

US bank bailout could cost \$23.7 trillion

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The federal government's bailout of Wall Street may cost \$23.7 trillion, according to a statement given to Congress Monday by the lead overseer of the Treasury's bailout program. Neil Barofsky, special inspector-general for the Troubled Asset Relief Program (TARP), said that the US Treasury's bailout program was fraught with "conflicts of interest," "collusion vulnerabilities" and deliberate obfuscation of what banks are doing with the money they received from the government. He noted that there are 35 major fraud investigations related to the bailout, and that a substantial section of banks did not use their bailout funds to make new loans.

The Treasury immediately denounced Barofsky's findings, claiming the figure of \$23 trillion failed to adequately account for repayments on the government loans, which it claimed might actually earn the government money.

Barofsky's report reads more like a police dossier on a money laundering operation than a report on the activities of a government agency. He notes that the Treasury—the branch of government responsible for overseeing a large part of the bailout—has repeatedly opposed calls for more transparency and stricter reporting standards, including those from his office.

The report notes, "TARP has become a program in which taxpayers (i) are not being told what most of the TARP recipients are doing with their money, (ii) have still not been told how much their substantial investments are worth, and (iii) will not be told the full details of how their money is being invested."

The report notes that in the nine months since the creation of the Troubled Asset Relief Program, "the US Department of the Treasury ("Treasury") has created 12 separate programs involving Government and private funds of up to almost \$3 trillion." Besides the Treasury's activities, the US government as a whole has

created "dozens" of programs, whose "support could reach up to \$23.7 trillion."

While the Treasury has been allocated \$700 billion by Congress, the report notes that the Treasury's total potential obligations—arising from the fact that the government has guaranteed banks' debt in case of losses—totals somewhere between \$2.3 and 2.8 trillion. The original Troubled Asset Relief Program has splintered into a dozen programs, including a \$218 billion capital injection program known as the Capital Purchase Program (CPP), direct bailouts of individual firms like AIG, and two major asset repurchasing programs, the Term Asset-Backed Securities Loan Facility (TALF) and the Public-Private Investment Program (PPIP), both of which have potential obligations of up to a trillion dollars.

Barofsky noted that one of his initial recommendations was that the "Treasury require all TARP recipients to report on the actual use of TARP funds.... Treasury has declined to adopt this recommendation, calling any such reporting 'meaningless.'"

The Treasury's argument, as pointed out by the report, is preposterous. Banks can easily be made to disclose how additional funds affected their decision-making. The Treasury's obduracy in not insisting that banks disclose what they do with the money is to cover-up the fact that a large number of banks have contracted their lending, raised fees and interest rates on consumer loans, and pursued policies that run dramatically against the needs of society.

In fact, the report found that, of the 300 banks surveyed, 20 percent did not increase their lending after receiving funds, but directed the additional bailout money to other purposes. The report further notes that the Special Investigator's office is currently investigating 35 cases of fraud and corruption in relation to the TARP program.

Barofsky further noted the Treasury has denied appeals to begin reporting the values of its bailout asset holdings, both in relation to the TARP and PPIP. In the case of the government's toxic asset buyup program, the report states that this method is explicitly counter to the program's goals, since "price discovery" for "illiquid securities" was one of the justifications for pushing through the program.

The report notes that "conflicts of interest and collusion vulnerabilities were inherent in the design of PPIP" from its inception, because the businesses assigned to value illiquid assets would in many cases be the same ones receiving federal subsidies, resulting in an incentive to overvalue securities.

The report repeats allegations that the "Treasury is using TARP to pick winners and losers and that, by granting certain firms the PPIP manager status, it is benefitting a chosen few at the expense of the dozens of firms that were rejected, of the market as a whole, and of the American taxpayer."

None of this is an accident. It is well documented that politically connected banks and investment firms, such as Goldman Sachs, have utilized the bailout to drive out their competitors and consolidate their monopoly over the financial system.

Moreover, the government is using the program's lack of transparency to hide the fact that it is giving banks a free pass now they have returned to profitability. Another oversight body for the TARP, the Congressional Oversight Panel, found this month that the government was receiving only sixty cents on the dollar from banks seeking to repay their obligations to the government.

The report's estimate of the bailout's total cost, \$23 trillion, is in itself mind-boggling. It amounts to 1.7 times the total Gross Domestic Product of the whole United States. In other words, the product of more than a year's labor for all American workers is being directly transferred to the banks. To put this figure in perspective, the government's total outlay for discretionary spending, which includes education, food and nutrition programs and housing and urban development, is less than a trillion a year.

This massive transfer of wealth entails the immiseration and impoverishment of the great majority of society. The bank bailout program is widely reviled, and the bankers who benefited are seen as no better

than criminals. All of this has explosive implications. It is in tacit recognition of this fact, and in desire to make the Treasury's theiving less blatant, that the document warns that the Treasury's actions "could put in jeopardy the fragile trust the American people have in TARP and, by extension, their Government."

The bank bailout was designed from the start to enrich the financial elite at the expense of everyone else while being presented as relief for the economic crisis. The program's favoritism, conflicts of interest, and massive loopholes are not a rough patch in an otherwise sound program, but are essential to its very aim. The whole thing is a crime of historic proportions.



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