



Paulson with his ChiCom friends

Both parties in Washington are about to screw us over on an unprecedented scale. They are threatening us with fiscal apocalypse if we don't fork over \$700 billion to Treasury Secretary Henry Paulson and allow him to dole it out to whomever he chooses in whatever amount he chooses — without public input or recourse. They are rushing like mad to cram this Mother of All Bailouts down our throats in the next 72-96 hours. And right there in the **text** of the proposal is this naked power grab: “Decisions by the Secretary pursuant to the authority of this Act are **non-reviewable and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency.**”

Stop.

My question for fellow conservatives: Do you trust this man?

I don't.

Do you trust Hank Paulson's judgment?

I don't.

Listen to what he said about the subprime crisis in **April 2007**:

U.S. Treasury Secretary Henry Paulson said...the housing market correction appears to be at or near its bottom and that troubles in the subprime mortgage market will not likely spread throughout the economy.

“We've clearly had a big correction in the housing market. Retail housing was growing for some time at a level that was not sustainable,” Paulson said in a speech to The Committee of 100, a business group in New York promoting better Chinese relations.

“I don't see (subprime mortgage market troubles) imposing a serious problem. I think it's going to be largely contained,” he added.

Listen to what he said about the subprime crisis in **May 2007**:

JIM LEHRER: One final question, and a third subject. How worried are you about the slump, so-called slump in the housing market in the United States right now? And what kind of damage, if any, is it doing to the economy?

HENRY PAULSON: Well, let me say this. As you've pointed out, we've had a major housing correction in the U.S. The U.S. economy had been growing at a rate that was unsustainable and, in housing, it had clearly been growing at a rate for a number of years.

That correction was inevitable; that correction has now been significant. **We think it is near the bottom. It will take a while to work its way through the system. Fortunately for us, we have a very diverse, healthy economy. There are other things that are positive that are offsetting that.**

...So my very strong view is that we are near the bottom and that this will be contained as — the housing will be contained, and we're fortunate that we have a diverse, healthy economy.

Listen to what he said about the subprime crisis in **August 2007** while on a trip to Beijing (more on Paulson's ChiCom ties in a moment):

Treasury Secretary Henry Paulson said on Wednesday the repricing of credit risk was hitting financial markets, but U.S. subprime mortgage fallout remained largely contained due to the strongest global economy in decades.

Speaking to reporters in Beijing, where he ran into stiff resistance in persuading Chinese officials to let the yuan strengthen more quickly, Paulson said markets were unwinding excesses in U.S. mortgage and leveraged buyout financing.

European and Asian stocks tumbled on Wednesday following a sharp drop in U.S. shares on Tuesday, after American Home Mortgage Investment Corp. said it might have to liquidate assets, fuelling worries over problems in the subprime mortgage market spilling over into other sectors.

“The market has focused on this. There's a wake-up call, and there's an adjustment to this repricing of risk, but I see the underlying

economy as being very healthy,” he told reporters before leaving Beijing.

Paulson added that he did not see anything that caused him to reconsider his view that the economic damage from the housing correction was “largely contained,” despite losses in a number of financial institutions and a long period for subprime issues to move through the economy.

Here's Paulson in **October 2007** assuring us that he had no interest in government bailouts while touting the economy's health again:

Paulson: Subprime help needed - but no bailout

Treasury Secretary Hank Paulson is walking a fine line, pushing the need to help troubled mortgage borrowers without rewarding past risky behavior.

“I have no interest in bailing out lenders or property speculators. Still, we must recognize the very real harms to families affected by the housing downturn,” Paulson said in prepared remarks for a speech given Tuesday at Georgetown University.

...Although the speech seemed to mark a step up in activism on the part of the Treasury Department, Paulson was quick to point out the limitations of the government's approach during the question and answer following the talk.

Referring to HopeNow, he said, “This is a 100 percent market-based solution. I believe in markets. The government is doing nothing here but facilitating people coming together.”

Paulson also downplayed the possibility that the housing crisis could plunge the nation into recession. “I've seen turbulence in the market a number of times and **I can't think of any situation where the backdrop of the global economy was as healthy as it is today,**” he said.

And here's Paulson in **May 2008** declaring the credit crisis on the wane:

The credit crisis that has scorched international financial markets is on the wane but more shocks are ahead, U.S. Secretary Treasury Henry Paulson told the Wall Street Journal in an interview published on Wednesday.

‘The worst is likely to be behind us,’ Paulson told the paper, in one of the most optimistic comments by a top U.S. finance official since sub-prime mortgage losses set a domino effect in motion in mid 2007.

Paulson said it would take ‘some months longer’ for the situation to stabilize and cautioned there would likely be further ‘bumps along the road’.

Yeah. A freaking \$700 billion bailout bump. That's all. Guess that little detail just slipped his mind.

On **Sept. 15**, Paulson was patting himself on the back for refusing to “put taxpayer money on the line” to rescue Lehman Brothers. On Sept. 16, just a day after drawing a line in the bailout sand, Paulson teamed up with the Fed's Ben Bernanke to engineer the **\$85 billion federal bailout of AIG**. And on **Sept. 19**, he was telling Americans that “hundreds of billions of dollars” — their dollars — were needed to “be big enough to make a real difference and get at the heart of the problem” and “stabilize the system.” This is on top of the estimated **\$200 billion** in capital and credit lines committed by Paulson to Fannie Mae and Freddie Mac — capital that he had promised he wouldn't be injecting into those two government-sponsored entities in **August** (“We have no plans to insert money into either of those two institutions.”)

Now: Who is Paulson looking out for? A quick review of the Treasury Secretary's record, political activity, and business priorities makes clear: He ain't looking out for you.

Paulson has positioned himself as a champion of transparency. Me, too. Let's shed some light on the man who wants total control over \$700 billion of your money.

Robert Novak called attention to **Paulson's Democrat DNA** last October. It's worth reminding you of Paulson's instincts and the liberal allies he has installed at the Treasury Department:

...[T]he former Goldman Sachs CEO does not act or sound much like a conservative Republican to the GOP remnant at the Treasury. “It's not in Hank Paulson's DNA,” one official told me. Is he loyal to Bush? “Hank is for Hank,” he replied.

Paulson marched to his own drummer... by naming Eric Mindich, chairman of Eton Park Capital Management, to head the Asset Managers' Committee of the President's Working Group on Financial Markets. A former Goldman Sachs colleague of Paulson's, Mindich is a top-level Democratic fundraiser. He was in Sen. John Kerry's inner circle for the 2004 presidential campaign and backs Sen. Barack Obama for 2008.

Republicans in the administration were amazed that the White House acquiesced in appointing a Democratic activist to lead a group “to develop best practices” for asset managers. These critics wonder why President Bush did not ask Paulson why he could not name a Republican financier for this position...[A] Treasury spokesman replied that “we were looking for somebody who is well respected in the industry” to fill what is “not really a

political position." By that measure, no Treasury job can be considered political.

That includes Bob Steel, under secretary for domestic finance...Brought to the Treasury by Paulson a year ago, Steel is a retired Goldman Sachs vice chairman who worked there with Rubin and Paulson. Federal Election Commission records show no political contributions by Steel since the 2002 cycle, when he gave exclusively to Democrats (including Sen. Charles Schumer of New York). Steel, who is Board of Trustees chairman of Duke University in Durham, N.C., contributed to the North Carolina Democratic Party and its Senate candidates, Dan Blue and Erskine Bowles.

Although Paulson was a generous Republican contributor and prodigious Bush fundraiser (over \$100,000) in the 2004 cycle, his earlier political giving was more varied. He contributed to Bill Clinton in 1992, Democrat Bill Bradley's 2000 presidential campaign, the feminist Emily's List and Wall Street's favorite Democrat, Chuck Schumer. Most of the Paulson family's Democratic contributions come from the secretary's wife, Wendy, who has supported Hillary Clinton.

All this was known to Bush in May 2006 when he tapped Paulson as a Treasury chief who would command respect on Wall Street. It should be no surprise then that he is regarded in his own administration as less a true Republican secretary than a transition to the next Democratic Treasury — a trademark of a lame-duck regime.

Paulson is also an activist eco-zealot who pushed Gore-esque, mandatory global warming reduction schemes as head of the Nature Conservancy and while at Goldman Sachs. From a **2006 WaPo profile** touting Paulson's green pedigree:

"It isn't every day that the Sierra Club finds itself welcoming a nomination to George W. Bush's Cabinet while ultraconservatives decry the move," said Carl Pope, the Sierra Club's executive director.

"But on issues like global warming, Hank Paulson appears to favor managing risk rather than cooking the books," Pope said. "It is heartening that someone of Mr. Paulson's stature in the financial world is willing to say that immediate action must be taken to combat global warming."

Last year under Paulson's direction, Goldman Sachs issued an eight-page position paper on environmental policy, saying it accepts a scientific consensus, led by United Nations climate experts, that global warming poses one of the greatest threats this century.

Like Bush, the Goldman Sachs statement endorsed a market for businesses to buy and sell rights to emit greenhouse gases, saying it will spur technology advances by companies "that lead to a less carbon-intensive economy." But, it added, "Voluntary action alone cannot solve the climate change problem," a position contrary to the Bush administration's view.

The Nature Conservancy, under Paulson's direction, likewise supports a mandatory approach. It supports legislation by Sens. John McCain, R-Ariz., and Joe Lieberman, D-Conn., to cap U.S. greenhouse gases at 2000 levels, within five years. The Senate defeated the measure last year.

Then there are Paulson's longtime ties to the ChiComs. The Center for Security Policy's Frank Gaffney **blew the whistle** during Paulson's confirmation hearings in 2006. Prescient as always, Gaffney foresaw the very national security and economic conflicts of interest that now cloud the Paulson bailout plan. Paulson's China promotion and profiteering are all the more relevant given the clamoring of **foreign banks** for a piece of the monster bailout action — and Paulson's confirmation yesterday on ABC's "This Week" that foreign-based banks would not be excluded:

Under Mr. Paulson's leadership at Goldman Sachs, the company has been instrumental to the growth of Chinese economic power and particularly to its penetration of Western capital and other markets. He has been directly involved in developing his firm's relationships with the PRC, priding himself on having made 70 trips there since late 1991. Consider just a few of the deals Goldman has managed, underwritten or otherwise facilitated under Henry Paulson's leadership:

In 2005, Goldman Sachs not only advised the China National Offshore Oil Corporation (CNOOC) in its attempted takeover of Unocal. It also strove to ensure that the Chinese state-owned company's bid prevailed after ChevronTexaco offered \$17 billion in an effort to keep Unocal in U.S. hands. CNOOC was able to up the ante to \$18.5 billion for the American concern, thanks to a bridge-loan Goldman Sachs arranged (along with J.P. Morgan). Fortunately, despite the assiduous efforts made by Mr. Paulson and his firm to secure Unocal for Communist China, the American people and Congress strenuously opposed the transaction, leading ultimately to its derailing.

In late January 2006, Goldman Sachs purchased a stake in the Industrial and Commercial Bank of China (ICBC), China's biggest bank, for \$2.58 billion. According to press reports, Mr. Paulson's personal stake in this transaction was \$25 million.

This is but one of many such state-owned banks the Chinese are interested in bringing to Hong Kong and other Western capital markets. **As I told the U.S.-China Economic and Security Review Commission last August:**

These are foreign government-owned entities, not private firms. The Chinese government appears to be actively working with leading international banking houses [notably, Goldman Sachs] to shape the appearance, assets, liabilities, profit margins and public relations tactics of these state-owned enterprises.

Despite such efforts, the PRC seems simply to be dressing-up what were, until recently, insolvent banks in the hope that international capital markets will contribute to bailing them out. This process involves the off-loading of non-performing loans onto asset management companies in a fashion very reminiscent of the U.S. savings and loan crisis. Indeed, the PRC appears, in fact, to have modeled its strategy on the American experience.

No less worrisome is the fact that these banks' assets include not only its non-performing loans, but also the loans made to various

Chinese enterprises of grave concern to the United States, including elements of the PRC's military-industrial complex; entities involved in the manufacture and perhaps the proliferation of weapons of mass destruction and their delivery systems; human and labor rights abusers; environmental despoilers; etc.

Speaking of banks, in May 2006, Goldman Sachs helped with the underwriting of the Bank of China's IPO, listing \$9.7 billion worth of its shares on Hong Kong's stock exchange. Among other problematic activities the Bank has engaged in has been the financing over the past fifteen years of extensive infrastructure projects like dam-building for the mullahocracy in Iran.

...It seems predictable that a man with Henry Paulson's background, track record and relationships with Communist China will play a worrisome role in U.S. government deliberations. Unless he recuses himself from involvement in the following sorts of issues, Mr. Paulson assuredly will be participating in and exercising great influence over far-reaching decisions in which he has a vested policy, if not financial, interest. These will likely include, for example:

Contending with China's ongoing manipulation of its currency which it uses to help sustain its advantageous trade relationship with the United States;

Addressing the strategic implications of the PRC being the largest holder of U.S. debt;

Considering the need to impose economic and perhaps other sanctions on Chinese proliferators, not at the subsidiary level (as has been done to date) but against their parent companies, when some of the latter may include Mr. Paulson's former clients;

Allowing China to purchase strategic U.S. companies and assets;

...Since Communist China's interests and those of the United States are likely to diverge ever more sharply in the years ahead, the very least that should be required of Paulson is that he recuse himself from involvement in matters of interest to the PRC. Unfortunately, as the foregoing list suggests, since China's interests and activities figure so prominently in the Treasury portfolio, such a recusal would reduce the job to a part-time one.

In the absence of such a recusal, however, Paulson's China-related work at Treasury will require an extraordinary level of transparency and accountability by members of Congress, the media, and the American public. We must be assured he is working for us in this job, not for Communist China as he did so successfully in the last one.

On top of Paulson's \$700 billion bailout for both American and foreign-based banks, there is another stealth effort for a multilateral bank bailout championed by the Treasury Department to the tune of at least \$15 billion. The proposal would transform billions of dollars worth of U.S. loans to the World Bank, IMF, and African Development Bank into grants. And *voila!* Their massive debts to American taxpayers would disappear. Sen. Tom Coburn, a fiscal conservative watchdog who *is* looking out for us, red-flagged the Treasury Department's attempt to sneak the plan through last week in a letter to Senate GOP minority leader Mitch McConnell. I'm reprinting the letter in full so you are fully aware of what Hank Paulson's priorities are:

September 18, 2008

Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

Dear Senator McConnell,

I am requesting that I be consulted before the Senate enters into any unanimous consent agreements regarding S. 2166, the Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008. I objected to the previous unanimous consent agreement, and I reserve the right to object to any future unanimous consent agreements or rule waivers regarding this bill.

I have a number of concerns with this legislation.

The Jubilee Act requires the Secretary of the U.S. Treasury to "commence immediate efforts. . .to accomplish. . .cancellation by the United States of all existing debts owed to it by eligible low-income countries." [1] This will effectively transform at least \$1.13 billion of U.S. loans to other countries into foreign aid grants that will no longer be repaid to the U.S. taxpayer. [2] In other words, S. 2166 authorizes a \$1.135 billion foreign aid package.

The national debt now exceeds \$9.4 trillion. That means over \$30,500 in debt for each and every man, woman and child in the United States. The U.S. debt is expanding by about \$1.4 billion a day, or nearly \$1 million a minute. S. 2166 would significantly contribute to the already overwhelming burden of debt that Congress has created.

This violates a principle I have laid out in a letter sent at the beginning of the 110th Congress to all my Senate colleagues, to withhold my consent for unanimous passage of any bill that authorizes new spending without an equivalent reduction in existing spending authority for a lower-priority or less effective program.

S. 2166 also requires the Secretary of the U.S. Treasury to "commence immediate efforts" within international financial institutions, such as the World Bank, "to ensure "that the provision of debt cancellation to eligible low-income countries is not followed by a reduction in. . .development assistance to the [low-income] countries by international financial institutions." This section of the bill could be interpreted to support the notion that contributors to international financial institutions, such as the U.S. taxpayer, should be required to refund the international financial institutions for the entire

amount of the loans forgiven. In other words, U.S. taxpayers, who have already paid their share of the forgiven multilateral loans, would be required to pay this amount a second time as a bailout for the banks.

Unfortunately, the U.S. Treasury Department, during a G8[3] summit in 2005, already made a commitment to provide a bailout to multilateral banks that participated in the Multilateral Debt Relief Initiative (MDRI). MDRI is an initiative that gives 100 percent relief on eligible debt from three multilateral banks[4] to a group of low-income countries, most of whom never intended to repay the loans.[5]

In the outcome document from the 2005 G8 Summit, the U.S. Treasury Department and its counterparts in the other G8 countries agreed to “compensate” the multilateral banks “on a ‘dollar-for-dollar’ basis” the full amount of the debts to eligible low-income countries that will be forgiven.[6] The outcome document goes on to say that the G8 will “provide MDRI financing additional to donors’ regular support” which represents “an increase of about 25 percent over” the baseline funding level the G8 normally sends to the banks.

Regular support of the development banks comes in the form of replenishments, which are wealth transfers from G8 countries given to the banks every three years with which the banks redistribute to low-income countries. The agreement made by the G8 was to include the multilateral banks’ bailout within the regular 3-year replenishments to the banks.

The total debt relief G8 countries, including the U.S., agreed to is more than \$41.3 billion over 40 years. This means \$41.3 billion in mostly bad loans to low income countries have been transformed into foreign aid grants that will never be paid back. By agreeing to bail the banks out for these bad lending decisions, the G8 is passing the cost of the scheme to G8 taxpayers. The total cost will be up to \$82.6 billion to cover the original loan plus the cost of the bailout.

The U.S. taxpayers’ share of this bailout is almost \$7.5 billion over 40 years. Even though the U.S. Treasury was not authorized by Congress to commit to this increase in foreign aid spending, Treasury plans on making the first installments of the U.S. portion of the bailout this year without informing Congress. In its budget request to Congress in 2009, the Treasury Department does not report to Congress any information about its agreement to bail out the multilateral banks or that its request for its next 3-year replenishment to the banks includes its first installment of the bailout.

It wasn’t until I asked specifically about the bailout that the Treasury Department admitted that it has hidden the first installment of the U.S. share of the bailout in the U.S. replenishment payments for 2009. According to the Treasury Department, these bailout payments will not cost the taxpayer additional funds. It claims that by sending the normal 3-year replenishment to the banks earlier than planned, the money will gain enough interest while sitting in the multilateral banks’ accounts that will pay for the U.S. share of the bailout. What the Treasury Department fails to understand is that this interest belongs to the U.S. taxpayer, and by denying the taxpayer this interest, the cost of the bailout is indeed carried by the U.S. taxpayer.

Another disturbing element to the bailout agreement that U.S. Treasury made at the 2005 G8 summit is that the additional money the U.S. and other G8 taxpayers will be sending to the banks for the bailout will be used for “providing further resources for. . .development efforts”[7] within low-income countries whose loans were forgiven. In other words, the U.S. Treasury Department agreed to saturate the multilateral banks with even more U.S. taxpayer cash, so the banks can continue their misguided policies responsible for issuing bad loans and the subsequent bailout schemes.

Development policies that require massive transfers of wealth from developed nations to low-income nations, or socialism, have proven not only to fail at eradicating poverty but actually prolong and worsen economic conditions in many impoverished countries. I strongly believe that when we act as a government to help people, we make sure that our help first doesn’t make the problem worse, and second, really works and doesn’t just make us feel good about having tried to help.

Wealth transfers, whether it be in the form of foreign aid packages or debt relief, is based on the false premise that transfers of riches from wealthy nations to poor nations will buy economic growth in those recipient nations. There is no credible evidence that suggests this approach has ever actually produced economic growth, and sadly, there is a growing body of economic research that suggests just the opposite. [8] All evidence demonstrates that poverty decreases only with the increase in economic freedom, free trade, the protection of property rights, elimination of corruption, and predictably enforced rule of law. In other words, poverty is the result of corrupt governments and the absence of liberty—not the lack of wealth transfers.

The American people are already burdened with over \$9.4 trillion of debt due to uncontrolled spending by Congress. The U.S. taxpayer is always called upon to bail out failed wealth-transfer programs, whether it is multilateral banks, government-run mortgage companies, or federal retirement plans. It is unlikely that there will be anyone willing to bail out the U.S. taxpayers once this unsustainable spending frenzy finally catches up with us. I cannot, in good conscious, contribute to this problem.

In order for me to vote “yes” on the passage of S. 2166, the bill should be improved in two key ways. First, the cost of transforming over \$1 billion of U.S. bilateral loans into grants should be offset by an equivalent reduction in existing spending authority for a lower-priority or less effective program.

Second, S. 2166 should include a prohibition on providing multilateral banks bailouts from the U.S. taxpayer for current or future debt relief initiatives. If multilateral banks desire a \$7 billion increase in U.S. funding, they should make a request to Congress, and Congress should conduct oversight investigations, debate whether wealth transfer programs achieve measurable results, and, if there is measurable evidence supporting it, decide whether or not to grant the increase while offsetting it from existing spending elsewhere.

Thank you for protecting my rights on this legislation.

Sincerely,
Tom A. Coburn, M.D.
U.S. Senator

One last item if all this wasn’t enough to stop your heart. This is Paulson on “**Face the Nation**” yesterday:

Mr. Paulson said he hoped that the government would recoup much of the cost of buying distressed mortgage-related assets. But **he did not rule out that the initial cost of the bailout could rise beyond \$700 billion, the limit set in the terse proposal sent by the Treasury to Congress on Saturday.**

“That doesn’t mean we’ll go all the way there, or it doesn’t mean it will stop there and we won’t ask for more,” Mr. Paulson said on the CBS program “Face the Nation.” “What we need is something that is big enough to get the job done. We’ll ask for what we think is a right amount to give us plenty of flexibility.”

And now, Washington is on the verge of handing this man unchecked power to grab \$700 billion-plus in taxpayer money to stabilize a market he said was “healthy” in order to fix a crisis he said had been “contained” more than a year ago?

Henry Paulson must be contained.

Posted in: [Subprime crisis](#)

[Send to a Friend](#)

[Regular View](#)

comments (121)  trackbacks (11)