

## Some Perspective on the "Bailout"

by Christopher Bollinger

People in favor of the bailout have told us how important it is for our economy. Frankly I'm not convinced. I think a little perspective on the size of this bailout is important.

The food stamps program currently costs about \$33 billion per year. The highest (in real terms) cost of the food stamp program was 1993, the second highest was 2006, both were about \$33 billion (my bet is we will see this broken next year). The bailout is (conservatively) \$700 billion. That means the bailout is equivalent to 20 years of the MAXIMUM historic cost of the food stamp program.

It's harder to get long series on the AFDC/TANF programs because they have changed. The AFDC program appears to have peaked around 1994, with a \$16.7 billion expenditure. Federal expenditure under TANF has been capped at \$16.5 billion per year (admittedly many states augment this). Thus the bailout could fund PEAK AFDC/TANF expenditures for over 40 years. Or, we could fund the federal part of both the Food Stamps and TANF programs for 14 years. Or perhaps more relevantly, we could fund these programs at 3 times their current size for 4 years.

The best estimates I could find claim that we have spent about \$590 Billion (nominal) on the Iraq war. That's an expenditure over 5 years (spring 2003 through today).

I found these data on the [NY Federal Reserve Bank Web site](#). This provides subprime and Alt-A loan characteristics as of August 2008. There are currently about 2.9 million subprime loans with an average balance of \$184,000 and 2.2 million Alt-A loans with an average balance of \$322,00. That's \$533 billion dollars of sub-prime loans and about \$725 billion. The \$700 bailout is enough to buy up either all Alt-A or Sub-prime loans. In general it's enough to buy up a little more than half of all Alt-A and Sub-prime loans. I was (I will admit) a little surprised at the size of the Alt-A market. These are loans that are larger, and there seems to be a fair number of them. The data show that about 10% of sub-prime loans are currently in foreclosure, with another 10% at 90 days past due. The Alt-A type loans have about 5.6% in foreclosure with about 4% at 90 days past due. That means that about \$53 billion worth of sub-prime loans are in foreclosure with another \$53 billion following closely behind. Similarly about \$40 billion of Alt-A are in foreclosure with another \$32 billion close. Totally, this would imply roughly \$93 billion in foreclosure with roughly another \$100 billion around the corner. (This assumes the size of the loan is independent of the foreclosure rate).

We can also note that 57.3% of all sub-prime and 80% of all Alt-A loans are "current" (e.g. are not behind at all in their payments). So I would argue that not more than about \$226 billion in sub-prime and \$145 billion in Alt-A loans are even close to failing. A total of \$371 billion dollars.

A bailout of \$700 billion seems like way too much. And, I'd really like to know where the money is going.

