

Saving The Economy - We Need Much Better Focus

After reviewing the latest developments for both the banking system's bailout and the stimulus package currently being shuffled through Congress, one thing stands out:

The US government, including the new Obama administration as well as both houses of Congress are floundering all over the place.

Instead of applying bailout approaches that have actually worked in the past, namely the creation of the Resolution Trust Corporation (RTC) to salvage the US savings and loan failures in the 1980's and the Swedish response to its banking collapse in the 1990's, everyone seems to be reinventing the wheel.

What's the deal? My opinion is that officials are inadvertently making this more complicated than it actually is. No, I'm not saying that it's not a big mess and that there are lots of tough things to figure out and do. But the crux of the problem is simple.

Here's the deal: Trust between creditors, debtors and investors must be restored as quickly as possible.

Once trust is restored, credit will flow. And credit is the lifeblood of any economy.

The first thing to do is to create an "uber-bank" to own and manage the bad debt. That is exactly what the RTC did.

The second thing to do is to get independent third-parties to assess the bad debt and reveal the value for all to see.

The third thing is to transfer the banks' bad debt to the uber-bank.

The uber-bank will manage the real and perceived bad stinky debt - and get the best people in the world to do this. Over time, and it will take several years, some of the debt will actually be worth more than the government paid for it (to transfer it from the banks), some will break even, and some will turn out to be worthless. This approach makes the most sense because we taxpayers will get some money back into the national coffers this way.

The fourth thing to do is to have the government force the banks to begin lending again...this time with the common sense and risk management they should have applied all along.

I encourage you to write to the Obama administration, write to your senators and congressman/woman. Voice your opinion about how your taxes, aka YOUR MONEY, should be spent wisely to save us all.

Anders Aslund wrote an excellent article about how the Swedes got themselves out of their big mess and offers this advice for ours. He and I agree wholeheartedly on the best approach. Click the link below to read more:

<http://www.washingtonpost.com/wp-dyn/content/article/2009/02/05/AR2009020502785.html>

Take a deep breath. I hope you are comforted by the fact that economies and governments have failed and do come back from being wounded or nearly dead. This time, we must be focused, fast, and step up to the challenge instead of getting distracted all over the place or sitting on our butts and expecting "someone else" to rescue us.