

TARP SAVES BANKS AND GM, BUT NOT HOME OWNERS

By Nick Gier

People know that if they rob a bank they will go to jail.
Bankers should know that if they rob people, they will go to jail too.

--Former Sen. Ted Kaufman of Delaware

In early October of 2008 Congress, with strong recommendations from President George Bush's conservative economic advisers, passed the Troubled Asset Relief Program (TARP). The House vote was 263-171 with 91 Republicans saying "Yea." The Senate tally was 74-25 with 37 Republicans voting in the affirmative.

The nation rose up in fury about this rescue of reckless bankers and incompetent auto executives. The TEA Party capitalized on this anger and helped bring ultra conservatives to the new Congress. The chorus of what many consider to be the TEA Party theme song is "I want some TARP; they're giving money away for free; so save a little bit for me."

In a recent column in *Newsweek* (3-28) Robert Samuelson marshals evidence to prove that TARP has been a great success. Without TARP, as he states, "we'd be worse off today. No one can say whether unemployment would be 11 percent or 14 percent; it certainly wouldn't be 8.8 percent. The collapse of the American financial industry would have caused havoc in world markets.

Congress authorized \$700 billion for TARP, but only \$410 was expended. The Congressional Budget Office reports that all but \$19 billion has been paid back. Taxpayers will most likely make a profit when all the accounts are closed.

Of the \$245 billion given to banks all but \$1 billion has come back to Washington, with another \$20 billion in interest to come. In stark contrast, the total bill for the Savings and Loan crisis of the Reagan/Bush I era was \$153 billion with no returns to the U.S. treasury at all. See http://www.fdic.gov/bank/analytical/banking/2000dec/brv13n2_2.pdf

After selling its shares in the insurance giant AIG, Uncle Sam expects to pocket a \$10-15 billion profit. The auto industry was bailed out to the tune of \$80 billion dollars and the latest estimates are that \$65 billion will be deposited in the U.S. Treasury.

Samuelson does admit to one of TARP's failures: "The Obama administration's forecast that it would provide mortgage relief to 3 million to 4 million homeowners has fallen well short (the current number is about 600,000)." But Neil Barofsky, who was in charge of account for TARP funds, believes that this failure overshadows all the other successes.

In a *New York Times* op-ed (3-29) Barofsky suggests that the bill would not have passed unless there was something substantial for Main Street as well as Wall Street. Home owner relief was a "central part of the compromise with reluctant members of Congress to cast a vote that in many cases proved to be political suicide."

Instead of directly buying up mortgages, the Treasury Department gave those funds to the banks, and we now know they have failed miserably to help homeowners survive. Home lending actually decreased not increased.

Barofsky charges that the government “provided the money to banks with no effective policy or effort to compel the extension of credit. There were no strings attached, and no requirement or even incentive to increase lending to home buyers.”

Barofsky describes the 2009 Home Affordable Modification Program as a “colossal failure.” The main flaws in the bill have to do with making the lending agencies accountable, so that lax government regulation and private financial malfeasance once again have betrayed home owners across the nation. As Barofsky states: “As the program flounders, foreclosures continue to mount, with 8 million to 13 million filings forecast over the program’s lifetime.”

Serving out the term of Vice-President Biden with great courage, Sen. Ted Kaufman was the only person in the Senate to call a spade a spade: “People know that if they rob a bank they will go to jail. Bankers should know that if they rob people, they will go to jail too.”

Economist William Black, who oversaw the litigation of the Savings and Loan debacle of the late 1980s, estimates that there were 1 million financial fraud cases that the Bush Administration refused to prosecute. Instead, the Bush Justice Department transferred 500 white collar crime specialists to the War on Terror. The threat of terrorism pales in comparison to the possibility that American and European banks could have pushed us into a world-wide economic depression.

Even though Obama’s Treasury Department’s Inspector General labeled the financial industry “target-rich” for fraud indictments, none have ever come forward. Treasury Secretary Timothy Geithner says that he understands the “public desire for Old Testament justice,” but President Obama has shielded financial CEOs from prosecution just as he has unofficially pardoned George Bush for the crime of torture.

From 2000-2008 there were 108 cases against U. S. companies that were either deferred or cancelled. In two years the Obama Justice Department has a much poorer record: 53 cases. In his article “How Wall Street Crooks Get out of Jail Free” (*The Nation*, 4-3-11), William Greider says that U.S. corporations are not only too big to fail, but also too big to prosecute.

Since Reagan took office real wages have stagnated, but productivity has increased and has remained the highest in the world. Even though banks and companies are sitting on more than sufficient funds, they are neither lending enough nor hiring enough. The best workers in the world want jobs, but they cannot get them.

Over this past decade the German government offered attractive incentives for its companies not to fire workers, and, as a result, unemployment actually went down during the recession and the economy is now booming. Germany is the only G-7 country where GDP per person has increased since 2007.

In a previous column I likened the wayward banker to the Prodigal Son of the New Testament. Jesus called on us to love our errant brothers and sisters, but most of us want some Old Testament justice for those who have ruined our economy.

Nick Gier taught philosophy at the University of Idaho for 31 years. Read his columns on the “Third Way” between unfettered capitalism and communism at www.home.roadrunner.com/~nickgier/ThirdWay.htm.