WebMemo
Published by The Heritage Foundation
No. 2618
September 16, 2009

Rein in Spending by Stopping the Stimulus and Ending the TARP

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As the fall of 2009 approaches, three facts have become abundantly clear: First, President Obama's economic stimulus bill has failed to halt the steady loss of jobs or pull the economy out of recession. Second, the federal budget deficit for 2009 will be a modern record by any measure. And third, the Troubled Asset Relief Program (TARP), originally intended to purchase "toxic assets" and calm troubled credit markets, has veered wildly off course and become an unrestrained government slush fund. When even the President himself admits that federal deficits are unsustainable, it is time to change course by reining in stimulus and TARP spending.

More than 200 days ago, Congress passed the immense $787 billion economic stimulus legislation, promising to "save or create at least 3.5 million jobs."[1] This was an expensive, empty promise. At 9.7 percent, the unemployment rate stands at a 26-year high, and 2.4 millions jobs have been lost since President Obama signed the stimulus into law.[2]

The Numbers in Context. According to the President's own optimistic budget projections, the deficit will top $1 trillion through 2011, averaging almost 10 percent of gross domestic product (GDP). In comparison, throughout the post–World War II era (1946–2008), federal deficits averaged 1.7 percent of GDP, and during the Bush Administration (2001–2008) deficits averaged just 2 percent of GDP.[3]

As the White House Mid-Session Review states, "64 percent of the current deficit is directly attributable to rescue and recovery efforts and other countercyclical programs that were essential in preventing a deeper and more costly recession."[4]

Shut Down the TARP. The TARP program was signed into law by former President Bush at the height of the 2008 financial crisis. It was designed to provide the Administration the financial heft necessary to supplement the efforts of the Federal Reserve and various financial regulators worldwide as they sought to stabilize financial markets.

At the time, many believed that financial institutions needed government help in clearing "toxic assets," mainly mortgage-backed securities, from their books. In the intervening months and for whatever reasons, financial markets have achieved a remarkable degree of stability. Though far from healthy, credit markets are healing steadily. The need for TARP as a market stabilization tool has passed.

While the legislation specifically restricted TARP assistance to financial institutions, the Treasury Department rapidly identified a variety of loopholes to dispense the money as it saw fit. Some funds were used to recapitalize banks, and while some of that money is being repaid, a great deal is still outstanding. The real abuse, however, was that the Bush and

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2618.cfm

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

The Heritage Foundation
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Obama Administrations used $66.8 billion in TARP funds to help grease the bankruptcy filing of General Motors, with another $14.3 billion to bailout Chrysler. According to a Congressional Oversight Panel report issued September 9, taxpayers are unlikely to recover their money from these investments.[5]

The REBOUND Correction. The stimulus legislation has clearly failed to create the jobs promised or to pull the economy out of recession as it piles on unsustainable deficits. Meanwhile, the potential for TARP abuse is high. It is time for a real change in direction.

Congressmen Tom Price (R–GA), Jim Jordan (R–OH), and Scott Garrett (R–NJ) are trying to effect real change. They introduced legislation to repeal the stimulus and recover TARP money. The bill, "Reducing Barack Obama's Unsustainable Deficit ('Rebound') Act" is unfortunately named, since President Bush, Congress, and the current recession all played a role in creating the current deficit. Even so, the Rebound Act contains some good ideas, including:

- **Repealing the stimulus.** The economy is in recession, but the stimulus is hurting rather than helping. The bill would repeal unobligated appropriations under the stimulus bill while maintaining the tax relief and unemployment benefits. Such measures would significantly reduce deficits in the near term and signal to investors that the United States may be serious about fiscal responsibility.
- **Stopping TARP from becoming a government slush fund.** The financial crisis is fading, and the need for TARP has passed. The remaining danger is that TARP funds could continue to be used for unintended political purposes and further increase the budget deficit. The Rebound Act would put an end to TARP and force all repayments to be used for debt reduction. In June 2009, the Congressional Budget Office reported that "$142 billion [had] yet to be allocated to any existing or pending activity announced by the Treasury."[6] By recovering the funds yet to be spent and redirecting repayments toward debt reduction, the American taxpayers could potentially save billions of dollars.

Time to Regain Control. The federal budget deficit is already unsustainable and threatens to balloon further as Congress considers a multitude of new spending initiatives from health care reform to highway spending. This must stop. Congress should find the will to restrain the growth in spending, and the ideas contained in the Rebound Act would be an excellent place to start. These ideas represent an acknowledgment of past mistakes and a serious first step toward fiscal responsibility.

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1. Remarks by the President and Vice President to the National Governors Association, February 23, 2009, at *http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-and-Vice-President-to-the-National-Governors-Association/* (September 8, 2009).
2. U.S. Department of Labor, Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment Statistics Survey (National)," August 2009, at *http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?request_action=wh&graph_name=CE_cesbref1* (September 8, 2009).
3. Office of Management and Budget, "Budget of the United States Government, FY 2010, Historical Tables," table 1.2, at *http://www.whitehouse.gov/omb/budget/Historicals/* (September 8, 2009).
4. Office of Management and Budget, "Mid-Session Review: Budget of the U.S. Government: 2010," August 25, 2009, at *http://www.whitehouse.gov/omb/assets/fy2010_msr/10msr.pdf* (September 16, 2009).
5. See Congressional Oversight Panel, "The Use of TARP Funds in the Support and Reorganization of the Domestic Automobile Industry," September 9, 2009, at *http://cop.senate.gov/documents/cop-090909-report.pdf* (September 16, 2009).
6. Congressional Budget Office, "The Troubled Asset Relief Program: Report on Transactions through June 17, 2009," June 2009, at *http://www.cbo.gov/ftpdocs/100xx/doc10056/06-29-TARP.pdf* (September 9, 2009).