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## Experts: Few options left to deal with financial crisis

### Local economists differ on fallout from bailout

BY KENT MALLETT • ADVOCATE REPORTER • SEPTEMBER 21, 2008

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NEWARK -- The federal government's intervention into the country's widening financial crisis will trigger skyrocketing inflation or save financial institutions and investment banks, depending on who you ask.



The Federal Reserve prevented American International Group Inc., one of the world's largest insurers, from going under with an \$85 billion bailout and takeover

The Bush administration laid out a radical bailout plan Friday with a jaw-dropping price tag -- a takeover of a half-trillion dollars or more in worthless mortgages and other bad debt held by tottering institutions.

"It was something that was inevitable," said Fadhel Kaboub, an assistant professor of economics at Denison University. "The government and Fed didn't have any choice.

If the government had done nothing, every financial institution would have been in jeopardy, Kaboub said.

"It got to the point banks were not lending to each other," Kaboub said. "The Fed will buy assets and write off the books, so banks will start trusting each other again."

Robin Bartlett, also a professor at Denison, said the solution could end up being worse than the problem.

"The free market system is a great system, but it only works under certain circumstances," Bartlett said. "The creation of money is not a free market thing, so we shouldn't treat it as if it's a free market system.

"When government is the monopoly provider of money, then you don't have a free market. We're going to have skyrocketing inflation down the road."

A grim-faced President Bush acknowledged risks to taxpayers in what would be the most sweeping government intervention to rescue failing financial institutions since the Great Depression. But he declared, "The risk of not acting would be far higher."

Bartlett, who describes herself as a free-market person, said the institutions should be allowed to fail, if that's what occurs.

"There's no way the overall market is going to adjust until the excess is wrung out of the market, and it'll be wrung out of the American taxpayer," Bartlett said. "It encourages people who run those institutions to take risks that they shouldn't because government will bail them out."

John Kozak, chief financial officer for Park National Bank, said it was "imperative" the government bail out

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mortgage finance giants Fannie Mae and Freddie Mac, but he was less convinced about the AIG decision.

"Banks operated under the promise that Fannie Mae and Freddie Mac had the implied full faith and credit of the U.S. treasury standing behind them," Kozak said.

"AIG is completely different. They made a hard decision there. I quite frankly didn't understand that and quite surprised they came to that conclusion."

The financial climate has become so desperate, Bartlett said the United States cannot fix it without assistance from other countries.

The administration is asking Congress for far-reaching new powers to take over troubled mortgages from banks and other companies, including buying sour mortgage-backed securities. Administration officials and congressional leaders were working out the details this weekend.

Governmental involvement should have come sooner because many experts saw this crisis coming long ago, Kaboub said. Politicians, however, waited until it became more palatable to the general public.

"These big financial institutions, they know they are too big to fail," Kaboub said. "Smaller banks can go under. Some say this is not fair. I think it is fair. The key is not fairness -- the key is regulation ahead of time. The extent of the damage would be far less."

Kaboub said he hopes history does not repeat itself, with the government easing off regulation as the markets recover, allowing for risky corporate behavior once again.

"The key is not to let regulation go under," Kaboub said. "Are we going to privatize and deregulate them again, creating risky unregulated interest and in 10 years do this all over again?"

*The Associated Press contributed to this report.*

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**inthenow44** wrote:

all I can say is thats what they all get for trying to manipulate the stock market...NO MATTER WHO DID IT!!! there was no regulation worth a darn. I didn't read all the page you offered but where was Greenspan and people like that...? I blame our government BOTH parties ...NOW WHAT! Who will step up to the plate? McCain? Obama? It's said McCain went against friend and foe..what has Obama done? The problem is here, lets fix it!

9/21/2008 2:16:01 PM

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**inthenow44** wrote:

Replying to OatWillie:

*Timeline of banking deregulation in the US...*

<http://www.motherjones.com/news/feature/2008/07/where-credit-is-due-timeline.html>

*Over the years the banking industry has spent millions influencing politicians. The result is multi-millionaire bankers get huge bailouts while regular Americans lose their homes and life savings. Can there be any doubt we have "The best government money can buy"?*

*A trillion dollars here (for an illegal war), a trillion dollars there (to bail out a deregulated and failed financial industry) and pretty soon it starts to add up to real money.*

*Good thing you voted for Bush.*

I'm scared to think what kind of shape we would have been in if Kerry or Gore got in office. Money on the "WAR" had to take place or it would have been spent on rebuilding our country from the bottom up, not just our investments...change is hard but we will live through it! If not allwelllllll

9/21/2008 2:04:00 PM

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**OatWillie** wrote:

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Good thing you voted for Bush.

9/21/2008 11:57:45 AM

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lovin50 wrote:

Something should have been done to regulate the financial institutions and the home builders who created their own lending source only to then sell it to the financial institutions, years ago. Buyers would walk into these home builders to look at a home in the price range they felt comfortable with and the builders would tell these people - "Oh, you can afford way more house than that, we have "this and that" to help you." People would then extend themselves thinking they were alright. Then ...three years down the road "BOOM" reality of what they did hit! They then have an additional problem - their house isn't even worth what they paid for - even after five years of payments - they still owe more than what they owe. Now today...after ten years of paying the house is maybe worth what they owe - they have pretty much paid rent - there is no equity in their home. The builders made millions and left the buyers with a home that isn't worth the materials it was built with.

9/21/2008 9:50:12 AM

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inthenow44 wrote:

history wont repeat it's self if ever one does NOT panick!! Keep it together and let them play their games but demand some regulations. And by the way not even Dems wanted regulations

Kent great job! I agree with you for the most part.

Hate to say it but it's on the record Mc Cain wanted something done 2 years ago! No, I guess I didn't hate to say it after all.

9/21/2008 8:06:23 AM

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