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**Paulson Says US Was 'Close' to Financial Collapse**

**By: Michael McKee and Peter Cook**

The U.S. economy came "very close" to collapsing into a second Great Depression and the government had no alternative to bailing out financial firms, former Treasury Secretary Henry Paulson said.

"There was a time when the credit markets had essentially frozen and when blue chip industrial companies were having trouble raising money," Paulson said in an interview today on Bloomberg Television. "I knew then we were on the brink."

"We easily could have had unemployment of 20 percent," he said. "That would have meant millions of additional jobs lost, millions of additional homes lost, trillions more lost in savings. It would have been terrible."

Paulson, who has just published his memoir, "On The Brink," said he understands the criticisms of the bailouts of financial institutions such as Bear Stearns Cos. and American International Group Inc.

"In this country, none of us like bailouts," he said. "I hated the things we had to do. But they were far better than the alternative."

The former secretary said it was harder for policy makers and legislators to deal with the crisis, which deepened after Lehman Brothers Holdings Inc. filed for bankruptcy in September 2008, because it came just before the election.

Election Loomed

"The credit crisis couldn't have come at a worse time," Paulson said, because members of Congress were reluctant to vote for helping the financial institutions, he said.

"When the markets froze, I knew with certainty we were going to see this negative impact many weeks down the road," Paulson said. "But many members of Congress hadn't yet seen it in their districts."

The failure of Lehman Brothers was a particularly tough moment, Paulson said. "If you've run a Wall Street firm like I have, it's just a horrible thing to see a firm fail like that and know what is going to happen to the economy."

Unlike Bear Stearns, which was acquired by JPMorgan Chase & Co. with federal assistance, no buyer could be found for Lehman, which meant the government couldn't step in, Paulson said.



"It would have been loaning into a run" on the bank, he said. "There was not going to be essentially a business to lend to. The Fed had no legal power to lend" under those circumstances, he said.

#### Lehman's Collapse

Among those who lost their jobs was Paulson's own brother, Richard, who worked for Lehman in Chicago.

"Sure, I talked with him," the former Treasury secretary said. "It was very sad for him. He had significant losses. This is nothing that anybody wanted." Paulson praised the officials he worked most closely with during the crisis. He described Federal Reserve Chairman Ben S. Bernanke as "really bright, a great economist, a great economic historian."

"Bernanke was able to defy bureaucratic strictures and do what had to be done at a time when we didn't have other authorities," Paulson said. "I sleep better at night knowing he is chairman of the Fed."

#### 'Cool' Geithner

Timothy F. Geithner, the current Treasury secretary who was then president of the Fed Bank of New York, is "a great crisis manager, cool and calm under pressure," Paulson said. While Geithner has been subject to criticism of his leadership at Treasury, Paulson said he is "just doing a superb job."

As a leader during a crisis, "you have to do some very unpleasant things and you are going to take some heat for that," Paulson said. "It's hard to get a lot of credit for preventing a calamity that no one sees."

Paulson declined to say whether JPMorgan chief executive Jamie Dimon would make a good successor to Geithner. He praised Dimon as a "very strong leader" who was able to pull together a difficult deal to buy Bear Stearns over a weekend.

"We've got a good Treasury secretary now," Paulson said. "Jamie is a talent."

New financial regulatory rules need to include the creation of a systemic-risk regulator and the give the government the ability to dismantle failed institutions in an orderly way, Paulson said.

President Barack Obama on Jan. 21 urged the adoption of what he called the "Volcker rule" under which commercial banks would be prohibited from owning hedge funds and limited in how much they could trade for their own account. Paul Volcker, who headed the Fed from 1979 to 1987, is scheduled to testify before the Senate Banking Committee today on the plan.

Paulson said consideration of the Volcker rule could "divert focus from what really needs to be done" because it's "aimed at one type of financial institution, and what we absolutely need is a broad approach." He said his concern "is that we do things that confuse markets, confuse Congress and don't get things done."