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CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Paul Atkins

Taking Stock: Independent Views on TARP's Effectiveness

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Thank you, Madame Chairman. I appreciate very much the attendance of the five distinguished witnesses that we have today. I look forward to hearing their views.

Today's topic is very important and timely. TARP is now more than one year old. Much has changed in that year, and much for the better. Is that a coincidence, or is it due in some part to TARP, or is it due mainly to other factors? There are still problems in the marketplace for financial products and financial services, including thinly traded markets in once very liquid securities, too much government influence and interference in corporate direction and affairs, and outright failures of TARP recipients, which raises questions about Treasury's credit analysis since TARP funds originally were supposed to go only to "strong" institutions.

Has TARP been a success? Our discussion today I hope will shed some light on this question. In many ways, we can only see part of the picture, because we are too close to the event and TARP itself is an ongoing program. The Emergency Economic Stabilization Act (EESA), the statute that gave the Treasury Department the power to establish TARP, is a poorly drafted statute, with many internal inconsistencies and ambiguities. That probably is embarrassing for the drafters and those who approved it, but it is rather understandable given everything that was going on at the time, including a financial crisis and a national election campaign. Still, it does put $700 billion of taxpayer resources at risk.

To assess the success of a program, one must consider its goals, its implementation, the conclusion, and any fall out that results from the implementation, including unintended consequences, bad precedent (such as moral hazard), and costs. Of course, benefits must be weighed as well.

As to goals, TARP is a program that Congress hoped would stabilize the financial system. The mortgage foreclosure provisions are an adjunct to this mission. Did TARP stop the bleeding? Did it help to stop the panic in a liquidity crisis? It probably was a contributing factor. But, TARP is not a fiscal stimulus program or a means to change the regulatory structure of financial institutions. Those targets were undertaken by the new administration and a new Congress through other statutes.

The implementation has also been problematic. In fact, the underlying premise of EESA, that Treasury would acquire assets, did not really materialize except in one program – the Public-Private Investment Partnership, which has not really gotten off the ground and is probably unlikely to do so in any meaningful way. Thus, Treasury's implementation is an issue that must be considered in the context of its statutory authority.

We cannot debate the success of TARP without focusing on how it ends. It is one thing to get an airplane into the air – you need speed, heft, and enough runway to make adjustments depending on the cross winds and unexpected turbulence. It is another thing to bring the airplane safely to the ground. The crisis is over, but we still see Treasury doling out billions of dollars of TARP funds to firms large and small – from GMAC to banks with only a $100 million or so in deposits. These are hardly institutions too big to fail, since their failure would not rock the financial system today. What is the rationale for doing these transactions? Treasury has not articulated one, and it is not even apparent that Treasury has any plan or decision making standards for doing so. Treasury certainly has not made anything manifest to this panel. How will the program end? What will it look like next year if the Treasury Secretary extends it beyond the end of the year?

These are among the questions that I trust that we will cover this morning. I look forward to our discussion.