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MARKET CRISIS: THE HIGH STAKES OF INACTION

Why Market Stabilization Matters to the American Economy

-- "You can either inject money now, or we can let the system unwind and the cost in comparison down the road would be astronomical, both in terms of personal dislocation—people losing their jobs—and in terms of lost revenue to the federal government."
Senate Budget committee ranking member Judd Gregg, Associated Press, September 19, 2008.

ECONOMIC CONFIDENCE AT A CROSSROADS

- The American economy is facing a critical turning point as bad debt threatens to paralyze U.S credit markets and financial institutions. U.S. financial markets are teetering toward collapse, putting every aspect of the economy into jeopardy.

- Confidence in financial markets is eroding. Investors are withdrawing deposits from investments once thought to be safe and sound, while financial institutions are left struggling to obtain the financing necessary for businesses to operate day-to-day—buying inventory, keeping the lights on, and paying employees so they can feed their families.

- As Federal Reserve Chairman Ben Bernanke recently warned, if we fail to address our on-going problem with troubled mortgage-related securities, the nation will almost certainly fall into recession.

- If that recession were similar in magnitude to the recessions we have experienced since the early 1970s, the unemployment rate would balloon to between 7.4 percent and nearly 8 percent, throwing 2.0 to 2.7 million more workers on the unemployment lines. Unfortunately, the current potential for economic calamity far outweighs those previous recessions—they simply provide context for something much worse.

- Letting the economy slide into a severe recession has the potential to usher the U.S. into a "lost decade" of sluggish economic growth (similar to that faced by

Japan throughout the 1990s). We could witness economic losses totaling $7.3 trillion, far exceeding the cost of acting today to put our financial markets in order.

WHY WALL STREET IMPACTS MAIN STREET

- Businesses rely on the financial markets for their daily operations, purchasing inventory, writing paychecks, as well as their long-term investments that enable businesses to grow.

- A collapse in the financial markets would affect the commercial paper market that funds short-term loans which help businesses and companies pay for inventory and maintain production (i.e., no paper, no credit, no confidence, no loans).

- Without the ability to borrow money for both short- and long-term investments, businesses can't:
    - expand production;
    - hire new workers;
    - keep workers already employed; or
    - open new businesses (vital to economic growth).

- Families and businesses alike rely heavily on financial markets. Families borrow to purchase cars, appliances, furniture, and other consumer durables (or simply to go out to dinner). Businesses borrow for various essential reasons as well—for everything from overcoming short-term cash flow problems to investing in new equipment or new ideas. A collapse of the financial markets would prevent consumers and businesses from getting the funds they need to consume and invest—undermining two key drivers of the U.S. economy. The impact?
    - dramatic reduction in standard of living;
    - harder to pay for gas, food and utilities;
    - workers and families would earn less;
    - inability to save for retirement;
    - inability to pay for college;
    - loss of savings;
    - loss of retirement funds;
    - new home mortgages unavailable; and
    - home prices fall, property tax receipts decline, leading to dramatic cuts in funding for schools.