



TARP still a punching bag, despite steadily falling price tag

By Peter Schroeder - 11/30/10 07:56 PM ET

The Troubled Asset Relief Program (TARP) remains a punching bag for congressional opponents and baggage for its supporters, even as a new study indicates the program will cost a small fraction of its original price tag.

Experts say the public deemed the program a boondoggle some time ago, despite indications it will prove to be affordable.

“The public thoroughly made up their mind a year or more ago that this was just for the elites and was a bad thing. ... Nothing that happens from here forward is going to change [that],” said Douglas Elliott, a fellow at the Brookings Institute and former investment banker at JP Morgan.

Elliott described TARP as “the best large federal program ever to be despised by the public.”

The Congressional Budget Office (CBO) announced Monday that the TARP will cost the federal government just \$25 billion — well below its previous March estimate of \$109 billion, and significantly below the \$700 billion figure repeatedly cited by politicians and pundits.

The CBO said the new numbers indicate the cost of the program is on “the low end of the range of possible outcomes.”

“Clearly, it was not apparent when the TARP was created two years ago that the cost would turn out to be this low,” the CBO’s report said.

But even as the cost of the program falls, its unpopularity with the public remains high.

“The anger is really because of the bailouts, and even if the thing actually made money, I think people still would be quite angry at it,” said Mark Calabria, the director of financial regulation studies at the Cato Institute. “It’s a fairness issue.”

The public anger means lawmakers are either slow to embrace the program or quick to attack it, even in times of good news.

On Monday, the same day the new CBO report was released, House Republican Conference Chairman Mike Pence (Ind.) touted himself as the first to oppose the program.

A favorite of grassroots conservative groups, Pence is widely considered to be mulling a 2012 presidential run.

“In September 2008, when the Bush administration proposed that Congress give them \$700 billion to bail out Wall Street, I was the first member of Congress to publicly oppose it,” he told the Detroit Economic Club. “I didn’t think we should do nothing, I just thought it was wrong to take \$700 billion from Main Street to bail out bad decisions on Wall Street.”

When General Motors staged a successful initial public stock offering a few weeks ago, Democrats hailed the auto bailout as a success, while trying to hold Republican feet to the fire for opposing efforts to save the company.

The positive report on TARP, in contrast, has not led to vocal praise from Democrats.

A spokesman for House Speaker Nancy Pelosi (D-Calif.) responded to the CBO report by describing the bailout as necessary action that eventually must be paid back to the American taxpayer.

“In the midst of a severe recession, congressional Democrats took difficult emergency action to rescue the economy from the recklessness of some on Wall Street, while protecting taxpayers,” said Nadeam Elshami. “Today we have more evidence from the independent, nonpartisan CBO that those actions are paying off, and the American people are one step closer to being made whole.”

Even as the record on TARP continues to improve, lawmakers are loath to tie themselves to it.

“Politicians are almost never going to say anything good about it, because they don’t want to be positively associated with TARP,” Elliott said. “The public had mixed opinions about the auto industry, [but] everyone hates the bankers.”

Support for TARP had been cited as the culprit for several losses in this year’s elections. Sen. Bob Bennett (R-Utah), for example, failed to win his party’s primary after voting for TARP. Conservatives in Utah tagged him with the moniker “Bailout Bob” and chanted “TARP” at him during the party’s convention.

And Sen. Kay Bailey Hutchison (R-Texas) lost her gubernatorial bid after Gov. Rick Perry’s (R) campaign dubbed her Kay “Bailout” Hutchison.

The CBO found that the vast majority of TARP’s costs now stem from government assistance provided to American International Group (AIG) and the auto industry, as well as grant programs aimed at helping homeowners avoid foreclosure.

But thanks to the stabilization of the financial system, the outcomes of most TARP transactions were favorable to the federal government. The government is estimated to make \$22 billion from the TARP assistance provided to financial institutions such as Bank of America and Citigroup.

Some of the TARP savings, however, come from the low number of homeowners taking advantage of the Home Affordable Modification Program. That program, which aims to help homeowners modify their mortgages to avoid foreclosure, was allocated \$75 billion through TARP, but the CBO expects only \$12 billion will ultimately be used. Thus far, just \$710 million has been spent on the program.

The CBO’s estimates were part of its fourth report on the program. The TARP legislation includes a statutory requirement that the CBO report on the program within 45 days after the Office of Management and Budget

(OMB) releases its report on the program.

The Office of Management and Budget estimated the program's costs at \$113 billion. The discrepancy between the OMB and CBO estimates is due primarily to increases in the market value of TARP assets and the fact that General Motors and AIG both significantly restructured their government aid since OMB's May 31 report.

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