Guest View: What's troubling about TARP bailout

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By Stan Gudmundson winonadailynews.com | Posted: Thursday, October 7, 2010 12:05 am | 1 Comment

James Glassman, former undersecretary of state, notes that over a 12-month period, "total U.S. economic output, adjusted for inflation, dropped at an annual rate of 3.8 percent — the worst decline since 1946. The unemployment rate, which started 2008 at 5 percent, had doubled by the fall of 2010, the number of jobs fell for 21 months in a row. In the recession of 1981-82, the economy had regained the jobs it lost within just 26 months — 31 months after the start of the current recession — the employment situation is even worse."

What kind of "change" has government provided to give us "hope?"

First there was the Troubled Asset Relief Program, that gave supposedly "shaky financial institutions" $386 billion in financing to keep the world's economy afloat. Glassman, among others thinks that TARP was the correct thing to do.

Others aren't so sure. William Isaac, the former head of the FDIC for example, says that, "The financial panic of 2008 did not have to happen. ... TARP (itself) did far more harm than good. ... (It was) an ill-conceived program slapped together by a panicked government working too close for ... comfort with ... Wall Street firms."

One way or another, at least $211 billion has been paid back. An additional $145 billion was given to Fannie Mae and Freddie Mac, but that is another issue altogether.

Then government begat the so-called American Reinvestment and Recovery Act of 2009 to the tune of $800 billion plus. As Glassman points out, "(the) treasury debt ... has grown from an easily manageable 36 percent of GDP at the end of fiscal 2007 to a troubling 62 percent at the end of the 2010."

Sen. Tom Coburn says it's 90 percent.

"Only once in U.S. history — during and right after WWII — has the debt-to-GDP ratio ever exceeded 50 percent," Glassman says.

That’s only part of the entire government spending mess, of course, as Washington continues to beget even more in the way of “stimulus.” And the American people see that government is spending money like nuts, and nothing positive is happening.

That’s not quite a fair criticism. If you own a large highway construction and/or paving firm, you are rolling in dough.

The economy has stalled, so what should be done next?

Liberal economist Paul Krugman and others of that ilk say we didn’t do enough initially and now government needs to do even more. Keep in mind that is what these folks also said about the Great Depression. And that lasted how long?

Richard W. Rahn, a senior fellow at the Cato Institute, asks, “Where is the historical evidence to show that big increases in government spending as a percentage of gross domestic product (GDP) lead to faster economic growth and job creation? Answer: There isn’t any. One can go back 100 years, and there is no data to support the argument that bigger government leads to prosperity.”

He further notes that, “It is policies that matter, not party ... if the country adopted the spending levels (as percent of GDP) of the second Clinton administration and the tax rates of the second Reagan administration, the economy would boom and the deficits would largely disappear.”

Given that things just aren’t going the way this administration planned, that is, besides the runaway deficit, high jobless rate and stalled economy, is there any research that tells us what happens when government tries to stimulate the economy?

Yes there is.

“Cutting spending by 1 percent triggers a net 0.6 percent in economic growth.”

That’s the conclusion of Goldman Sachs economists Ben Broadbent and Kevin Daly. On the other hand “for each $1 spent by the government to stimulate the economy ... (there is a) $1.10 reduction in GDP.”

Or put another way, “for every $1 in tax-financed spending, the economy actually shrinks by $1.10,” reports Veronique de Rugy a senior research fellow at George Mason University.

She also says that, “economists Robert Barro and Charles Redlick (at George Mason) showed that in the best-case scenario, a dollar of government spending produces much less than a dollar in economic growth — between 40 and 70 cents.”

If private enterprise achieved those sorts of “gains,” there wouldn’t be any private enterprise.

As for jobs, de Rugy reports, “that the total number of jobs the government attributed to stimulus spending as of April was 682,000 (at an) average cost (per job of) $282,000 (each and) four-fifths of these jobs were in the public sector.”

Three French economists who examined 40 years of OECD data concluded, according to de Rugy, “that on average, the creation of 100 public jobs eliminated about 150 private-sector jobs, decreased by a slight margin overall labor market participation, and increased by about 33 the number of unemployed workers (because) public employment crowds out private employment and increases overall unemployment.”

Even the most obtuse of us should be able to understand that more government spending and bigger deficits are not the answer. Richard Kahn says, “History shows that tax-rate reductions and reduced government spending as a percentage of GDP are associated with high growth and job creation.”

Reducing taxes, as Tom Sowell points out, is not about moving money around to benefit a certain few here and there. It is about changing economic behavior. We know for darn sure that what government is doing ain’t working.

Let’s go back to what worked.

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