

REFORM, GANGSTA STYLE

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I took a serious amount of flack for supporting the TARP program when it was put together back in the fall of 2008. I saw what was happening in the credit markets and knew that catastrophe was not out of the question and much closer than people realized. Despite my support, I did have some concerns with the bill that turned out to quite accurate. My reservations with the TARP were two-fold. I knew that Congress would never abide by the rules and eventually turn the TARP into Hedge Fund USA where money would be spent on the ruling party's cause du jour. That prediction has come true with the auto bailouts, and now community bank funding. Returned TARP funds were supposed to be used only to pay down our debt. The other problem I had was that the two-big-to-fail banks would continue to be too big, and not be broken up, which we have been advocating long before Paul Volker has stepped back into the limelight.

Congress is trying to grab hold of the populist fever and push through financial reform legislation. On December 11, 2009, the House passed Congressman Barney Frank's bill (H.R. 4173). This 1705 page bill has language in Section 1109 titled "**Emergency Financial Stabilization.**" This section empowers a **Financial Services Oversight Council** which will be certified by the Secretary of Treasury and the President to create a new bailout program.

- (a) IN GENERAL.—Upon the written determination of the Council that a liquidity event exists that could destabilize the financial system (which determination shall be made upon vote of not less than two-thirds of the members of the Council then serving) and with the written consent of the Secretary of the Treasury (after certification by the President that an emergency exists), the Corporation may create a widely-available program designed to avoid or mitigate adverse effects on systemic economic conditions or financial instability by guaranteeing obligations of solvent insured depository institutions or solvent depository holding companies (including any affiliates thereof), if necessary to prevent systemic financial instability during times of severe economic distress, except that a guarantee of obligations under this section may not include provision of equity in any form.

Frank Lutz was the first to catch and draw attention to the fact that Congress was making "**too big to fail**" the law of the land. His memo, **The Language of Financial Reform** makes the point that the financial reform bill is the height of crony capitalism creating a bailout fund for Wall Street that could put "**We the People**" on the hook for over \$4 trillion in bailout liabilities. A permanent bailout or even implied partial bailouts, dangerously skew the risk/reward paradigm. Investment firms will be free to speculate and take risks they wouldn't under normal free market rules where the pains of their losses are felt by firm and firm's shareholders. Congress under the rules being proposed would seem to want to socialize banker's pain throughout society.

How is this possible?

According to Open Secrets, a website that tracks campaign contributions, from 1990 through 2010 \$1,220,688,512 was given to both Democrats and Republicans from investment firms and banks. I think the rap group the **Geto Boys** said it best... ***“Damn it feels good to be a gangsta.”***

SOURCE:

Darling Brian **President Obama's Permanent Bailout Fund** *Big Government* 2/3/10
Open Secrets Campaign Contribution Website