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AP Business

Thursday April 16, 2009

Economist: Bailouts won't help struggling economy

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Associated Press Writer

CONWAY, Ark. (AP) - The former head of the Federal Reserve Bank of St. Louis said Thursday that more authority for regulators of the financial industry won't ease the recession caused by the collapse of the housing market and losses from subprime mortgages.

William Poole, who served as Fed president at St. Louis from 1998 to 2008, told a group at Hendrix College that tougher regulatory processes for banks were an "absolute dead-end as a fix."

Poole also said that the government needs to let big banks fail, rather than bail them out with taxpayer money.

"We have a terrible, terrible problem now with all the big banks on federal life support," Poole said. "We have a situation that we call 'too big to fail'. It is assumed ... that no big bank would be allowed to fail, and it is a totally unacceptable situation."

The government has given billions of dollars to help out banks hurt by the recession. Wells Fargo has received a \$25 billion government bailout; Bank of America and Citigroup each received \$45 billion. The government also paid more than \$180 billion to insurer American International Group Inc., a move that angered many especially after the company gave out \$165 million in bonuses to employees.

"What is happening is a huge, huge transfer of wealth to these banks and their former executives," Poole said. "People are angry and they deserve to be angry, that there have been very large bonuses and very large salaries paid to these executives. Many of them are now departed, but they have departed with wealth that is far beyond the aspirations of most citizens."

But Poole says the lion's share of the blame still lies with private entities that made risky investments - not the federal government.

Poole stepped down as St. Louis Fed president in 2008 and now works for the Cato Institute and the University of Delaware at Newark. He was replaced by James Bullard, who is in charge of the Fed's St. Louis office and its three branches - in Little Rock, Louisville, Ky. and Memphis, Tenn. The Federal Reserve Bank of St. Louis is one of 12 regional reserve banks, plus the Board of Governors in Washington, that comprise the Federal Reserve System.

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