Bush names Wall Street executive as new treasury secretary

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George Bush's nomination of Henry Paulson, the multimillionaire CEO of the Wall Street firm Goldman Sachs, for the post of treasury secretary has underscored the essential unanimity, when it comes to fundamental class interests, of both major parties in the United States. President Bill Clinton's treasury secretary, Robert Rubin, was likewise the CEO of Goldman Sachs before he joined the Democratic administration.

Paulson, a long-time Wall Street insider with a personal fortune estimated at $700 million, won the immediate praise of leading Democrats. Senator Max Baucus, the ranking member of the Senate Finance Committee, which will consider the nomination before it goes to the full Senate, called the choice "outstanding."

New York's Charles Schumer, another Democrat on the Finance Committee, gushed that Paulson's "experience, intelligence, and deep understanding of national and global economic issues make him the best pick America could have hoped for to deal with the difficult economic problems this country faces."

The tributes from Democrats come amidst growing fears within the American ruling class of a major economic crisis. High among the concerns in financial circles are the US's massive and growing trade and balance of payments deficits.

Paulson is seen as a Wall Street veteran who can lend credibility to the Bush administration's economic policies and stave off a rapid withdrawal of international capital from the US. Much of the media coverage casts him as an experienced hand well positioned to navigate a major financial crisis, should one erupt.

Paulson has a solid ruling class pedigree, with degrees from Dartmouth and the Harvard Business School. After graduating from Harvard in 1970, he worked for two years at the Pentagon—at a time of massive opposition to the Vietnam War on college campuses. He subsequently won a post on Nixon's White House Domestic Council, where he became acquainted with another Nixon aide, Dick Cheney.

Paulson then joined Goldman Sachs, where he slowly climbed the corporate ladder, eventually becoming one of the most highly compensated executives on Wall Street. In 2005 his income was $38 million.

Paulson is an important contributor to the Republican Party and was a "Pioneer" for Bush in 2004, helping to collect over $100,000 for Bush's reelection. Paulson's wife, on the other hand, is a regular contributor to the Democrats, including New York Senator Hillary Clinton.

In his expressed views on economic policy, Paulson has consistently supported tax cuts for the wealthy while advocating the scaling back of social programs. He was an early supporter of Bush's first round of tax cuts in 2001.

In an interview with PBS's Charlie Rose in May 2004, Paulson said he strongly supported cuts in dividend taxes and other proposed tax breaks for corporations, and added that his preference "would be to deal with the deficit in terms of spending cuts rather than repealing the tax cuts." He repeated the same theme in a *Wall Street Journal* opinion piece published March 19, 2003, calling for "greater discipline on the spending side of the fiscal ledger."

In responding to the nomination, several commentators voiced the well-grounded hope that Paulson would support further corporate tax cuts, while others suggested that his

primary concern should be "excess" social spending. The Bush administration is still advocating structural changes in Social Security and other entitlement programs that will sharply reduce social spending while further shifting the burden of costs onto ordinary Americans.

In announcing the decision, Bush said that Paulson will "work closely with Congress to help restrain the spending appetite of the federal government and keep us on track to meet our goal of cutting the deficit in half by 2009."

Others have pointed to Paulson's support for breaking down barriers to the penetration of American capital into other countries. Paulson argued for an economic component to the "war on terror" in a *Wall Street Journal* comment in November 2001, claiming that it is "those countries most closed to trade that are prime breeding grounds for terrorists."

In short, Paulson is a consistent defender of right-wing economic policies designed to redistribute resources from working people to an extraordinarily wealthy elite, of which he is a member.

The significance of Bush's decision to pick Paulson extends beyond the determination to continue these social policies. Paulson represents a shift for an administration that has previously filled the treasury post with individuals from outside of Wall Street (Paul O'Neill and John Snow were both executives of non-financial corporations.) Not only did the administration seek out Paulson, it persisted for several months after Paulson initially turned down the offer.

Paulson reportedly shifted his position after Bush personally assured him that he would have the major say in the administration's economic policies. However, it is likely that growing signs in recent weeks of instability on American and world financial markets also played a role in his decision to take the post. A factor in the market volatility has been a lack of confidence on the part of international investors in the Bush administration's economic policies and policy-makers. Paulson may have felt—and been told by his peers—that he had no choice but to step in and help calm the turbulent waters.

Bush's previous treasury secretaries have been subordinated to top political advisers such as Karl Rove and Dick Cheney. In announcing his nomination of Paulson, Bush made a point of emphasizing that the Goldman Sachs executive would be the president's principal economic policy advisor.

Because of his Wall Street résumé and his insider's knowledge of the workings of the financial markets, Paulson is seen as someone who can manage a crisis in a way that safeguards the interests of the American ruling elite. The *Washington Post* wrote that the nomination indicated the administration "recognizes that it will need high-caliber leadership if a financial crisis strikes." The *Wall Street Journal* noted that there was "rough financial weather" ahead, predicting that "sooner or later there will be a hedge-fund blowup or corporate collapse or currency crisis, or something." When there is, the *Journal* continued, "a competent and credible Treasury will be crucial to containing the damage."

Global equity markets have experienced a series of sharp drops recently, including on May 30, the day Paulson's nomination was announced. The Dow Jones Industrial Average fell 184 points and there were steep declines on European and Latin American markets. The US dollar also fell dramatically, experiencing its biggest one-day loss since early January.

An index of market volatility, known as the "fear index" since it measures investor uneasiness, jumped nearly 31 percent, the largest single increase since September 17, 2001, the day the stock market opened after September 11.

One of the more sober accounts of the situation facing the American economy was provided by *Washington Post* columnist David Ignatius on May 31. In a piece entitled "Watching the Yellow Flags," Ignatius suggested that "we're seeing the early signs of a correction of the financial imbalances—especially the towering US budget and trade deficits—that have long worried economists."

A drop in the value of the dollar and a corresponding decline in US consumption would be a part of any "rebalancing." "The problem with rebalancing," Ignatius wrote, "is that people with lopsided portfolios often get caught short. Hedge funds have been scrambling the past few weeks to unwind positions that suddenly looked vulnerable, and in mid-May a financial advisory firm called Bridgewater Associates sent out a message to clients headlined 'The Tremors Before the Big One,' warning that 'We believe the odds of a dollar/US debt crisis in the next twelve months are elevated (say 50 percent).'"