

Henry Paulson: An Inside Look at the Financial Crisis

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Former Treasury Secretary Henry Paulson candidly spoke about the details of his efforts to rescue the economy during the financial crisis, and offered some optimistic thoughts about the potential for growth in the US economy in the face of new financial regulation. Paulson spoke on Wednesday at a keynote session, moderated by Schwab economist Liz Ann Sonders, at the Schwab IMPACT conference.



Under pressure from his family, Paulson said that he twice refused the job of Treasury Secretary before accepting the assignment. His mother, in particular, was upset by his working for President George Bush, which Paulson said resulted in one of the few times she cried.

Paulson negotiated to be the president's primary advisor on both domestic and international finance issues and to have open access to the president. He vowed not to get involved in politics, and worked hard to build a relationship with the president, which he said recognized would be essential to successfully fulfilling his role.

Paulson said it was a wonderful experience and that Bush was "a good boss."

When he began as Treasury Secretary, Paulson said he knew there were "excesses" and that a financial crisis was "long overdue," but he did not foresee what would cause it. He thought that housing was "contained" because, since World War II, there had never been a nationwide price decline. He also believed, at the time, that subprime mortgages were not a sufficiently big part of the US economy to cause the problems that later unfolded.

Once the crisis was in full swing, Paulson said he wanted to ask Congress for "unlimited" authority to rescue failing institutions, but was convinced by his staff to instead ask for "unspecified" authority, because that was believed to be more politically palatable. Eventually, he had to threaten to use a "bazooka" in order to comfort the market – a metaphor for permanently guaranteeing the debt of and nationalizing Fannie Mae and Freddie Mac.