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TARP Billions Shipped Overseas Can't Halt Global Slowdown

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Economists and conservatives reacted sharply Thursday to reports that tens of billions in TARP bailout money flowed out of the United States and into the coffers of big banks in France, Germany, and other nations during the government rescue of the U.S. financial system.

That news came as the U.S. economic picture continued to worsen Thursday, with rising unemployment claims and a surge in U.S. homes lost to foreclosure.

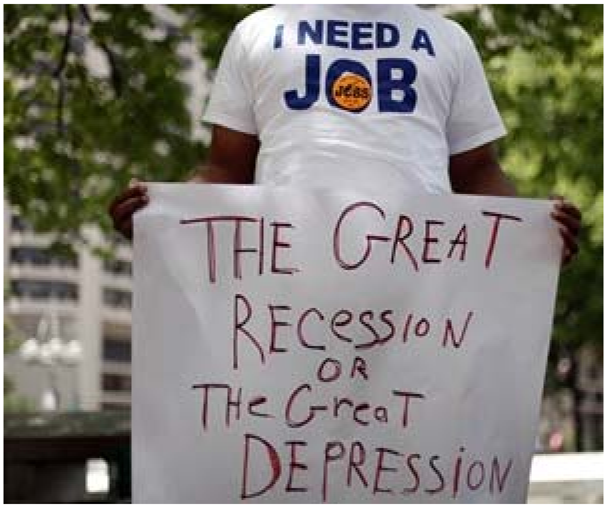
CATO Institute Budget Analyst Tad DeHaven tells Newsmax: “The economy has become increasingly global, so it’s not shocking that TARP bailout money ended up at foreign financial institutions. Nonetheless, bailing out U.S. financial firms was bad enough -- that foreign institutions also benefitted from the largesse just adds insult to injury.”

J.D. Foster, senior economics fellow at The Heritage Foundation, added: "The overwhelming force slowing the economy down now is a lack of confidence among American businesses and consumers. The primary reason for that lack of confidence is the policies out of Washington seem completely out of touch with that reality."

That reaction follows Thursday's report from the Congressional Oversight Panel report that when the United States injected hundreds of billions of TARP money to stabilize the U.S. financial system in September 2008, it also bailed out over 40 major institutions based overseas that had invested in collateralized debt obligations and mortgage-backed securities.

"There were no data about where this money was going," Elizabeth Warren, head of the panel investigating the bank bailout, explained in a conference call with reporters on Wednesday. "The American people have a right to know where the money went."

The TARP money flowed to overseas banks largely due to their investment in AIG, which received some $182 billion in federal bailout funds. The Oversight Panel reports that roughly half of the 87 banks and investment firms who would have lost billions without the AIG bailout were headquartered overseas.



Among the major foreign beneficiaries, according to The Associated Press: the French bank Societe Generale ($11.9 billion in AIG money), the French bank BNP Paribas ($4.9 billion in AIG funds), and Germany's Deutsche Bank ($11.8 billion). Banks in Canada, Switzerland, and Britain cashed in on the AIG rescue as well.

Many economists credit TARP with staving off a worse financial crisis. But TARP, and the subsequent $862 billion stimulus, also failed to lift the economy out of chronic, massive joblessness and spiraling federal debt.

"TARP was a waste of money and should never have been implemented," Diana Furchtgott-Roth, director of the Center for Employment Policy for the Hudson Institute, tells Newsmax. "Rather, the funds should have been spent on tax cuts to stimulate the economy."

The news that foreign as well as U.S. firms were bailed out by TARP, a program already unpopular with voters, is expected to add intensity to the recent Republican mantra of House Minority Leader Rep. John Boehner and RNC chairman Michael Steele, who continue to demand, "Where are the jobs?"

The Oversight Panel offered the veiled criticism that U.S. leaders should have asked the countries whose banks received the most benefit from TARP to share in its cost.

One criticism of the global bailout is that the United States contributed more, via its action to salvage AIG and other institutions, than foreign governments spent on their entire bailout plans. France spent $35 billion on its financial rescue plan, for example. Germany spent $133 billion. The Oversight Report states the TARP bailout probably helped overseas banks more than their own nation's financial rescue packages did.

Reports on the economy issued Thursday, meanwhile, indicate the nation's economic problems continue to worsen.

The RealtyTrac organization reported that July marked the 17th consecutive month when foreclosure activity exceeded 300,000 homes. The company reported "near-record levels of bank repossessions," which have increased for eight months in a row.

One a brighter note, total foreclosure filings dropped down 9.7 percent compared to July 2009. That marks the second straight month of year-to-year declines.

Adding to the overall sense of economic malaise, the Labor Department released weekly jobless numbers that show an uptick in first-time claims for unemployment benefits, which reached 484,000 last week. That's a seasonally adjusted increase of 2,000 from the week before. Those claims have increased three of the past four weeks. The Dow Jones Industrial average reacted to the economic news by dropping over 70 points before rebounding.

Thursday's economic news also indicates the global economy now appears to be softening, making it unlikely that economic growth in China or India can stimulate business in America.

Heritage Foundation international economic analyst Derek Scissors tells Newsmax that the notion that strong economic growth overseas, in China for example, could be relied upon to give a boost to the U.S. economy was always suspect and based on "misinformation."

"China's economy is slowing," Scissors confirms. "We continue to be an engine for the world economy, and China continues to benefit from that. It doesn't work the other way, and it's not going to work the other way this year, or next year, or for the foreseeable future."

Adds Scissors: "All of this is very easy to anticipate. You have this massive government stimulus, and it automatically works for a while because they're injecting money into the country, then it doesn't work as well. That happened in the U.S. and it happened in China and it happened everywhere where government stimulus was relied upon as the savior. When you spend a lot of money the first year it has an effect, then the next year it doesn't have that much of an effect. And that's what we're seeing now."

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