Government bailout, who benefits? assignment

The Government Bailout, Who Benefits? The big three American automobile companies are showing considerable operating loses. GM is losing $1 billion or more a month. How does a capital injection help? The companies will just burn through the cash (using it to pay labor or pay off debts, old and new, until it is gone).

The banks, on the other hand, that are receiving bailout funds have operating profits, they can borrow low and lend high, but suffer from capital requirement Issues, which limits what they can lend. A capital infusion helps meet capital requirements, frees up lending and the banks can make a profit. Auto companies are not similar. Unless the auto companies can build and sell a car or truck at a gross profit (a profit neutral of debt service or taxes) it makes no sense to bail them out. They should be liquidated.

The united States has been debating what to do concerning the foreclosure and banking crisis, with the answer being the consideration of a 700 billion dollar bailout. This bailout would benefit the middle class who have enough money and credit to buy a house, but give little benefit to the rich who may already own several houses, or the lower classes, who are not typically able to afford a house. The current focus seems to be on helping only those middle-class people who made financially foolish decisions.

Our nation's working poor most likely cannot get access to bank loans, and must resolve on check cashing stores that loan money at over 14 percent Interest. These working class and poor most likely do not have enough credit to qualify for a loan, so the bailout to the middle class will give little or no benefit to this specific group. The bailout is for the moderately rich who were careless with the use of their throng credit and ability to borrow cheaply on an almost continuous basis. According to the U. S. Dept of labor, the number of workers In June 2008. Mongo working class, as defined as construction and manufacturing non-farm employment was 21 , 565 thousand workers; retail trade at 15, 324 thousand workers, leisure and hospitality 1 3, 679 thousand workers (United States Bureau of Labor Statistics). Would such a bailout benefit these workers, when this group Includes many who are struggling to simply survive in our society? The U. S. Government may be increasingly controlling of he economy. Rep. Rob Bishop, R-Utah, worries about “ a permanent shift of power and financial responsibility to the federal government. ” The bailout may simply put more power In an ever smaller number of people. Unlike the auto bailout, this bailout doesn’t allow us to keep jobs or generate commerce plus, they were not adversely affected by the economic crisis. After already giving them $25 billion, they are still foreclosing on our homes, charging us loan shark rates on our credit cards, and refusing to loan money to business resulting In more lost Jobs and no commerce whatsoever. The goal of the new bailout is to free up credit in consumer credit markets 1 OFF IS interesting $200 billion, in a Term Asset Backed Securities Loan Facility, and $500 billion to buy Mbps (mortgage backed securities) guaranteed by Fannies Mae and Freddie Mac.

The government is buying asset backed securities generated by the now notorious serialization process or structured finance. Academics and journalists argue that the serialization process so dilutes accountability that no one is responsible for taking excessive risks, meaning the borrower, the originator, the bundler, the rating company, the underwriter. So to get people to loan we are going to stimulate the serialization process, reward the serialization process, by buying securities to encourage more borrowers, originators, bundler, and underwriters. The biggest bank involved in the bailout is Citibank.

Citreous Inc. , doing business as Cit, is a major American financial services company based in New York City, NY. Citreous was formed from one of the world's largest mergers in history by combining the banking giant Citron and financial conglomerate Travelers Group on April 7, 1998. Citreous Inc. Has the world's largest financial services network, panning 107 countries with approximately 12, 000 offices worldwide. The company employs approximately 358, 000 staff around the world, and holds over 200 million customer accounts in more than 100 countries.

It is the world's largest bank by revenues as of 2008. It is a primary dealer in US Treasury securities and its stock has been a component of the DOD Jones Industrial Average since March 17, 1997. In October, Treasury bought $25 billion in preferred stock and warrants, at-the- market and equal to 10% of the value of the preferred. In November, the Treasury bought an addition $20 billion in preferred stock and warrants. The second batch of referred stock pays an 8% dividend; the first batch pays 5% for five years and 10% thereafter. The new batch restricts dividends on common to $. 1 a share for 3 years Introit Treasury's consent; the old batch restricted an increase in dividends on common. All the preferred is non-voting. The biggest change comes in the control of executive compensation. The new preferred requires that any compensation plans must be submitted to and approved by the United States Government. The old preferred had open-ended compensation standards and a ban on oversized golden parachutes. Also, a government guarantee on a $306 billion pool of Agitprop's Ortega-backed securities in exchange for another $7 billion in preferred, $3 billion bought by the FIDE.

As of September 2008 the breakdown of the $555 billion running total of Wall Street aid to date went as follows: The Fed backstopped $30 billion of Bear Stearns risk in its sale to JAM Chase in March, is loaning $85 billion to Alga in return for an 80 percent equity stake, opened a $1 50 billion window for banks who could use risky mortgage securities as collateral, and extended the use of its discount Endow to investments banks who aren't supposed to have that privilege, since they're not regulated by the Fed.

The Treasury has pledged to backstop Fannies and Freddie up to $200 billion, created an emergency $40 billion worth of T-bills to be auctioned to spot the Fed some extra cash, and is using a $50 Depression-era emergency fund to support the money market industry (Will the Government Bailout Nor? , Naomi Prints, www. Mother]ones. Com). In November, The federal government dedicated an additional $800 billion to two new loan programs. Bringing its cumulative commitment to financial rescue 50 percent of the nation's estimated gross domestic product.

With the size, complexity and originality of these programs it's impossible to predict how much they Nil affect taxpayers. The money has been committed to a wide array of programs, including loans and loan guarantees, asset purchases, equity investments in financial companies, tax breaks for banks, help for struggling homeowners and a currency stabilization fund. Most of the money, about $5. 5 trillion, comes from the Federal Reserve, which as an independent entity does not need congressional approval to lend money to banks or, in “ unusual and exigent circumstances,” to other financial institutions.

To stimulate lending, the Fed said it will purchase up to $600 billion in mortgage bet issued or backed by Fannies Mae, Freddie Mac and government housing agencies. It also will lend up to $200 billion to holders of securities backed by consumer and small-business loans. All but $20 billion of that $800 billion represents new commitments, a Fed spokeswoman said. About $1. 1 trillion of the $8. 5 trillion is coming from the Treasury Department, including $700 billion approved by Congress in dramatic fashion under the Troubled Asset Relief Program.

The goal of which is to restore liquidity and stability to the financial system of the United States. The rest of he commitments are coming from the Federal Deposit Insurance Corp.. And the Federal Housing Administration. Only about $3. 2 trillion of the $8. 5 trillion has been tapped so far, according to Bloomberg. And, some of it might never be. So, many ask, where is the money going? Most of the money is going into loans or loan guarantees, asset purchases or stock investments on which the government could see some return. If the economy were to miraculously recover, the taxpayer could make money. That’s not my best guess or even a likely scenario,” but it’s not Inconceivable, says Nail Shape, a professor at the University of Chicago Booth School of Business. The risk/reward ratio for taxpayers varies greatly from program to program. For example, the first deal the government made when it bailed out insurance giant Alga had little risk and a lot of potential upside for taxpayers, Shape said. Then it turned out the situation (at GIG) was worse than realized, and the terms Nerve so brutal (to GIG) that we had to renegotiate. Now we have given them a lot more credit on more generous terms. ” Shape says the worst deal for taxpayers could be the Citreous deal. The government agreed to buy an additional $20 billion n preferred stock and absorb up to $249 billion in losses on troubled assets owned by Cit. ” It’s hard to say how much the overall rescue attempt will add to the annual deficit or the national debt because the government accounts for each program differently’ states Shape.

If the Treasury borrows money to finance a program, that money adds to the federal debt and must eventually be paid off, with interest, says Diane Limb Rogers, Chief economist with the Concord Coalition, a nonpartisan group that aims to eliminate federal deficits. A deficit arises when the government’s expenditures exceed its revenues in a reticular year. Some estimate that the federal deficit will exceed $1 trillion this fiscal Hear as a result of the economic slowdown and efforts to revive it. The Feud’s activities to shore up the financial system do not show up directly on the federal budget, the money becomes worth less,” Rogers says.

This usually leads to higher inflation and higher interest rates. The value of the dollar also falls because foreign investors become less willing to invest in the United States. Today, interest rates are relatively low and the dollar has been mostly strengthening this year because U. S. Treasury securities “ are still for the moment a ‘ ere safe thing to be investing in because the financial market is so unstable,” Rogers said. “ Once we stabilize the stock market, people will not be so enamored of clutching onto Treasuries. ” At that point, interest rates and inflation will rise.

Increased borrowing by the Treasury will also put upward pressure on interest rates. Now, however, the Fed is more worried about deflation than inflation and is willing to flood the market with money if necessary to prevent an economic collapse. Federal Reserve Chairman Ben Brenan " has ordered the helicopters to get ready' said Axel Mere, president of Mere Investments. " The helicopters are hovering and the first cash IS making it through the seams. Soon, a door may be opened. " Rogers states her biggest fear is not hyperinflation and the social unrest it could unleash. I'm more worried about a lot of federal dollars being committed and not having much to show for it. My worst fear is we are leaving our children with a huge debt burden and not much left to pay it back. " Key dates in the federal government's campaign to alleviate the economic crisis from the San Francisco Chronicle: March 1 1: The Federal Reserve announces a rescue cage to provide up to $200 billion in loans to banks and investment houses and let them put up risky mortgage-backed securities as collateral. March 16: The Fed provides a $29 billion loan to Comparing Chase & Co. s part of its purchase of Investment bank Bear Stearns. July 30: President Bush signs a housing bill including $300 billion in new loan authority for the government to back cheaper mortgages for troubled homeowners. Septet. 7: The Treasury takes over mortgage giants Fannies Mae and Freddie Mac, putting them into a conservatoire's and pledging up to $200 billion to back their assets. Septet. 6: The Fed injects $85 billion into the failing American International Group, one of the world's largest insurance companies.

All who while they put themselves in the position they are in, need the help. Rhea infrastructure of the United States depends on consumers. And on the flipped, here are some benefits for the American people: Regulation will improve, the housing arrest will be saved, credit will be tougher to get. Improvement in regulation is greatly needed, so that in the future events such as this aren't able to happen. And Nile some may not see credit being tougher to get as a benefit, the simple fact that those who can't afford it won't get it is an important aspect to stabilization.

Though my personal opinion may not mirror the above benefits. Instead of focusing on bailing out failed companies, the plan should center more on homeowners and help them to pay off their debts. By doing this, the bill would help homeowners as well as companies who are in possession of these kinds of troubled sets. Politicians should be less focused on their reelection and more focused on ' Toting for what will be best for their country and the global community.

I also understand that the government needs to pass the bailout plan in order to free up banks and restore some liquidity back to the markets by taking on bad loans. The " hole global financial system depends on banks lending from each other. Right now, banks are unwilling to extend credits to other banks which results in the borrowing of money to get more expensive. If the bailout plan is not passed, more banks could fail and the stock market could plummet and erase retirement accounts. In addition, businesses could find it very difficult to get credit.

They would be forced to close Inch will wipe out millions of Jobs. Some see many similarities between now and the sass's during the great depression. But even though the 89% crash in the stock market was a key factor in causing the Great Depression of 1930, Milton Friedman and Anna Jacobson Schwartz argued in their seminal book A Monetary History of the United States: 1867-1960, published in 1963 ?? the cause was not the stock-market crash but a “ great contraction” of credit due to an epidemic of bank failures. And in my view that is exactly where we are heading.