Insight

Rewriting History of Bailout

DOUGLAS HOLTZ-EAKIN | MARCH 26, 2010

By, Doug Holtz-Eakin and Rob Collins

It is remarkable how quickly the emotions of the financial panic of the fall of 2008 have faded from public memory. At the height of that panic, then-Secretary of the Treasury Henry Paulson and Federal Reserve Chairman Ben S. Bernanke addressed a special meeting of congressional leadership on the night of Sept. 18.

It was an extraordinary and scary moment. The finest minds of Wall Street and academia spoke as one about the imminent descent of the United States into a second Great Depression. They pleaded for, and essentially demanded, extraordinary budgetary, statutory and administrative powers to intercede in the financial sector to address the crisis. They placed the burden to act on Congress.

At a Sept. 23, 2008 Senate Banking Committee hearing, Chairman Christopher J. Dodd, Connecticut Democrat, had these words to say: “This proposal is stunning and unprecedented in scope and lack of detail, I might add. It would allow the secretary of the Treasury to intervene in our economy by purchasing at least $700 billion of toxic assets. It would allow the secretary to hold onto those assets for years and to pay millions of dollars to hand-pick firms to manage those assets.”

Despite the lack of specifics, the Democrat-controlled Congress on Oct. 3 passed the Toxic Asset Relief Program (TARP) – a $700 billion program to address the financial crisis. But even in that moment, Congress did more than just pass a bill. It did due diligence. It held hearings, and Mr. Paulson testified, “The $700 billion program we have proposed is not a spending program. It is an asset purchase program, and the assets which are bought and held will ultimately be resold, with the proceeds coming back to the government.” Mr. Bernanke concurred. Testifying before the Joint Economic Committee he said, “The Federal Reserve supports the Treasury’s proposal to buy illiquid assets from financial institutions.”

These performances and sentiments were repeated in front of the House Financial Services Committee and the House Budget Committee.

Congress was told that the problem was subprime mortgages and other toxic assets held on the balance sheets of large financial institutions. The plan was to get them off the balance sheets and provide a transparent bill of financial health to the restructured financial sector. The goal was to short-circuit the fallout from a housing bubble that grew into a financial tsunami and threatened every creditworthy business in America.

These are the facts. We know because any careful examination of the history supports this account. We also know because we were there.

Nevertheless, we write this short reminder of the response to the crisis because a revisionist history plagues this country. In the revisionist version, any sitting member of Congress who responded to the need for action supports "bank bailouts." In these populist and (legitimately) angry times, it is easy to put a scarlet "B" on the incumbent, but that doesn't make it right.

Sen. John McCain, Arizona Republican, has been attacked for arguing that he was "duped" in the process supporting the TARP. Some folks think he is trying to rewrite history. Let us assure you, he isn't; we were there.

As an adviser to the McCain campaign and as chief of staff to then-Chief Deputy House Minority Whip Eric Cantor, we remember clearly the words, intentions, testimony, legislative language, press releases and promises that were made as to what the Treasury Department needed to counter the shock to the economy. It needed to buy banks' toxic assets to stop the free-fall – not direct infusions of taxpayer money into these very same banks that were teetering on collapse.

Our memories are clear because Mr. McCain was running for president and Mr. Cantor was in the center of a congressional task force that was working tirelessly to include conservative provisions in the final legislation. Mr. Cantor's group wanted to try to give Treasury the ability to have Wall Streeters pay for their mistakes with a type of insurance program that could be compared loosely to the Federal Deposit Insurance Corp. (FDIC). Mr. Cantor and Mr. McCain were in constant contact the entire week, talking about the best ways to avoid a financial meltdown while protecting the taxpayers. Never did they talk about giving money to banks and car companies, only about stopping a catastrophe. How do we know? We were there.

Here is what happened: Congress, after one failed attempt, voted to allow Treasury to buy toxic assets from bank balance sheets. It voted to devote the scarce and valuable resources of taxpayers to the task of making sure that banks, large and small, could return to the business of lending that lies at the heart of job creation and economic expansion. And it did so on the basis of the stated intentions of those who testified before Congress.

Shortly after Congress acted and President George W. Bush signed the TARP, things took a sharp left turn. Mr. Paulson shifted to direct equity injections into banks and even stretched his authority to direct purchases of auto stocks. Again, under his successor, Timothy F. Geithner, plans to address toxic assets were announced and then abandoned. These were the actions of two successive administrations, not Congress. In addition, two successive Treasury Departments rejected the insurance program that would have allowed these toxic assets to be insured but not purchased by the federal government – with banks and financial institutions picking up the cost of the program.

We do not believe that the government should own banks, mortgage-finance companies (Fannie Mae and Freddie Mac) or auto companies. We are proud conservatives. We do not believe Congress should vote to own a large fraction of the financial services industry, even temporarily.

But now people are saying Congress did just that. We were there. It did not.

This article originally appeared in the Washington Times on March 26, 2010.