



Written by [William F. Jasper](#) on December 22, 2008

Bailout Mania!

"Jet-setting CEOs battered and humbled by outraged lawmakers." This, or some similar title, may be affixed to what will undoubtedly become for many people the iconic event of the unfolding economic debacle known as "The Bailout-O-Rama that Grew, and Grew — and GREW."



The CEOs of the Big Three automakers — Alan Mulally of Ford, Robert Nardelli of Chrysler, and Richard Wagoner of GM — had come to Washington seeking a \$25 billion loan package to save their beleaguered companies. At a November 19 hearing of the House Financial Services Committee, the Detroit execs ran into a buzz saw when they revealed under questioning that each of the mendicants had flown to the nation's capital in a private corporate jet.

"There is a delicious irony in seeing private luxury jets flying into Washington, D.C., and people coming off of them with tin cups in their hand, saying that they're going to be trimming down and streamlining their businesses," Rep. Gary Ackerman (D-N.Y.) told the spendthrift CEOs at the committee hearing. "It's almost like seeing a guy show up at the soup kitchen in high hat and tuxedo. It kind of makes you a little bit suspicious." Fellow lawmakers on both sides of the aisle chimed in with reprimands. After being roundly chastised, the wastrels were sent back to Detroit and told to prepare specific bailout plans to present to Congress. The TV pundits, talk-radio hosts, and the blogosphere went wild; here were the perfect targets on which to vent one's wrath over the current economic mess and the injustice of the ever-growing demands for more and bigger bailouts of failed and failing enterprises. Video clips of the committee hearing — with Mulally, Nardelli, and Wagoner looking like auto crash dummies after a high-impact collision with a brick wall — played and replayed on news programs, and now have been permanently immortalized with numerous postings on YouTube and other Internet sites.

In early December, when Congress and the White House took up the auto bailout again, the original \$25 billion request had been trimmed to \$14 billion and the Ford Motor Company had announced that it would not be seeking short-term federal aid. President Bush and Democratic leaders in Congress lined up for the bailout, while Republicans put up temporary resistance to the funding, as tensions mounted in the countdown to the congressional Christmas recess. The House of Representatives voted on December 10th to approve the \$14 billion government bailout of the U.S. automobile industry (H.R. 7321). However, on December 11, the Senate refused to pass this legislation. In response, White House spokesperson Dana Perino said from aboard Air Force One the next morning: "Congress spoke last night. They don't have the votes to do anything." The White House may divert money from the Wall Street bailout fund to the automakers.

The prolonged and heated drama surrounding the auto bailout effort is remarkable for the



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disproportionate angst and ink that have been spent on it. Twenty-five billion dollars, or even \$14 billion, may not be chump change, but in comparison to the gargantuan bailouts that are sliding by virtually unremarked and unopposed, it is little more than a butterfly sneeze in a hurricane. As objectionable as any bailout may be, the \$14 billion loan program for the automakers is, after all, a relatively modest sum when viewed alongside the bailouts for Citibank's toxic debt (\$45 billion, *plus* guarantees for 90 percent of its \$306 billion in risky loans), American International Group, AIG (\$152 billion), Bear Sterns/JPMorgan Chase (\$25 billion), as well as Fannie Mae, Freddie Mac — and many, *many* more.

All of which seems to indicate that the furor over the automaker bailout has been a sideshow by the political and media classes to divert public attention from the really big demolition that is going on beyond our view. The Bush Treasury Department has already burned through the first half of the \$700 billion provided by Congress in October for bailouts, and now Treasury Secretary Henry Paulson is asking for the second half. The first \$350 billion has not stopped the market meltdown, and there is little reason to believe that the second \$350 billion will produce the promised beneficial effects. A December 10 hearing by the House Financial Services Committee focused on the lack of accountability and transparency in the Treasury Department's handling of the bailout funds allocated by Congress, amplifying the concerns expressed in a critical report issued December 2 by the federal Government Accountability Office (GAO). Some members of Congress threatened to withhold the second funding batch.

Secret Spending Spree

Here again, hundreds of billions of dollars involved are not negligible sums; however, they pale in comparison to the *trillions of dollars* that Treasury Secretary Paulson and Federal Reserve Chairman Ben Bernanke have been throwing around — without any oversight whatsoever. In early November, while most Americans were still attempting to get their minds around the enormity of the congressional bailout, news began trickling out about the secret bailouts already underway by Paulson and Bernanke that dwarf the congressional spendathon. A Freedom of Information Act (FOIA) lawsuit filed against the Federal Reserve on November 7 by Bloomberg News revealed that the Fed had issued *\$1.7 trillion* in "emergency" loans to troubled companies and institutions. However, the Fed was refusing to provide Bloomberg — or Congress, or the American public — with a list of the entities to whom the loans were made, or information about the collateral accepted to secure the loans.

However, that mind-boggling sum was soon shown to be but a fraction of the astronomical total of liabilities that the Fed and the Treasury have put us on the hook for. By November 26, the *New York Times* was reporting this astonishing news:

In the last year, the government has assumed about \$7.8 trillion in direct and indirect financial obligations. That is equal to about half the size of the nation's entire economy and far eclipses the \$700 billion that Congress authorized for the Treasury's financial rescue plan.

The same article reported this equally astounding news:

The Federal Reserve and the Treasury announced \$800 billion in new lending programs on Tuesday [Nov. 25], sending a message that *they would print as much money as needed* to revive the nation's crippled banking system. [Emphasis added.] The gargantuan efforts — one to finance loans for consumers, and a bigger one to push down home mortgage rates — were the latest but probably not the last of the federal government's initiatives to absorb the shocks that began with



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losses on subprime mortgages and have spread to every corner of the economy.

Where is all of the money for these gargantuan "loans" (many of which may never be paid back) coming from? It isn't being appropriated by Congress, as required by the Constitution. The *Times* piece above provided the answer, noting that the Fed and the Treasury "would print as much money as needed" — with the amount "needed" being determined by the Fed and the Treasury, of course.

Two days later, on November 28, Reuters news service was reporting bailout liabilities of more than \$8.3 trillion: "With the government's latest actions this week to ease consumer credit and lower mortgage costs, the potential bill for U.S. financial rescue efforts is now about \$8.317 trillion."

Of course, with this recent history as prologue, there is no reason to believe that the Fed and the Treasury have completed their massive spending spree. Indeed, there is every likelihood that unless Congress can be forced to combat these institutions and take away the powers they are illegally exercising, they will continue taking the United States down the path to financial Armageddon. They may decide to inject another 10, 20, or 30 trillion dollars into the economy. The candidates for bailouts are endless: the Boeing Company, Tribune Co., Circuit City, Linens 'n Things, and on and on, not to mention many of our bankrupt (or near-bankrupt) cities and states, which are now seeking federal bailouts. If the Fed is allowed to print whatever amounts it deems "necessary," we can expect hyperinflation in our future that could rival the devastating inflation that has been destroying Zimbabwe.

Congress Out of the Loop

The recent revelations concerning the usurpations of congressional power by the Fed and Treasury validate an important op-ed observation made in 1999 by economist Robert Reich, who had served as secretary of labor in the Clinton administration from 1993-1997. "The dirty little secret is that both houses of Congress have become increasingly irrelevant," Reich opined in a January 7, 1999 piece for *USA Today*. "In case you hadn't noticed," Reich continued, "America's domestic policy is now being run by Alan Greenspan and the Federal Reserve Board. Their decisions about interest rates are determining how many of us have jobs and how many of us get a raise."

Reich, who is now an adviser to President-elect Obama, went on:

Congress is out of this loop. Every so often, some senators or House members politely ask Greenspan to visit and talk about the economy. He obliges by riding up to the Hill and muttering convoluted sentences that no two people interpret in quite the same way. Then he goes back down to the Fed and runs the country.

America's foreign policy, meanwhile, is now being run by the International Monetary Fund (IMF), with some coaching from the Treasury Department.

Reich's description of things nearly a decade ago certainly describes the situation in Washington today. While Congress voted on \$700 billion for bailouts, the Fed is spinning out more than 10 times that amount out of thin air. If Congress, the press, and the public can be kept preoccupied arguing over a few billions, while the Fed is making decisions on and taking action on trillions, then Congress has indeed become irrelevant. And so has the American public — except for when it comes time to pay the tab.

TARP Coverup

Even in the case of the congressional bailout program Congress has been largely AWOL, allowing the



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Fed and Treasury to indulge in all manner of chicanery. The recent report of the Government Accountability Office confirms what was apparent to outside observers: the hundreds of billions of bailout dollars are being squandered without monitoring and accountability. The GAO report, entitled "TROUBLED ASSET RELIEF PROGRAM: Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency," focuses on TARP, the Troubled Asset Relief Program, the main component of the congressional bailout, officially known as the Emergency Economic Stabilization Act (EESA) of 2008.

When Secretary Paulson had initially proposed the \$700 billion bailout in September, the public reaction was a quick and fierce "Drop dead!" Congress got the message and on September 29 the House rejected the bailout bill. Then came the major panic campaign to convince the American public and Congress that unless an immediate bailout was approved to treat the current economic crisis, the global system would experience an economic apocalypse. The whole system would go into fatal meltdown, and all would be lost. The fright campaign worked; EESA was passed by the Senate on October 1, then by the House on October 3, and signed into law the same day by President Bush.

"Among other things," notes the GAO report, "the act provides Treasury with broad, flexible authorities to buy up to \$700 billion in 'troubled assets' and allows Treasury to purchase and insure mortgages and securities based on mortgages and," in consultation with the Federal Reserve Chairman, "purchase any other financial instrument (e.g., equities) deemed necessary to stabilize financial markets." Unfortunately, the legislation does not rigidly define "troubled assets," "financial institutions," "significant operations," and other important terms, thus allowing Treasury vast leeway for arbitrary decisions on fund allocations and the terms of those allocations.

Much of the impetus for the EESA was built around a plea for compassion for the millions of homeowners facing foreclosure; the federal government must help them so families aren't thrown destitute onto the street. However, as soon as the funds started flowing, Paulson, Bernanke, and company changed their tune. Now, they said, funding for homeowner foreclosures would not be productive; the TARP funds would be better spent buying up troubled banks and helping healthy banks buy up other banks and financial institutions. Members of Congress on both sides of the aisle cried foul, claiming they had been victimized by a Treasury "bait and switch" scheme.

The GAO report sounds this same theme, noting:

Before the bill was passed, TARP's primary focus was expected to be the purchase of mortgage-backed securities (MBS) and whole loans. Within 2 weeks of enactment, however, following similar action by several foreign governments and central banks, Treasury announced that it would make \$250 billion of the \$700 billion available to U.S. financial institutions through purchases of preferred stock.

And, the GAO report noted, that \$250 billion was funneled into dozens of banks and financial institutions. As bailout critics have noted, the TARP acronym is certainly apropos; a tarp is used to cover up something. TARP's opaque character is being used by Treasury and the Fed as a double coverup: first, to cover up the nature of TARP's own disbursements of the congressionally approved bailout funds; and second to cover up by distraction the much larger multi-trillion dollar bailouts.

It should come as no surprise that TARP had been launched and had dished out hundreds of billions of dollars before oversight and internal control procedures had been put into place. In fact, those important functions still are not fully operational. The December GAO report notes: "Without a strong



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oversight and monitoring function, Treasury's ability to help ensure an appropriate level of accountability and transparency will be limited." And, the report continues:

Although Treasury has hired a third party to help establish a system of internal controls, until controls are in place to ensure that specific program requirements are met, Treasury cannot effectively hold participating institutions accountable for how they use the capital injections or provide strong oversight of compliance with the requirements under the act.

However, even if Treasury does finally get monitoring and control features in place, what level of confidence will that provide? Who would trust Treasury to honestly monitor and report to Congress the hundreds of billions it has already doled out when it is arrogantly refusing to divulge information on the trillions that it has been dealing out behind closed doors? Who will monitor the monitors? That is Congress' job. Some of them have been jawboning and posturing about it, but there has been precious little action.

A few members of Congress may be beginning to get the picture; they are realizing that there is something terribly wrong — both in principle and in practice — with the process that allows government agents, whether elected or appointed, to commandeer very nearly the total wealth of the nation, and then to refuse to provide information on those activities to the people who are paying the bills.

"Whether it's lending or spending, it's tax dollars that are going out the window and we end up holding collateral we don't know anything about," says Congressman Scott Garrett (R-N.J.), who serves on the House Financial Services Committee. "The time has come that we consider what sort of limitations we should be placing on the Fed so that authority returns to elected officials as opposed to appointed ones."

However, merely placing limitations on the Fed (and the Treasury) will not do what needs to be done. As usual, Dr. Ron Paul (R-Texas) is one of the few members of Congress who understands the disease and is willing to prescribe the tough medicine needed. He has repeatedly offered legislation to *abolish* the Fed. The power that it wields over our economy is unconstitutional, as well as being completely incompatible with liberty and prosperity.

Sound economic and constitutional principles prohibit the appropriation of even a *single* federal tax dollar for "rescuing" private enterprises, let alone billions, hundreds of billions or trillions. Bailing out failing companies rewards the profligate, the foolish, and the corrupt (along with those who are merely unlucky), while punishing the taxpayers, as well as those entrepreneurs and corporations that act responsibly and wisely. Legally speaking, the Congress, the president, and the Federal Reserve have *no* authority under the Constitution to extract any wealth from the American public to "save" any private enterprise. Allowing them to exercise these unconstitutional powers will lead to economic and political destruction.



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