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## Free Enterprise: TARP fund use lacks transparency

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In the wake of the release of many (formerly "top secret") memoranda regarding the treatment of this country's foes, the publication of one specific report related to its economic woes has received much less attention than it otherwise may have warranted. As required by law, the Special Inspector General for the Troubled Asset Relief Program sent his first quarterly report to Congress on Tuesday (available at: [www.sigtarp.gov](http://www.sigtarp.gov) [1]).

Neil M. Barofsky, the "bailout sheriff" or (self-described) "TARP Cop," is a former federal prosecutor who once supervised an investigation into the credit default swap market. Those were the very financial instruments that turned out to be at the heart of the financial crisis.

SIGTARP's new report has added a lot of substance to the understanding of how TARP imposes a risk of fraud on the taxpayers funding it. It refers to more than 200 tips to its hotline, including "serious allegations of fraud." It also emphasizes how the program has grown. Barofsky said it now includes 12 programs involving government and private funds of up to almost \$3 trillion - roughly the equivalent of last year's entire federal budget.

The current audits initiated by his office read like a hit-list of public-outrage inducing topics. They consist of investigations into the actual use of TARP funds, executive compensation compliance, external influences regarding the decision-making by the treasury and by bank-regulators, the AIG bonuses and the controversial 100 percent counter-party payments by AIG using funds received from the federal government.

There exists a large body of economic literature stating that the behavior of criminals of all stripes can be analyzed utilizing the same tools that are being used to predict, say, consumption patterns and output decisions. Over the last few years it has been demonstrated that even the behavior of terrorists (yes, including suicide terrorists) can be evaluated by the study of the incentive structure they face. Incentives and disincentives do matter in criminal decision-making.

SIGTARP, in that sense, imposes costs (e.g., higher likelihood of discovery, need for coming up with more complex schemes) on would-be fraudsters. At the same time, the existence of enormous bailout programs and the difficulty in keeping track of all fund disbursements provides potential benefits to swindlers.

Unfortunately, with such large amounts of public spending involved, the questions regarding fraud are not related to whether it will occur but mostly to how much of it will happen; and at what rate it will be unearthed by investigators. That makes the dithering by the Treasury Department, as identified in the newest report, about requiring an actual and meaningful accounting of the use of TARP funds especially worrisome.

Evidently, it was the existence of a festering "shadow banking system" that lacked transparency and even limited oversight, which brought the financial system to its knees. It would be ironic if the government would perpetuate such mistakes in its attempt to extend a helping hand to the financial markets. There is, regrettably, a need for many more reports and memoranda. The creation and existence of SIGTARP was only a first step. Allowing the "light of day" to shine continuously on all bailout transactions conducted in the taxpayers' name is imperative.

One should not have to wait for "declassification" in this case; it should be assumed as a matter of course.

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