

Picked to direct the Wall Street bailout: Who is Neel Kashkari?

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8 October 2008

On October 6 US Treasury Secretary Henry Paulson named Neel Kashkari to head the Treasury's new Office of Financial Stability (OFS). The OFS is charged with paying out \$700 billion to Wall Street banks and other financial firms in exchange for their failed mortgage-backed assets, under the terms of the bailout signed into law by President Bush on October 3.

Kashkari's identity is thus a matter of considerable public interest. Only 35 years old, Kashkari joined the Treasury in 2006 "as a Senior Advisor to US Treasury Secretary Henry M. Paulson," according to his official Treasury Department biography. At the time, Paulson was giving up his job as CEO of Wall Street investment bank Goldman Sachs to join the Treasury.

The biography continues, "Prior to joining the Treasury Department, Mr. Kashkari was a Vice-President of Goldman Sachs & Co. in San Francisco, where he led Goldman's IT Security Investment Banking practice, advising public and private companies on mergers and acquisitions and financial transactions."

Despite his high rank, Kashkari has only a few years of experience in finance. After initially studying aerospace engineering at the University of Illinois, he worked at defense firm TRW on contract projects from the US space agency NASA, before switching careers and attending the Wharton School of Business in Philadelphia. He joined Goldman Sachs after graduating from Wharton in 2002.

Once at the Treasury, Kashkari helped prepare the recently passed bailout. The *Wall Street Journal* wrote, "Mr. Kashkari was part of the Treasury team that negotiated the asset-repurchase program with Congress [...] He was also one of the originators of the plan. Last year, he and Phillip Swagel, assistant secretary for economic policy, crafted a proposal called 'break the

glass'--referring to the emergency nature of using such a tool--which envisioned Treasury buying bad loans and other assets."

Kashkari's history highlights the extraordinary influence of Goldman Sachs, a firm that stands massively to benefit from the bailout its former executives have organized at the Treasury. Not only does Goldman now have the option of unloading its failed mortgage-backed assets on the Treasury, but it stands to make large sums from carrying out the actual transactions of the bailout program itself.

On October 7, the *New York Times* wrote that Kashkari's office was moving to "outsource almost the entire [bailout] project." It continued: "The Treasury said it intended to hire one company as a 'financial agent' to set up the basic system, which would include running the auctions, keeping track of the various portfolios, and overseeing all the operational issues." The OFS will also ask "experienced investment managers" to value and sell the failed assets--and these managers will come from firms that are "either sellers or buyers of mortgage-backed securities."

The deadline for the Treasury to accept firms' bids for the "financial agent" position is today, and the Treasury will announce its choice on October 10.

Goldman Sachs' competitors have leaked objections in the press to the role of an ex-Goldman Sachs executive as the arbiter of this scramble for lucrative government contracts. In its article on Kashkari, the *Financial Times* wrote, "The prominence of Goldman alumni within the administration has raised eyebrows at competing Wall Street banks, which have become concerned about what some privately see as Goldman's disproportionate influence over policy."

While echoing some of these complaints, the media has suggested the government was taking corrective

measures. Thus the *Wall Street Journal* commented, "Treasury is trying to determine how to handle conflicts of interest as a result of the program, especially with regard to the asset managers it hires. Anyone with direct experience of these mortgage assets will likely work for a firm with a financial stake in the same assets. [...] While it is unlikely that all conflicts will be eliminated, Treasury wants to find a way to manage conflicts using strict guidelines, according to people familiar with the matter."

It is, of course, impossible to eliminate or control conflict of interest in the OFS program, because the entire bailout project--whereby the financial industry dictates the terms under which it receives \$700 billion from the US Treasury--is in and of itself a gigantic conflict of interest.

In pushing the bailout, its supporters--particularly Democratic congressional leaders and presidential candidate Barack Obama--claimed there would be "transparency" and "oversight" safeguards. The nomination of Kashkari, however, exposes the fact that the financial elite will direct the entire process on behalf of its own interests.



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