TAR(P) Baby

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Shortly after he was appointed Special Inspector General with oversight responsibility for the $700 billion Troubled Asset Relief Program (TARP), Neil Barofsky (a former prosecutor in the United States Attorney's Office in New York City) inspected his new quarters in the Treasury Building. Located mostly underground, the space afforded a view, not of the White House, but of the ankles and shoes of passersby. Permeated with a musky sock-like smell that emanated from a broken sewage pipe, he concluded that the office screamed, "Welcome to Washington, asshole."

In Bailout, Barofsky, a Democrat, who is currently a senior fellow at the New York University School of Law, recounts his experiences as Inspector General, which spanned the administrations of George W. Bush and Barack Obama. Mad as hell and convinced that we should be "revolted" as well, he demonstrates that the Great Recession was triggered by buccaneers who knew that no matter what risks they took, U.S. taxpayers would foot the bill; that high level government bureaucrats in both parties care more about ego, turf, political capital, covering their assess, and currying favor with influential executives (and, often, former and future colleagues) on Wall Street than serving the public; and that precious little has been done to prevent another financial meltdown.

Barofsky's views are not new, of course. Think Occupy Wall Street. Bailout is an important book, however, because Barofsky is a credible witness and whistle-blower, who supports his analysis with concrete details about TARP policies and their implementation.

By attaching no strings as they distributed TARP funds, Barofsky points out, legislators and Treasury officials virtually guaranteed that banks would use the money as a windfall to pay down debt, acquire other businesses, and accumulate reserve capital in case the economy got worse -- instead of changing business models and easing up on credit.

The bailout of AIG, Barofsky reveals, was more of a bailout of banks than of the insurance giant itself. Thanks to Treasury Secretary Timothy Geithner and the Fed, the banks that did business with AIG received one hundred cents on the dollar for $62 billion of Collateralized Debt Obligations. And AIG used $168 million dollars supplied by taxpayers to pay bonuses to executives (many of them in the unit responsible for the policies that had brought down the company). "Fetishizing the lords of high finance," TARP czar Neel Kashkari (a former Goldman Sachs vice president) deemed the payments necessary to ensure that "uniquely qualified" professionals performed the highly technical tasks of unwinding their own deals.

According to Barofsky, President Obama's Home Affordable Modification Plan (HAMP) was not designed primarily to assist the 2.3 million Americans who in 2008 had received foreclosure filings and the 900,000 whose properties had been repossessed. Not only did government officials fail to hold the largest mortgage providers accountable for incompetence and abuse related to sub-prime and sub-sub-prime loans, Barofsky indicates, they allowed them, in essence, to run the program. And, since Treasury's primary goal appears to have been to "foam the runway" for banks, stretching out foreclosures so they could absorb the losses, officials in the Department did not seem to care all that much that by the end of 2011 only $3 billion of the $50 billion allocated to HAMP had been spent.

Barofsky is self-righteous. His tone was -- and is -- often a problem. And, as he admits, he "sucked at office politics." But we need more public-spirited bureaucrats like him, especially those who are sufficiently smart and sensitive to recognize...
that when they explode in anger because Darryl Issa, the chair of the House Oversight Committee, decrees that an
acting assistant secretary outranks them (and, according to protocol, must testify first), they are turning into everything
they hate about Washington, D.C. -- and should resign.

Barofsky's experiences should serve a cautionary tale -- and a wake-up call. Power can -- and does -- corrupt. Our
revolving door, campaign contribution driven political system has lost touch with the "ordinary" citizens it is supposed to
serve. Given the repeal of the Glass-Steagall Law (which separated deposit from investment banking and prevented
excessive speculation on credit) and the manifest inadequacies of Dodd-Frank, moreover, it seems abundantly clear
that our "too big to fail" financial institutions do not now exact consequences for -- and all too often reward- failure."

TARP, Barofsky acknowledges, may have helped stave off a global economic catastrophe. Treasury Secretaries Henry
Paulson and Timothy Geithner may even have been right to "put moral hazard to the side" to rescue the banks.
Nonetheless, "captured politicians and regulators" need not have promulgated such grotesquely one-sided -- and unjust
-- policies.

We must act, urgently, to put protections in place. It is not hyperbole, it seems to me, for Barofsky to warn that "we are
still driving on the same winding mountain road but this time in a faster car, with faulty breaks."

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