"Bad Bank", Bad News

Another miserable failure in the making

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Treasury Secretary Henry Paulson blew it, Ben Bernancke blew it and now it looks like Lawrence Summers and David Axelrod, Obama's top economic advisers, are about to blow it big time. The horse is long since dead but the flogging continues.

"The focus isn't going to be on the needs of banks; it's going to be on the needs of the economy for credit," Lawrence Summers on Face the nation, 19th January. In the same segment, both he and David Axelrod agree that Paulson's use of the first $350 Billion of the TARP money was a failure..

"The point is to get credit flowing again to businesses and families across the country — that hasn't happened with the expenditure of the first $350 billion"

The proposal ? Set up an "aggregator" or " Bad" bank in to which Wall St. can pour it's toxic waste or keep it on their balance sheets while being guaranteed by the taxpayer. Looks like the focus is going to be on the banks after all. The fact that the banks would be unloading more than a trillion dollars in worthless junk, paid for by the taxpayer, does not seem to Summers and Axelrod as a particularly bad idea.

The emphasis on getting credit flowing again for car loans, consumer credit and mortgages ony serves to aggravate the basic problem that these pundits seem to be ignoring; Consumers are flat broke and overindebted as it is, they don't need more credit; they need more jobs. The Banks don't need any more free money; they need to be put in to bankruptcy to purge the system of the junk on which they have based their business model. The reason the banks refuse to lend is that they are holding on to the money to cover their accelerating losses. As each company fails, as each debtor loses their job the dominos are falling faster and are obliterating the banking sector.

When the original disastrous TARP was pushed by the Treasury the indispensable actions that were not taken were regulation, revelation of the Banks' balance sheets and oversight as to how the money was being used. Any rational investor would want to know what they were investing in but this minimum requirement was brushed aside in the rush to hand over taxpayer funds. As if this were not enough to start alarm bells ringing the refusal of the Fed and the financial sector recipients to open the books to public scrutiny puts the bailout on the same stage as Bernie Madoff. The latter engaged in fraud to rob his investors just as blatantly as the fraudelent bailout robbed the taxpayers. Now we are expected to believe that, without further ado, repeating the same failed policies is needed to cure the economic woes of the country.

Let's examine the results of similiar policies in Europe.

The U.K, Ireland, France and Germany are among the other victims of the same mistakes. Ireland and the U.K., after pumping billions in to the banking sector, have only succeeded in pushing themselves to the verge of bankruptcy and reduced the available capital to do anything actually constructive. Nicolas Sarkozy succeeded in getting Societe Generale to break even by injecting taxpayer cash . What kind of logic is it that says that this is a good thing ? Any unprofitable company can break even if it receives taxpayer money to blot out the red ink. The fact remains; it is an unprofitable enterprise and, by any interpretation of market rules, *should* fail to free up more profitable ones.

The formation of the "Bad Bank" will prove to be another miserable failure. The time to call a halt to the madness is long since past and more rational policies need to be coming from Washington before the country goes bankrupt.

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