

Congress of the United States  
CONGRESSIONAL OVERSIGHT PANEL

## Opening Statement of Kenneth Troske

### Congressional Oversight Panel Hearing with Treasury Secretary Timothy Geithner

December 16, 2010

Thank you Senator Kaufman.

Mr. Secretary, I would like to thank you for agreeing to appear again before this Panel. I know your previous testimony has been quite helpful to us as we carry out our oversight responsibilities, and I am confident that this trend will continue.

During my time on the Panel, I have become more and more concerned about the public's perception of TARP and the impact this perception has on the government's ability to adopt similar measures during any future financial crisis. (As an aside, I would add that any objective reading of American economic history shows that, despite the repeated efforts on the part of the government, we have experienced periodical financial crises for our entire history and are likely to continue to experience financial crises in the future.) As we indicated in our September report, the consensus among the academic economists and other experts that we consulted was that TARP played an important role in helping to end the financial crisis, a view I largely share. Yet, despite this consensus among the experts, I think it is fair to say that to the general public, TARP remains one of the most vilified pieces of legislation ever enacted—viewed largely as an effort on the part of former Wall Street executives to bailout current Wall Street executives.

I would argue that a large part of the public's disdain for TARP can be traced back to the original way it was proposed—a three-page bill submitted to Congress asking for the authority to spend \$700 billion with almost no oversight—and how it was implemented. Changing the focus of the program from one designed to purchase toxic assets to one where Treasury began purchasing equity in private sector, for profit, firms only increased this disdain. I would also argue that the previous administration's decision to classify GM and Chrysler as financial firms in order to use TARP money to bailout these firms increased public skepticism even more. Let me be clear, I am not questioning the wisdom of these decisions; instead, I am focusing on the public perception of these actions.

I recognize that, in trying to overcome the public's hatred of TARP, you are forced to deal with these past actions. However, I think that there are a number of actions that Treasury could and should be taking right now to try to help turn the public's perception.

One important way that any government can show that its programs are effective is to periodically have independent researchers conduct thorough and rigorous evaluations of its programs. This is true whether the program is designed to retrain displaced workers, to rescue

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banks in a financial crisis, or to assist struggling homeowners. When performing this type of analysis a government needs to collect comprehensive data on both program participants and non-participants (in order to have a meaningful comparison group). Yet, despite the Panel's repeated urging in various reports for Treasury to expand significantly its data collection efforts, it does not appear that Treasury has made comprehensive data collection for TARP programs a priority. I would again urge you to do so, and I also urge you to make these data available to outside researchers. Only by taking these key steps will we obtain the credible, independent research that is so vital for justifying the existence of a program and convincing the public that the TARP achieved the desired outcomes in a cost effective manner.

I would also suggest that we begin to recognize that there are two parts of TARP. One set of programs includes the portion of the Capital Purchase Program (CPP) that went to large banks, the AIG Investment Plan, and the Targeted Investment Program, that were designed to stem the financial crisis. The other set of programs included the portion of CPP that went to small banks, the auto industry assistance, and the mortgage foreclosure relief; these programs were largely directed at stimulating the economy. As our September report makes clear, there is a much broader consensus about the effectiveness of the former than the latter programs. As part of this effort, I suggest we need to take a careful look at how much money should have been initially allocated to TARP. Changes to TARP in the Dodd-Frank legislation indicate that Congress feels, in retrospect, that we could have gotten by with \$450 billion instead of the \$700 billion originally allocated. But I am guessing that a more careful analysis would reveal that some of the programs not directed at stemming the crisis were unnecessary if our goal was restoring financial stability. In my opinion, making this distinction would help generate more support for what I consider the more key components of TARP that we would want to have at our disposal during future crises.

Finally, as economist Kenneth Rogoff pointed out in his written comments to the Panel for our September report, "A proper cost-benefit analysis thus needs to price the risk taxpayers took during the financial crisis. *Ex post* accounting (how much did the government actually earn or lose after the fact) can yield an extremely misguided measure of the true cost of the bailout, especially as a guide to future policy responses." I would add to Professor Rogoff's statement that focusing on *ex post* accounting of this single program also fails to take into account the myriad of other costly government programs, such as Treasury's bailout of the GSEs, the Federal Reserve's Primary Dealer Credit Facility, the purchase of potentially toxic mortgage backed securities from banks, and the FDIC's Temporary Liquidity Guarantee Program; and all of these programs provided significant assistance to the major banks. Again, while I am not questioning the wisdom of these programs, it is clear that by providing additional support to large financial institutions that received TARP funds, these programs made it possible for the institutions to repay their TARP funds and allowed some of the costs of TARP to be shifted to other, less scrutinized, government programs. I believe that at an intuitive level, the American people recognize both the cost of putting so much money at risk and the ability to shift costs across programs; therefore, the public remains justifiably skeptical of claims that TARP was a success because most of the money will be paid back. This is why I believe we need a more comprehensive evaluation of the true costs of TARP, and the overall financial bailout, if we are ever going to convince the American people that any part of TARP can be considered a success.

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Mr. Secretary, as this Panel wraps up our oversight responsibilities in the coming months, I believe these are the issues that we are going to be grappling with the most: what parts of TARP were successful and how can we demonstrate their effectiveness. As I indicated at the start of my comments, I am confident that your testimony today, and any future testimony you provide, will be of great assistance in our efforts. I look forward to your comments today, and I thank you again for appearing before us.