Curb and Phase Out Taxpayer-Funded Corporate Bailouts

Many Republicans and Democrats voted against the $700 billion Troubled Asset Relief Program (TARP), rejecting it as corporate welfare for reckless Wall Street firms. Little has been done to assuage these concerns, as the thrust of the program suddenly shifted from buying "toxic" mortgage securities no one would touch to buying ownership stakes in order to provide a "capital cushion" to relatively healthy financial institutions—and even to propping up automakers.

Even in Washington, $700 billion is a lot of "real" money, and as long as that money is tied up in the TARP, it cannot be used for anything else. Whatever their fiscal policy preferences, lawmakers must ensure strict time limits and eliminate this program as quickly as possible.

Lawmakers and the public have expressed legitimate concerns about banks' use of these taxpayer dollars, but government should not jawbone banks into rapidly making loans or pile ever more compensation limits on them. Such meddling would conflict with the firms' fiduciary duties to other shareholders, and would jeopardize the government's ability to recoup the money it has invested.

Congress should:

Set firm time limits for the TARP and other bailouts and require the government's shares in companies to be sold as of a date certain. The U.S. government should not own banks or other firms, as permanent nationalization has not worked too well in places like Cuba or Venezuela in promoting stable and sustained economic growth.

Make the bailout deliberations transparent. Insist on open meetings whenever possible, quick compliance with the Freedom of Information Act, and judicial review of the Federal Reserve Bank and Treasury Department's actions.

Respect property rights and private contracts. The government is one of many owners in the financial institutions participating in the TARP. It should not interfere with any firm's fiduciary duty to shareholders to deliver profits by pushing it to achieve some politically determined social goal. Similarly, in trying to help families with foreclosures, the government should not require or encourage the abrogation of contracts to investors in mortgages. Many of these investors are also middle-class families, holding mortgage-backed securities in their 401(k) accounts and mutual funds.

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