Henry 'Potato Head' Paulson

2011. Acrylic on canvas, 20 x 24"
By
Martin Ostrye

Henry Paulson served as Treasury Secretary in the George W. Bush administration from 2006 to 2009.

Before that Paulson was CEO of Goldman Sachs (1999-2006), one of the most powerful investment banks in the world, a bank heavily involved in sub-prime mortgage securities. Paulson had been with Goldman Sachs since 1974 and was CEO during the period of the greatest expansion of mortgage based securities as financial instruments. He was also CEO when Goldman Sachs helped Greece hide its debt through transferring it into derivatives, "specifically, cross-currency swaps"; swapping debt issued in dollars and yen for euro to be exchanged back at a date in the future.[1]

As noted by Mark Landler of the New York Times, Paulson is "an unapologetic free marketer. He's a Republican. He has that deregulatory mindset that the Bush Administration has. That's why he was chosen."[2]

Gretchen Morgenson, also of the New York Times, noted, "Henry Paulson came from Goldman Sachs. He was the chief executive officer, came up through the investment banking world."[3]

Paulson as Treasury Secretary claimed that "by the time he became secretary many bad loans already had been issued—'most of the toothpaste was out of the tube'— and that 'there really wasn't the proper regulatory apparatus to deal with it.'"[4] He may not have been the secretary when the tube of toothpaste was filled, but he was the CEO of Goldman Sachs. He knew what was inside the tube and if he didn't know, then he was just an incompetent figurehead.

Under Paulson, "Goldman Sachs had played a central role in the creation and sale of mortgage securities. From 2004 through 2006, the company provided billions of dollars in loans to mortgage lenders; most went to the subprime lenders Ameriquest, Long Beach, Fremont, New Century, and Countrywide through warehouse lines of credit, often in the form of [repurchase agreements]."[5] During that time, "Goldman issued 318 mortgage securitizations totaling $184 billion (about a quarter were subprime), and 63 [Collateralized Debt Obligations] totaling $32 billion; Goldman also issued 22 synthetic or hybrid CDOs with a face value of $35 billion between 2004 and June 2006."[6] All while Paulson was CEO of Goldman Sachs.

Then "[i]n the summer of 2007, as the prices of some highly rated mortgage securities crashed and [Bear Stearns] hedge funds imploded, broader repercussions from the declining housing market were still not clear. 'I don't think [the subprime mess] poses any threat to the overall economy,' Treasury Secretary Henry Paulson told Bloomberg on July 26."[7]

On September 18, a Thursday, "the Fed and Treasury proposed what Secretary Paulson called a 'comprehensive approach' to stem the mounting crisis in the financial system by purchasing the toxic mortgage-related assets that were weighing down many banks' balance sheets."[8] The following Saturday, September 20, "as Goldman Sachs and Morgan Stanley were preparing to become bank holding companies," Paulson sends Congress a three page plan for TARP legislation. The proposal "would give Treasury the authority to spend as much as $700 billion to purchase toxic assets from financial institutions."[9]

Gretchen Morgenson observed that the “plan was a $700 billion - a request for that money from the taxpayer - to be used to buy the kinds of toxic mortgage securities that were creating so many problems for the banks.”[10]

Paulson told the FCIC that ‘“The whole reason for designing the program was so many banks would take it, would have the capital, and that would lead to lending. That was the whole purpose.’ However, there were no specific requirements for those banks to make loans to businesses and households. ‘Right after we announced it we had critics start saying, ‘You’ve got to force them to lend,’” Paulson said. Although he said he couldn’t see how to do this, he did concede that the program could have been more effective in this regard.”[11]

At the time, though, Paulson proclaimed that he had “the greatest confidence in the resiliency, flexibility and strength of our economy and our capital markets.”[12]

On October 14, 2008, Paulson goes before the cameras to hold a press conference, *“*Today, we are taking decisive actions to protect the U.S. economy. We regret having to take these actions. Today's actions are not what we ever wanted to do, but today's actions are what we must do to restore confidence in our financial system.” He went on to say, “Government owning a stake in any private U.S. company is objectionable to most Americans, me included.”[13] That is unless you are a pseudo-free-marketer and really need the money. Paulson, an anti-government libertarian, could care less about the American people, his only objective was to serve Wall Street and the corporations; that’s where he spent his life, and now he was just going to give the people’s money to his friends because the only place left to get money was the U.S. Treasury. Even a Republican had enough sense to see that. Representative Paul Broun of Georgia said, “[t]his is essentially Mr. Paulson's bill to help his friends, and I can't buy it.”[14]

Perhaps the best way to summarize it all is as Joe Nocera of the New York Times said, “The government's attitude towards homeowners was, ‘They did it to themselves. That's the way it goes.’ The government's attitude towards Wall Street was, ‘These are a bunch of smart, sophisticated people. Yeah, they made some mistakes, but the system is fine and we'll be OK.’”[15]

That’s right, “the system”, the revolving door system between the government and Wall Street. The system that says, we’ll take care of one another and everything will be just fine. Everyone will get rich. However, the system and the actions of Henry Paulson while at Goldman Sachs and as Treasury Secretary will be felt in Greece, the United States, and around the world for years to come – much of it hidden away in the fine print of destructive financial instruments.

Only one percent will get rich.

Notes

1. Marshall, Andrew Gavin, “The Great Global Debt Depression: It’s All Greek To Me”. July 15, 2011, Global Research.
2. *Inside the Meltdown*, PBS Frontline, February 17, 2009, transcript Page 9.
3. *Ibid., p.* 8.
4. *Financial Crisis Inquiry Commission Report,* January 2011, p. 142.
5. Ibid.
6. Ibid.
7. Ibid., p. 246.
8. Ibid., p. 371.
9. Ibid.
10. *Inside the Meltdown*, p. 19.
11. *Financial Crisis Inquiry Commission Report*, p. 375)
12. *Inside the Meltdown*, p.11.
13. Ibid., p. 23.
14. Ibid., p. 19.
15. Ibid., p. 11.