

Former Goldman Sachs chairman: Slump worse than Great Depression

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Whitehead sees slump worse than Depression

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By Joseph A. Giannone

NEW YORK (Reuters) – The economy faces a slump deeper than the Great Depression and a growing deficit threatens the credit of the United States itself, former Goldman Sachs chairman John Whitehead, said at the Reuters Global Finance Summit on Wednesday.

Whitehead, 86, said the prospect of worsening consumer credit woes combined with an overtaxed federal government make him fear that the current slump is far from over.

“I think it would be worse than the depression,” Whitehead said. “We’re talking about reducing the credit of the United States of America, which is the backbone of the economic system.” Whitehead encountered plenty of crises during his 38 years at the investment banking firm and was a young boy during the 1930s.

Whitehead warned the country’s financial strength is at risk due to the sweeping demand for tax relief and a long list of major government spending plans.

“I see nothing but large increases in the deficit, all of which are serving to decrease the credit standing of America,” said Whitehead, who served as chairman of the Lower Manhattan Development Corp after the World Trade Center was destroyed during the September 11, 2001 attacks.

Whitehead, who helped make Goldman a top-tier Wall Street firm and led its international expansion, left in 1984 to become a deputy secretary of state under Ronald Reagan.

He warned that the country’s record deficit is poised to balloon as the public calls on government for more support.

“Before I go to sleep at night, I wonder if tomorrow is the day Moody’s and S&P will announce a downgrade of U.S. government bonds,” he said. “Eventually U.S. government bonds would no longer be the triple-A credit that they’ve always been.”

There are at least ten “trillion dollar problems,” facing the United States, he said, including social security, expanding health insurance, rebuilding infrastructure and increased spending on green energy. At the same time, the public does not want to pay for it.

“The public is not prepared to increase taxes. Both parties were for reducing taxes, reducing income to government, and both parties favored a number of new programs — all very costly and all done by the government,” he said.

Large deficits can weaken the country’s credit and increase its borrowing costs, which already constitute a significant part of funding to cover expenses. Whitehead said it could take “several years” for the current problems to be resolved.

Whitehead said he is speaking out on this topic because he is concerned no lawmakers are against these new spending programs and none will stand up and call for higher taxes.

“I just want to get people thinking about this, and to realize this is a road to disaster,” said Whitehead. “I’ve always been a positive person and optimistic, but I don’t see a solution here.”

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