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Opening Statement of Sen. Chuck Grassley
Finance Committee Hearing, "The President's Proposed Fee on Financial Institutions Regarding TARP: Part 3"
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I want to make crystal clear that taxpayers should be paid back every penny of TARP losses. The statute that created TARP said that the President is supposed to propose a plan in 2013 to repay taxpayers for any losses from TARP. However, earlier this year, three years before he was supposed to under the statute, the President proposed what he called a Financial Crisis Responsibility Fee.

Obviously, in 2013 we will have a much better estimate of projected TARP losses than we have now in 2010. The President said that one of the purposes of the TARP tax is to repay taxpayers for any losses from TARP. I want to make sure this actually happens, and that it's not just empty rhetoric. Any losses that result from TARP will increase the deficit, which has ballooned under President Obama. Therefore, to pay back taxpayers for any TARP losses, any money raised from the TARP tax would have to be used to pay down the deficit. If a TARP tax is imposed and the money is simply spent, that doesn't repay taxpayers one cent for any TARP losses. It's like getting a raise and saying you're going to pay down your credit card with the extra money, but then choosing to spend the money instead of paying down the credit card.

It shouldn't be any surprise to learn that your credit card balance didn't go down. Saying you're going to pay down your credit card -- in this case, the deficit -- doesn't do any good. You have to actually do it. I've heard that some of my friends on the other side of the aisle are already looking to use the money raised from a TARP tax to spend it under their arbitrary pay-go rules.

When I tried to get a commitment from Secretary Geithner on this point, he wouldn't give me one. That's disappointing. However, I was encouraged that it sounds like the Chairman of the Ways and Means Committee and I see the TARP tax the same way. Martin Vaughan wrote a May 5 Dow Jones Newswires column titled, "House Panel Chairman: Bank Tax Plan Not Ready For Prime Time." The column states, "Levin signaled he doesn't favor pairing the bank tax with legislation already pending in Congress, such as the financial overhaul bill or a separate bill to extend expired tax breaks. First, he said, the tax should be used for deficit reduction and not to pay for new spending. 'At this point, I don't think the bank tax is ready to be a pay-for,' Levin said."

In looking at the President's TARP tax proposal, which I understand the President has already felt the need to change, it's interesting that GM and Chrysler, which are responsible for about 30 billion of projected losses in TARP, are not subject to the President's proposed tax. Secretary Geithner said that GM and Chrysler were simply victims of the financial crisis, and therefore shouldn't be subject to the President's tax. However, Ford didn't take any TARP money and survived just fine. In addition, with GM and Chrysler responsible for such large amounts of TARP losses, it seems only fair that they should be subject to the TARP tax to pay back some of those losses. GM and Chrysler were both invited by Chairman Baucus and me to testify at this hearing and make their case regarding why they shouldn't be subject to the tax, and both declined. Their silence is deafening.

Also, Fannie and Freddie are not subject to the tax. We'll explore whether that makes sense at today's hearing. And hedge funds are not subject to the President's proposed tax. Meanwhile, companies that did not take any TARP money are subject to the proposed tax.

The President's proposed tax is so lacking in details that members of Congress that are being asked to support it are having a very difficult time figuring out how it would apply and who is subject to the tax. When I asked CBO to tell me who would bear the burden of the TARP tax, they said that one of the groups that would bear the burden of the tax would be consumers. CBO stated in their letter to me that the President's tax will reduce small business lending. Under the new version of the tax proposed by the President, small business loans would be considered the riskiest assets held by the banks, and therefore subject to the highest taxes. Considering the 9.9 percent unemployment rate, the trouble small businesses are having getting credit, and the proposed tax hikes on small business, I am very concerned with that aspect of the proposal.

One of the purposes for the tax stated by the President is to reduce risky behavior by financial institutions. However, CBO stated in their letter to me that the TARP tax, quote, "would not have a significant impact on the stability of financial institutions or significantly alter the risk that government outlays will be needed to cover future losses." That's not just me saying it, that's the nonpartisan CBO saying it. If the United States imposes a TARP tax and other countries don't, it will make our financial institutions less competitive than their foreign competitors. Of the G-20 countries, Australia, Canada, Japan, Russia, and Brazil are opposed to a bank tax, and South Africa doesn't want its banks taxed. I look forward to hearing the testimony from the witnesses today.