



BOOK REVIEW



Mark Kritzman, Senior Editor

ON THE BRINK—INSIDE THE RACE TO STOP THE COLLAPSE OF THE GLOBAL FINANCIAL SYSTEM

*Henry Paulson, Jr., Business
Plus, 2010, Hardcover
(Reviewed by Javier Estrada,
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On more than one occasion I finished a book and wondered what the author was thinking about when he picked a title for his manuscript. If you were ever in the same situation, fear not, you will not have that problem when reading Hank Paulson's book, *On the Brink*. In fact, it would be very difficult to think of a more appropriate title.

Hank Paulson is of course the former Secretary of the Treasury under president George W. Bush. And his book is a superb account of his days at the

Treasury Department, between July, 2006 and January, 2009. I enjoyed the book thoroughly, highly recommend it, and admit that it surprised me on more than one count.

First, I was taken aback by Paulson's candor. As is usually done in books of this kind, I thought Paulson would use his pen to both justify his actions and getting back at his opponents (which explains why I am no fan of, and hardly ever read, this type of book). But my suspicion turned out to be wrong on both counts. Although some people might indeed argue that the book is an attempt to justify his actions, the way I see it is that Paulson simply *gives us the reasons and context* that explain his actions. He even goes as far as admitting that had the circumstances not been so extreme and changing so rapidly, he would have not done many of the things he had to

do largely for lack of time or a better choice.

Similarly, he does not attempt to score points against those who opposed his proposals. On the contrary, he describes many situations in which his ideas were opposed, but he always seems to do it in a way that indicates he understood why others were doing what they were doing. He is definitely taking the high road here, outlining all opinions on many issues, as opposed to pushing and justifying his own views and quickly dismissing those of others. I am not sure I can think of very many people that would have not used a book of this type to get even with former opponents.

In fact, not only does Paulson avoid mudslinging but he also speaks very highly of many people, particularly of Ben Bernanke, Tim Geithner, and his staff at the Treasury

Department, to name but a few. He also has candid words for president Bush, describing him (perhaps to the surprise of many) as a pragmatist that often put ideology aside and supported actions that were against his principles, as someone who decided to make the hard choices at the end of this term so that the incoming president would not have to make them at the beginning of his. To illustrate, Paulson quotes president Bush as saying: "You should welcome the challenge, Hank. Thank goodness the crisis happened when it did. Imagine if it had hit at the beginning of a new administration, when they were just learning how to work together."

The book tackles so many issues and in such detail that it is obviously impossible to even mention them all in this brief review. Paulson gives us a behind-the-scenes account of the problems at Bear Stearns, Lehman Brothers, AIG, Fannie Mae, and Freddie Mac, to name but a few companies. We also learn about the views and actions of many CEOs, members of Congress, regulators, politicians, you name it.

At times the book has the wild pace of a Dan Brown thriller. It often seems hard to imagine how it was at all possible to make so many decisions,

that needed the consensus of so many people, that had so unpredictable and far-reaching consequences, and in environments that were changing so rapidly and significantly. It is easy to disagree with many of the decisions that were made during this period from an armchair, but I think the book gives us the context, puts into perspective, and ultimately helps us understand many of those decisions. The pace of the events and multidimensionality of the problems are simply breathtaking.

On a personal note, this book helped me to view at least some government officials in a different light. Virtually nobody believes nowadays that those that get into politics do it only to serve others. But here we see a group of people that spent countless hours working non-stop, under unbelievable pressure, for a tiny fraction of the money they could have been making (and in fact had already made) in the private sector. Perhaps there are a few people that do respond to a higher calling and leave all things aside when they are asked to serve their country after all.

If I had one disappointment with the book is that I did not quite understand the reasons given for letting Lehman go bust. In fact, it was one of

the main reasons why I decided to read Paulson's account of his days at Treasury, but his explanation did not convince me. In Paulson's words: "The Lehman situation differed from Bear's in another important way. The Bear assets that JPMorgan left behind were clean enough to secure sufficiently a \$29 billion Fed loan. But an evaluation of Lehman's assets had revealed a gaping hole in its balance sheet. The Fed could not legally lend to fill a hole in Lehman's capital. That was why we needed a buyer."

Paulson suggests that the big difference between Bear Stearns and Lehman Brothers was that in the first case there was an interested buyer the government had the authority to assist, but in the second case, without interested buyers, the government had no authority to intervene. Fair enough. But Paulson himself makes clear that the government clearly indicated to Jamie Dimon, JPMorgan's CEO, that he would receive government support if he bought Bear; just as he indicates that no help at all was offered to Ken Lewis, Bank of America's CEO, when he was considering buying Lehman *and* asking for government support. To be sure, I am not saying that Lehman was not the victim of its own huge mistakes, or that it should have been saved by the

government. All I am saying is that I did not follow Paulson's argument for the differential treatment between Bear and Lehman.

I often wondered how someone coming from the heart of Wall Street could have been so deeply involved in bailouts, interventions, and even advising CEOs about what they should do. I would have thought

that government intervention would be anathema to people like Paulson. His explanation: "To protect free-enterprise capitalism, I had become the Treasury secretary who would forever be associated with government intervention and bank bailouts. The speed with which the crisis hit had left me no other choice, and I had set aside strict ideology to accomplish the higher goal of saving

a system that, even with all its flaws, was better than any other I knew—I had been forced to do things I did not believe in to save what I did believe in." On this one he did convince me. In fact, his internal struggle comes out quite clearly between the lines of the book. And for this and many other reasons, it is a book I highly recommend that you read.