

BUSINESS **Bush economic advisors meet with Pelosi**

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By David Louie

It may be the break the financial sector has been waiting for: A plan to form a government corporation to take over the bad debts of the banking industry.

On Thursday afternoon, Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke took their plan to Capitol Hill. They met with House Speaker Nancy Pelosi and other Congressional leaders, but announced only that they had agreed to cooperate.

"We're coming together to work for a comprehensive solution to this problem which has to do with illiquid assets on financial institution's balance sheets -- thank you," said Treasury Secretary Henry Paulson.

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When word leaked out on Wall Street

during the final hour of trading, stock prices immediately shot up. The Dow ended with a gain of more than 400 points, that's the biggest percentage gain in six years.

What we're hearing is that the White House wants to create a separate agency to take over troubled banks and insurance companies.

It would be like the resolution trust corporation set up almost 20 years ago to sort out the savings & loan crisis. But this time, the job will be far more complex because of something called derivatives, which are complex bets on which way the market is going.

Stephen Pizzo tracked the savings and loan crisis nearly 20 years ago. He wrote the book, "Inside Job," about the resolution trust corporation.

Pizzo says while foreclosures and bad loans are part of today's crisis, the situation is far more complex.

"The amount of derivatives out there that they're going to have to sell and figure out is \$67 trillion. It is truly a staggering amount, and nobody really knows what these things are worth, if anything at all," said Pizzo.

Democratic leaders in Congress say the new agency must help homeowners as well as wall street.

"Without a comprehensive solution that helps keep people in their homes, no

amount of money advanced by Uncle Sam, will restore the fundamental strengths of the American economy," said Senator Charles Schumer (D) New York.

The current crisis is making credit tight, and it could make it difficult for companies to borrow money to expand. That could be a worry for the Bay Area, where start-up's are working on research and development in biotech and green tech.

Bill Hermann is the former Chief Economist at Chevron. He now teaches economics at Golden Gate University.

"I think the money is always there. When you have some kind of innovative idea come along, there's always money to finance it. We're a very flexible economy," said Hermann, Ph.D.

Turning over the financial crisis to a separate agency still leaves one issue unresolved: tighter regulation.

Robert Reich was Labor Secretary under President Clinton. He is professor of public policy at UC Berkeley.

"The fundamental problem here is a lack of confidence on Wall Street because you haven't had the kind of oversight and the kind of regulations you need, and that's ultimately the only thing that's going to stem this bleeding," said Reich, J.D.

Speaker Pelosi said the White House plan will be ready in a matter of hours. That's a signal that details should be out by time stock markets open in the morning.

Keep in mind that Congress wraps up in three weeks -- that's a short window to get a big job done.

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