

BORROWING FOR GROWTH

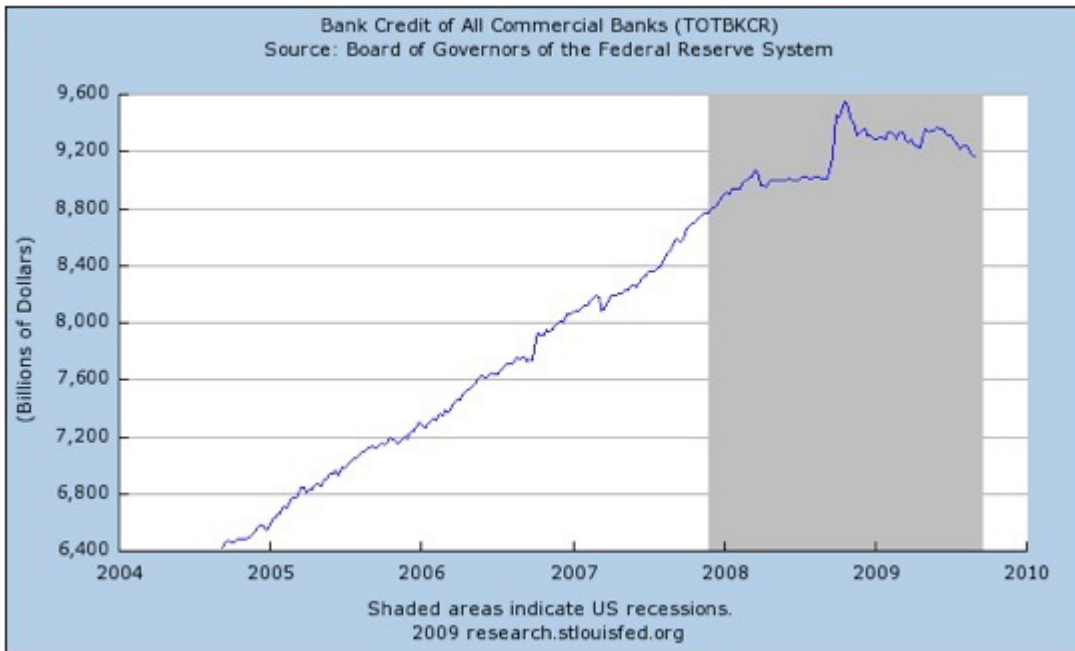
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The second quarter 2009 Federal Reserve Flow of Funds Report was published September 17, 2009. It was quite revealing in that it strongly verified what we already knew - the federal government is taking over the financial industry as well as much of the private sector. Please note the following table.

Borrowing by Sector	
Billions of Dollars: Seasonally Adjusted Annual Rates	
Households	-\$233.2 billion
Business	-\$202.8 billion
State & Local Government	\$187.0 billion
Federal Government	\$1,895.3 billion
Total	\$1,646.3 billion

In all probability the third quarter, when released, will show more of the same. If the federal government was not involved as the borrower of last resort, the second quarter real GDP would probably have been -5.0% rather than -1.0%. All of us, as taxpayers, bought ourselves 4.0% real GDP, which our children and grandchildren will get to pay for somewhere down the line. What is that saying that goes "sins of our fathers"?

Please note the following two charts depicting bank loans. For the first time since the Great Depression we are seeing a significant decline in private sector loans. This means that the money supply is in decline, which cannot be good for future growth. Yes, the government is filling the gap for now, therefore positive GDP numbers are probable in the short term, but it is done on borrowed money. It was borrowed money that got us in this mess in the first place.



Adapted from the St. Louis Fed