signatory governments for damages if rules or regulations reduce corporate profits, and to have their lawsuits heard by special trade courts staffed with private attorneys who often have close ties to corporate interests.⁸⁶

This is only the latest chapter in a multi-decade effort by Goldman to liberalize global trade rules so as to make it easier for financial multinationals to invest without regard for national regulations or boundaries. Goldman's campaign has been conducted on a global scale, with the active engagement of Goldman subsidiaries in other countries as well as the U.S.⁸⁷

While trade agreements are generally debated in terms of their impacts on manufacturing and trade in goods, they typically contain many provisions liberalizing cross-border financial transfers and dictating permissible financial regulations to signatory countries. Such agreements facilitate cross-border investments by limiting the powers of governments to set the terms for investment in their own countries. These limits may take the form of investor-state dispute mechanisms or a wide variety of restrictions on permissible domestic regulations. Global banks like Goldman benefit greatly from these arrangements, both because they routinely transact across borders in making their own investments and because of the advisory and financing role they play in the investments of client companies.

In the years leading up to the 2008 financial crisis, a growing web of trade agreements deregulating international finance spurred a massive increase in cross-border financial flows and a much greater level of global financial integration. Research indicates that this increase was destabilizing and contributed significantly to the financial crisis.⁸⁸

As a prominent advocate of aggressively deregulatory trade agreements, Goldman will undoubtedly be pushing for measures that would further reduced our ability to protect against these threats. Indeed, Cohn and other Goldman Sachs alumni have already assumed a central role in making the Trump Administration more supportive of business-friendly trade agreements. One notable result of their influence, for example, has been the Administration's shift toward the idea of renegotiating the NAFTA agreement, rather than rejecting it outright.⁸⁹

Conclusion

After running a campaign in which he lambasted the “corrupt” ties between Wall Street and Washington, President Trump has handed the job of shaping his economic policy over to Wall Street insiders generally, and to alumni of Goldman Sachs in particular. In choosing Gary Cohn as NEC Director and Steve Mnuchin as Treasury Secretary, along with Jay Clayton at the SEC Trump has turned to Wall Street veterans with deep knowledge of the financial crisis—knowledge gained as champions of the dangerous practices that helped cause it.

While making tens of millions of dollars for Goldman, Cohn and Mnuchin personally assembled and sold the financial instruments—mortgage-backed securities—that lay at the heart of the crisis, decimating the savings and economic security of millions of American families.

Goldman ended up paying billions to regulators and investors for a variety of charges of fraud, deception, and market manipulation. Yet none of its senior executives ever faced any meaningful business or law-enforcement consequences for their bad decisions. Now, these mega-millionaires are actually being rewarded for those decisions with an extraordinary degree of control over our national economy.

Given their immense wealth, and the means of its acquisition, we should hardly be surprised to find Cohn, Mnuchin, and other Goldman alumni in firm agreement with their former company about what Trump should do— slash financial regulations and business taxes. He promised that Wall Street's Washington power and influence would shrink, but they have in fact only increased. Trump has ushered in another Golden Age of Goldman Sachs, and without concerted action to curb its influence, this age is likely to be as bad as the last—for the rest of us, anyway.

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