Ethics and federal bailouts

Ethics and Federal Bailouts Historical Overview According to Phillips (2008) bailouts of financial s s back to 1907when the Treasury injected millions of dollars in the banking system. The Federal Reserve System was created out of this crisis as a lender of last resort for the country's financial system. In 1933 during the great depression the government intervened by buying defaulted mortgages from banks through the creation of the Home Owners' Loan Corporation. This helped the financial institutions to recover their money quickly and also prevented homeowners from losing their homes. In Savings and Loan (S&L) financial crisis which lasted from 1989 to 1995 resulted in the closure of approximately 50% of the 3, 234 S&L institutions (Phillips 2008). The government intervened in order to make good to investors through the creation by Congress of the Resolution Trust Corp (RTC). At the end of the day estimates revealed that it cost the government approximately $124 billion. The greatest bailout in the history of the federal government is the recue of the financial institutions in 2008 which cots $700 billion (Investopedia 2009). This is officially called the Emergency Economic Stabilization Act of 2008. In describing 2008 as a banner year for bailouts by the government Credit Loan (n. d.) indicates that the government provided funds totaling $29 billion to Bear Stearns and $150 billion to AIG and has promised $100 billion to Fannie Mae and Freddie Mac (two mortgage finance giants), in order to save the financial sector Investopedia 2009). Ethical Implications Relating to Misuse of Funds It has been reported in the media that these funds have been misused by politicians who give their close associates preferential treatment. According to The Blaze (2011) accusations have been made against Rep. Maxine Walters, a Democrat who has was set to face the ethics trial for funneling some $12 million of Troubled Asset Relief

Program (TARP) funds to a financial institution in which her husband has a significant interest. Rep Maxine Walters has been accused of improperly using her position for personal gain. According to Chad (2010) when the House Ethics Committee called a meeting, only one bank was represented - One United, a bank in which Walter’s husband (Sydney Williams) was a member of the board of directors from 2004 to 2008 and also held shares in the bank. One United received $12 million of the $50 million requested. According to Chad (2010), the ethics panel indicated that the stocks her husband owned would have become worthless and Walter’s indicated that the stocks were worth $350, 000 at the time Painter (2009) indicates that accusations have been made that Goldman Sachs had been given an unfair advantage in Washington. Connections between Goldman Sachs and Paulson (Teasury Secretary 2006 to 2009), a former employee as well as top officials in the Treasury Department who were recruited directly from Goldman Sachs is also a matter of concern (Painter 2009). However, Painter (2009) cites other instances dating back to as far as 1907 where other banks benefited from close connections with the federal government. The case of JP Morgan and Co. was emphasized because JP Morgan had an interest in the final outcome. Painter (2009) also points out that some of these interventions appear arbitrary as Bear Stearns and AIG were bailed out while Lehman Brothers a rival of Goldman Sachs was allowed to fail. Examination of Ethical Issues From a federal government perspectives the abuse of funds has been ongoing based on the close connection of treasury officials with banks where they previously worked. Most of these officials would have sold stocks which they held in these companies. However, there is no doubt that they continue to show allegiance to these institutions and would sill have close associates working with these firms. It has been suggested that campaign funding could also play a role in these bailouts (Painter 2009). In the case of private business sector, they are not open to scrutiny by the public and so care should be taken in how public funds are distributed to them. They should be open to scrutiny to the public and should be asked to pay back these funds before paying out bonuses. The general public needs to be involved in determining which institutions are bailed out. It cannot be that the federal government be allowed to spend bailout funds, possibly based on which institutions facilitated their campaigns. This is likely to happen and governments have been accused of this over the years (Painter 2009). Socially Responsible Plan for the Future Companies should be made aware that if they get into problems in the future due to improper management of funds, the veil of incorporation will be removed and they will be asked to repay investors funds. A committee needs to be set up to review how bailout monies are distributed and to assess the reasons for making these distributions. This is necessary in order to prevent discrimination. The public should be given a say in how this committee is selected and the term allowed for any member should not be more than 2 years. Additionally, the selection of employees to the Treasury Department should not be allowed to be influenced by the Treasury Secretary or anyone in that department. It should be done by an independent body that is external to the department. In this way there will be less influence on which financial institutions are bailed out and which are not. References Chad, P (2010). Facing Ethics Charges, Rep. Waters Points Finger at Bush Administration. Retrieved: http://www. foxnews. com/politics/2010/08/13/rep-waters-violated-house-rules/ Credit Loan. (n. d.) The History of U. S. Government Corporate

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