

Paulson reveals US concerns of breakdown in law and order

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The Bush administration and Congress discussed the possibility of a breakdown in law and order and the logistics of feeding US citizens if commerce and banking collapsed as a result of last autumn's financial panic, it was disclosed yesterday.

Making his first appearance on Capitol Hill since leaving office, the former Treasury secretary Hank Paulson said it was important at the time not to reveal the extent of officials' concerns, for fear it would "terrify the American people and lead to an even bigger problem".

Mr Paulson testified to the House Oversight Committee on the Bush administration's unpopular \$700bn (£426bn) bailout of Wall Street, which was triggered by the failure of Lehman Brothers last September. In the days that followed, a run on some of the safest investment vehicles in the financial markets threatened to make it impossible for people to access their savings.

Paul Kanjorski, a Pennsylvania Democrat, asked Mr Paulson to reveal details of officials' concerns, which were relayed to Congress in hasty conference calls last year. The calls included discussion of law and order and whether it would be possible to feed the American people, and for how long, according to Mr Kanjorski.

"In a world where information can flow, money can move with the speed of light electronically, I looked at the ripple effect, and looked at when a financial system fails, a whole country's economic system can fail," Mr Paulson said. "I believe we could have gone back to the sorts of situations we saw in the Depression. I try not to use hyperbole. It's impossible to prove now since it didn't happen."

The Oversight committee is investigating the takeover of Merrill Lynch by Bank of America, a deal forged in the desperate weekend that Lehman Brothers failed, and which later required government support because of Merrill's spiralling losses.

Mr Paulson defended putting pressure on Bank of America when it had last-minute doubts about the deal in December. Not to have done so could have rekindled the "financial havoc" the bailout had calmed.

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