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THE BIG BANG à la Paris

The ghost of the U.S. TARP (Troubled Asset Relief Program)[i] program is hovering over Paris, France. The white sheets may be covering up a much larger program than the U.S. $700 billion program legislated in 2008. The TARP-like designers in Paris want to beat us in size with a truly massive injection of liquidity into European banks and institutions, especially French banks. For some unknown reason, the write down of Greek debt will not be a problem, they think.

This line of reasoning points reminds us of the fall in U.S. stocks during the dark hours of our August debt limit problem and the darkest hours of the Greek problem. Hence, if a solution is found in Europe, the big bang will spread throughout the globe. This reasoning has some validity, but it is not perfect, by any means.

On the other side of this optimism are some important comparisons and differences between TARP à la Washington and TARP à la Europe:

1. The U.S. liquidity injection was handled by a small group of people, such as Treasury Secretary Hank Paulson, Federal Reserve Chairman Ben Bernanke, President George Bush and Congressional leaders. The

European Union has seventeen member states and numerous power brokers.

2. **The U.S. banks were told by Paulson, you have to take these funds period! The U.S. bankers followed his orders. The European banks are showing bargaining power.**

3. **The U.S. banks were not forced to take write downs on their mortgage-backed securities…on the contrary, the government wanted these values to rise and this was done by massive Federal Reserve purchases. In Europe, many financial assets may be reduced in value.**

So we mortals are left with several questions:

1. **Will the European Big Bang get off with a roar?**

2. **How can debts be reduced in value without serious consequences to the creditors?**

3. **Can increased liquidity really solve this problem? Do the Europeans understand the U.S. problem that liquidity inside the banks does not automatically lead to more lending?**

If I had to guess at this point, there will still be problems if the European TARP ghost transforms itself into the real thing. Surely, economic activities will slowdown in Europe. Banks will deleverage. Fewer loans will be made. Businesses and consumers will be reluctant to borrow money. *Remember money in the banking system requires borrowers to jump start a bad situation*. Despite heavy doses of liquidity into the banking system, Europe is expected to follow in U.S. footsteps …that is, a long and agonizing adjustment. Yes, the adjustment would be much faster if free markets were at play, but the Europeans will most likely listen to Washington with its case studies. Eventually, our nagging television producers will have to find something else with which to pester us. U.S. investors now have Republican presidential candidates on television nightly and these anxious voters should see their spirits change from pessimism to guarded optimism, even though our Super Committee matter will most likely force reduced growth rates on our economy. At the end of the day, investors will most likely interpret favorably TARP à la Paris. The objections and questions will be outweighed.

Last night the Dow Jones Industrial Averages closed at 11,541 but by year end, improved attitudes and stock markets should be in our cards.

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[i] The TARP program evolved from the Emergency Economic Stabilization Act of 2008 signed into law on October 3, 2008. The original intent was for the U.S. Treasury to buy mortgage-back securities. Later, the original intent of the program was revised by Treasury Secretary Paulson, who argued that the "facts have changed" and a sizeable amount of money went deployed as equity investments of major banks.