Bailing out the bad actors, punishing the good

By Michele Bachmann
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Not quite two months ago, Treasury Secretary Henry Paulson came to Congress with an unprecedented request: 700 billion taxpayer dollars to bail out America's major financial institutions. In a three-page proposal, Paulson outlined his plan to purchase firms' troubled assets and transfer that debt to the American taxpayers of today and tomorrow.

After one failed vote, a lot of arm-twisting and $110 billion in sweeteners, Congress gave Paulson the keys to Uncle Sam's vault. In less time than it takes to pass a Christmas resolution, Congress passed the largest bailout in history and granted extraordinary new powers to the federal government.

These new powers would be exercised through the Troubled Asset Relief Program — or TARP — managed by a new federal bureaucracy, the Office of Financial Stability. Congressional leaders, in keeping with Washington tradition, even held a press conference to congratulate one another on the birth of this new federal office. But not everyone had the TARP pulled over their eyes.

I voted against the bailout both times. Many on each side of the aisle did the same. As a member of the Financial Services Committee, I had the chance to hear Paulson's testimony and ask some tough questions. But Paulson had no answers. The bailout was supposed to give confidence to investors and lenders, free up corporate books from toxic debt and stabilize the markets. Yet, week after week, the markets have continued to vacillate, and confidence in investment remains shaken.

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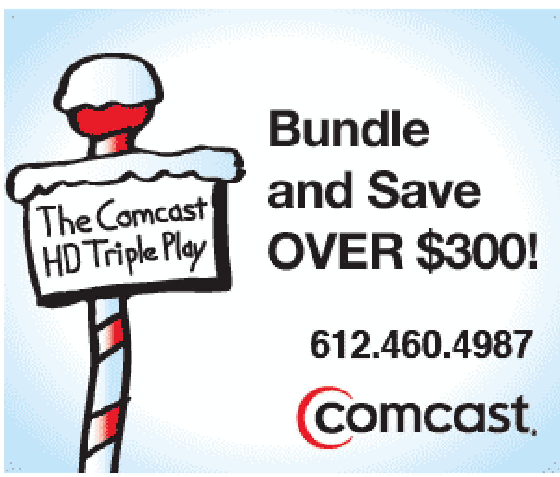
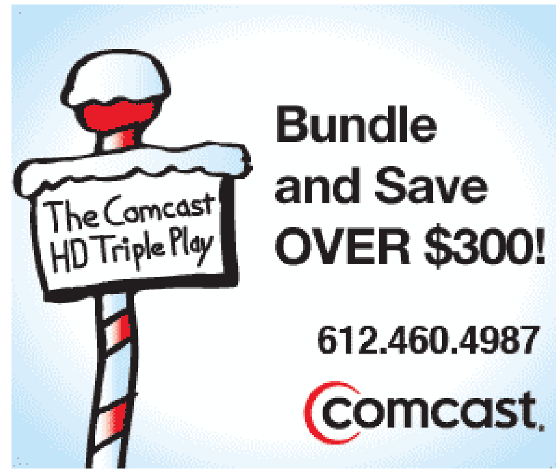


Sure enough, Paulson came back before Congress two weeks ago and admitted that he would not be using the Troubled Asset Relief Program to relieve troubled assets. You heard right: The sweeping, historic program that Paulson and his backers in Congress had said was so vital and so urgent was scrapped before it even began.

Instead, the Treasury has used nearly all funds already expended from the TARP to make capital injections — pouring money directly into banks and financial institutions by purchasing shares — effectively turning a single federal bureaucracy into the largest and most powerful investment bank in America. But it doesn't end there. Now Paulson has proposed a new plan to extend $200 billion to America's credit markets, and he has joined Federal Reserve Chairman Ben Bernanke in backing another new plan to buy up the monstrous debts of Fannie Mae and Freddie Mac.

In other words, even though Paulson has changed course repeatedly and admitted his own failures in judgment, Congress and the Treasury are plowing forward with this watershed expansion of power. They have fallen for the tempting but disproven premise that one man or one bureaucracy can have the wisdom and foresight to micromanage the complex machinery of the free market.

The reality, of course, is that a Treasury secretary has no such ability. Nor does any arm of government. History led us to free markets for a reason. And whenever a new crisis rears its head and the powers-that-be try to prove economic truths wrong, the problem they hoped to solve only worsens. Nixon instituted temporary wage and price controls to combat inflation, and inflation skyrocketed. Congress pushed subprime lending to increase low-income



housing — and it ignited the housing crisis that has resulted in foreclosure for so many families.

Now we are trying to stabilize the financial sector with Paulson's TARP, and we have thrown the market into even greater turbulence. We have also compromised the market of tomorrow by reversing the incentives critical to long-term stability: bailing out the bad actors and, as a result, punishing the good.

It's not too late, though, to chart a better course. As of this writing, Paulson has spent nearly half of his bailout dollars — $250 billion for financial institutions, $40 billion for AIG, $20 billion for Citigroup, and Tuesday's announced $20 billion for consumer credit companies. But Congress has the authority to deny Paulson his next installment of $350 billion. And that is exactly what we should do.

Instead, Congress should pursue aggressive reforms. First, it should repair the lending standards that Congress itself broke. Next, we need to replace involuntary bailout dollars with voluntary investors' dollars by suspending the capital gains tax, streamlining our regulatory framework for the 21st century and holding back so-called "mark-to-market" accounting that artificially devalues investments.

And, we must perform oversight for the hundreds of billions of dollars we've spent. The Treasury Inspector General has called execution of the bailout an outright "mess." Congress promised oversight provisions in the form of a special inspector general and a Congressional Oversight Panel when it passed the TARP. Yet, with more than $300 billion out the Treasury door, the oversight appears to be the only part of the bill not fast-tracked for action. Not one of those provisions has been implemented.

This year we've already authorized nearly $1.5 trillion in financial bailouts. Our national debt has ballooned past $10 trillion. America got into this financial mess because of a culture of debt. Too many homeowners, banks and financial institutions were overleveraged. But no one is deeper in the red than the federal government. And if we don't stop the deficit spending — if Washington doesn't balance its books and start living within its means — how long until we too come crashing into reality?

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