

Goldman's huge profit stirs public outrage; Bailed-out bank makes \$2.72 billion U.S. in 2nd quarter, pays employees billions in compensation

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Goldman Sachs Group Inc.'s colossal second-quarter earnings of \$2.72 billion (U.S.) ignited a firestorm of public outrage yesterday, taking the shine off of what was supposed to be a banner day for the U.S. banking giant.

While the blockbuster profit cemented Goldman's standing as Wall Street's star, it also positioned the bank in Main Street's crosshairs. Skeptical Americans, never convinced of the banking bailout's merits, heaped on the scorn against a backdrop of rising unemployment and fading personal wealth.

Seizing on that rage, Eliot Spitzer, the disgraced former New York governor and attorney general, once known as the "sheriff of Wall Street," said U.S. banks made a "bloody fortune" while receiving taxpayer money without a proven benefit to the wider economy.

Scott Garrett, a New Jersey Republican, warned that lawmakers are likely "going to hear a pushback from constituents."

Critics pointed to Goldman's decision to pay billions for compensation. It set aside an average \$226,156 per employee in the quarter, up from \$129,200 a year ago. On an annualized basis, it comes to nearly \$1 million per worker.

"We've been down this road once before," said Senator Jon Tester, a Montana Democrat, referring to the controversy over bonuses paid by rescued insurer American International Group Inc.

"Quite frankly, they need to look at it from a perspective that it's not business as usual any more, and they can't continue along these lines or there will be outrage."

Still, Goldman has its defenders. While the backlash is poised to create more political headaches for the White House, there were plenty of suggestions the public's anger may be misplaced.

"The mood in America is chronically grumpy at anybody doing well out of this catastrophe," said Thomas Caldwell, chair of Caldwell Financial Ltd. "So, there is an atmosphere of looking for villains."

Still, as a member of the New York Stock Exchange, he takes a nuanced view of the controversy. When asked if it is justified, he replied "The answer is yes and no."

He notes average Americans are still losing their jobs in droves and those same taxpayers have been asked to prop up the country's hobbled financial system.

Goldman has repaid the government's \$10 billion investment through the Troubled Asset Relief Program. But it benefited from other help, including the federal rescue of AIG and record-low interest rates.

"They did get, as we say, a couple on the house. But that is not to take away from the fact they are smart and they are

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bright guys and gals," Caldwell said. "But I can understand the upset."

While most experts agree the government had little choice in bailing out banks, taxpayers have yet to see any real return on their investment, said Campbell Harvey, a professor of international business at Duke University in Durham, N.C.

Credit remains tight and there is no suggestion Goldman has provided any "clear benefit" to the financial system through increased lending to small businesses, he said. "It is very natural for the public to wonder, 'This doesn't seem fair.'"

Other industry experts suggested the condemnation was unjustified.

"This is what the government investment was meant to do," said James Reynolds, CEO of Loop Capital Markets LLC in Chicago. "I just don't understand why the country, or a working person in Michigan, Ohio or Kansas, would cheer against Goldman doing well just because the government invested in Goldman at a time when the financial markets were in chaos."

Goldman earned \$2.72 billion, or \$4.93 per share, during the quarter ended June 26, compared with a profit of \$2.05 billion, or \$4.58 per share, a year ago. While it recorded a charge of 78 cents a share for its repayment of TARP funds, its net earnings surpassed expectations.

With files from the Star's wire services

Credit: Toronto Star

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