Henry Paulson is struck by the irony: The chairman and chief executive officer of Goldman Sachs and George W. Bush's secretary of the treasury from 2006-2008 "will forever be associated with government intervention and bank bailouts."

With major financial institutions on or over the edge of bankruptcy, and the bursting of the housing bubble, Mr. Paulson, Ben Bernanke, chairman of the Federal Reserve, and President Bush believed they had to set aside their "free market" ideology to avert economic catastrophe.

In all likelihood, they were right.

Mr. Paulson provides a fascinating, frank and dramatic account of the alternatives he weighed, the obstacles he encountered, the decisions he made and the consequences that ensued.

To hold the system together, he acknowledges that he often found himself using "duct tape and baling wire" as well a Catch-22:

Requests for government powers could confirm the fragility of financial institutions and set off a market meltdown, especially if Congress failed to grant them.

Little wonder, then, that he suffered from recurring bouts of nausea and the dry heaves.

Mr. Paulson's assessment of the nation's politicians is anything but partisan. To be sure, although Mr. Bush didn't do much to rally his troops, he portrays the president as "admirably stalwart," refusing to play politics with proposals to stabilize the economy.

Mr. Paulson is clearly unimpressed, however, with the Republicans in Congress. While Democrats Barney Frank, Harry Reid and Nancy Pelosi worked with him, he points out, John McCain "had no plan," Jim Bunning railed against "financial socialism," Richard Shelby wondered what was the rush, and two thirds of House Republicans -- the men and women who "nominally, were our friends" -- voted against the Troubled Assets Relief Program.

Although he does not address his decision to shape a stimulus package that might have reduced unemployment, the former Treasury secretary is pretty candid about his mistakes. For much of his tenure, he writes, he was "just plain wrong" about the dangers subprime mortgages posed to financial institutions. He was tone deaf to public outrage about pay to corporate executives. And his plan to purchase the toxic assets of banks turned out to be unworkable.

Nonetheless, "On the Brink" makes a persuasive case that the innovative, admittedly ad hoc actions, of the Treasury, the Federal Reserve and the Federal Deposit Insurance Corp., which, for the most part, have been adopted by the Obama administration, did stabilize the financial system, restart credit markets and help mitigate foreclosures.

With regrets that he is now unable to craft "an exit strategy" for the Great Recession, Mr. Paulson concludes with some valuable recommendations designed to avoid a similar calamity in the future. Although "regulation alone cannot eliminate instability," he believes that government must take on more responsibility for systemic risk identification and oversight.

It must have the authority, for example, to rein in financial institutions that have too much "leverage" (i.e. inadequate cushions of capital and liquidity) and enhance the transparency, rigor, and independence of credit ratings agencies. Most of all, government must have more tools to wind down (or break up) firms now thought "too big to fail."

It can do so, Mr. Paulson claims, without distorting markets or increasing the risk of moral hazard.
"I am not a particularly sentimental man," Mr. Paulson tells us. He left his job at the Treasury with no parting words or special ceremony. Distressed that many Americans view his policies "with bitterness and anger," he's too proud to say that if they knew more, they'd know better.

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"Bob Hoover's Book Club" is available exclusively at PG+, a members-only web site of the Pittsburgh Post-Gazette. Our introduction to PG+ gives you all the details.

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