The Market Oracle

Government Gold-Plating

By Steve H. Hanke
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Sen. Tom Coburn (R-OK) released his annual Wastebook this past week. It contains a laundry list of doozies. The U.S. government's gold-plating operations included $190,000 to study compost digested by worms, $297 million for the purchase of an unused mega blimp, and $1 million on a Virginia bus stop where only 15 people can huddle under a half-baked roof. These questionable (read: absurd) expenditures only represent the tip of the iceberg.

Just consider the following: the Speaker of the House currently receives an annual salary of $223,500, and will receive a payment of roughly that amount, depending on the years of service, for life. An annual payment of this magnitude amounts to about five times the average annual wage in the United States. But that's not all. For those who have had different positions in Congress, their retirements can be augmented. For example, Nancy Pelosi will not receive $223,500 for life, but roughly double that. Why? Because she is a member of Congress, currently the House of Representatives' Minority Leader, and a retired Speaker of the House. For purposes of computing retirement pay, Congress adds and accumulates. They do not net.

In addition to supporting members of Congress and civil servants, U.S. taxpayers support welfare recipients. And they support them lavishly, too. Hawaii, Massachusetts, and D.C. residents receive sizeable welfare payments (read: salaries). Indeed, the magnitude of these payments exceeds the average salary of an American teacher, as well as a soldier deployed in Afghanistan, by at least $10,000 per year.

The public can forget all the clap-trap they are hearing about austerity. Indeed, a fairly dull knife could cut billions of dollars from the U.S. government's largess.

It is important to stress that there is no macroeconomic or "macro-prudential" reason to continue operating KTB. Because KTB never functioned economically as an intermediary for savings, liquidation of the bank will not prevent otherwise-qualified corporate borrowers from obtaining credit. Nor will KTB's disappearance send shock waves through the financial system, as its net position vis-à-vis the rest of the Bulgarian banking sector appears to be relatively small.

The authorities' primary focus now should be paying KTB's guaranteed depositors out of the BDIF and recovering those costs, to the extent possible, by seizing KTB's assets and winding down its operations.

If KTB were operating in the United States, there would be additional legal paths to pursue for recovery. Payments made by the bank in the period immediately preceding its insolvency could be recovered, and the directors and officers of the bank could be held personally liable for negligence. The authorities would be well-advised to make use of any corresponding legal remedies available to them under Bulgarian bankruptcy and corporate governance laws. These paths may be the best way to achieve recoveries in excess of those possible on the basis of KTB's pitifully inadequate assets.

Finally, the KTB episode should not be used as an excuse to tinker with the one transparent and faithfully functioning institution Bulgaria has: its currency board.

The best Bulgaria can do is to liquidate KTB, now.

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