TARP Bailout Payback: “Drop in the Bucket”

Over the recent clamor of approval for the outcome of the Troubled Asset Relief Program (TARP), which Beltway insiders are proclaiming a success because of the high rate of repaid funds, a lone voice of comparative sanity reminded Yahoo! Finance’s Aaron Task that the Obama bailout has done far more damage than the government-massaged figures indicate. Nobel Prize-winning economist Joseph Stiglitz, who seems to understand finance and banking better than most celebrity economists, told Task that the monies paid back to TARP are “just a drop in the bucket compared to damage done to the economy.”

The money was loaned to the banks on very favorable, even preferential, terms that amounted to a government subsidy of the banking system, Stiglitz pointed out. “If the U.S. government had provided money to ordinary business at zero interest rates, what would our economy be like?,” Stiglitz asked. “What we did is give zero rates to banks, they then lent at much higher interest rates; that’s the recapitalization. That’s the gift.” He estimated that the damage done to the economy by hidden distortions stemming from TARP is in the trillions of dollars.

Separately, Neil Barofsky, special inspector general for the Troubled Asset Relief Program, claimed in an interview with the *New York Times* that TARP losses from the AIG bailout were $40 billion more than the government has reported. Whereas initial reports tallied the AIG bill for taxpayers at “only” $5 billion, Barofsky estimates that actual audited losses amount to $45 billion. The difference? Official government figures have relied not on actual balance-sheet data but on gauzy future “projections.” “The American people have a right for full and complete disclosure about their investment in A.I.G.,” Barofsky told the *Times*, “and the U.S. government has an obligation, when they’re describing potential losses, to give complete information.”

But the Obama administration isn’t out of the bailout business yet, not by a long shot. Plans are now afoot for a new bailout of Fannie Mae and Freddie Mac, the two government-sponsored enterprises complicit in the housing bubble, which were taken into government conservatorship in 2008. These two organizations were the vehicles by which Congress and the executive branch sought to politicize home ownership, by insisting on ever-laxer lending standards to encourage everyone to buy their own house. Mortgages by the hundreds of thousands were underwritten by Fannie Mae and Freddie Mac, and when the real estate bubble burst, the two quasi-government agencies went on life support. A $148 billion bailout has proven inadequate to pull them from the brink, so now the tax suckers running these two institutions are begging for more — as much as $215 billion more, under worst-case estimates at the Federal Housing Finance Agency.

The appetite for taxpayer-funded bailouts is insatiable in the financial sector. The Washington nomenklatura remains loyal to the big banks and other financials that feed their addiction to overspending, and is prepared to squeeze taxpayers dry rather than allow a Bank of America or Wells Fargo — or Fannie Mae and Freddie Mac, for that matter — to meet the same dolorous fate of hundreds of smaller, more honest, but less well-connected banks. Failure on Main Street is acceptable, it seems, but not (excepting Lehman Brothers) on Wall Street.

With such uncertainties, the final word on TARP and the bailout brigade has not yet been written — not by a very long shot.

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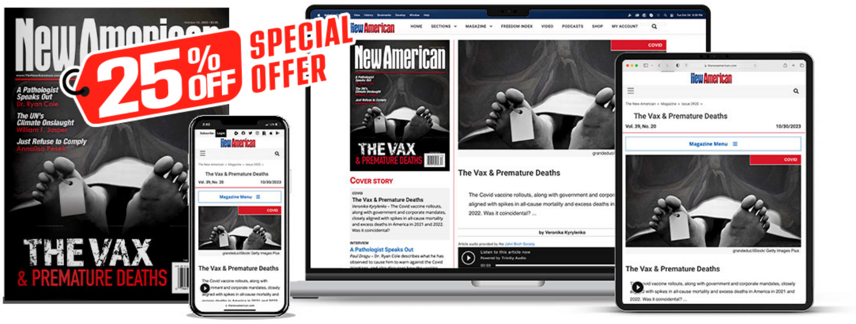

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