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Free Enterprise: Let's avoid failure to verify

By Savannah Morning News
Created 2008-12-06 00:30

Where has all the bailout money gone, and what, if anything, is it buying taxpayers? Such questions have been raised ever louder and with increasing frequency since the \$700 billion bailout plan was written into law. Those who were opposed to it from the outset could at least take solace in the fact that the final version of the bill had been improved. Specifically, the initial defeat of the bailout had given impetus to the administration to submit to strong oversight.

The new provisions made clear that the Treasury would have to report quickly and extensively on how the first \$350 billion tranche would be spent. Of course, that was before the Troubled Asset Relief Program in its initial format had unceremoniously been laid to rest only weeks after starting. At that point, the Treasury decided to buy into banks, and the picture became decidedly murky.

Despite the clear transparency obligations imposed by Congress, observers were scratching their heads trying to trace which banks the Treasury was recapitalizing. Often, the first sign of where some of the money in the so-called Capital Purchase Program had been spent were local newspapers touting the investments as a note of confidence in a regional bank.

Fortunately, the nonpartisan Government Accountability Office has the mandate to report every 60 days on "a variety of areas associated with oversight of TARP." The first 66-page assessment was published this week.

As report cards go, this one is fairly devastating. Although the GAO report acknowledges repeatedly that 60 days is a very limited time to get the Office of Financial Stability - tasked with administering the TARP - to run efficiently, it strongly criticizes various aspects of this unprecedented spending program.

Until recently, the Treasury had provided more than \$150 billion to 52 institutions. In the process, some of the major concerns of Congress have been all but ignored.

The GAO report highlights that there is no procedure in place to assure that "institutions participating in CPP comply with key program requirements" regarding limits to executive compensation, dividend payments and stock-repurchases.

A further sore point is the hiring of numerous contractors on a billable hour basis rather than with fixed-price arrangements.

Among several other weaknesses, it is pointed out that no process has been established to either robustly protect taxpayers' interests or to deal with the numerous conflicts of interest that have already been identified.

Most troublesome, however, is the only point of disagreement between the GAO and the Treasury. In a written response, Interim Assistant Treasury Secretary Neel Kashkari opposes stronger monitoring of how the various

institutions are spending CPP funds. This is astounding given that banks have repeatedly failed to put the capital injections to their intended use, namely to revive lending.

"Information gaps and surprises," dangers of overbilling, opportunities for self-dealing, billions of dollars not used for the intended purpose; the government rescue program seems to be a fitting follow-up to the sub-rosa financial shenanigans that brought the crisis about.

Even the old adage of "trust, but verify" falls short when the same experts who operated with exotic financial instruments are now being hired in droves to manage the bailout spending.

The trust is gone. One hopes that, in the end, the same does not have to be concluded for the taxpayers' money.

Michael Reksulak teaches economics and public finance in Georgia Southern University's College of Business Administration. He may be reached by e-mail at [mreksula @georgiasouthern.edu](mailto:mreksula@georgiasouthern.edu).

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