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Kiss the Banks Goodbye

It's Time to Put a Stop to This Farce!

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The futility and stupidity of the Fed's and the Obama administration's policy of pumping ever more money into failing banks and insurance companies in a vain effort to get them lending again was demonstrated—if anyone was paying attention—by the collapse in auto sales this past month, with all the leading companies, Ford, GM and Toyota, reporting sales down by about 40%.

This fall off in car buying was despite record discounting by the auto industry, and offers of 0% financing.

Clearly, obtaining financing is not the reason people are not buying cars.

People are not buying cars because they are worried about having a job to enable them to pay back the loan.

It's the same reason people aren't buying houses. It's not that you cannot get a mortgage. There are plenty of smaller banks that would be happy to lend money to buy a house these days. But who's going to go out and buy a house in this economy? First of all, to buy a house, unless you are a first-time buyer, you have to sell your current house, but that would mean taking a huge loss. Indeed, one in five homes in America today is technically "underwater"—that is, it is worth less than the outstanding mortgage on the property. Probably another one in five are worth little more than the outstanding mortgage. No one would sell a house under either such circumstance.

The point here is that if people aren't willing to spend money, then what good is it to give more money to banks and their shareholders, in hopes that they will start lending it? The lending business has two sides—those offering to make a loan, and those wanting to borrow. If there's no borrower, no amount of money available for lending is going to change the fact that there will be no loans written.

Commercial lending is not that different in this regard. Companies generally borrow money to expand. You don't need to borrow money when your business is shrinking, unless it is to try and stave off collapse. What a company does when its markets contract and its sales and earnings fall is it cuts back on production and lays off workers. It doesn't need to borrow money to do this. Of course, if sales collapse too fast, the company could be caught owing back wages to workers. That's true. And in that case, a company might want to borrow in order to meet its obligations, but that's hardly the kind of loan a bank would want to make—to a dying enterprise unable to meet payroll.

Business borrows when it is expanding, because that's a great investment. If you know that you can earn a 15% return on your investment in a period of economic growth, and you can borrow money for expanded production at 4%, that's a great deal. It's also a great deal for the bank, since lending to a company that is expanding is a pretty low-risk proposition. The central government wouldn't have to press banks to lend to such companies. The banks would do it on their own.

So, with the economy still in free fall, with companies laying off American workers at a rate of over 20,000 per day, with real unemployment soaring past 18 percent—one in six American workers are now either out of work and looking for a job, out of work and giving up looking, or involuntarily working part-time—and with family wealth more than 50% eroded away, there is simply no way that Americans are going to turn around and start borrowing and spending again. And given that the American economy is 72% composed of consumer spending, there is no way that the economy is bouncing back anytime soon.

That means that the hundreds of billions of dollars that are being poured into the likes of Citibank and AIG are being completely wasted. It is simply a pointless and scandalous transfer or wealth from the American public to the shareholders of these companies—the very companies and people who caused this catastrophe in the first place.

If you wanted evidence of this futility, just check out the current market capitalization (the current value of all shares of a company) of Citigroup and AIG. Citigroup, despite having received $75 billion in taxpayer bailout money, is now worth $5.4 billion–which is less than Autozone, a chain of car parts stores, and less than H&R Block, the franchise chain of tax preparers. As for AIG, which has received an astonishing $180 billion in taxpayer bailout funds, its total market value today is less than $1 billion! All that bailout money has been lost into thin air, and the government today could buy both companies outright for about what it's blowing every month in Iraq.

It's time to put a stop to this farce.

Restoring the American economy is not going to be a matter of simply jump-starting consumer spending, or even business investment. It's going to take a long, hard, focused effort to move away from a parasitic consumer economy in which profits are largely made through speculation, and towards a real economy that actually makes things that people both here and around the world need.

The sooner this truth is recognized, the more resources the government will still have left to put into the kind of investments that can help make that happen—things like job creation, income supports, home refinancings and medical system reform that could help Americans get back on their feet. Of course, it would also be necessary to end the wars overseas and to dramatically slash military spending.

When former companies like Citicorp and AIG are history, and when former Lehman Brothers, Citibank and AIG managers, as well as most of the Pentagon Brass, are out working at civilian conservation corps camps helping to restore watersheds or replant forests, we will know that the government has finally "gotten" it.

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