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To boost equity, US to buy stock in American banks

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WASHINGTON — The government will buy an ownership stake in a broad array of American banks for the first time since the Great Depression, Treasury Secretary Henry Paulson said late Friday, announcing the historic step after stock markets jolted still lower around the world despite all efforts to slow the selling stampede.

Separately, the U.S. and the globe's other industrial powers pledged to take "decisive action and use all available tools" to prevent a worldwide economic catastrophe.

"This is a period like none of us has ever seen before," declared Paulson at a rare Friday night news conference. He said the government program to purchase stock in private U.S. financial firms will be open to a broad array of institutions, including banks, in an effort to help them raise desperately needed money.

The administration received the authority to take such direct action in the \$700 billion economic rescue bill that Congress passed and President Bush signed last week.

Earlier Friday, stock prices hurtled downward in the United States, Europe and Asia, even as President Bush tried to reassure Americans and the world that the U.S. and other governments were aggressively addressing what has become a near panic.

A sign of how bad things have gotten: A drop of 128 points in the Dow Jones industrials was greeted with sighs of relief after the index had plummeted much further on previous days. The week ended as the Dow's worst ever, with the index down an incredible 40.3 percent since its record close almost exactly one year earlier, on Oct. 9, 2007.

Investors suffered a paper loss of \$2.4 trillion for the week, as measured by the Dow Jones Wilshire 5000 index, and for the past year the losses have totaled \$8.4 trillion.

It was even worse overseas on Friday. Britain's FTSE index ended below the 4,000 level for the first time in five years; Germany's DAX fell 7 percent, and France's CAC-40 finished down 7.7 percent. Japan's benchmark Nikkei 225 index fell 9.6 percent, also hitting a five-year low. For the week, the Nikkei lost nearly a quarter of its value. Russia's market never even opened.

Paulson announced the administration's new effort to prop up banks at the conclusion of discussions among finance officials of the Group of Seven major industrialized countries. That group endorsed the outlines of a sweeping program to combat the worst global credit crisis in decades.

Earlier this week, Britain had moved to pour cash into its troubled banks in exchange for stakes in them — a partial nationalization.

Paulson said the U.S. program would be designed to complement banks' own efforts to raise fresh capital from private sources. The government's stock purchases will be of nonvoting shares so it will not have power to run the companies.

The purchase of stakes in companies would be in addition to the main thrust of the \$700 billion rescue effort, which is to purchase distressed assets from financial institutions as a way of unthawing frozen credit, getting banks to resume more normal lending operations and staving off severe problems for businesses and

everyday Americans alike.

It would mark the first time the government has taken equity ownership in banks in this manner since a similar program was employed during the Depression.

Paulson and Federal Reserve Chairman Ben Bernanke met with their counterparts from the world's six other richest countries late in the day as the rout of financial markets sped ahead despite earlier dramatic rescue efforts in the U.S. and abroad.

In a statement at the end of that meeting, the G7 officials vowed to protect major banks and to prevent their failure. They also committed to working to get credit flowing more freely again, to support the efforts of banks to raise money from both public and private sources, to bolster deposit insurance and to revive the battered mortgage financing market.

They did not provide specifics beyond that five-point framework.

At the White House earlier in the day, Bush said, "We're in this together and we'll come through this together." He added: "Anxiety can feed anxiety, and that can make it hard to see all that's being done to solve the problem."

He made it clear the United States must work with other countries to battle the worst financial crisis that has jolted the world economy in more than a half-century.

"We've seen that problems in the financial system are not isolated to the United States," he said. "So we're working closely with partners around the world to ensure that our actions are coordinated and effective."

The Dow dropped a little over 100 points while he was speaking.

Fear has tightened its grip on investors worldwide even as the United States and other countries have taken a series of radical actions, including unprecedented, coordinated interest-rate cuts by the Federal Reserve and other major central banks.

Besides the United States, the other members of the G7 meeting in Washington are Japan, Germany, Britain, France, Italy and Canada. Finance officials also planned to meet with Bush today at the White House.

"We are in a development where the downward spiral is picking up speed," said German Finance Minister Peer Steinbrueck, who wanted to see an orchestrated response among the G7.

So did French Finance Minister Christine Lagarde, who said a "coordinated, synchronized and rightly timed approach" is needed.

An even larger group of nations — called the G20 — will meet with Paulson this evening. How the world's finance officials and central bank presidents can better contain the spreading financial crisis also will dominate discussions at the weekend meetings of the 185-nation International Monetary Fund and the World Bank in Washington.

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Read the text of the plan of action issued Friday by the G7 finance ministers and central-bank governors.
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