

# Some bailout critics proposing other ways to go

By TOM RAUM – Sep 26, 2008

WASHINGTON (AP) — President Bush, Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke are all warning of dire consequences to the economy if the proposed administration financial bailout isn't approved. But what if they're wrong? What if the largest government rescue in history doesn't work? And is it really the best way to go?

Administration officials and lawmakers resumed an attempt to find common ground on the shape of the rescue package on Friday, a day after an earlier proposed agreement collapsed under strong opposition from rank-and-file House Republicans.

But serious questions remained, even among some of the emergency plan's supporters, over the sheer size of the measure and the perception by many voters — less than six weeks before national elections — that it would mainly benefit those responsible for creating the crisis, and at taxpayers' expense.

"The people who have to clean up all the broken furniture — they didn't get invited to the party," said Rep. Lloyd Doggett, D-Texas.

Some conservative lawmakers want less federal intervention in financial markets, not more.

The plan championed by Paulson would give the government the authority to buy up to \$700 billion in bad home loans and other mortgage-related assets. The administration says this is needed to allow banks and other financial institutions to free their books of these toxic assets so they can resume making loans.

The alternative, Bush has warned, is bank failures, further losses in home values and millions of lost jobs.

Among the criticisms is that the government could end up overpaying, since the distressed assets it would be buying are presently illiquid and their value can't be determined.

House Republicans have demanded serious consideration for a plan of their own that involves less government intrusion and a lower cost to the taxpayers than the \$700 billion Paulson has been seeking.

Conservative lawmakers have proposed a package of tax breaks and a new government-sponsored insurance program for mortgage-related securities.

"In order to get this insurance, the banks with these failed assets would have to pay for the government backing, pay for the insurance," said Rep. Eric Cantor, R-Va., a sponsor. He said the

plan would remove the burden of the bailout from taxpayers and place it, over time, on Wall Street instead.

House Financial Services Committee Chairman Barney Frank, D-Mass., said late Friday that, "nobody has proposed an alternative that would work." However, he said he hoped a compromise could be reached by Sunday that would include some aspects of other proposals.

Administration officials say the \$700 billion is a maximum figure, and that the plan could cost far less, or even theoretically end up making money for the government once housing prices stabilize and it is able to resell the mortgages and securities. But don't bet on it.

It's true that the government has ended up breaking even or making slight gains on some previous bailouts. For instance, the \$1.2 billion in subsidized loans to automaker Chrysler Corp. in 1979 were all repaid.

But resolving the savings and loan crisis in the late 1980s and early 1990s took six years and \$125 billion in taxpayer money — about \$200 billion in today's dollars.

Some critics complain that the bailout by itself doesn't get to the core of the present problem, falling home prices.

Robert Shapiro, a former economic adviser to President Clinton, said that rather than giving a blank check to those in the administration who failed to head off the crisis, the government should help people facing foreclosure.

The administration's plan "is simply a direct subsidy from taxpayers to shareholders" of rescued financial institutions, said Shapiro, who is chairman of the globalization program at NDN, a Washington think tank formerly known as the New Democrat Network. "I don't think politically you can sustain large transfers from taxpayers to shareholders. And if you can't sustain them, then the program doesn't work."

Another criticism of the plan is that it would give vast authority to the Treasury secretary with little independent oversight.

The original administration draft, for instance, asserted that decisions by the secretary "may not be reviewed by any court of law or any administrative agency." That part was watered down in the proposal hammered out in negotiations earlier this week. But skeptical lawmakers still bristle at giving so much authority to a non-elected official.

Bruce Bartlett, an economist who was an adviser to Ronald Reagan and a Treasury official during the elder George Bush's presidency, proposed last March that the government cancel its plans to send out rebate checks and to use the money instead to set up a "mortgage superfund" to help the housing sector and homeowners facing foreclosure.

"There's any number of alternatives that might be better" than the bailout plan being pushed by Bush, Bartlett said Friday. "The problem is, there's no time. In all seriousness, we're looking at

1929. We really are. And 700 billion dollars to prevent another Great Depression would be cheap at many times the price."

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