D. Paul S. Atkins

Although I concur with the report issued by the Panel today, some aspects of the report should be elucidated. The report is careful to come to no outright conclusion regarding the TARP. The program is still in operation and distributing money (although at a much diminished rate), and we are still much too close to the events of last year to be able to obtain good data in order to render a dispassionate analysis.

The basic question of this month's report is: Has TARP been a success? The response must be that we do not know. Not that the program, together with larger government programs instituted by the Federal Reserve and FDIC that dwarfed TARP in terms of taxpayer dollars put at risk, did not show some results. Indeed, the Panel report on page 77, points out that the federal government had almost *$8 trillion* of exposure through various programs to try to cure the ills of the banking and finance industry, including TARP's $700 billion. With the injection of all of this money into the system, something had to happen. The fact that these programs had some effect does not answer the question of whether the resources were used wisely.

More time is needed to judge the short- and long-term ramifications of TARP and the other programs. The benefits that some ascribe to TARP only manifested themselves long after the program was implemented. Looking at the equity markets, the banks hit bottom in March 2009, months after the implementation of TARP. The credit markets also took a while to recover. Does this length of time between the implementation of TARP and the manifestation of supposed benefits indicate that exogenous factors might have come into play?

A major cause of the turmoil in the financial markets last year was the lack of transparency and the resulting lack of confidence that investors had in bank balance sheets. The TARP infusions, other than demonstrating that the government was willing to put taxpayer money on the line and stood ready to bail banks out, did not solve the transparency issue. In fact, the issue persists and affects valuation of financial firms. It did not help that the government at first claimed that TARP money would only be given to "healthy" banks. This claim proved to be manifestly false as even some of the original recipients appear not to have been healthy.

One cannot view government programs only in the short term; one must take into account the longer term. Otherwise, the analysis inevitably will be superficial because the full ramifications of decisions are given little weight. With TARP, dangerous precedents have been made and expectations established in the marketplace. These include the unfortunate embrace of the principle of "too big to fail" and the implicit guarantees that go with that doctrine. I am pleased that the Panel will consider these issues in next month's report.

Under normal circumstances, TARP would be in the liquidating phase because institutions are repaying the money they received. Unfortunately, the Treasury seems to be trying to maximize its power by improperly considering TARP to be like a revolving line of credit, contrary to the intent of Congress and section 106(d) of EESA, which states: "Revenues of, and proceeds from the sale of troubled assets purchased under this Act, or from the sale, exercise, or surrender of warrants or senior debt instruments acquired in section 113 shall be paid into the general fund of the Treasury for reduction of the public debt." Moreover, the program may yet be extended by the Treasury Secretary until October 2010, and it may transform itself into something entirely different during that time, given the nature of the hastily drafted statute that established TARP and the extreme flexibility with which the Treasury apparently interprets its mandate and powers thereunder.

Already, $80 billion of TARP funds have been used to intervene in General Motors, Chrysler, and GMAC, hardly major components of the banking and finance system. The Treasury has announced that it intends to dump billions more into GMAC, but the underlying problems of the automotive industry, including excessive labor costs, inflexible work rules, and a poor product mix have yet to be addressed. As the financial markets have stabilized, a continuation of TARP raises the prospect that Treasury will put funds into other companies with only a tenuous connection to the financial markets, contrary to Congress's intent. Thus, TARP should not be extended. If more funds are needed in the future, Treasury should go back to the current Congress and make its case.

During our hearing featuring five economists on November 19, 2009, I posed a question to Dr. Dean Baker as to whether things would look different today in the financial industry if TARP had never been established. He responded by saying that "I am not convinced that we'd be in a hugely different world." Presumably, the Treasury and the Federal Reserve would have found ways to muddle through, much as they had done during and after the collapse of Bear Stearns. Dr. Baker further argued that "the biggest flaw of TARP" was that "we rushed in with something that wasn't well thought out." Indeed, some economists argue that the confusing roll out of TARP in 2008 only made matters worse. Ultimately, however, had there been no TARP, we would not be facing all of the unfortunate collateral consequences of TARP and a poorly thought-out EESA.

As we move into 2010, perhaps into the final few months of this Panel's existence, we should be insisting that Treasury stick to the intent of EESA and to a strict reading of the statute. In addition, we should follow the advice of Mr. Alex Pollock, who appeared before the Panel on November 19, to insist that Treasury run TARP as a business. Transparency, audited financial statements, and adherence to Congressional intent will foster accountability and taxpayer confidence.