The Globalization of Goldman Sachs

Goldman Sachs is one of the largest and most successful financial investment firms and securities holdings banks in history. Headquartered in New York City, Goldman currently maintains seventy-three offices in thirty-two countries and employs 32,400 worldwide, and its parent company, Goldman Sachs Group, Inc., is traded publicly on the New York Stock Exchange (Craig, 2012). Goldman was founded in 1869 as a small corporate lender and spent the majority of its history making relatively simple investments and managing stock offerings (“A Brief History of Goldman Sachs”, 2012). Its global growth when the conditions became right, however, was meteoric as it paralleled—and often helped create—the exponential growth of neoliberal globalization to become the influential geopolitical force and gatekeeper of the neoliberal agenda that it is today.

Financial investment firms like Goldman Sachs make their money in numerous ways, and this is no different for Goldman itself. Over the course of its history, the company has profited from providing a number of services including mergers and acquisitions for its clients as well as having made acquisitions and various public and private investments using its own capital. It also deals in commodities brokering and arbitrage (buying raw materials in one market and selling in another); stock trading on various exchanges around the world; private investments in companies or products like mutual funds; high-value capital lending to individuals, companies, and even governments; and countless other financial services that have kept Goldman profitable for 143 years.
Because of the nature of financial investment and its reach into all corners of the globe from the sale of even the simplest financial action like buying stock in a corporation, the transnational growth of a company such as Goldman can be in continual flux. With the modernity of trading, the purchase and sale of a given commodity or stock can occur over a few seconds by a computer running an algorithm programmed to buy or sell a certain amount should the price of said asset rise above or dip below a certain amount. This has allowed the presence of investment firms like Goldman to be felt anywhere money exchanges hands, a departure from most material products-based transnationals in which there is physical presence and a relatively clear line of commodity chains limited to localities containing the raw materials, cheap labor, and favorable trade laws integral to neoliberal globalization.

Because of this unique type of non-linear and often non-physical expansion, I will focus on three main stages of Goldman Sachs’ growth and globalization: 1) domestic growth in the era of Fordism; 2) transnational growth in the post-Fordist era; 3) Goldman’s IPO and the crisis in Greece. Through major investments, mergers, and acquisitions in these three stages of Goldman’s growth will emerge a picture of transnational globalization similar to, but in many ways unique from, the familiar history of commodities-based transnational corporate growth in neoliberal American business.

1) Domestic Growth in the Era of Fordism

In 1869, German immigrant Marcus Goldman founded what would later become Goldman Sachs as an investment firm in New York specializing in the purchase of commercial paper, a relatively new type of security sold by corporations for the purpose of getting short-term cash collateral in order to meet short-term debt obligations like payroll expenditures. In its first thirty-five years, Goldman Sachs, which adopted its current moniker in 1885, only handled
relatively small, domestic investments by individuals and corporate clients until 1906 when it began underwriting initial public offerings\(^1\) (IPOs) for larger companies like Sears, Roebuck & Co. (Cohan, 2011, 34).

In 1928, Goldman Sachs created Goldman Sachs Trading Corporation, which immediately began advising its clients to make a flood of investments based on market speculations that would prove to be disastrous when the stock market collapsed the following year (Smith, 2012). These faulty investments, a swath of highly leveraged investment trusts that were created by Goldman executive Waddill Catchings and were claimed to spread investors’ risk over a number of diversified stocks, caused 42,000 of Goldman’s investors to lose $300 million\(^2\) when the bubble surrounding them burst (Smith, 2012). This near financial ruin of Goldman Sachs—and absolute ruin of many of its investors—brought on by the collapse of what many economic historians called a Ponzi scheme, would not be the last time Goldman would make ethically and legally ambiguous decisions in the name of the almighty dollar; but it would be the last time the company allowed itself to be in any real danger as other institutions and investors collapsed around it (Smith, 2012).

A decade later, Goldman Sachs had yet to regain its former glory, and throughout World War II, the firm received much of its capital income through war bonds sold under special government supervision (“History of The Goldman Sachs Group Inc.”). Goldman Sachs’ first major post-war investment boon came in 1956 as the lead underwriter for the IPO of Ford Motor

\(^1\) An initial public offering, or IPO, is the process through which companies make the transition from a private corporation to a public corporation whose stock will be traded on an exchange such as the New York Stock Exchange, NASDAQ, etc. The corporation going public needs an investment bank to value the company, price its stock, and market its sale. This investment bank is known as the underwriter for the corporation’s IPO (“What Were They Thinking? An IPO Primer”, 2012).

\(^2\) The total losses suffered by investors as well as lost capital for the bank, adjusted for inflation, would equal $475 billion today (Taibbi, 2009).
Company, selling a record 10.2 million shares worth $700 million. Goldman Sachs would go on to market and manage a number of IPOs throughout the next decade, again breaking records in 1967 with its sale of 1.15 million shares of Alcan Aluminum stock worth $26.5 million for the Canadian mining company that would later be purchased by Rio Tinto, an Australian and European transnational corporation (“History of The Goldman Sachs Group Inc.”).

2) Transnational Growth in the Post-Fordist Era

Goldman Sachs’ first major transnational expansion came in October 1981 with the acquisition of J. Aron & Company, a major trader of precious metals and commodities and the nation’s largest supplier of green coffee beans (Cohan, 2011, 214). Although it was an American company, founded in 1898 in New Orleans, and had been a domestic banking client of Goldman’s for many years, J. Aron had a long-established presence in South American coffee bean-producing countries, with revenues topping $1 billion in 1980 (Cohan, 2011, 214). Over the course of its history, J. Aron’s business principally involved commodities arbitrage, or the practice of buying and selling commodities in different geographical markets and collecting the price differential as profit. When Goldman acquired J. Aron for more than $100 million, according to sources, it also acquired J. Aron’s South American business, suppliers, and employees, as well as its practice of international commodities arbitrage into European and Asian markets, thereby securing its most substantive transnational growth to date (Maidenberg, 1981; Cohan, 2011, 216).

The J. Aron acquisition was financially beneficial for both firms at the start and especially fortuitous for J. Aron who desired to be purchased by a private company so its moneymaking secrets would not be divulged (Goldman was still privately held by its senior partners and would not go public for another 18 years). The pragmatic aspect of the acquisition
was not all it was cracked up to be, however, as the culture of the two firms clashed almost immediately. J. Aron was a relatively low-risk company of four-hundred employees that was given a jolt when absorbed into the Goldman culture of high risk and high return—a culture employees proudly gave the mantra “long-term greedy” (Cohan, 2011, 461; Craig, 2012; Taibbi, 2009). Additionally, Goldman had acquired J. Aron at a peak of silver and gold trading, thus inflating its value at the time of acquisition and causing alarm when J. Aron’s prior revenues began to decline sharply at the start of 1982. By 1983, all profits from J. Aron were gone and in August of that year, some ninety employees who had come from J. Aron in the merger were fired (Cohan, 2011, 218, 220). The following year, a major restructuring\(^3\) within J. Aron and a full injection of managerial staff from Goldman—as well as the indoctrination of its high-risk culture—allowed J. Aron to become profitable again, almost exclusively by high-risk, short-term, frequent trading of commodities on select foreign-exchange markets (Cohan, 2011, 220). This new, aggressive foreign trading, helmed by future Goldman CEO Lloyd Blankfein, allowed Goldman further expansion into foreign markets, specifically Asia, and would lead to its next major transnational growth in only a few years.

Despite its newly found success in foreign trading in niche markets, in 1986 Goldman Sachs had only four small and relatively unimportant foreign offices in Switzerland, London, Hong Kong, and Tokyo (Endlich, 1999, 15). According to Lisa Endlich, author of the 1999 book *Goldman Sachs: The Culture of Success*, “the firm’s position in international investment banking was far from established; it ranked an unimpressive twenty-fourth in managing international bond issues outside the United States. But this was only the beginning” (16).

\(^3\) This restructuring cost 130 more J. Aron employees their jobs, some who had been with the firm for more than twenty years, making the total number of fired employees in two years a whopping 220—more than half of all employees that had come to Goldman at the time of the acquisition (Cohan, 2011, 223).
In January 1986, Tokyo-based Sumitomo Bank approached Goldman Sachs at its headquarters in New York with a secret offer to make a major investment in Goldman in return for Goldman teaching it the ropes in the investment banking business (Cohan, 2011, 243). Over the course of the year, terms of the investment were panned out, and on December 7, 1986, an announcement was made that “Sumitomo would pay $500 million to buy a form of debt convertible into 12.5% of Goldman’s equity over time,” equating to a sizeable, but non-controlling stake in Goldman (Cohan, 2011, 245). This first-of-its-kind deal allowed Goldman to boost its equity capital to $4 billion, more than 4.6 times its individual equity, and bump its total capital 3.3 times to an astounding $1.2 billion—all while keeping its entire executive and managerial staff in place and retaining full power in all controlling interests. In effect, Sumitomo allowed an astronomical influx of capital, leverage, and influence with which Goldman could play on a global scale without having to run any decisions by anyone outside its already-established, private board of directors.

The investment by Sumitomo was an immediate red flag, however, for the Securities and Exchange Commission (SEC), the federal agency whose primary responsibility is to regulate securities investments and stock trading to ensure compliance with federal laws. Sumitomo was a
traditional deposit bank—dealing in savings and checking accounts, mortgages, and retirement accounts, among other products—whose primary source of capital was supplied by its clients. Goldman, on the other hand, was an investment bank that made its money in part from fees and commissions for investment services, from trading through its J. Aron division, and from returns made by investing its own capital in various business ventures. In short, due to the Glass–Steagall Act of 1933, Goldman was not allowed to act as a traditional deposit bank for clients, then use the deposited money—its clients’ money—to make investments and risk its loss. The SEC and Federal Reserve both investigated the sale and deemed that, because Sumitomo was a foreign bank, Glass–Steagall had not technically been violated, though federal regulators did express deep concern that Sumitomo’s holding a sizeable share of Goldman would allow it “subtle influence…over Goldman’s activities and decisions” (Cohan, 2011, 245; “History of the Sumitomo Bank, Limited”). The Federal Reserve’s official position also stated that Sumitomo’s investment was indeed legal; however it could not increase its controlling interest to more than 12.5%, nor could it “exercise management rights, or expand to other countries” (“History of the Sumitomo Bank, Limited”).

Despite the restrictions placed on Goldman’s association with Sumitomo, the sale was nonetheless a major boon for Goldman, which found itself in a uniquely well-funded position to further expand globally. This it did again in 1990 when it accepted another $275 million from investors in the insurance industry in the United States, United Kingdom, and Japan. This modest

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4 The hidden irony of the Glass–Steagall Act was that throughout the middle of the 20th century, it actually benefitted most investment firms to keep large, well-capitalized deposit banks out of the investment business. With the rampant deregulation of markets that came with the Reagan administration; however, the tide began to change, and many investment banks started to look for similar loopholes to Glass–Steagall before working toward its outright repeal in the 1990s.
growth, while highly profitable for Goldman and its investors throughout the dot-com bubble of the 1990s, was nothing compared to what awaited Goldman at the turn of the millennium.

3) Goldman’s IPO and the Financial Crisis in Greece

Goldman Sachs first attempted to go public in September 1998 but pulled its IPO in the eleventh hour, citing “unsettled conditions” in the market. Indeed, the public valuation of Goldman and other similar companies had taken a nosedive to nearly half of their value in just the previous month (Cohan, 2011, 405). For Goldman, this meant that its dramatic downgrade in valuation from $30 billion to $15 billion prohibited its going public at the end of 1998. Goldman’s last-minute retreat made a shaky market even shakier; however to analysts and executives at Goldman alike, the decision was easy, despite rocking the industry’s boat. “This was not a close decision,” Goldman CEO Jon Corzine said of the pulled IPO. “This was a clear decision. I would conjecture that there would be very few people, if any, at Goldman Sachs who would question this decision” (Cohan, 2011, 406).

The following year was an extremely profitable year for Goldman Sachs. After the market rebounded in the beginning of the year, Goldman executed a wildly successful IPO on May 3, with an original stock price set at $53 per share (Cohan, 2011, 412). At the closing bell on its first day of trading, the stock skyrocketed to $70 per share after Goldman happily increased the offering to 69 million shares, reflecting a demand of more than 10 times the available supply. By the end of that day, Goldman would have an equity value of some $33.3 billion, more than $3 billion higher than what it had been valued at just 9 months earlier.

Also incalculably impacting for Goldman’s prospects of making record profits was the repeal of the Glass–Steagall Act in November 1999 with the passage of the Gramm–Leach–Bliley Act, officially known as the Financial Services Modernization Act of 1999. This piece of
legislation hit all of the keywords of neoliberal globalization right on the nose: it was said to enhance competition in the financial-services industry by leveling the playing field and removing barriers to business, allowing the free flow of capital through the legal mergers of deposit and investment banks in order to open up new opportunities for international growth. According to Dr. David Harvey, Distinguished Professor of Anthropology and Geography at City University of New York, “the suspension in 1999 of the distinction between investment and deposit banking in the United States that had been in place since the Glass–Steagall act of 1933 further integrated the banking system into one giant network of financial power” (20). Harvey (2012) would go on to comment about the globalization of this financial power in his book *The Enigma of Capital*, saying:

…as the financial system went global, so competition between financial centres—chiefly London and New York—took its coercive toll. The branches of international banks such as Goldman Sachs, Deutsches Bank, UBS, rBS and HSBC internalised competition. If the regulatory regime in London was less strict than that of the US, then the branches in the City of London got the business rather than Wall Street. As lucrative business naturally flowed to wherever the regulatory regime was laxest, so the political pressure on the regulators to look the other way mounted. Michael Bloomberg, the mayor of New York City, commissioned a report in 2005 that concluded that excessive regulation in the US threatened his city’s future financial industry. Everyone on Wall Street along with the “Party of Wall Street” in Congress trumpeted these conclusions (20).

This climate, and Goldman’s sudden explosion of capital, set the tone for one of Goldman’s most ethically questionable dealings in recent history⁵—one with ramifications that are still felt very deeply all over the globe more than a decade later.

One of the many services investment firms had long provided to advance the neoliberal agenda of global development was lending money to governments of foreign countries. Most often, these loans went to the governments of indebted third-world nations, and were frequently

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⁵ This is no small feat given that Goldman-created toxic derivatives and credit default swaps are widely believed to have had a central role in the global financial crisis of 2008 (Taibbi, 2009).
used just to make interest payments to the International Monetary Fund (IMF) and World Bank, which had first lent money to these governments. Along with these loans from the IMF and World Bank came various conditionalities called Structural Adjustment Plans requiring repayment to be made regardless of actual economic growth in the country. During this period of deep debt, governments sought loans from investment banks, and in 2001, when Greece found itself deep in debt, it too turned to Goldman for assistance.

While Greece was not indebted to any development agency, it did find itself struggling to adhere to the rules set when it entered the Euro zone in 2000, which stated that annual budget deficits were to be limited to 3% of gross domestic product (GDP) and total government debt to 60% of GDP. Documents and budget reports released later to the European Commission and United States Federal Reserve showed that Greece had only been “within 30 percentage points of the debt ceiling” one year (2006) and had exceeded the limit by an astonishing margin every other year since 1997 (Forelle and Fidler, 2010). In response to Greece’s financial woes, Goldman, led by its president Gary D. Cohn, devised a deal in 2001 that revolved around cross-currency swaps, wherein foreign investors purchase bonds in their own currency—yen, dollars, or Swiss francs, for example—and the government is able to take advantage of international exchange rates to make a marginal profit and pay its debts (Balzli, 2010; Story, Thomas Jr. and Schwartz, 2010). While it is a fairly common practice by countries looking to refinance debt obligations, this particular plan was far from common as Goldman was shown to have fabricated currency exchange rates so that Greece could report a far greater value from the swap, thus supplying nearly $1 billion in credit for the indebted government (Balzli, 2010). Additionally, because the loan was disguised as a legitimate cross-currency swap, it never showed up on Greece’s books, thereby significantly reducing the amount of actual debt reported to the
European Commission and artificially dropping Greece below the 3% deficit ceiling. In return, Greece traded away, amongst other revenues, its rights to airport fees and lottery proceeds to Goldman Sachs for years in the future (Story, Thomas Jr. and Schwartz, 2010).

In 2005, a political shift in Greece ushered in a new set of lawmakers, including Finance Minister George Alogoskoufis, who immediately acknowledged the misdeeds of the previous administration and worked to minimize the damage that Goldman had facilitated with its cross-currency scheme. In testimony to Parliament, the new finance minister stated the dire implications of the Goldman scheme: Greece was certain to be burdened with payments to Goldman until the year 2019 (Story, Thomas Jr. and Schwartz, 2010). In response to the public criticism, Goldman agreed to sell the interest-rate swap to the National Bank of Greece, in order “to restore its good will with the republic,” according to an e-mail from Mr. Alogoskoufis (Story, Thomas Jr. and Schwartz, 2010). At the end of the deal with the Greek government, however, Goldman profited quite handsomely from this transaction, yet more than a decade later, Greece remains in extreme financial distress, in large part due to the five-year cover-up of the country’s budgetary crisis at the hands of Goldman bankers (Ellyatt, 2012; Forelle and Fidler, 2010; Story, Thomas Jr. and Schwartz, 2010).
Conclusion

Goldman Sachs’ global growth has been astronomical since its first major acquisition of J. Aron in 1981, yet its path to transnational growth has been far from typical. With few major identifiable commodity chains to call its own, Goldman’s expansion has been through investment in and services for other businesses with more traditional patterns of neoliberal growth. In the new millennium, this expansion is largely occurring through investment in corporations involved in real estate, banking, and petroleum exports in the booming economies of what Goldman refers to as the “BRIC” countries of Brazil, Russia, India, and China (Martin, 2012). In the last year, however, Goldman has turned its attention to the emerging markets of what it terms the “MIST” economies of Mexico, Indonesia, South Korea, and Turkey (Martin, 2012). The implications of this shift are such that the growth of transnational corporations in these countries will continue to usher in the discourse and policies of neoliberalism.

Indeed, if there is a moral to the globalization of Goldman Sachs, it is that where the financing for transnational corporations goes, so goes the expansion of neoliberal policies. Ultimately, while Goldman may not have traditional commodity chains to track or a physical presence in most of the countries its actions are felt, the fact that it is a gatekeeper of global capital makes it a gatekeeper of the neoliberal agenda and a geopolitical force to be reckoned with.

References


