

TARP, THE CONSUMER-DRIVEN VERSION?

Larry Summers just wrote a letter to Congress explaining Obama's rationale for asking for the remaining \$350 billion in TARP funds. One of the things he says Obama will do differently is get credit to consumers and businesses more quickly.

We must also do everything in our power to ensure our efforts are more directly reaching Main Street. It is neither right nor sound economic policy to allow the small businesses that are responsible for more than two-thirds of job creation and entrepreneurs who have worked hard and played by the rules to be victims of the credit crisis that they were not responsible for creating. We will work in close cooperation with Congress, the Federal Reserve and other agencies to strengthen financial institutions and restart lending for small businesses, auto purchases, and municipalities.

Undoubtedly, Congress will complain about this second request, particularly given the way Hank Paulson completely mismanaged it. But there is already fairly good proof that getting credit to consumers and small businesses will have an immediate impact on the economy.

As I noted in my review of December auto sales, the GMAC-as-bank deal that BushCo negotiated in the last days of December had an immediate and significant impact on GM's sales.

GM said its December sales were helped by a zero-interest financing offer that its GMAC finance unit was able to make during the last few days of the month after GMAC was granted status as a bank holding company by the Federal Reserve.

This allowed GMAC to access money from

the federal government aimed at helping banks and Wall Street firms. GMAC had essentially run out of cash to make auto loans earlier in the fall.

Within days of negotiating this deal (which also undoubtedly freed up GMAC to make floor plan loans to dealers), it invigorated GM's sales.

And I wonder whether the same move isn't also having an impact on sales across the industry.

Early industry sales results for January indicate that industry conditions might be improving slightly, Ford Motor Co.'s group vice president for marketing and communications, Jim Farley, said during an interview at the Detroit auto show.

Farley described the increase as the first positive sales "blip" he has observed in months. However, he was hesitant to predict that the trend would even last through the end of the month. He speculated that the increase could be caused by manufacturers deciding to extend December incentives into January or by a slight increase in consumer confidence but stressed that it's too early to know.

"It's very, very surprising, I have no idea why it's happening," Farley said. "But I think across all manufacturers, across all segments, we are seeing a surprising trend rate on sales, beyond our expectations. We don't know if it will last all month...we are not sure of the underlying cause," Farley said. "But we are seeing, during the first week or two, really strong business across the country."

Whether or not it's credit or incentives, GM's example makes it clear that credit will have the desired effect.

Imagine the thought! A TARP program that actually has a positive effect on the economy!?!?! And once that works, maybe the Obama Administration will realize that they need to be putting much more emphasis on those small businesses and less on finance.