

## Extra Feature Story

### **Shifting Away From Free Market Ideals, U.S. Government Buys Big Stakes in Banks**

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**Following the lead of several European nations, the United States decided to use \$250 billion in taxpayer money to buy pieces of some of America's largest banks in an effort to help fix a struggling financial system.**

The move marks a significant step in government intervention in the economy, as less drastic government action failed to restore confidence.

President Bush, whose Republican Party has long pushed for free markets and separation between the government and private institutions, announced October 14 that the Treasury Department, which is part of the executive branch of the federal government, would use half the \$250 billion to buy stock in nine of the nation's largest banks. The rest will go into smaller banks.

"I'm sure there are some of my friends out there saying, I thought this guy was a market guy; what happened to him? Well, my first instinct wasn't to lay out a huge government plan. My first instinct was to let the market work until I realized, upon being briefed by the experts, of how significant this problem became," President Bush said when the first bailout was announced.

#### **Credit freeze**

The cause of the current market crisis is lack of credit, meaning that banks and other lenders are not lending money because of fears that it will not be repaid.

Credit is essential for the economy to function. Large companies use their credit to get short-term loans to fund essential parts of their businesses: paying employees, shipping products or buying materials.

Lack of credit could put companies out of business, and when businesses fail, the economy suffers – people lose jobs and stores close.

#### **Government intervention**

In late September, President Bush, his team of financial advisers, and Congress debated and negotiated for two weeks about how to get loans moving again. On October 3, they passed a controversial law that would allow the federal government to spend up to \$700 billion to fix the problem. The government will also back up certain types of bank loans if they fail.

The original plan from Treasury Secretary Henry Paulson was to buy some bad investments – based on risky home loans - from banks. When that plan failed to fix the problem, America followed Britain, France and Germany's lead in taking the next step: buying parts of some of the biggest banks, also known as "nationalizing" those banks.

By buying a share of these banks, the government supplies them with more money and implies to investors that these banks are guaranteed by the government and won't be allowed to fail. If the banks grow and make money, the federal government would share the benefits, or suffer if the banks do worse.

"Government owning a stake in any private U.S. company is objectionable to most Americans, me included," Treasury Secretary Paulson said. "Yet the alternative of leaving businesses and consumers without access to financing is to tally unacceptable," he added.

### **Europe acts, markets rise**

On October 13, European leaders announced various bank intervention plans worth \$2 trillion (almost three times as much as the U.S. plan). British Prime Minister Gordon Brown is credited with being the first to propose a bank nationalization plan, which was followed by Germany, France and now the United States.

After the various governments announced the plan, investors showed their approval by sending stock markets up worldwide.

The Dow Jones industrial average, a measure of the worth of 30 of America's largest companies, gained 11 percent, the largest one-day gain since the 1930s, according to the New York Times.

### **Recession looms**

Despite positive reaction from stock markets after the announcement of the buy-in plans, other factors have kept the American stock market unstable and global economic security uncertain.

After new economic data showed that less people were shopping at malls and buying new cars in September, the Dow average dropped 7.9 percent on October 15, the second-biggest drop in history, the Washington Post reported.

Federal Reserve Chairman Ben Bernanke, who is in charge of the U.S. central banking system, said that the economy would not immediately get better.

**-- Compiled by Quinn Bowman for NewsHour Extra**

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