Paulson's Swindle Revealed

by William Greider - the Nation - *October 29, 2008*

The swindle of American taxpayers is proceeding more or less in broad daylight, as the unwitting voters are preoccupied with the national election. Treasury Secretary Hank Paulson agreed to invest $125 billion in the nine largest banks, including $10 billion for Goldman Sachs, his old firm. But, if you look more closely at Paulson's transaction, the taxpayers were taken for a ride--a very expensive ride. They paid $125 billion for bank stock that a private investor could purchase for $62.5 billion. That means half of the public's money was a straight-out gift to Wall Street, for which taxpayers got nothing in return.

These are dynamite facts that demand immediate action to halt the bailout deal and correct its giveaway terms. Stop payment on the Treasury checks before the bankers can cash them. Open an immediate Congressional investigation into how Paulson and his staff determined such a sweetheart deal for leading players in the financial sector and for their own former employer. Paulson's bailout staff is heavily populated with Goldman Sachs veterans and individuals from other Wall Street firms. Yet we do not know whether these financiers have fully divested their own Wall Street holdings. Were they perhaps enriching themselves as they engineered this generous distribution of public wealth to embattled private banks and their shareholders?

Leo W. Gerard, president of the United Steelworkers, raised these explosive questions in a stinging letter sent to Paulson this week. The union did what any private investor would do. Its finance experts vetted the terms of the bailout investment and calculated the real value of what Treasury bought with the public's money. In the case of Goldman Sachs, the analysis could conveniently rely on a comparable sale twenty days earlier. Billionaire Warren Buffett invested $5 billion in Goldman Sachs and bought the same types of securities--preferred stock and warrants to purchase common stock in the future. Only Buffett's preferred shares pay a 10 percent dividend, while the public gets only 5 percent. Dollar for dollar, Buffett "received at least seven and perhaps up to 14 times more warrants than Treasury did and his warrants have more favorable terms," Gerard pointed out.

"I am sure that someone at Treasury saw the terms of Buffett's investment," the union president wrote. "In fact, my suspicion is that you studied it pretty closely and knew exactly what you were doing. The 50-50 deal--50 percent invested and 50 percent as a gift--is quite consistent with the Republican version of spread-the-wealth-around philosophy."

The Steelworkers' close analysis was done by Ron W. Bloom, director of the union's corporate research and a Wall Street veteran himself who worked at Larzard Freres, the investment house. Bloom applied standard valuation techniques to establish the market price Buffett paid per share compared to Treasury's price. "The analysis is based on the assumption that Warren Buffett is an intelligent third party investor who paid no more for his investment than he had to," Bloom's report explained. "It also assumes that Gold Sachs' job is to protect its existing shareholders so that it extracted from Mr. Buffett the most that it could.... Further, it is assumed that Henry Paulson is likewise an intelligent man and that if he paid any more than Mr. Buffett--if he paid $1 for something for which Mr. Buffett would have paid 50 cents--that the difference is a gift from the taxpayers of the United States to the shareholders of Goldman Sachs."

The implications are staggering. Leo Gerard told Paulson: "If the result of our analysis is applied to the deals that you made at the other eight institutions--which on average most would view as being less well positioned than Goldman and therefore requiring an even greater rate of return--you paid a$125 billion for securities for which a disinterested party would have paid $62.5 billion. That means you gifted the other $62.5 billion to the shareholders of these nine institutions."

If the same rule of thumb is applied to Paulson's grand $700 billion bailout fund, Gerard said this will constitute a gift of $350 billion from the American taxpayers "to reward the institutions that have driven our nation and it now appears the whole world into its most serious economic crisis in 75 years."

Is anyone angry? Will anyone look into these very serious accusations? Congress is off campaigning. The financiers at Treasury probably assume any public outrage will be lost in the election returns. I hope they are mistaken.

National affairs correspondent William Greider has been a political journalist for more than thirty-five years. A former *Rolling Stone* and *Washington Post* editor, he is the author of the national bestsellers *One World, Ready or Not*, *Secrets of the Temple*, *Who Will Tell The People*, *The Soul of Capitalism,* and *Come Home, America*.