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The problem's not the banks

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When he met Monday with the CEOs of the nation's largest banks, President Obama's message was simple: *We gave to you, now you give to us.* That assumes that a lack of bank lending is holding back the economy, undermining job creation.

Nothing could be further from the truth. It is the president's own policies that are holding back the economy.

Recessions are first characterized by significant job losses. At some point, these taper off, as the boom's excess corrects. For instance, the almost 2 million construction jobs lost after the housing bubble burst are probably most or all of the job losses we'll see in that sector. With the exception of continued longterm declines in manufacturing, we're likely past the job-loss phase of this recession.

The president is correct in seeing job creation as the central issue. Where he errs is in believing that pushing banks to lend will create sustainable job growth.

With banks' ability to borrow at almost no cost (thanks to extremely loose monetary policy), the profit opportunities in making loans to credit-worthy borrowers are immense. Coupled with the ability to pass much of the credit risk of small business lending on to the taxpayer (via Small Business Admistration loan guarantees), lenders can earn large, almost risk-free, spreads from lending to prime borrowers.

The problem is that, with a weak economy, the number of prime borrowers has dramatically declined.

Plus -- even as credit quality has declined as a result of economic uncertainty -- policies coming out of Washington are making it more costly to expand hiring or start new businesses. Earlier this year, President Obama signed a credit card "reform" bill, claiming that the law would end abusive practices. What it did end was the ability to borrow on an unsecured basis in order to start a new business.

Historically, the two chief sources of capital for new start-ups have been home-equity and credit-card debt. The bursting of the housing bubble killed the first source, while Washington has killed the latter. Starting a new business out of one's garage has always been a risky endeavor -- one that has never usually been funded by bank lending even in the best of times.

Even more damaging to job creation has been Washington's hostile regulatory attitude toward business. Earlier this month -- the same week that Obama announced his main job-creation ideas at the Brookings Institution -- his Labor Department announced 90 new workplace rules that it would implement over the next year. Does the president somehow believe that raising the cost of hiring will result in more hiring? We should be making it cheaper and easier to hire, rather than more expensive and difficult.

But those workplace regulations will be small potatoes compared to the costs that health-care reform would impose on businesses. The active bills promise both higher taxes and increased per-employee costs to provide care; until these costs become clearer, businesses will continue to sit on the sidelines.

This should come as no surprise to the many Clinton administration veterans serving under the current president. Like President Obama, President Bill Clinton inherited a recession -- and began his administration promising broad health-care reform. And job creation didn't begin until it was obvious to employers that Clinton reform was dead.

Ironically, we may very well have to wait until gridlock returns to Washington before job growth returns to Main Street.

In his attempts to salve our sick economy, President Obama is forgetting the first rule of medicine: first, do no harm.

The administration's attacks on contractual rights (as in its rough treatment of senior creditors during the auto bailouts, along with its continued push to impose losses on holders of mortgage assets) has encouraged investors to remain on the sidelines. Its push to impose costly health, labor and environmental regulations on businesses has encouraged employers to sit on the sidelines.

Right now, the best thing Washington can do for our economy is to simply stop what it has been doing.

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