

The Washington Times

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Friday, October 3, 2008

Bill gives Paulson unprecedented power

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In all of American history, it is likely that no government official besides a wartime president has ever been given as much power over taxpayer money as Treasury Secretary Henry M. Paulson Jr. would receive under the \$700 billion financial rescue plan.

If the House passes the bill Friday, the Treasury secretary will acquire broad authority to buy and then dispose of hundreds of billions of dollars in mortgages and mortgage-backed securities at his sole discretion.

"They're appointing a financial dictator," said Ryan Ellis, tax policy director at Americans for Tax Reform. "Congress is giving a member of the executive branch virtually unlimited power for the entire economy."

Historical precedent for a Treasury secretary this powerful is hard to find: Alexander Hamilton enforced taxes by leading an army to suppress the whiskey rebellion; William G. McAdoo shut down the New York Stock Exchange during World War I; Salmon P. Chase issued currency during the Civil War that he later ruled unconstitutional as a Supreme Court justice; and Robert Morris personally guaranteed promissory notes during the days after the Revolutionary War, when the nation had virtually no credit.

Mr. Paulson's authority in the bill, as written Thursday, is likely to surpass all of those.

"Since this country started, since the Constitution in 1787 ... this country has never done anything like this, given this much power to one person," said Rep. Louie Gohmert of Texas. "It's just wrong to our principles of American democracy to give one person this kind of power."

Mr. Gohmert was one of several House Republicans on Thursday to offer an amendment to the rescue plan that would lower the amount the Treasury Department could initially spend from \$350 billion to \$250 billion.

Fifteen lawmakers, including Mr. Gohmert, voted against the bill Monday but said they will support it Friday if the amendment is included, ensuring the bill's passage if the Senate sweeteners don't turn other lawmakers against the bill.

Mr. Paulson's initial proposal to Congress included control over \$700 billion with almost no oversight, and it landed him last week on the cover of Newsweek magazine, under the title, "King Henry."

But such platitudes won him no favor with conservative members of Congress, who decried the plan as giving the government too much power over the economy, with the outcomes ranging from cronyism to socialism. A chorus of voices immediately began calling on Mr. Paulson to resign.

"A plan that relies on the former chairman of Goldman Sachs presiding over disbursing hundreds of billions of dollars to Wall Street is a terrible concept and inevitably will lead to crony capitalism and the appearance of - if not the actual existence of - corruption," said former House Speaker Newt Gingrich, Georgia Republican.

The White House said layers of oversight have been added in the past two weeks of negotiations to ensure transparency and integrity in the process.

"The government has nuclear programs that don't have as much oversight, reporting and surveillance as this program will," White House spokesman Tony Fratto said.

Mr. Paulson will be given \$250 billion to spend upfront, with another \$100 billion available as long as the president notifies Congress. The president then must request the remaining \$350 billion from Congress. The House Republicans' amendment would authorize only the initial \$250 billion; anything more than that would require Congressional approval.

Mr. Fratto said that although the bill will give the Treasury secretary "a lot of decision-making authority," there will be an "unprecedented amount of oversight and supervision."

"The bill has a special [inspector general] for the program, the Treasury IG, a bipartisan oversight panel, two congressional oversight committees, and the [Government Accountability Office]."

"The bill requires regular reporting every 30 days, regular outside audits and posting of activity live on the Web site," Mr. Fratto said. "If that's 'control,' you can have it."

But Mr. Ellis said the Treasury secretary will have "the ability to purchase almost anything he wants," so long as he designates it a "troubled asset."

The oversight panel, Mr. Ellis said, "has no censuring powers of any kind or ability to check him."

"It ranks with the top list of delegations of power, especially since there's some flexibility for Treasury in deciding what to do with all this money," said Julian Zelizer, a political history professor at Harvard's John F. Kennedy School of Government.

"You don't like to give power over finance and taxes to people who are not democratically accountable like Congress is," Mr. Zelizer said.

The authorities are designed to allow the Treasury secretary to buy up bad debt from financial institutions and hold the assets until they regain value.

The hope is that such a plan will help banks and investment firms right themselves and renew confidence to the point that banks begin lending to one another again. However, some economists doubt the plan's effectiveness because \$62 trillion of debt trading already has occurred, vastly complicating any comprehensive effort.

Mr. Paulson worked at Goldman Sachs for 25 years before being named its chairman in 1999. He left in 2006 to join the Bush administration, lured by former Goldman Sachs executive Joshua B. Bolten, who had just then been appointed White House chief of staff.

The concern from some critics is not with Mr. Paulson, whom they view as focused on fixing the economic crisis. Their worry is what happens after Mr. Paulson leaves.

Mr. Paulson will not likely remain as Treasury secretary under the next administration, even if he is kept on board for a few months during the transition, as Democratic presidential nominee Sen. Barack Obama has said he might do. That makes the next person to hold these extraordinary powers - which last for two years - an unknown quantity.

"We're going to hand these powers off to someone we don't even know. And that's a wild card to me," said **Jim Rickards**, who served a decade ago as general counsel for Long Term Capital Management, a hedge fund whose failure in the late 1990s required a bailout by other banks and financial firms.

Another major question is how the Treasury secretary will price the assets he buys. Pricing them too low will hurt already struggling institutions. Pricing them too high will reward the institutions for financial gambles while costing the taxpayer.

A Treasury official acknowledged that details on this have not been nailed down.

"We recognize this is a trade-off that we're going to have to work through. The mechanics are something that we're going to be working with asset managers on to

ensure that we best protect taxpayers investments," said the official, who spoke on the condition of anonymity.

The dangers inherent in these new powers for Treasury may depend on what one thinks will be done with them.

Robert Wright, a financial historian at New York University's Stern School of Business, said that if he thought Mr. Paulson intended to operate large financial institutions such as Fannie Mae and Freddie Mac for the long run, that would be a major step toward a socialist-style government.

But, like Mr. Rickards, Mr. Wright said he thinks the Treasury secretary would take over the institutions long enough to balance their books and would then shrink or even effectively liquidate them.

Under that scenario, Mr. Wright said, Mr. Paulson's powers would rank among the most sweeping in history, but would not be unparalleled.

"If we really were heading towards socialism, then Paulson would win hands-down in the amount of power, but I agree that he's going to try to wind down these institutions," Mr. Wright said.

- *Sean Lengell and David Sands contributed to this report.*