

# TARP This: Paulson Bailout Riddled with Deception

How a Program To Save The Economy Ended Up Enriching Big Banks

By [Danny Schechter](#)

Global Research, December 23, 2008

23 December 2008

Region: [USA](#)

Theme: [Global Economy](#)

Talk about crazy making. How do we believe anything Hank Paulson says?

First, he needed \$700 Billion, and fast, to buy up troubled assets or the skies would fall and we would be pressed to impose martial law. He found an appropriate acronym, TARP, to manage the money with a skeletal staff of 28 headed up by one of his former protégés at Goldman Sachs.

So Far, So Good,

But then he had himself a rethink, realizing that no one has a clue about how to price troubled assets considered practically worthless. So he had to make a shift, "in the light of new facts," even though Congress never authorized the shift.

So Far, So Good.

He claimed this showed flexibility and a willingness to respond to new information. Never mind that that information was not new and kind of obvious to anyone paying close attention to the subprime fiasco.

So Far, So Good

Then Congress pumped as a 3 page proposal into a four hundred page package. Once it was "enhanced" will all kinds of pork and earmarks it was passed. Legislators screamed about the absolute necessity of oversight and transparency. After all, this is taxpayer's money But then, they took a break to run for re-election without naming anyone to oversee Hank's new TARP or the taxpayer money. There seems to have been an oversight of oversight?

So far, Less Good

Paulson, then changed the playbook and started pumping a few billion here, and a few billion there into the coffers of financial institutions, many with lots of money already to recapitalize banks. The goal, we were told was to get them lending again.

Problem. Most banks didn't start lending because of fears of the risks to their own survival in the current economic free falls.

Partly that was because the government was not requiring any concessions except NON-Voting stock which gives it little leverage. The auto industry was expected to outline a reorganization plan to get the money. The Banks had so such requirement.

A New York Times report from London explained,

“Some analysts said the idea that recapitalizing banks would repair the lending market was flawed from the beginning because it was contradictory. On the one hand, the policy was meant to make banks reduce risk. On the other, it pressured them to lend more which meant taking more risks.”

So instead they diverted some of the money to satisfy their internal needs. An Associated Press investigation found: “Banks that are getting taxpayer bailouts awarded their top executives nearly \$1.6 billion in salaries, bonuses, and other benefits last year.” Many other banks would not disclose what they did with the money. Many of them have tightened credit, rather than loosened it,

Oops, not so good

“Treasury has bought preferred stock with no control rights,” writes former Fed governor Alan Blinder.”...there are no public-purpose quid pro quos, such as a minimal lending requirement. So banks can just sit on the capital, which is what most of them have done, or use it to make acquisitions, as a few have.... So here we are, looking at an all-too-familiar story. The administration that brought you the Iraq war and the Katrina response is locking in another disaster before it leaves town.” Yikes... “TAMING WILD BEASTS”

Historian Howard James goes further indicting the measures governments have been taking which he calls a “crescendo of ad hoc measures that several governments took throughout the fall: injecting liquidity, purchasing toxic assets, capitalizing banks, and, finally, nationalizing entire banking systems.” He’s skeptical that they will work.

“The \$700 billion bailout announced by the U.S. Department of the Treasury in late September was designed to remove from banks’ balance sheets mortgages and other securities that in some way corresponded to real houses. But it is still unclear today how these assets are to be valued or how that valuation might wind up benefiting or hurting their new owners. In the United States and in Europe, the hope is that governments will assume many of the risks inherent in this uncertain valuation — and tame the wild beasts of the financial jungle through state-backed and state-run banking systems. To some, this is profoundly ironic.

As Russian President Dmitry Medvedev put it in September, the experience shows that “the move from self-regulating capitalism to financial socialism is only one step.” American free-market capitalism was not supposed to look like this.”

Recently, I met the author of this article, Princeton Professor James. who was speaking at an elite forum on the economy at the Council of Foreign Relations. I asked if he shared my belief that our financial system is permeated with crime, and that the financial crisis was engineered by banksters and white-collar criminals. (This was before the Bernard Madoff revelations.) I expected the panel to be dismissive of such a “crude” suggestion in a room full of finance professionals, but he wasn’t, and agreed publicly that the problem fraud problem is very serious but in times of prosperity. exposes are rarely pursued.

He now sees the US now emulating China-which is having a hard time too-with more state intervention. He thinks this is the direction we will be forced to move in and sees Beijing more than Washington as key to solving what is now a global mess.

This thought upsets guardians of the free market like finance expert Peter Schiff, Ron Paul's economic advisor and the man who was laughed at on TV when he warned of the current collapse. I spoke to him recently for the film I am making on the economic crisis based on my book Plunder. He thinks the government has to stay out of markets even if that means businesses will collapse.

SCHIFF...what is happening right now, the credit crunch, the collapse of the real estate stocks, all these companies going bankrupt, this is not the problem. This is actually the solution. This is the consequence of the problem. The problem was that for years we ran this funny economy where we borrowed money to consume.

SCHECHTER: How could that be the solution? So many people are out of work, people are losing homes?

SCHIFF: Well we have to rebalance our economy

The clash over macroeconomic policy is mirrored in a debate over specific policies. Congress finally found an oversight person in Elizabeth Warren, the Harvard Professor and critic of consumer ripoffs. She says Paulson is not disclosing enough and just published a report with tough questions about Paulson's TARP: [http://www.house.gov/apps/list/hearing/financialsvcs\\_dem/cop121008.pdf](http://www.house.gov/apps/list/hearing/financialsvcs_dem/cop121008.pdf)

Already the banking industry is fighting back, questioning her judgment and implying she is some kind of commie. Hedge Funder Tom Clark derides her concerns but doesn't refute them:

"The Professor doesn't just quibble with this lending practice or that one. She thinks the entire industry is diabolical. Warren apparently believes consumer lenders have some mystical, systematic advantage over consumers, which they see as their duty to exploit at every turn. Or, as she puts it, 'Credit products aimed at both middle class and poor families are designed to trick them, trap them, and otherwise pick their pockets.'"

And so, as the Obama Administration is poised to take over, we have radically conflicting ideas of what to do—help people or banks, Main Street or Wall Street, take new initiatives or recycle old ones, use interventionist government power or put all our eggs in 'the market rules' basket?

The President-Elect's centrist appointments suggest he is buying into the prevailing Washington-Wall Street consensus that tilts towards the private sector with Wall Streeters as key advisors.

To be fair, the Obama Plan has yet to be spelled out. The Washington Post reports he has expanded it with a massive federal stimulus package and now hopes to create or preserve 3 million jobs over the next two years. He also has said Wall Street needs "adult supervision." Great phrase, but they will need more than that. Many banks are basically bankrupt; any recovery seems far off.

The only good news in this bleak picture is that Paulson, the Goldman Sachs miracle worker turned Donald Rumsfeld of the economy, is leaving soon, stage right. And before he goes, he just announced that he doesn't need another \$350 Billion right now, after all, despite his initial feverish demands. That was yesterday. Maybe he changed his mind.

That ball has been kicked into Barack’s court.

Have the Bush-Paulson-Bernanke policies worked? Did the economy turn around on their watch or through the trillions spent by the Fed? Not even close—maybe its time to TARP them all.

So far, Not good at all.

News Dissector **Danny Schechter** wrote *PLUNDER: Investigating Our Economic Calamity* (Cosimo via Amazon.com) and is now making a film on the crisis. Comments to Dissector@mediachannel.org WATCH: <http://www.youtube.com/watch?v=1jj1kjsZg0g>

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