Hedge fund billionaire Paulson's $400 million gift to Harvard

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Last week, the US media hailed the announcement by Harvard University that hedge fund billionaire John Paulson was donating $400 million to the institution's engineering school, henceforth to be known as the Harvard John A. Paulson School of Engineering and Applied Sciences.

Harvard President Drew Gilpin Faust (annual salary in 2013 of $899,734) praised the Wall Street speculator's "extraordinary gift," saying it would benefit "generations to come."

Various media reports pointed out that Paulson's gift, the largest in Harvard's history, was only the latest in a series of eight- and nine-figure donations by members of America's financial nobility to elite US colleges. Just last year, former Microsoft CEO Steven Ballmer gave Harvard $60 million, only to be topped later in 2014 by hedge fund manager Kenneth Griffin, who donated $150 million. Griffin, in turn, was bested by the family of financier Gerald Chan, whose gift totaled $350 million.

Recently, Cornell received a donation of $350 million, as did Johns Hopkins. Yale was handed $250 million, and just last month Stephen Schwarzman, the CEO of Blackstone Group, donated $150 million to build a new student center at the New Haven, Connecticut university.

Our readers will forgive us if we at the *World Socialist Web Site* do not join in the general enthusiasm over the supposed beneficence of Wall Street billionaires who decide to use a small portion of their loot to buy buildings, faculties and entire schools at elite universities.

It is a thoroughly anti-democratic and degrading spectacle, and yet another expression of the consolidation of a new aristocracy in America. The very fact that people with huge fortunes have the ability to buy influence at educational institutions is an affront to basic democratic sensibilities.

Can anyone seriously argue that such massive infusions of private cash have no bearing on what is taught? Is it any wonder that the top colleges and universities are bastions of anti-Marxism and anti-socialism, whether in the form of old-fashioned anti-communism or clothed in the "leftish" drag of postmodern sophistry?

The fact that billionaire bankers and hedge fund operators bankroll the universities—just as they do the political parties—is not a small factor in the stultifying conformism and cowardice that dominate academia.

For their part, college presidents and boards are none too fastidious about the people from whom they accept dispensations. The various donors cited above are all representatives of a social caste that accumulates its wealth on the basis of entirely parasitic and quasi-criminal methods.

This is a social layer that, by its reckless and manic pursuit of personal wealth, played the major role in the near-collapse of the US and world financial system in 2008. The Wall Street crash in turn triggered the global slump that continues unabated, destroying the jobs and livelihoods of countless millions of working people in the US and internationally.

In the subsequent years, they have grown even richer, protected by the government, the two big business parties, the so-called "regulatory agencies" and the courts, while they have continued, unrepentant, to divert resources from production and jobs so as to inflate their stock portfolios. The suffering of broad masses of workers has only deepened.

Even as the universities eagerly pocket the blood money of Wall Street moguls, tuition costs continue to soar, access to higher education shrinks, and students are burdened with ever more massive debts.

John Paulson personifies this new aristocracy of wealth and privilege. His gift to his business school alma mater, Harvard, represents a mere 3.6 percent of his net worth, generally estimated at $11 billion. The 113th richest person in the world, according to the Bloomberg Billionaires Index, he and his family of four spend most of the year in a 28,500-sqaure foot townhouse on Manhattan's Upper East Side that he purchased in 2004 for $14.7 million.

He also owns a home in Aspen, Colorado (purchase price, $24.5 million) and a $41 million estate in Southampton.

His hedge fund empire, Paulson & Co., currently manages $19.5 billion in assets. Until 2007, he was a somewhat obscure, second-tier figure on Wall Street. But that year his fund took in $15 billion by betting on, and helping to precipitate, the collapse of the US sub-prime mortgage market. He personally pocketed $4 billion in 2007. In 2010, during some of the worst days of the slump, he did even better, taking in nearly $5 billion.

Like his Wall Street peers, Paulson has never been indicted or prosecuted for the shady methods he used to compile his fortune. But the Permanent Subcommittee on Investigations of the US Senate, in its voluminous 2011 report on the 2008 Wall Street crash, described in detail his role in perpetrating a massive fraud on investors and reaping a neat $1 billion profit in the process.

Pages 395-398 of the committee's 639-page report detail a full-blown conspiracy carried out by Paulson and Goldman Sachs to market to unwitting investors a sub-prime-based collateralized debt obligation (CDO) in 2006 and early 2007 that was designed to fail.

As the report explains, Paulson, known at the time for his negative view of the mortgage market, asked the investment bank to organize the sale of a CDO, dubbed Abacus 2007-AC1, whose underlying sub-prime mortgages he would select. Paulson deliberately chose mortgages he knew would go bad so he could bet against the CDO and make a guaranteed profit.

Meanwhile, Goldman pushed the CDO as a good investment and concealed from buyers the fact that Paulson was putting the security together. Major investors lost $1 billion, Paulson pocketed $1 billion, and Goldman made millions in fees.

Such machinations on the part of Goldman and other major banks, together with hedge fund shysters like Paulson, accelerated the collapse of the housing market, which in turn triggered the greatest financial crisis since the Great Depression.

The Senate report states (p. 396): "In entering into that arrangement with Paulson and simultaneously acting as the placement agent responsible for marketing the Abacus securities to long investors, Goldman created a conflict of interest between itself and the investors it would be soliciting to buy the Abacus securities…

"Yet Goldman did not publicly disclose the central role played by Paulson in the asset selection process or the fact that the economic interest held by an entity actively involved in the asset selection process [Paulson] was adverse to the interest of investors who would be taking the long position."

The Securities and Exchange Commission in April of 2010 filed a complaint against Goldman charging it with committing securities fraud in violation of Section 17(a) of the Securities Act of 1933 and Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934.

As part of a settlement involving a $550 million fine, Goldman admitted that it was a "mistake" for "the Goldman marketing materials" to fail to disclose "the role of Paulson & Co. Inc. in the portfolio selection process and that Paulson's economic interests were adverse to CDO investors."

Paulson was never charged with violating any federal securities laws.