Program Brief

"THE PERFECT STORM: THE GLOBAL FINANCIAL CRISIS OF 2008"

A talk by
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Image: http://www.wfu.edu/news/download/?image=2008.05.09.f.jpg)

Dr. Duchac is the Merrill Lynch Professor of Accounting and Director of the Program in Risk Management at Wake Forest University. During his tenure in academe, Dr. Duchac has published extensively on financial markets issues, and testified about these issues before the U.S. House of Representatives, the U.S. Financial Accounting Standards Board, and the U.S. Securities and Exchange Commission. He is also the co-author of several widely used accounting textbooks.

In addition to his teaching and research activities, Dr. Duchac advises a number of companies on financial reporting and risk management issues. He has worked with the CFO and Investment Banking units of Merrill Lynch & Co., and served as the accounting advisor to Merrill Lynch Equity Research. Dr. Duchac serves on the advisory boards of private companies, and has advised numerous companies on risk management and accounting issues.

Wake Forest University: http://www.wfu.edu/
The Calloway School of Business and Accountancy: http://calloway.wfu.edu/

U.S. GOVERNMENT RESOURCES

REMARKS, STATEMENTS AND BRIEFINGS

The Stabilizing Force of Open Investment in the Global Economy

Remarks by Deputy Secretary Robert M. Kimmitt

Dubai International Financial Centre, October 28, 2008

… As we meet today, countries around the world are encountering unprecedented economic challenges. Financial market conditions are severely strained, and risks to the global economic environment are the most serious and challenging in memory. In recent weeks, it has become evident that the turmoil is not isolated to the United States and Europe, but has ramifications for all countries, including in the Gulf.

Our capital markets are more integrated than ever before, allowing opportunities, but also financial difficulties, to spread rapidly across borders.

It is critical to learn the correct lessons from the current turmoil, starting with the fact that our economies are stronger acting together than in isolation. Collectively, we need to rebuild confidence in our markets so that capital can flow again to help spur global growth.

In the past two weeks alone, we have witnessed an unprecedented international response to this financial turmoil. The Group of Seven industrialized countries are implementing a coordinated action plan to stabilize financial markets and restore the flow of credit. Others around the world, from Hong Kong to Denmark, have adopted similar approaches. Countries are taking steps to provide liquidity to markets, strengthen financial institutions, prevent failures that pose systemic risk, protect depositors, and enhance confidence in financial institutions. While financial markets have begun to respond positively to these unprecedented efforts, much work remains. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1241.htm

Remarks at the SIFMA Annual Meeting

Acting Under Secretary for Domestic Finance Anthony Ryan

New York, October 28, 2008

… The stresses on U.S. and world financial markets are the most serious in recent memory. The disruptions of recent months have their roots in the housing correction. As housing prices have declined and the values of mortgage loans became more opaque, uncertainty spread to the investors and institutions that owned these assets. While some argue that this uncertainty has its roots in the subprime and the Alt-A markets, there are numerous factors to review and to understand before coming to any conclusions. Credit as a whole – not just in the housing sector – has been plentiful over the past decade and we have benefited by being able to finance the spectrum of assets and services, from complex collateralized obligations, to tender option bonds, to student loans, and to household spending with credit cards. Today, we are experiencing the repercussions of this unbridled expansion and access to credit. We needed to strike a balance between strong market discipline and regulatory oversight and we have not. Investor confidence was undermined, illiquidity then compromised our credit markets, and now the housing and financial market turmoil has spilled over into the rest of the U.S. economy. …

FULL TEXT: http://www.treas.gov/press/releases/hp1240.htm

President's Radio Address

The White House, October 25, 2008

THE PRESIDENT: … The Federal government has taken bold action to stabilize our economy. Earlier this month, my Administration worked with Congress to pass bipartisan legislation that is providing funds to help banks rebuild capital and resume lending. The Federal Deposit Insurance Corporation has temporarily guaranteed most new debt issued by insured banks, which will make it easier for these banks to borrow needed money. And the Federal Reserve is launching a new program to provide support for commercial paper - a key source of short-term financing for America's businesses and financial institutions. These steps are beginning to show results, but it will take time for their full impact to be felt.

In coordination with the United States, many other nations have taken similar steps to address turbulence in their domestic markets. This crisis is global in reach - and addressing it will require further international cooperation. So this week, I consulted with leaders from throughout the world and announced that I would convene an international summit in Washington on November the 15th. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081025.html

Update on the Global Financial Situation

Foreign Press Center Briefing with Tony Fratto, White House Deputy Press Secretary

Washington, D.C., October 22, 2008

... MR. FRATTO: … we announced today the President sent out invites to the leaders from countries that are part of the G-20 finance ministers' process. Of course, the G-20 does not have a heads of state component to it, but we thought that was the most appropriate grouping for countries for this summit and remind you that the G-20 was created in the aftermath of the financial crises of the late 1990s. This will be the first in a series of summits that bring together leaders from countries that participate in this process.

As the President explained in his comments over the weekend, it's important that this first summit discuss the underlying causes of the financial crisis, that we review the progress that has been made by all of our countries in trying to respond to the current financial crisis, that we begin to develop the principles for reform needed to ensure that we don't see a repetition of the crisis, and then that the leaders are able to charge working groups and experts groups to go out and to develop policies that fit under – within the umbrella of principles that the leaders will discuss. And some of those principles that are particularly important to us here in the United States, and that President Bush will be emphasizing, is the need to ensure that we continue the momentum towards freer markets and increase trade and trade liberalization and the increase in flows of capital across borders.

We want to make sure that we are doing it in ways that don't create systemic events, of course, like what we've seen recently. But we do want to make sure that capital is being put to use to its most productive – in the most productive way possible to improve standards of living for people across the globe. ...

FULL TEXT: http://fpc.state.gov/111149.htm

Statement by Press Secretary Dana Perino

The White House, October 22, 2008

Today, the President is inviting the leaders of the Group of 20 countries to a summit in the Washington, D.C. area, on November 15 to discuss financial markets and the global economy. The G-20 finance process, which includes key developed and emerging market countries, was established in 1999, after the last financial crisis with worldwide implications.

The leaders will review progress being made to address the current financial crisis, advance a common understanding of its causes, and, in order to avoid a repetition, agree on a common set of principles for reform of the regulatory and institutional regimes for the world's financial sectors. These principles can be further developed by working groups for consideration in subsequent summits. In addition, we expect that the leaders will discuss the effects of the crisis on emerging economies and developing nations. The summit will also provide an important opportunity for leaders to strengthen the underpinnings of capitalism by discussing how they can enhance their commitment to open, competitive economies, as well as trade and investment liberalization.

G-20 members are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union.

The Managing Director of the International Monetary Fund, the President of the World Bank, the United Nations Secretary-General, and the Chairman of the Financial Stability Forum have also been invited to participate. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081022.html

Financial Turmoil and the Global Economy

Remarks by Under Secretary for International Affairs David H. McCormick

Better Hong Kong Foundation, October 22, 2008

Hong Kong – These are unprecedented and difficult times for the global economy. The world's financial market conditions are severely strained, and risks to the global growth are significant. The largest advanced economies are feeling this most acutely. In the United States, our financial markets are experiencing unprecedented challenges, and this is adding even greater pressure to our already slowing economy.

These developments are affecting the entire globe. Emerging market countries in recent years, including those in Asia, have made impressive strides in strengthening their fundamentals, accelerating their economic growth and cushioning themselves against external shocks. Nevertheless, as the events of the past several weeks have shown, emerging markets like China are not immune from the global financial stress. Even financial markets with little direct exposure to mortgage-related assets risk becoming destabilized by diminishing market confidence and slowing export growth. Because we are all affected by this crisis, we must work together to address this instability and restore the health of the world economy.

Over the past two weeks, we have witnessed an unprecedented international response to this financial turmoil. The Group of Seven industrialized countries have announced and are implementing a coordinated action plan to stabilize

financial markets and restore the flow of credit. Others around the world, from Hong Kong to Denmark, have adopted similar approaches. Together these countries are taking steps to provide liquidity to markets, strengthen financial institutions, prevent failures that pose systemic risk, protect depositors, and enhance confidence in financial institutions. While financial markets have responded positively in some ways to these unprecedented efforts, much work remains. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1230.htm

President Bush Meets with President Sarkozy of France and President Barroso of the European Commission

Camp David, October 18, 2008

PRESIDENT BUSH: I want to welcome two friends to Camp David: President Sarkozy of France, who is representing the European Union, and President Barroso of the European Commission. We're really glad you're here.

I'm looking forward to an important discussion of the global financial crisis, which is having an impact on hardworking people all across the world. The first task is to stabilize the financial markets in our own countries. Given that the world has never been more interconnected, it is essential that we work together because we're in this crisis together.

That's why over the past few weeks the United States and our partners in Europe have cooperated closely to address this challenge. Earlier this month, the Federal Reserve, the European Central Bank, and four other central banks carried out a coordinated interest rate cut. Last weekend, G7 finance ministers and central bank governors approved a plan of action to stabilize our markets, rebuild confidence in our financial systems, and restore the flow of credit to our businesses and our consumers.

As part of this action plan, leaders in Europe have taken measures to provide financial institutions with additional capital, provide credit guarantees, and increase deposit insurance.

In the United States, we're taking systematic and aggressive steps to help banks rebuild capital and resume lending. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081018-1.html

Statement of the United States, France and the Presidency of the European Commission

The White House, October 18, 2008

The three leaders had a very positive discussion about the continued coordination of steps needed to solve the crisis in today's global economy. They agreed they would reach out to other world leaders next week with the idea of beginning a series of summits on addressing the challenges facing the global economy.

World leaders will be consulted about the idea of a first summit of heads of government to be held in the U.S. soon after the U.S. elections, in order to review progress being made to address the current crisis and to seek agreement on principles of reform needed to avoid a repetition and assure global prosperity in the future. Later summits would be designed to implement agreement on specific steps to be taken to meet those principles.

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081018-2.html

President Bush Discusses the Economy

U.S. Chamber of Commerce, Washington, D.C., October 17, 2008

THE PRESIDENT: … Our nation is dealing with a serious financial crisis. Over the past month, Americans have witnessed fast-moving events involving complicated financial issues. I know many of our citizens are concerned about their finances. They're worried about the extent of government intervention into the marketplace. In my conversations with business owners and workers and families across our country, I've heard the same message: The American people want a clear explanation of what this crisis means for them, what the government is doing to fix it, and how this will affect the future of the free market that makes our economy so dynamic and prosperous. And that's what I've come to talk about.

To understand how this crisis unfolded you have to look back more than a decade. For many years, the combination of low interest rates and the inflow of capital from around the world produced a period of easy credit here in the United States. This trend was especially apparent in the booming housing market, where many lenders issued mortgages to borrowers who could not otherwise afford homes. Many of those loans were then packaged into complex financial assets, which were sold to banks and investors all across the world. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081017-4.html

Stabilizing the Financial Markets and the Economy

Remarks by Chairman Ben S. Bernanke

Economic Club of New York, New York, New York, October 15, 2008

… The crisis we face in the financial markets has many novel aspects, largely arising from the complexity and sophistication of today's financial institutions and instruments and the remarkable degree of global financial integration

that allows financial shocks to be transmitted around the world at the speed of light. However, as a long-time student of banking and financial crises, I can attest that the current situation also has much in common with past experiences. As in all past crises, at the root of the problem is a loss of confidence by investors and the public in the strength of key financial institutions and markets. The crisis will end when comprehensive responses by political and financial leaders restore that trust, bringing investors back into the market and allowing the normal business of extending credit to households and firms to resume. In that regard, we are, in one respect at least, better off than those who dealt with earlier financial crises: Generally, during past crises, broad-based government engagement came late, usually at a point at which most financial institutions were insolvent or nearly so. Waiting too long to respond has usually led to much greater direct costs of the intervention itself and, more importantly, magnified the painful effects of financial turmoil on households and businesses. That is not the situation we face today. Fortunately, the Congress and the Administration have acted at a time when the great majority of financial institutions, though stressed by highly volatile and difficult market conditions, remain strong and capable of fulfilling their critical function of providing new credit for our economy. This prompt and decisive action by our political leaders will allow us to restore more normal market functioning much more quickly and at lower ultimate cost than would otherwise have been the case. Moreover, we are seeing not just a national response but a global response to the crisis, commensurate with its global nature. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/speech/bernanke20081015a.htm

Statement by Secretary Henry M. Paulson, Jr. on Actions to Protect the U.S. Economy

U.S. Department of the Treasury, October 14, 2008

Washington, D.C. - Treasury today issued the following statement by Secretary Henry M. Paulson, Jr. on actions to protect the economy and restore confidence and stability to our financial markets:

America is a strong nation. We are a confident and optimistic people. Our confidence is born out of our long history of meeting every challenge we face. Time and time again our nation has faced adversity and time and time again we have overcome it and risen to new heights. This time will be no different. …

President Bush has directed me to consider all necessary steps to restore confidence and stability to our financial markets and get credit flowing again. Ten days ago Congress gave important new tools to the Treasury, the Federal Reserve and the FDIC to meet the challenges posed to our economy. My colleagues and I are working creatively and collaboratively to deploy these tools and direct our powers at this disruption to our economy.

Today we are taking decisive actions to protect the US economy. We regret having to take these actions. Today's actions are not what we ever wanted to do – but today's actions are what we must do to restore confidence to our financial system. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1205.htm

President Bush Discusses Economy

The White House, October 14, 2008

THE PRESIDENT: Good morning. I just completed a meeting with my working group on financial markets. We discussed the unprecedented and aggressive steps the federal government is taking to address the financial crisis. Over the past few weeks, my administration has worked with both parties in Congress to pass a financial rescue plan. Federal agencies have moved decisively to shore up struggling institutions and stabilize our markets. And the United States has worked with partners around the world to coordinate our actions to get our economies back on track.

This weekend, I met with finance ministers from the G7 and the G20 - organizations representing some of the world's largest and fastest-growing economies. We agreed on a coordinated plan for action to provide new liquidity, strengthen financial institutions, protect our citizens' savings, and ensure fairness and integrity in the markets. Yesterday, leaders in Europe moved forward with this plan. They announced significant steps to inject capital into their financial systems by purchasing equity in major banks. And they announced a new effort to jumpstart lending by providing temporary government guarantees for bank loans. These are wise and timely actions, and they have the full support of the United States.

Today, I am announcing new measures America is taking to implement the G7 action plan and strengthen banks across our country. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081014.html

Remarks by Chairman Ben S. Bernanke

At the President's Working Group Market Stability Initiative Announcement, October 14, 2008

… As Americans well know, the challenges evident in the financial markets and in the economy are large and complex, but I believe that the steps taken today will help us to overcome them. Our strategy will continue to evolve and be refined as we adapt to new developments and the inevitable setbacks. But we will not stand down until we have achieved our goals of repairing and reforming our financial system and thereby restoring prosperity to our economy.

Over the past year, the Federal Reserve has actively used all its powers and authorities to try to help our economy through this difficult time. And central banks around the world have consulted closely and cooperated in unprecedented ways to reduce strains in financial markets and to bolster our economies. We will continue to do so. However, clearly the time had come for a more comprehensive and broad-based solution.

History teaches us that government engagement in times of severe financial crisis often arrives very late, usually at a point at which most financial institutions are insolvent or nearly so. Waiting too long to act has usually led to much greater direct costs of the intervention itself and, more importantly, magnified the painful effects of financial turmoil on households and businesses. That is not the situation we face today. Fortunately, the Congress and the Administration have acted at a time when the great majority of financial institutions, though stressed by highly volatile and difficult market conditions, remain capable of fulfilling their critical function of providing new credit for our economy. The Congress's prompt and decisive action in passing the financial rescue legislation made possible the critical steps that have been announced this morning. ...

FULL TEXT: http://www.federalreserve.gov/newsevents/speech/bernanke20081014a.htm

President Bush Meets with G7 Finance Ministers to Discuss World Economy

The White House, October 11, 2008

THE PRESIDENT: Thank you all very much. Good morning. Secretary Paulson, Secretary Rice and I just had a productive discussion with finance ministers of America's partners in the G7 - Canada, France, Germany, Great Britain, Italy, and Japan. I'm pleased to be with Prime Minister Junker of Luxembourg, who is the President of the Eurogroup of countries, Managing Director Strauss-Kahn of the International Monetary Fund, President Zoellick of the World Bank, Chairman Draghi of the Financial Stability Forum. Thank you all for coming. …

The United States has a special role to play in leading the response to this crisis. That is why I convened this morning's meeting here at the White House, and that is why our government will continue using all the tools at our disposal to resolve this crisis. At our meeting, Secretary Paulson and I described the bold actions the United States has taken over the past few weeks:

To help thaw frozen markets, the Federal Reserve has taken unprecedented measures to boost liquidity. The Securities and Exchange Commission has cracked down on abusive practices in the markets. Federal agencies have significantly expanded the amount of money insured in bank and credit union accounts. My administration worked with the Congress to pass legislation authorizing the government to recapitalize banks by purchasing troubled assets or providing insurance or purchasing equity in financial institutions. These extraordinary efforts are being implemented as quickly and as effectively as possible. The benefits will not be realized overnight. But as these actions take effect, they will help restore stability to our markets and confidence to our financial institutions. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081011-2.html

President Bush Discusses the Economy

The White House, October 10, 2008

THE PRESIDENT: … Here's what the American people need to know: that the United States government is acting; we will continue to act to resolve this crisis and restore stability to our markets. We are a prosperous nation with immense resources and a wide range of tools at our disposal. We're using these tools aggressively.

… Fellow citizens: We can solve this crisis - and we will.

Here are the problems we face and the steps we are taking:

First, key markets are not functioning because there's a lack of liquidity - the grease necessary to keep the gears of our financial system turning. So the Federal Reserve has injected hundreds of billions of dollars into the system. The Fed has joined with central banks around the world to coordinate a cut in interest rates. …

Second, some Americans are concerned about whether their money is safe. So the Federal Deposit Insurance Corporation and the National Credit Union Administration have significantly expanded the amount of money insured in savings accounts, and checking accounts, and certificates of deposit. …

Thirdly, we are concerned that some investors could take advantage of the crisis to illegally manipulate the stock market. So the Securities and Exchange Commission has launched rigorous enforcement actions to detect fraud and manipulation in the market. …

Fourth, the decline in the housing market has left many Americans struggling to meet their mortgages and are concerned about losing their homes. My administration has launched two initiatives to help responsible borrowers keep their homes. …

Fifth, we've seen that problems in the financial system are not isolated to the United States. They're also affecting other nations around the globe. So we're working closely with partners around the world to ensure that our actions are coordinated and effective. …

And finally, American businesses and consumers are struggling to obtain credit, because banks do not have sufficient capital to make loans. So my administration worked with Congress to quickly pass a $700 billion financial rescue

package. This new law authorizes the Treasury Department to use a variety of measures to help bank [sic] rebuild capital -- including buying or insuring troubled assets and purchasing equity of financial institutions. The Department will implement measures that have maximum impact as quickly as possible. Seven hundred billion dollars is a significant amount of money. And as we act, we will do it in a way that is effective. …
FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081010.html

Statement by Secretary Henry M. Paulson, Jr. on Financial Markets Update

October 8, 2008

Washington, D.C. - … Last Friday Congress finalized and President Bush signed into law the bipartisan Emergency Economic Stabilization Act. The EESA provides the Treasury, the Federal Reserve and the FDIC with important new authorities to complement existing ones. We will continue to coordinate with other federal regulators to use these tools to implement our strategy to address the four key challenges in our financial markets today - confidence, capital, systemic risk and liquidity. Although we are facing particularly difficult circumstances, I remain confident that we will work through this challenge, as we have always successfully worked through every economic challenge in the history of the United States. We are a strong and wealthy nation, with the resources to address the needs we face. I am confident that, with the right public policy response, time and effort, we will conquer these challenges as well.

U.S. and global financial markets continue to be severely strained. A chain of events caused by the ongoing housing correction has reverberated through U.S. banks and financial institutions, and has seriously impacted the underlying economy, reaching American households and businesses. A root cause of this situation is the housing correction and a lack of confidence in mortgage assets, as well as a lack of confidence in many of the financial institutions that hold these assets. Because of this widespread uncertainty, investors are hesitant to commit capital to financial institutions. Investor confidence is critical to restore liquidity and enhance the stability of our financial system.

This financial market turmoil is now directly affecting more families and businesses. When banks can not finance at reasonable levels, and can not or are not willing to lend, everyone in our economy who depends on credit suffers. The capital markets are the pipes through which money flows to finance student loans, car loans, home loans and small businesses' payroll and inventory. And uncertainty and a lack of confidence have clogged our basic financial plumbing. While our actions have been aimed at restoring financial markets and institutions, our purpose is to prevent financial market difficulties from further impacting businesses and families across the country. …
FULL TEXT: http://www.treas.gov/press/releases/hp1189.htm

Prepared Statement by Treasury Under Secretary David H. McCormick in Advance of G-7 Finance Ministers and Central Bank Governors Meeting

October 8, 2008

Washington, D.C. – Good afternoon. The G-7 Finance Ministers and Central Bank Governors will hold their next meeting here at the Treasury Department on October 10, amid the IMF and World Bank Annual meetings. The G-7 meeting will be heavily focused on current economic conditions, financial market developments, and our collective and individual policy response to recent financial market turmoil.

Secretary Paulson will share with his G-7 colleagues that this is a very challenging period for the United States and that we are focused on the immediate need to stabilize our financial system. Unprecedented stresses in financial markets, concerns about counterparty risk and tight credit markets overall are making it difficult for citizens to access credit and for businesses to finance day-to-day business operations. Meanwhile, Europe and Asia are also facing economic and financial challenges and the macroeconomic landscape has deteriorated in recent weeks. …
FULL TEXT: http://www.treas.gov/press/releases/hp1190.htm

President Bush Discusses Emergency Economic Stabilization Act of 2008

Guernsey Office Products, Inc., Chantilly, Virginia, October 7, 2008

THE PRESIDENT: … There's no doubt that people from all walks of life and all aspects understand that we're having serious times. Families are squeezed by the high price of gasoline, and feeling the pinch of food prices and monthly mortgage payments. Workers are anxious about whether their paychecks will stretch. Some workers are anxious about whether or not they're going to keep their jobs.

We also know that we're the most dynamic economy in the world, that we have been through tough times before, and that we're going to come through this time again. Our entrepreneurial system has delivered unparalleled levels of productivity and growth and prosperity. During my presidency, we have faced tough times after the terrorist attack of 9/11 and we came through strongly. And we're going to come through this. No question the times are tough, but no question America will emerge. And yet, we got some work to do, and that's what I want to share with you.

The immediate challenge facing the economy is a lack of credit. The problem became clear when the housing market declined, and complex financial assets related to home mortgages dropped in value. People put together securities based

upon mortgages, and when the mortgage's value went down, so did those securities. And this led banks that owned the securities to suffer losses. And then they found themselves short on capital. Some banks have failed. And other banks, in reaction, have restricted lending to businesses and to each other. And that's the definition of a credit crunch: people just are not lending. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081007-4.html

Statement by the President's Working Group on Financial Markets

U.S. Department of the Treasury, October 6, 2008

Washington, D.C. - The President's Working Group on Financial Markets issued the following statement today: Conditions in U.S. and global financial markets remain extremely strained. The President's Working Group on Financial Markets (PWG) is working with market participants and regulators globally to address the current challenges and restore confidence and stability to financial markets around the world.

With the passage of the Emergency Economic Stabilization Act of 2008 (EESA), Congress has granted important new authorities to the Treasury, Federal Reserve, and the FDIC. These new authorities will be employed in conjunction with existing authorities to restore market confidence by strengthening the balance sheets of financial intermediaries and improving overall market functioning.

The diversity of institutions and markets under stress, and the magnitude and complexity of the adjustment underway, requires that the tools available to policymakers, regulators and supervisors be used in forceful and coordinated ways across regulatory and supervisory agencies in the United States and throughout the world. This will involve moving with substantial force on a number of fronts. ...

FULL TEXT: http://www.ustreas.gov/press/releases/hp1177.htm

President Bush Discusses Emergency Economic Stabilization Act of 2008

The White House, October 3, 2008

THE PRESIDENT: A short time ago, the House of Representatives passed a bill that is essential to helping America's economy weather the financial crisis. The Senate passed the same legislation on Wednesday night. And when Congress sends me the final bill, I'm going to sign it into law.

There were moments this week when some thought the federal government could not rise to the challenge. But thanks to the hard work of members of both parties in both Houses - and a spirit of cooperation between Capitol Hill and my administration - we completed this bill in a timely manner. …

By coming together on this legislation, we have acted boldly to help prevent the crisis on Wall Street from becoming a crisis in communities across our country. We have shown the world that the United States of America will stabilize our financial markets and maintain a leading role in the global economy. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081003-11.html

Paulson Statement on Emergency Economic Stabilization Act

U.S. Department of the Treasury, October 3, 2008

Washington, D.C. - By acting this week, Congress has proven that our Nation's leaders are capable of coming together at a time of crisis, even at a critical stage of the political calendar, to do what is necessary to stabilize our financial system and protect the economic security of all Americans.

The American people will appreciate the leadership of their elected representatives and senators who took bold action to help stem a severe credit crunch that threatens to cost many jobs and undermine access to credit for working Americans.

This bill contains a broad set of tools that can be deployed to strengthen financial institutions, large and small, that serve businesses and families. Our financial institutions are varied – from large banks headquartered in New York, to regional banks that serve multi-state areas, to community banks and credit unions that are vital to the lives of our citizens and their towns and communities. Each institution has its own unique benefits, and their collective strength makes our financial system more resilient, and more innovative. The challenges our institutions face are just as varied – from holding illiquid mortgage backed securities, to illiquid whole loans, to raising needed capital, to simply facing a crisis of confidence. This diversity of institutions and challenges requires that we deploy the tools in this rescue package, in combination with the tools the Fed, the Treasury, the FDIC and other bank regulators already have, in a variety of ways that addresses each of these needs and restores the ability of our financial system to fuel our broader economy. …

FULL TEXT: http://www.treas.gov/press/releases/hp1175.htm

Statement by Chairman Bernanke on Action Taken by Congress

Press Release, Board of Governors of the Federal Reserve System, October 3, 2008

I applaud the action taken by the Congress. It demonstrates the government's commitment to do what it takes to support and strengthen our economy. The legislation is a critical step toward stabilizing our financial markets and ensuring an uninterrupted flow of credit to households and businesses.

The Federal Reserve will continue to work closely with the Treasury as it undertakes these new initiatives. We will continue to use all of the powers at our disposal to mitigate credit market disruptions and to foster a strong, vibrant economy.

FULL TEXT: **http://www.federalreserve.gov/newsevents/press/other/20081003a.htm**

Responding to Today's Market Turmoil

Remarks by Under Secretary David H. McCormick

Wharton's Eleventh Annual Investment Management Conference, October 3, 2008

Philadelphia - These are incredibly challenging and unprecedented times for the United States. Over the last twelve months, we have witnessed one of the most significant periods of economic turmoil that has ever faced our country, and I have had the opportunity to see first hand how our country's leaders have responded. Today I'd like to share my views on how we arrived at this place, what we have done about it up to this point, and what else we must do to stabilize our markets and ensure America's long term prosperity.

The seeds of the challenges we face today were sown many years ago, beginning with a gradual weakening of lending practices by banks and financial institutions and by greater willingness by borrowers to take out mortgages they couldn't afford. These factors, combined with growing complexity and opaqueness in our capital markets, are at the heart of the current crisis.

We are now paying the price. We've seen the results for homeowners in higher foreclosure rates affecting individuals and neighborhoods. We are now seeing the impact on struggling financial institutions. These weak loans started a chain reaction, and in recent weeks, our credit markets have tightened dramatically with even some non-financial companies around the country having difficulties financing their day-to-day business operations. These effects are already beginning to trickle down and affect all parts of the U.S. economy.

In response to this worsening situation, the U.S. government has taken bold and decisive actions in recent months to stabilize the markets, mitigate the impact on our financial system and the U.S. economy, and address the underlying sources of market uncertainty. ...

FULL TEXT: **http://www.ustreas.gov/press/releases/hp1173.htm**

Statement by the President on Senate for Strong Bipartisan Vote in Favor of the Financial Rescue Plan

The White House, October 1, 2008

I applaud the Senate for its strong bipartisan vote in favor of the financial rescue plan. …

The bill the Senate passed is essential to the financial security of every American. It is aimed at helping American families who need to borrow money to buy a car or fund a college education. It is aimed at helping small businesses that depend on financing to meet their payrolls and stock their shelves. And it is aimed at helping State and local governments that rely on the credit markets to fund basic services and meet the needs of their citizens.

The House will now take up this rescue legislation. With the improvements the Senate has made, I believe members of both parties in the House can support this legislation. The American people expect - and our economy demands - that the House pass this good bill this week and send it to my desk. ...

FULL TEXT: **http://www.whitehouse.gov/news/releases/2008/10/20081001-16.html**

U.S. Response to Global Financial Turmoil

Foreign Press Center Briefing with David H. McCormick, Under Secretary for International Affairs, U.S. Department of Treasury

Washington, D.C., September 30, 2008

... UNDER SECRETARY MCCORMICK: … It's obviously a very challenging time for the financial markets. And the challenges in the financial markets have real implications for everyday Americans in terms of the availability of credit, in terms of jobs, in terms of small businesses being able to be successful.

And the challenges we see are not just here in the markets - in the United States. We also see challenges around the globe. This week in Europe, a number of financial institutions are struggling. So it's within that context that we were disappointed that the House yesterday didn't pass the legislation that had been negotiated between the leadership of both parties and in both the Senate and the House of Representatives. We thought that was a strong package that would have given the Secretary of Treasury and all the regulators the authority that they needed to address the underlying causes and underlying challenges in our markets.

We - we're hopeful that congressional leaders, many of whom have already spoken out publicly since yesterday's vote, will come together. We know many of them are committed to addressing those challenges and recognize the gravity of the situation and we're very committed - I know Secretary Paulson is very committed, I know the President is very committed - to working with Congress to find a package and path ahead that addresses these underlying concerns and also has broader congressional support.

In the meantime, we will do as we have been doing, which is use the existing authorities that the Treasury and the other regulators have to try to continue to bring stability to the market. There have been a number of actions taken by the Federal Reserve and central banks around the world to improve the liquidity in the markets and that's obviously a crucial part of the challenges we see. ...

FULL TEXT: http://fpc.state.gov/110482.htm

President Bush Discusses Economic Rescue Plan

The White House, September 30, 2008

THE PRESIDENT: … Yesterday, the House of Representatives voted on a financial rescue plan that had been negotiated by Congressional leaders of both parties and my administration. Unfortunately, the measure was defeated by a narrow margin. I'm disappointed by the outcome, but I assure our citizens and citizens around the world that this is not the end of the legislative process.

Producing legislation is complicated, and it can be contentious. It matters little what a path a bill takes to become law. What matters is that we get a law. We're at a critical moment for our economy, and we need legislation that decisively address the troubled assets now clogging the financial system, helps lenders resume the flow of credit to consumers and businesses, and allows the American economy to get moving again. …

As much as we might wish the situation were different, our country is not facing a choice between government action and the smooth functioning of the free market. We're facing a choice between action and the real prospect of economic hardship for millions of Americans. And for the financial security of every American, Congress must act. ...

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/09/20080930.html

Statement by G-7 Finance Ministers and Central Bank Governors on Global Financial Market Turmoil

U.S. Department of the Treasury, September 22, 2008

Washington, D.C. - The Group of Seven Finance Ministers and Central Bank Governors released the following statement today:

The G-7 held a conference call today to discuss global financial markets. We reaffirm our strong and shared commitment to protect the integrity of the international financial system and facilitate liquid, smooth functioning markets, which are essential for supporting the health of the world economy.

We strongly welcome the extraordinary actions taken by the United States to enhance the stability of financial markets and address credit concerns, especially through its plan to implement a program to remove illiquid assets that are destabilizing financial institutions. We also strongly welcome the measures taken by other G-7 countries. Major central banks have been coordinating to address liquidity pressures in funding markets, which has been critical in addressing disruptions in global financial markets. Several regulators have taken decisive actions to combat market manipulation and stabilize financial markets, including a temporary ban on short selling of financial stocks.

We recognize the importance of making regulation more effective and bringing investors back into a liquid and stable marketplace....

FULL TEXT: http://www.treas.gov/press/releases/hp1152.htm

Statement by Secretary Henry M. Paulson, Jr. on Comprehensive Approach to Market Developments

September 19, 2008

Washington, D.C. - Last night, Federal Reserve Chairman Ben Bernanke, SEC Chairman Chris Cox and I had a lengthy and productive working session with Congressional leaders. We began a substantive discussion on the need for a comprehensive approach to relieving the stresses on our financial institutions and markets.

We have acted on a case-by-case basis in recent weeks, addressing problems at Fannie Mae and Freddie Mac, working with market participants to prepare for the failure of Lehman Brothers, and lending to AIG so it can sell some of its assets in an orderly manner. And this morning we've taken a number of powerful tactical steps to increase confidence in the system, including the establishment of a temporary guaranty program for the U.S. money market mutual fund industry.

Despite these steps, more is needed. We must now take further, decisive action to fundamentally and comprehensively address the root cause of our financial system's stresses.

The underlying weakness in our financial system today is the illiquid mortgage assets that have lost value as the housing correction has proceeded. These illiquid assets are choking off the flow of credit that is so vitally important to our economy. When the financial system works as it should, money and capital flow to and from households and businesses to pay for home loans, school loans and investments that create jobs. As illiquid mortgage assets block the system, the clogging of our financial markets has the potential to have significant effects on our financial system and our economy. …

FULL TEXT: http://www.ustreas.gov/press/releases/hp1149.htm

FACT SHEETS, PRESS RELEASES AND DOCUMENTS

Fact Sheet: Plan to Stabilize Financial System Is Limited In Size, Scope, and Duration

The White House, October 17, 2008

The Federal Government Is Acting Swiftly to Preserve Our System of Free Market Capitalism and Return Our Nation to a Path of Prosperity, Job Creation, and Long-Term Economic Growth

Today, President Bush visited the United States Chamber of Commerce and discussed the actions that the Federal Government has taken in response to the financial crisis. The President explained that the government took swift action to protect the financial security of the American people. One important element, the equity purchase program, is designed with strong protections to ensure the government's involvement is limited in size, limited in scope, and limited in duration:

- The government's involvement is limited in size. The government's investment is capped for any individual firm that chooses to participate in this voluntary program, so that private investors retain control.
- The government's involvement is limited in scope. The government will not exercise control over any private firm. The shares owned by the government will have voting rights that can be used only to protect the taxpayer's investment – not to direct the firm's operations.
- The government's involvement is limited in duration. This program includes provisions to encourage banks to buy back their shares from the government when the markets stabilize and they can raise money from private investors….

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081017-3.html

U.S. Government Actions to Strengthen Market Stability

Press Release, U.S. Department of the Treasury, October 14, 2008

Washington, D.C. - Today we are taking decisive actions to protect the U.S. economy, to strengthen public confidence in our financial institutions, and to foster the robust functioning of our credit markets. These steps will ensure that the U.S. financial system performs its vital role of providing credit to households and businesses and protecting savings and investments in a manner that promotes strong economic growth in the U.S. and around the world. These actions are consistent with the strategy announced by the President's Working Group on October 6 and the action plan announced by the G7 Finance Ministers on October 10.

Purchasing Capital in Financial Institutions

... Under the authority of the Emergency Economic Stabilization Act of 2008, the U.S. Treasury will make available $250 billion of capital to U.S. financial institutions. This facility will allow banking organizations to apply for a preferred stock investment by the U.S. Treasury. Nine large financial organizations have already indicated their intention to subscribe to the facility in an aggregate amount of $125 billion. ...

FULL TEXT: http://www.treas.gov/press/releases/hp1209.htm

Federal Reserve and Other Central Banks Announce Further Measures to Provide Broad Access to Liquidity and Funding to Financial Institutions

Press Release, Board of Governors of the Federal Reserve System, October 13, 2008

In order to provide broad access to liquidity and funding to financial institutions, the Bank of England (BoE), the European Central Bank (ECB), the Federal Reserve, the Bank of Japan, and the Swiss National Bank (SNB) are jointly announcing further measures to improve liquidity in short-term U.S. dollar funding markets.

The BoE, ECB, and SNB will conduct tenders of U.S. dollar funding at 7-day, 28-day, and 84-day maturities at fixed interest rates for full allotment. Funds will be provided at a fixed interest rate, set in advance of each operation. Counterparties in these operations will be able to borrow any amount they wish against the appropriate collateral in each jurisdiction. Accordingly, sizes of the reciprocal currency arrangements (swap lines) between the Federal Reserve

and the BoE, the ECB, and the SNB will be increased to accommodate whatever quantity of U.S. dollar funding is demanded. The Bank of Japan will be considering the introduction of similar measures.
Central banks will continue to work together and are prepared to take whatever measures are necessary to provide sufficient liquidity in short-term funding markets. ...
FULL TEXT: http://www.federalreserve.gov/newsevents/press/monetary/20081013a.htm

G-7 Finance Ministers and Central Bank Governors Plan of Action

Press Release, U.S. Department of the Treasury, October 10, 2008

Washington, D.C. - The G-7 agrees today that the current situation calls for urgent and exceptional action. We commit to continue working together to stabilize financial markets and restore the flow of credit, to support global economic growth. We agree to:

1. Take decisive action and use all available tools to support systemically important financial institutions and prevent their failure.
2. Take all necessary steps to unfreeze credit and money markets and ensure that banks and other financial institutions have broad access to liquidity and funding.
3. Ensure that our banks and other major financial intermediaries, as needed, can raise capital from public as well as private sources, in sufficient amounts to re-establish confidence and permit them to continue lending to households and businesses.
4. Ensure that our respective national deposit insurance and guarantee programs are robust and consistent so that our retail depositors will continue to have confidence in the safety of their deposits.
5. Take action, where appropriate, to restart the secondary markets for mortgages and other securitized assets. Accurate valuation and transparent disclosure of assets and consistent implementation of high quality accounting standards are necessary.

The actions should be taken in ways that protect taxpayers and avoid potentially damaging effects on other countries. We will use macroeconomic policy tools as necessary and appropriate. We strongly support the IMF's critical role in assisting countries affected by this turmoil. We will accelerate full implementation of the Financial Stability Forum recommendations and we are committed to the pressing need for reform of the financial system. We will strengthen further our cooperation and work with others to accomplish this plan.
FULL TEXT: http://www.ustreas.gov/press/releases/hp1195.htm

Fact Sheet: Taking Urgently Needed Action to Stabilize Our Markets

The White House, October 7, 2008

President Bush Lays Out Steps the Federal Government Is Taking to Address the Financial Crisis
Today, President Bush visited Guernsey Office Products in Chantilly, Virginia, and discussed the Emergency Economic Stabilization legislation he signed last week in response to the financial crisis. As our markets begin to stabilize over time, it will help calm markets overseas.
The Administration Is Taking a Series of Steps to Help American Businesses and Families
These steps will help bring stability to our volatile markets, and help protect the value of Americans' retirement accounts and 401ks – but it will take time for them to have their full effect. Thawing the freeze in the financial system will not happen overnight. It will be a process that unfolds over several stages:

- The Treasury Department is now moving aggressively to implement the new authorities in the most effective way. This legislation ensures that these authorities will be implemented in a responsible way that protects taxpayers. Meanwhile, the Federal Reserve and the FDIC will continue using their powers to help stabilize the market.
- This rescue plan will be a gradual process that will take time to have its full effect. We expect it will begin to kick into gear a few weeks from now. As banks rebuild their capital, they will be able to increase lending to each other and begin approving new loans for families and businesses – but this will not happen all at once.
- Eventually, we expect that much – if not all – of the tax dollars will be paid back. As the banking sector and the market for troubled assets recover, the government will begin to recoup some of the taxpayer funds invested in this recovery effort. …

FULL TEXT: http://www.whitehouse.gov/news/releases/2008/10/20081007-6.html

Summary of the "Emergency Economic Stabilization Act of 2008"

United States Senate Committee on Banking, Housing, and Urban Affairs
October 2008

I. Stabilizing the Economy
The Emergency Economic Stabilization Act of 2008 (EESA) provides up to $700 billion to the Secretary of the Treasury to buy mortgages and other assets that are clogging the balance sheets of financial institutions ...

II. Homeownership Preservation
EESA requires the Treasury to modify troubled loans – many the result of predatory lending practices – wherever possible to help American families keep their homes. ...
III. Taxpayer Protection
Taxpayers should not be expected to pay for Wall Street's mistakes. The legislation requires companies that sell some of their bad assets to the government to provide warrants so that taxpayers will benefit from any future growth these companies may experience as a result of participation in this program. ...
IV. No Windfalls for Executives
Executives who made bad decisions should not be allowed to dump their bad assets on the government, and then walk away with millions of dollars in bonuses. In order to participate in this program, companies will lose certain tax benefits and, in some cases, must limit executive pay. ...
V. Strong Oversight
Rather than giving the Treasury all the funds at once, the legislation gives the Treasury $250 billion immediately, then requires the President to certify that additional funds are needed ($100 billion, then $350 billion subject to Congressional disapproval). ...
FULL TEXT: http://banking.senate.gov/public/_files/latestversionEESASummary.pdf (pdf)

Section-by-Section Analysis of the Legislation

United States Senate Committee on Banking, Housing, and Urban Affairs
October 2008

Section 1. Short Title.
"Emergency Economic Stabilization Act of 2008."
Section 2. Purposes.
Provides authority to the Treasury Secretary to restore liquidity and stability to the U.S. financial system and to ensure the economic well-being of Americans.
Section 3. Definitions.
Contains various definitions used under this Act. ...
FULL TEXT: http://banking.senate.gov/public/_files/latestversionBill_sectionbysectionF.pdf (pdf)

Emergency Economic Stabilization Act of 2008

October 2008

... The purposes of this Act are—
(1) to immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and
(2) to ensure that such authority and such facilities are used in a manner that—
(A) protects home values, college funds, retirement accounts, and life savings;
(B) preserves homeownership and promotes jobs and economic growth;
(C) maximizes overall returns to the taxpayers of the United States; and
(D) provides public accountability for the exercise of such authority. ...
FULL TEXT: http://banking.senate.gov/public/_files/latestversionAYO08C32_xml.pdf (pdf)

Fact Sheet: Confronting Economic Challenges Head On

The White House, September 19, 2008

President Bush Outlines Five Measures to Address the Nation's Financial Challenges
Today, President Bush outlined decisive government action to preserve and sustain America's financial system and economy. This is a pivotal moment for America's economy. Problems that originated in the credit markets – and first showed up in the area of subprime mortgages – have spread throughout our financial system. As a result, the government is acting now to protect our Nation's economic health from serious risk.
Our Economy Faces Unprecedented Challenges, So We Are Responding With Unprecedented Action
The Federal Government should intervene in the marketplace only when necessary; in today's financial market, government intervention is essential. In recent weeks, the Federal Government has taken a series of measures to help promote stability in the overall economy. But more action is needed. We must address the root cause behind much of the instability in our markets – the mortgage assets that have lost value during the housing decline and are now restricting the flow of credit. …
FULL TEXT: http://www.whitehouse.gov/news/releases/2008/09/20080919-12.html

Government Sponsored Enterprise Credit Facility

Fact Sheet, U.S. Department of the Treasury, September 7, 2008

The Government Sponsored Enterprise Credit Facility (GSECF) announced today by Treasury to ensure credit availability to the housing GSEs is a lending facility that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers.

Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program if needed. The facility will offer liquidity if needed until December 31, 2009. The Housing and Economic Recovery Act of 2008 provided Treasury with the authority to establish this facility. ...

FULL TEXT: http://www.treas.gov/press/releases/reports/gsecf_factsheet_090708.pdf (pdf)

GSE Mortgage Backed Securities Purchase Program

Fact Sheet, U.S. Department of the Treasury, September 7, 2008

Treasury announced a program today to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. To promote the stability of the mortgage market, Treasury will purchase Government Sponsored Enterprise (GSE) mortgage-backed securities (MBS) in the open market. By purchasing these guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability.

Scope of Program. Treasury is committed to investing in agency MBS with the size and timing subject to the discretion of the Treasury Secretary. The scale of the program will be based on developments in the capital markets and housing markets. ...

FULL TEXT: http://www.treas.gov/press/releases/reports/mbs_factsheet_090708hp1128.pdf (pdf)

Treasury Senior Preferred Stock Purchase Agreement

Fact Sheet, U.S. Department of the Treasury, September 7, 2008

Fannie Mae and Freddie Mac debt and mortgage backed securities outstanding today amount to about $5 trillion, and are held by central banks and investors around the world. Investors have purchased securities of these government sponsored enterprises in part because the ambiguities in their Congressional charters created a perception of government backing. These ambiguities fostered enormous growth in GSE debt outstanding, and the breadth of these holdings pose a systemic risk to our financial system. Because the U.S. government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and mortgage backed securities.

To address our responsibility to support GSE debt and mortgage backed securities holders, Treasury entered into a Senior Preferred Stock Purchase Agreement with each GSE which ensures that each enterprise maintains a positive net worth. This measure adds to market stability by providing additional security to GSE debt holders – senior and subordinated-- and adds to mortgage affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also eliminates any mandatory triggering of receivership. ...

FULL TEXT: http://www.treas.gov/press/releases/reports/pspa_factsheet_090708%20hp1128.pdf (pdf)

Questions and Answers on Conservatorship

Fact Sheet, Federal Housing Finance Agency, September 7, 2008

Q: What is a conservatorship?

A: A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a Company to put it in a sound and solvent condition. In a conservatorship, the powers of the Company's directors, officers, and shareholders are transferred to the designated Conservator.

Q: What is a Conservator?

A: A Conservator is the person or entity appointed to oversee the affairs of a Company for the purpose of bringing the Company back to financial health. ...

FULL TEXT: http://www.treas.gov/press/releases/reports/fhfa_consrv_faq_090708hp1128.pdf (pdf)

CRS REPORTS

(published by the Congressional Research Service/Library of Congress)

Economic Slowdown: Issues and Policies

Updated September 29, 2008

Recent policies have sought to contain damages spilling over from housing and financial markets to the broader economy. These policies include monetary policy, which is the responsibility of the Federal Reserve, and fiscal policy. Legislators and the President adopted an economic stimulus package (P.L. 110-185) on February 13. Another stimulus package is under consideration. Over the past few months, the government has also intervened in specific financial markets, including acquisition of troubled firms. Administration officials, with bipartisan support of Congressional leaders, proposed a massive intervention in financial markets. This intervention goes beyond normal monetary policy and involves Congressional consideration. The plan, H.R. 3997, proposes authority to purchase $700 billion in assets …

FULL TEXT: http://fpc.state.gov/documents/organization/110708.pdf (pdf)

Financial Market Intervention

September 29, 2008

Financial markets continue to experience significant disturbance and the banking sector remains fragile. Efforts to restore confidence have been met with mixed success thus far. After attempting to deal with troubled institutions on a case-by-case basis, Treasury has proposed a plan to purchase mortgage-related assets to alleviate stress in financial markets and in the banking system. This report provides answers to some frequently asked questions concerning the financial disruptions of September 2008 and the Troubled Asset Relief Program (TARP) in H.R. 3997. …

FULL TEXT: http://fpc.state.gov/documents/organization/110707.pdf (pdf)

The Cost of Government Financial Interventions, Past and Present

Updated September 23, 2008

In response to ongoing financial turmoil that began in the subprime mortgagebacked securities market, the federal government has intervened with private corporations on a large scale and in an *ad hoc* manner three times from the beginning of 2008 through September 19, 2008. The firms affected were Bear Stearns, Fannie Mae and Freddie Mac, and AIG. Another large investment bank, Lehman Brothers, sought government intervention, but none was forthcoming; subsequently, the firm sought bankruptcy protection.

These interventions have prompted questions regarding the taxpayer costs and the sources of funding. The sources of funding are relatively straightforward, the Federal Reserve (Fed) and the U.S. Treasury. The costs, however, are difficult to quantify at this stage. In the most recent interventions (Fannie Mae and Freddie Mac, and AIG), all the lending that is possible under the interventions has yet to occur. Also, in all the current cases, the government has received significant debt and equity considerations from the private firms. At this point, Fannie Mae, Freddie Mac, and AIG are essentially owned by the federal government. Depending on the proceeds from the debt and equity considerations, the federal government may very well end up seeing a positive fiscal contribution from the recent interventions, as was the case in some of the past interventions summarized in the tables at the end of this report. The government may also suffer significant losses, as has also occurred in the past. ...

FULL TEXT: http://fpc.state.gov/documents/organization/110285.pdf (pdf)

Fannie Mae and Freddie Mac in Conservatorship

September 18, 2008

On September 7, 2008, the Federal Housing Finance Agency (FHFA) placed Fannie Mae and Freddie Mac, two government-sponsored enterprises (GSEs) that play a critical role in the U.S. home mortgage market, in conservatorship. As conservator, the FHFA has full powers to control the assets and operations of the firms. Dividends to common and preferred shareholders are suspended, but the U.S. Treasury has put in place a set of financing agreements to ensure that the GSEs continue to meet their obligations to holders of bonds that they have issued or guaranteed. This means that the U.S. taxpayer now stands behind about $5 trillion of GSE debt. This step was taken because a default by either of the two firms, which have been battered by the downturn in housing and credit markets, could have caused severe disruptions in global financial markets, made home mortgages more difficult and expensive to obtain, and had negative repercussions throughout the economy. …

FULL TEXT: http://fpc.state.gov/documents/organization/110097.pdf (pdf)

Fannie Mae's and Freddie Mac's Financial Problems: Frequently Asked Questions

September 12, 2008

The decision to place Fannie Mae and Freddie Mac in conservatorship raises questions about their impact on the housing and finance markets. To a certain extent, the housing, mortgage, and even general financial markets are in an unprecedented situation.

This action by their new regulator, the Federal Housing Finance Agency (FHFA), came after turmoil in the housing, mortgage, and financial markets has raised doubts about the future of Fannie Mae and Freddie Mac, which are chartered by Congress as government-sponsored enterprises (GSEs) and were widely believed to have an implicit guarantee from the federal government.

The Treasury will buy mortgage-backed securities from the GSEs and raise funds for them. Each GSE gave Treasury $1 billion in senior preferred stock and warrants to acquire, at nominal cost, 80% of each GSE. Treasury pledged to invest up to $100 billion in each GSE, and committed to invest more if necessary. Now the formerly implicit guarantee is nearly explicit. ...

FULL TEXT: http://fpc.state.gov/documents/organization/110096.pdf (pdf)

Financial Institution Insolvency: Federal Authority over Fannie Mae, Freddie Mac, and Depository Institutions

September 10, 2008

On September 7, 2008, the Secretary of the Treasury announced that the Federal Housing Finance Agency (FHFA), the newly installed regulator of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), had been appointed conservator of the two enterprises. Until the enactment of the Housing and Economic Recovery Act of 2008 (P.L. 110- 289), there was no clear statutory authority for dealing with the insolvency of either or both of these two mortgage giants. Among the reforms included in P.L. 110-289 were extensive provisions providing the FHFA with powers that substantially parallel those accorded the Federal Deposit Insurance Corporation (FDIC) to deal with every aspect of insolvencies of any bank or thrift institution that holds federally insured deposits. …

FULL TEXT: http://fpc.state.gov/documents/organization/110098.pdf (pdf)

AMERICA.GOV ITEMS

(published by the Bureau of International Information Programs/U.S. Department of State)

Small U.S. Banks Rise Above Financial Turmoil

Community banks have cash to lend and solid customers

October 24, 2008

Washington — Many U.S. banks are discovering that it pays to be the small fish in a big pond as economic turmoil grips businesses on Wall Street.

While their big-bank cousins have faced near-catastrophe in the recent market fluctuations, community banks report that they are healthier than ever. Most haven't suffered from the tight credit crunch and continue making loans.

"The reason they are in better shape is that they are much more conservatively operated than larger banks with higher capital," said Steve Verdier, a vice president of Independent Community Bankers of America, which has 8,000 member banks.

Unlike the marquee-named financial institutions that have collapsed in or been rescued from the economic upheaval, community banks have a few things going in their favor. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081023190714berehellek0.2337915.html

Wall Street Is Gloomy After Years of Exuberance

Analysts say the Street will recover, predict no repeat of Great Depression

October 24, 2008

New York — As Wall Street's financial businesses continue a wild ride of panicked sell-offs in stocks and face regulatory changes to their business practices, the stress is showing on the professionals working in the district's banks, stock-trading houses and insurance companies.

"I don't go out to restaurants any more," said Lara, an insurance professional who spoke a few steps from the 60-story Wall Street headquarters of American International Group (AIG), where she works. Lara, who declined to give her full

name, and her co-workers worry about their jobs and their pensions, which are partly in company shares that fell sharply in value when AIG's problems became public.

Jeff Glenzer, managing director of the Association for Financial Professionals, expects more layoffs at financial services companies "as they adapt to what is clearly going to be a new world for them." ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081023194443berehellek0.9093286.html

Congressional Democrats Push for Economic Stimulus

White House warms up to the idea; central bank calls for targeted bill

October 23, 2008

Washington — U.S. congressional leaders are discussing an economic stimulus plan to revive a slowing economy as credit markets gradually thaw.

Congressional Democrats have been pushing for an economic recovery package in response to gloomy economic news. On October 19, Edward Lazear, the chairman of President Bush's Council of Economic Advisers, said some U.S. regions have already entered a recession.

His view is supported by recent economic data. According to the Blue Chip forecast, gross domestic product declined in the third quarter and is likely to decline further in the fourth quarter. Many corporations have reported weak earnings, and job losses have accelerated in recent months. In September, the U.S. economy shed 159,000 jobs, and the unemployment rate rose 0.4 percentage points to 6.1 percent between July and September, according to the Labor Department.

Ben Bernanke, the chairman of the Federal Reserve, the U.S. central bank, said October 21 that the economic weakness is likely to last several quarters, with "some risk of a protracted slowdown." ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081023171249saikceinawz0.7237055.html

Bush Calls Economic Summit for November 15

Group of 20 nations invited to attend Washington meeting

October 22, 2008

Washington — The leaders of 20 nations have been invited to attend an economic summit in Washington to discuss the current financial crisis, its causes and efforts to resolve it through more effective regulation and reform, the White House says.

"In addition, we expect that the leaders will discuss the effects of the crisis on emerging economies and developing nations," White House press secretary Dana Perino said October 22. A growing concern among developed economies is what impact the current financial crisis will have long-term on developing nations and foreign financial assistance.

President Bush is inviting the members of the Group of 20 to a "Summit on Financial Markets and the World Economy" to be held in the Washington area November 15. It will be the first of a series of summits to bring together world leaders who participate in the G20 finance process to discuss current economic issues. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081022124842dmslahrellek0.359234.html

Major Countries Consider New Global Financial Order

Lessons from the crisis likely to lead to regulatory convergence

October 20, 2008

Washington — A reform of the global financial order will strengthen and harmonize financial regulation across borders as countries seek to prevent a repeat of the excesses that led to the current financial crisis, according to experts.

In an October 15 statement, the Group of Seven (G7) industrialized countries plus the European Union (EU) and Russia urge "changes to the regulatory and institutional regimes for the world's financial sectors." The countries are considering a leaders' summit, which would include some emerging market nations, "in the near future to adopt an agenda for reforms." The idea was furthered at President Bush's Camp David retreat, where he met October 18 with President Nicolas Sarkozy of France and President José Manuel Barroso of the European Commission.

The modern international financial architecture was established in 1944 in Bretton Woods, New Hampshire, where leaders of 44 Western countries created the International Monetary Fund (IMF) and laid down the foundation for reducing trade barriers and facilitating the movement of capital across borders.

British Prime Minister Gordon Brown and other international leaders said that the current financial crisis has created political momentum for radical changes in this system. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081017145942saikceinawz0.5320246.html

U.S. Government to Invest in Banks to Boost Confidence

Bush administration acts on an internationally agreed plan

October 14, 2008

Washington — The U.S. government is taking partial ownership of some of the largest banks and is applying other extraordinary and aggressive measures to return confidence to financial markets and restore their capacity to lend to consumers and businesses.

President Bush announced October 14 that the federal government will inject $250 billion in healthy U.S. banks in return for preferred shares of stock as part of the $700 billion financial rescue plan enacted by Congress earlier in October.

The administration says it is moving as quickly as possible to implement the entire rescue package. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081014135509saikceinawz0.6060907.html

Latin America Adjusting to World Financial Turmoil

Remittances continue to flow to recipients in Central America

October 10, 2008

Washington — The countries of Latin America and the Caribbean are adjusting to the world financial crisis, several economists tell *America.gov*. This is a region where remittances sent home by immigrant workers in the United States and elsewhere are a major source of money.

Manuel Orozco, a senior associate in the Remittances and Development Program at the Inter-American Dialogue, a Washington public policy group, says the economic upheaval offers no "easy answers." But he said it can be mitigated if banks reach out to people who receive money transfers from abroad, known as remittances.

Orozco said that even though remittances to the region have dropped off recently, the drop-off is relative. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/200810101409451xeneerg0.3178217.html

U.S. Acting Aggressively to Stem Market Instability, Bush Says

Bush will meet with G7, IMF and World Bank officials

October 10, 2008

Washington — The United States has developed an effective and aggressive financial plan to restore stability to the nation's financial markets, ease a credit crunch that has gripped the nation's economy, and help world economies stabilize, President Bush says.

Bush will meet with finance ministers from the Group of Seven major industrialized economies before and during the annual meetings of the International Monetary Fund and the World Bank in Washington October 10-12.

"We're working closely with partners around the world to ensure that our actions are coordinated and effective," Bush said in remarks at the White House October 10.

Treasury Secretary Henry Paulson will meet with finance ministers from the world's 20 leading economies.

"Through these efforts, the world is sending an unmistakable signal: We're in this together and we'll come through this together," Bush said.

The U.S. Federal Reserve has joined with central banks around the world to coordinate cuts in key interest rates to encourage banks to lend money and create credit. And the Fed has announced a program to support the commercial paper market, a short-term mechanism used by businesses to raise funds. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081010115540dmslahrellek0.8273279.html

U.S. Moves Forward on Financial Rescue, Considers Other Measures

International coordination sought, but unified response unlikely

October 9, 2008

Washington — U.S. government and central bank officials vow to apply bold and innovative measures to stabilize financial markets, which so far have failed to respond to U.S. and international actions.

Treasury Secretary Henry Paulson said in a prepared October 8 statement that his department has made progress in implementing the $700 billion financial rescue plan, which gives the government broad powers to intervene in the markets. But it will take several weeks before the department will make its first purchases of troubled securities, he said.

"We will implement our new authorities with one simple goal — to restore capital flows to the consumers and businesses that form the core of our economy," Paulson said. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081009144558saikceinawz0.9806177.html

Financial Advisers Urge Investors to Stay Calm

Many stockholders fall into panic when faced with uncertainty, losses

October 9, 2008

Washington — When the stock market goes up, investors jump in. When the market goes down, they often flee.

But occasionally moments of outright panic occur. This feeling is now being experienced across the globe by millions of investors overwhelmed by developments — the mortgage-default crisis, the credit freeze, bank failures and the extraordinary interventions and bailouts by governments and central banks around the world.

Institutional investors and big players seek to salvage what they can and find some safe ground. The small investors, including those with retirement accounts in the stock market, are feeling helpless as they get buffeted by events beyond their control or understanding. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081009155125saikceinawz0.8412439.html

World Markets Remain Hesitant Following Financial Rescue Plan

President Bush says newly enacted rescue plan needs time to take effect

October 7, 2008

Washington — World stock markets remain jittery even after the U.S. Congress approved a $700 billion financial rescue plan. In the first full day of trading after President Bush signed the bill into law, New York's Dow Jones industrial average stock index fell more than 7 percent before rebounding slightly and closing down 3.5 percent. These movements were echoed in markets around the globe.

Speaking to an audience in Ohio on October 6, President Bush said it will take time for the rescue plan to take effect. "I believe that this plan will work over time. I signed the bill on Friday. It's going to take time for the Treasury Department to put a plan in place that won't waste your money and that will achieve the objective," he said. Bush said the rescue plan is large enough to prevent credit markets from freezing up. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081007150229ndyblehs0.9892389.html

Financial Rescue Bill Boosts Hope as Bush Signs It into Law

House of Representatives approves controversial plan on second try

October 3, 2008

Washington — The president signed into law a $700 billion financial rescue bill within hours of its passage by the House of Representatives.

The congressional chamber reversed itself October 3 and approved a revised version of the $700 billion rescue it had rejected four days earlier.

The House cleared by a 263-171 vote the bill designed to stabilize the U.S. and global financial systems by thawing frozen credit markets and preventing major bank bankruptcies. The Senate endorsed the bill October 1 after adding several new features to the House-rejected version, including a temporary increase in the amount of bank deposits insured by the government, tax-cut measures and a few unrelated provisions.

Before signing the bill, President Bush applauded Congress for completing it in a timely manner. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081003163122saikceinawz0.9851496.html

U.S. Senate Endorses Financial Rescue Plan

Senators sweeten the package to sway reluctant House members

October 2, 2008

Washington — The U.S. Senate approved a revised version of the $700 billion plan to shore up the U.S. and global financial systems, reviving hope that the measure will be passed by the other congressional chamber, which rejected the plan days earlier.

Senators voted overwhelmingly October 1 in favor of the bill. It is designed to prevent further bankruptcies of U.S. and foreign financial institutions jeopardized by the fallout from the U.S. mortgage crisis and to bring back confidence to the credit markets, which have practically frozen up in recent days.

President Bush said the plan is "essential to the financial security of every American."

"The American people expect — and our economy demands — that the House pass this good bill this week and send it to my desk," Bush said.

On September 29, the House of Representatives rejected the initial version of the plan by a slim margin. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081002141728saikceinawz0.723263.html

Former Federal Reserve Chairman Predicts Economic Rebound

Greenspan says trust must be re-established between markets, investors

October 2, 2008

Washington — A former chairman of the U.S. Federal Reserve, Alan Greenspan, expressed optimism that U.S. financial markets will recover once trust is re-established between investors and the marketplace.

Speaking at the Georgetown University Law School in Washington October 2, Greenspan, who served as the head of the U.S. central bank for 18 years, said a crisis such as the one currently affecting the financial market "comes along only once in a century" and has come about because of fear on the part of investors of exposing their assets to any type of risk.

The rising number of defaults on home loans — loans made to individuals who could not afford them — has led to the failure of a half-dozen major banks and other financial companies. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081002183536esnamfuak0.410351.html

Policy Researchers Support Financial Plan, with Reservations

They say the only certainty is that doing nothing is unacceptably risky

October 2, 2008

Washington — The five economics specialists on a panel at the Brookings Institution were not sure how the government's $700 billion financial rescue package would be used or what it would accomplish. But they all support it because they believe the price of inaction could be even greater.

Could the crisis pass without this massive commitment of government money, as some economists and politicians have argued? It might, said Alice Rivlin, senior fellow at Brookings and former vice chairwoman of the Federal Reserve. But the possibility that the crisis could lead to a financial meltdown and a deep economic recession is too big a gamble to take.

"It's a little bit like nuclear war," she said. You don't know what the result would be, "but you better do everything you can to avoid it."

She and the others spoke October 1 in a Brookings-hosted discussion billed as "The $700 Billion Question." Analysts at several other Washington-based research organizations have taken up the topic, and they too largely come out in favor of the rescue plan. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20081002164438berehellek0.6261408.html

How Will Washington Prevent Another Financial Crisis?

Everything from abusive lending to unregulated derivatives may be curbed

October 1, 2008

Washington — Whatever the impact of the federal government's gigantic rescue plan for the country's financial system, observers say, new rules governing the system will surely follow.

Treasury Secretary Henry M. Paulson Jr. indicated as much to a 60 Minutes reporter in a September 28 interview. "We don't have the regulatory authorities and structure in place to protect the American people," he said.

Officials will seek new regulations in two areas: the way housing loans, credit cards and similar financial products are sold to consumers — the "primary market" — and how banks and other institutions invest the money they raise from these operations — the "secondary market."

The crisis, the worst since the Great Depression of the 1930s, has already brought down a half-dozen major banks and other financial companies. But at its core, the debacle was caused by the fairly recent practice of selling to more and more homebuyers larger loans than they could afford. ...

FULL TEXT: http://www.america.gov/st/econ-english/2008/October/20080930185854berehellek0.3798029.html

House of Representatives Rejects Massive Financial Rescue Plan

Bush administration considers next steps, acts on related measures

September 29, 2008

Washington — The U.S. House of Representatives rejected the initial version of a $700 billion plan to shore up the U.S. and global financial systems, which have been jeopardized by the fallout from the U.S. mortgage crisis.

Despite the bipartisan compromise deal struck September 28 by the Bush administration and congressional leaders, on September 29 the chamber defeated the measure 205-228 as most Republicans refused to support it. The Dow Jones Industrial Average stock index fell 778 points, or close to 7 percent, on the news, the largest one-day drop in the index since 2001.

For the bill to become law, both the House and Senate must pass the same version of it, and the president must sign it. The Senate had planned to vote on the plan October 1.

President Bush expressed disappointment over the surprising defeat of the plan, which was put together by his Treasury Department with support from the Federal Reserve, the U.S. central bank. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/September/20080929184405saikceinawz0.6227991.html

U.S. Partners May Act Individually on Global Financial Woes

While countries cooperate, bailouts unlikely to be concerted, global effort

September 24, 2008

Washington — Some foreign countries will try to shore up their financial systems but are not expected to emulate the U.S. financial rescue plan and make their efforts a coordinated global action, according to experts.

U.S. Treasury Secretary Henry Paulson and the chairman of the Federal Reserve, the U.S. central bank, Ben Bernanke, put together the $700 billion plan, which calls for the government to buy mortgage-backed and other securities that no one else wants to buy.

Paulson and other U.S. officials have been trying to persuade governments of developed countries to help the American effort to clean up the balance sheets of banks with bad loans.

"We have a global financial system, and we are talking very aggressively with other countries around the world and encouraging them to do similar things," Paulson said.

U.S. officials argue the crisis — caused by the weakness in the U.S. mortgage market — affects the global financial system because of interconnections among countries' financial markets. They suggest that action on a global scale will more fully solve the problem. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/September/20080924172625saikceinawz0.8556787.html

Central Banks Pump Billions into Short-Term Credit

Bush says measures are necessary to shore up troubled global markets

September 18, 2008

Washington — The U.S. Federal Reserve, in coordination with other central banks, has taken steps to provide additional funds to support financial markets after bank lending froze to nearly a standstill, threatening the stability of the global economy, President Bush said.

"These actions are necessary, and they're important, and the markets are adjusting to them," Bush said in brief remarks September 18 at the White House.

The president canceled September 18 trips to Alabama and Florida where he had planned to discuss alternative energy strategies and attend two political fundraisers. He has been meeting with economic advisers and holding consultations with Treasury Secretary Henry Paulson, and was expected to hold additional meetings later in the day.

"The health of our financial markets is critical to the nation's economy, and the president remains focused on taking action to stabilize and strengthen our markets and to restore investor confidence," White House spokesman Tony Fratto said. …

FULL TEXT: http://www.america.gov/st/econ-english/2008/September/20080918114632dmslahrellek0.2236292.html

Government Rescues Two Biggest Mortgage Companies

Help meant to stem further problems in housing market

September 11, 2008

Washington — The decision of the U.S. government to seize control of America's two largest mortgage companies, known as Fannie Mae and Freddie Mac, could cost taxpayers many billions of dollars. But the move was made to

prevent what many feared could be an even costlier scenario: a possible collapse of the two companies, with disastrous consequences for the housing and financial markets.
President Bush said in a written statement that the government had to act because the companies' problems posed "an unacceptable risk" to the American economy.
The companies are an unusual type of enterprise: private corporations owned by their shareholders but created at the initiative of the U.S. Congress and mandated to provide funding to keep housing affordable. Fannie Mae, short for Federal National Mortgage Association, was established during the Great Depression of the 1930s. Freddie Mac, short for Federal Home Loan Mortgage Corporation, was created in 1970 to provide competition. Together they employ 11,000 people and own or guarantee about half of the $12 trillion in housing loans in the United States. …
FULL TEXT: http://www.america.gov/st/econ-english/2008/September/20080911160721berehellek0.5592157.html

Government Subsidies Keep Oil Demand Inflated in Emerging Markets

America's sway depends on its own efforts to restrain consumption

August 14, 2008

Washington - There is good and bad news about developments triggered by high oil prices. Petroleum consumption has fallen across the developed world. The United States is expected to record the sharpest decline in 25 years in 2008 as Americans drive less. This is good news.
The bad news is that these fuel savings are more than offset by a consumption surge in the developing world. Between the first quarter of 2007 and the same period of 2008, oil demand in industrialized countries of the Organisation for Economic Co-operation and Development (OECD) dropped by 1 million barrels per day, while in the rest of the world it rose by 1.1 million barrels, according to the International Monetary Fund (IMF).
Much of the rise in demand for petroleum is driven by rapidly expanding economies in Asia and elsewhere. But governments in almost 50 countries boost demand additionally through oil subsidies -- tax breaks and allowances that help oil companies and refineries close or reduce the gap between the global market prices and lower prices targeted by the government. According to the oil company BP, countries with oil subsidies accounted for 96 percent of the global increase in oil use in 2007. ...
FULL TEXT: http://www.america.gov/st/econ-english/2008/August/20080814172401saikceinawz0.4823267.html

USEFUL LINKS

- The White House
  - **Economy and Jobs**
    http://www.whitehouse.gov/infocus/economy/

- U.S. Department of the Treasury
  - **Economy**
    http://www.treas.gov/economic-plan/
    Current financial market stresses are a strain on our economy. The Emergency Economic Stabilization Act of 2008 gives Treasury the authority it needs to purchase the troubled assets that are weighing down our financial institutions and threatening our economy. This will help boost liquidity and add capital to the financial system, thereby restoring confidence in our markets and our financial institutions so they can fuel continued growth and prosperity.
  - **Emergency Economic Stabilization Act**
    http://www.treas.gov/initiatives/eesa/

- Board of Governors of the Federal Reserve System
  - **News & Events**
    http://www.federalreserve.gov/newsevents/default.htm
  - **Press Releases**
    http://www.federalreserve.gov/newsevents/press/all/2008all.htm

- *America.gov* – Bureau of International Information Programs/U.S. Department of State

- **Economics and Trade**
  http://fpolicy.america.gov/fpolicy/econ/index.html

OTHER RESOURCES

ARTICLES

(for full text please contact the American Reference Center at: arc@usembassy.at)

After the Crash - Helping the U.S. Economy Right Itself

By James Grant, *Foreign Affairs*, November/December 2008

Economic growth in the United States is almost, if not quite, irrepressible. Democratic administration or Republican, it hardly seems to matter to the long postwar trend. Indeed, based on the evidence of 232 years of federal tinkering, American enterprise is policyproof.

Not that the incoming administration can draw much solace from that historical observation. This year's president-elect will be the heir to a burst financial bubble, just as George W. Bush was in 2000. Bush high-mindedly refused to blame the previous administration for the dot-com mania, but the new incumbent would be better served by candor. The truth is that the current mess is a symptom of persistent financial derangement, in particular a sickness of the dollar. At all-too-frequent intervals over the past 20 or so years, supposedly sound institutions and ostensibly rational markets have gone off the deep end. To meet the crisis, the Federal Reserve has intervened with lower interest rates and a faster pace of printing money. But the emergency monetary stimulus has predictably ignited a new speculative upswing -- and so it is over the cliff again.

What might an ambitious president do, besides no harm? He could plan for a return to a sound dollar, rein in Wall Street without incapacitating it, and resist the call to manipulate prices in a politically expedient direction. Do these things, and the very nearly irrepressible U.S. economy will right itself. ...

Financial Bailout - Will U.S. and Overseas Action Stem the Global Crisis?

CQ Researcher, October 24, 2008

Bowing to doomsday warnings that the U.S. and global financial systems could collapse, Congress passed a $700 billion rescue bill early this month. Part of a sweeping $1 trillion government plan to calm the stock market and unfreeze credit — the unprecedented rescue came amid mounting fears of a deep recession and the collapse of such major financial institutions as Lehman Brothers and Washington Mutual. The government's efforts included the federal takeover of mortgage giants Fannie Mae and Freddie Mac, which together hold or guarantee $5.4 trillion in mortgage loans — 45 percent of the national total. The quasi-governmental firms were dragged down by investments in subprime mortgages and other "toxic" financial instruments. Meanwhile, even as the Bush administration and congressional leaders were calling the bailout plan vital, fundamental questions were being raised, including: Is the bailout big enough? And did risky lending by Fannie and Freddie and poor regulatory oversight fuel the crisis?

A Monetary Malaise

The Economist, October 9, 2008

Founded in 1930, the Bank for International Settlements (BIS) is the oldest and chummiest of the international financial institutions. Based in Basel (with its famously good food), the central bankers' club is the nerve centre for international co-operation on monetary technicalities. How ironic, then, that the BIS's economists put much of the blame for the current mess on central bankers and financial supervisors.

For years, BIS reports have given warning about excess global liquidity, urged central bankers to worry about asset bubbles even when consumer-price inflation was low, encouraged policymakers in a global economy to pay more attention to global measures of economic slack, and argued that banking supervisors needed to look beyond individual firms to the soundness of the financial system as a whole. Today's calamity, in the BIS's view, stems from one fundamental source: a world where credit-driven excesses went on for too long. "The unsustainable has run its course," thundered the organisation's annual report in June.

The case against central bankers comes in two parts. The first is that they, along with other financial regulators, were asleep at the wheel, failing to appreciate the scale of risks being built up in the "shadow" banking system that modern finance had created. The second is that they fuelled a credit bubble by keeping money too cheap for too long. ...

FULL TEXT: http://www.economist.com/specialreports/displaystory.cfm?story_id=12373682

Shifting the Balance

The Economist, October 9, 2008

Just under ten years ago, during the emerging-market financial crises, *Time* magazine ran a cover headlined "The committee to save the world". It showed Alan Greenspan, then chairman of the Federal Reserve; Robert Rubin, the treasury secretary; and Larry Summers, his deputy. Inside was a breathless account of how this trio of Americans had saved the world economy from calamity by masterminding IMF rescue packages for cash-strapped Asian countries through weekend meetings and late-night conference calls.

Today the threats facing the global economy are graver than they were a decade ago, yet it would be hard to know whom to put on such a cover. Wall Street is at the centre of the mess, so America's stature and intellectual authority has plunged. Rather than staving off defaults in Asia, Mr Paulson, today's treasury secretary, and Ben Bernanke, chairman of the Federal Reserve, are battling to prevent the implosion of their own financial system. Instead of dictating tough terms to Asian governments, they have been begging Congress for public money to deal with Wall Street's most toxic securities. ...

FULL TEXT: http://www.economist.com/specialreports/displaystory.cfm?story_id=12373710

Taming the Beast

The Economist, October 9, 2008

"Wall Street got drunk." "Bankers deserve D." A few years ago those phrases might have appeared on placards held by purple-haired protesters at anti-globalisation rallies. Now they come from the president of the United States and a former chairman of the Federal Reserve. Thinking the microphones were off, George Bush told a group of Republicans in July that Wall Street needed to "sober up" and wean itself from "all these fancy financial instruments". And long before September's events, Paul Volcker gave financiers their D grade along with a devastating critique. "For all its talented participants, for all its rich rewards," he said in April, the "bright new financial system" has "failed the test of the marketplace".

In light of the events of recent weeks, it is hard to disagree. A financial system that ends up with the government taking over some of its biggest institutions in serial weekend rescues and which requires the promise of $700 billion in public money to stave off catastrophe is not an A-grade system. The disappearance of all five big American investment banks—either by bankruptcy or rebirth as commercial banks—is powerful evidence that Wall Street failed "the test of the marketplace". Something has gone awry. ...

FULL TEXT: http://www.economist.com/specialreports/displaystory.cfm?story_id=12373748

When Fortune Frowned

The Economist, October 9, 2008

After the stockmarket crash of October 1929 it took over three years for America's government to launch a series of dramatic efforts to end the Depression, starting with Roosevelt's declaration of a four-day bank holiday in March 1933. In-between, America saw the worst economic collapse in its history. Thousands of banks failed, a devastating deflation set in, output plunged by a third and unemployment rose to 25%. The Depression wreaked enormous damage across the globe, but most of all on America's economic psyche. In its aftermath the boundaries between government and markets were redrawn.

During the past month, little more than a year after the financial storm first struck in August 2007, America's government made its most dramatic interventions in financial markets since the 1930s. At the time it was not even certain that the economy was in recession and unemployment stood at 6.1%. In two tumultuous weeks the Federal Reserve and the Treasury between them nationalised the country's two mortgage giants, Fannie Mae and Freddie Mac; took over AIG, the world's largest insurance company; in effect extended government deposit insurance to $3.4 trillion in money-market funds; temporarily banned short-selling in over 900 mostly financial stocks; and, most dramatic of all, pledged to take up to $700 billion of toxic mortgage-related assets on to its books. The Fed and the Treasury were determined to prevent the kind of banking catastrophe that precipitated the Depression. Shell-shocked lawmakers cavilled, but Congress and the administration eventually agreed. ...

FULL TEXT: http://www.economist.com/specialreports/displayStory.cfm?story_id=12373696

Boiler Room - The Business Press Is Missing the Crooked Heart of the Credit Crisis

By Dean Starkman, *Columbia Journalism Review*, September/October 2008

The nation's business press at this point must be feeling a bit like the London fire department during the Blitz, scrambling from one financial emergency to the next—a Wall Street pillar collapses here, a bank seized there—each calamity more complex and dangerous than the one before, day after day, week after week.

No sooner had the ink dried on inside-the-boardroom accounts of Bear Stearns's collapse—in *The Wall Street Journal*, *Fortune*, even, for some reason, in comic-book form in Condé Nast Portfolio—when a new series of bank write-offs threatened the global financial system—Whoops, there goes Iceland! (See: Subprime Wave Sweeps Over Iceland, The Associated Press, April 7, 2008); venerable Lehman Brothers became a running emergency, and it was followed swiftly by crisis at Fannie Mae and Freddie Mac, the twin pillars of the U.S. mortgage market. In this environment, the second-largest bank failure in U.S. history—the discovery of IndyMac's corpse in July—barely caused a ripple in the zeitgeist. In the face of global meltdown, what's a few hysterical depositors running around Pasadena? ...
FULL TEXT: http://www.cjr.org/essay/boiler_room.php

The First-World Debt Crisis of 2007–2010 in Global Perspective

By Robert Wade, *Challenge*, July/August 2008

We do not yet know how bad the current credit crisis will get. But we do know that policies in rich nations, dominated by the United States, were often the opposite of corrective. As the author writes in this incisive review of the events that led to the crisis, while boom times rolled on, the cost of credit fell, generating pro-cyclical momentum that made matters worse. A new regulatory apparatus is needed, he argues, one that is more aggressive than is currently being discussed.
FULL TEXT: http://www.challengemagazine.com/extra/023_054.pdf (pdf)

Crude Oil Prices: "Market Fundamentals" or Speculation?

By Paul Davidson, *Challenge*, July/August 2008

The author of this article has few doubts that the current oil price run-up is due to financial speculation. He makes a key point about how it has led to hoarding: oil producers keep more of their black gold in the ground. His remedy to beat the speculators? He believes that the United States should intervene in the markets and catch out the speculators by selling oil from its Strategic Petroleum Reserve.

Please visit the homepage of the U.S. Embassy Vienna, Austria at: http://www.usembassy.at

The program page on **"The Perfect Storm: The Global Financial Crisis of 2008"** will be available at:
http://www.usembassy.at/en/embassy/photo/duchac.htm

Information about the services and resources of the American Reference Center is available at:
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