

Opposing view on banking bailout: 'A moral abomination'

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By Dan Mitchell

Sen. Bob Bennett of Utah and Rep. [Bob Inglis](#) of South Carolina were bounced in their [Republican](#) primaries in large part because they voted for the Wall Street bailout. It is expected that the list of "TARP martyrs" will become much larger this November as voters have additional opportunities to express their unhappiness about the massive transfer of wealth from taxpayers to poorly run but politically connected financial institutions.

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Beltway insiders and members of the political establishment are mourning these developments, asserting that the TARP martyrs are noble and courageous officials who did the right thing despite the risk to their careers. The obvious implication is that ordinary voters are a bunch of yokels who did not understand the steps that were needed to rescue the financial system and the economy from collapse.

This self-serving narrative is wrong. The anger at TARP is not because it injected money into the financial system. Voters are upset because funds were used to bail out specific companies. Defenders of the status quo claim this was a necessary feature of rescuing the entire system, but that is false. Politicians had the option of choosing the "[FDIC](#) resolution" approach, which also injects capital into the banking system but only as part of liquidating insolvent institutions. This means that existing management and shareholders get wiped out.

Indeed, this is precisely what happened with [Washington Mutual](#) and [IndyMac](#). And it was the approach that was used during the savings-and-loan bailout 20 years ago.

The Federal Deposit Insurance Corp. resolution approach should have been used with all insolvent institutions, regardless of how many lobbyists they employed or how much campaign cash they had funneled to Washington.

TARP was also a terrible piece of legislation because it meant that politicians, rather than market forces, determined which companies

survived. It also was a moral abomination. Government-coerced redistribution is never a good idea, but the worst type of welfare is when poor people are forced to subsidize rich people. That's a good description of TARP, and the politicians who voted for it should breathe a sigh of relief that they are getting bounced out of office instead of tarred and feathered.

Dan Mitchell is a senior fellow at the [Cato Institute](#), a libertarian think tank in Washington, D.C.