

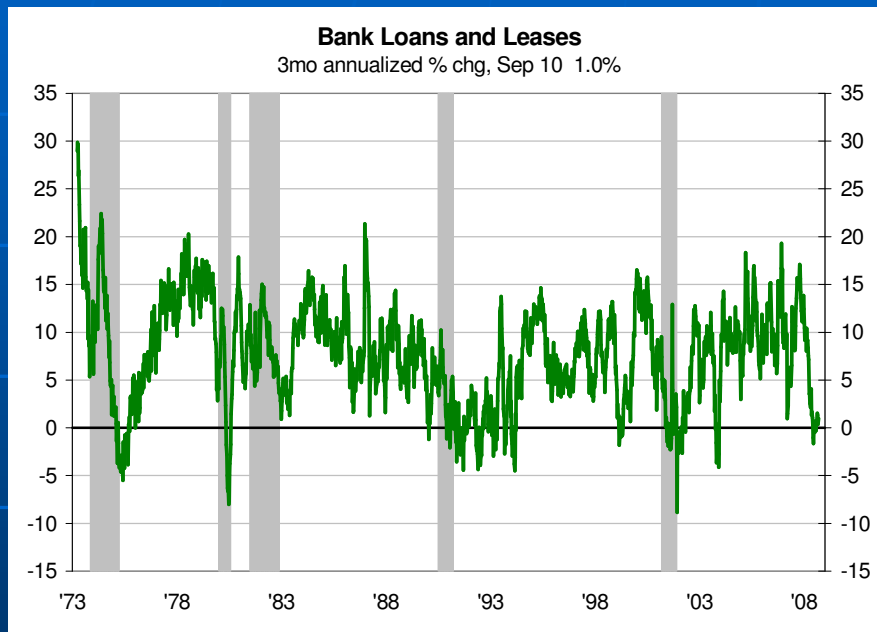
New America Foundation

Confronting Economic Meltdown

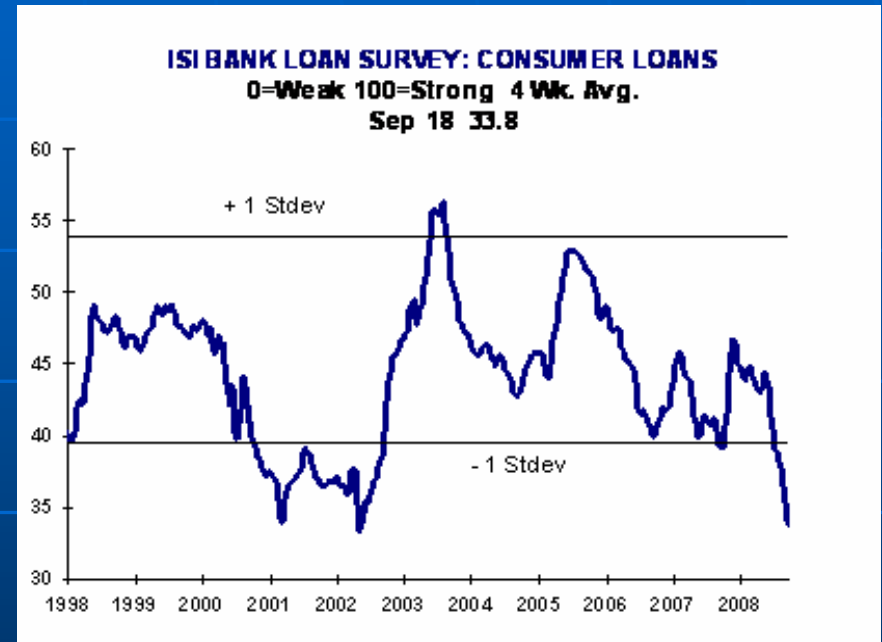
Tom Gallagher, CFA
ISI Group

September 23, 2008

Reluctance by banks to lend is a major headwind for the economy.

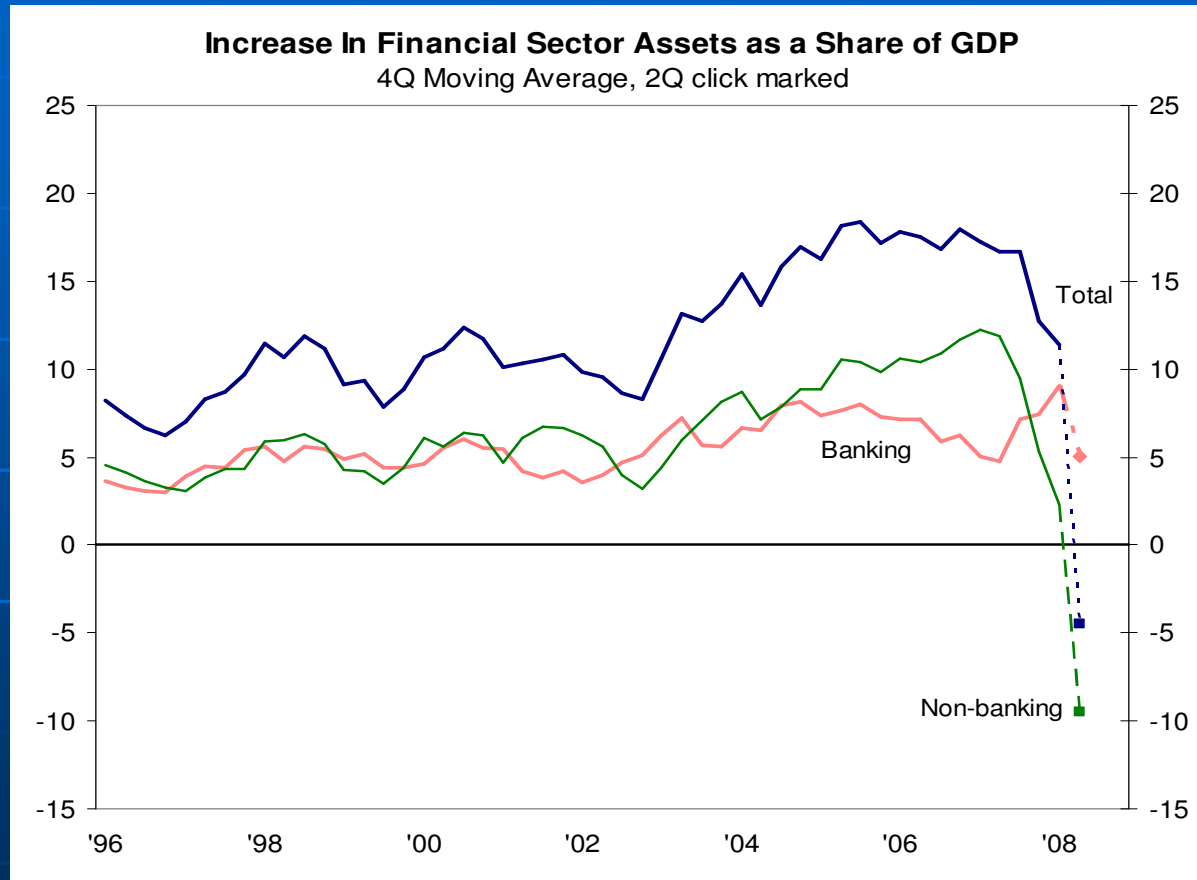


Source: Federal Reserve Board.



Source: ISI.

Reluctance by banks to lend is part of a broader “deleveraging” of the US economy.



Source: Federal Reserve Board.

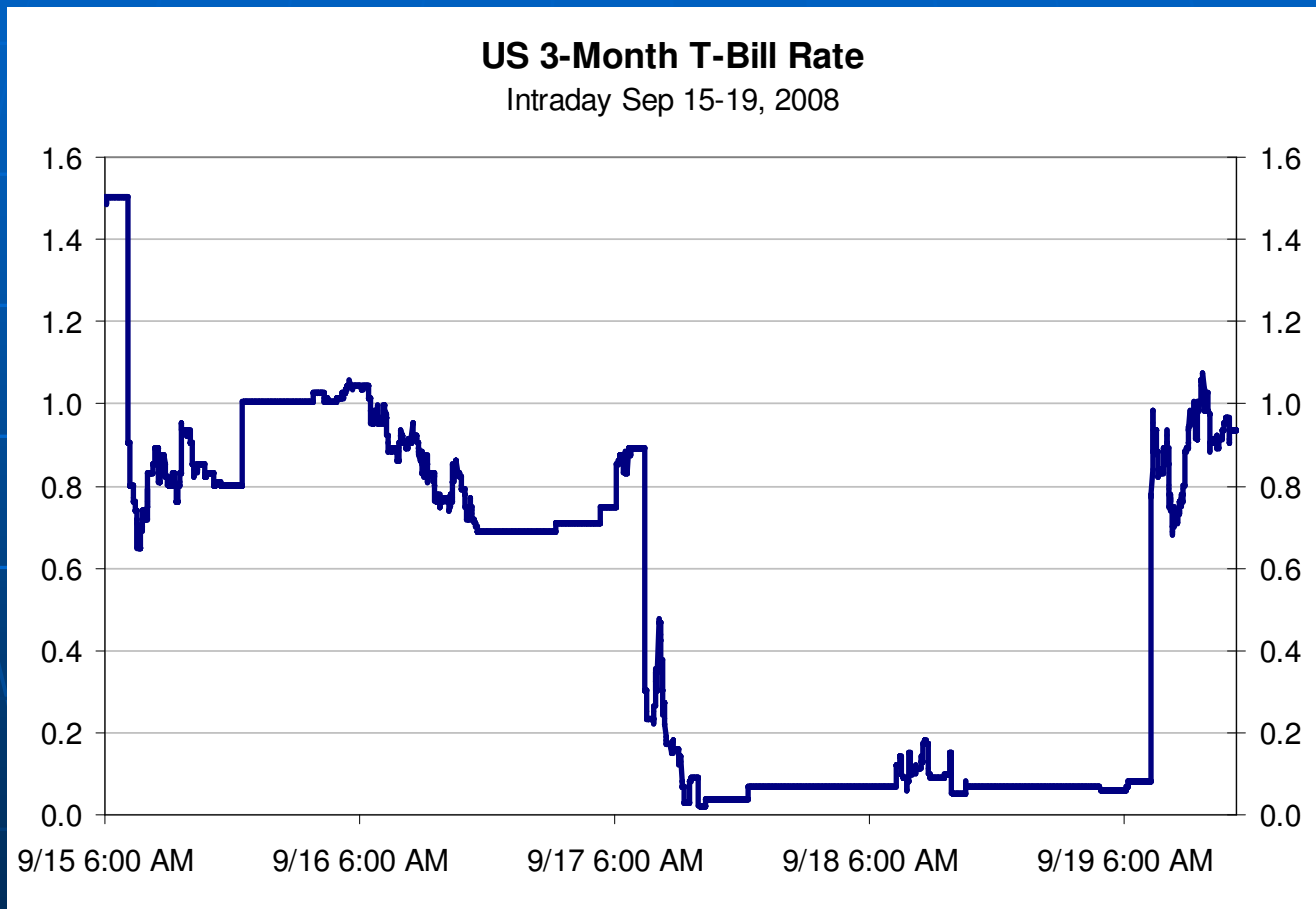
Financial crises usually require nontraditional policy responses.

**Public Sector Recapitalizations Of
Financial Sector,
Developed Countries**

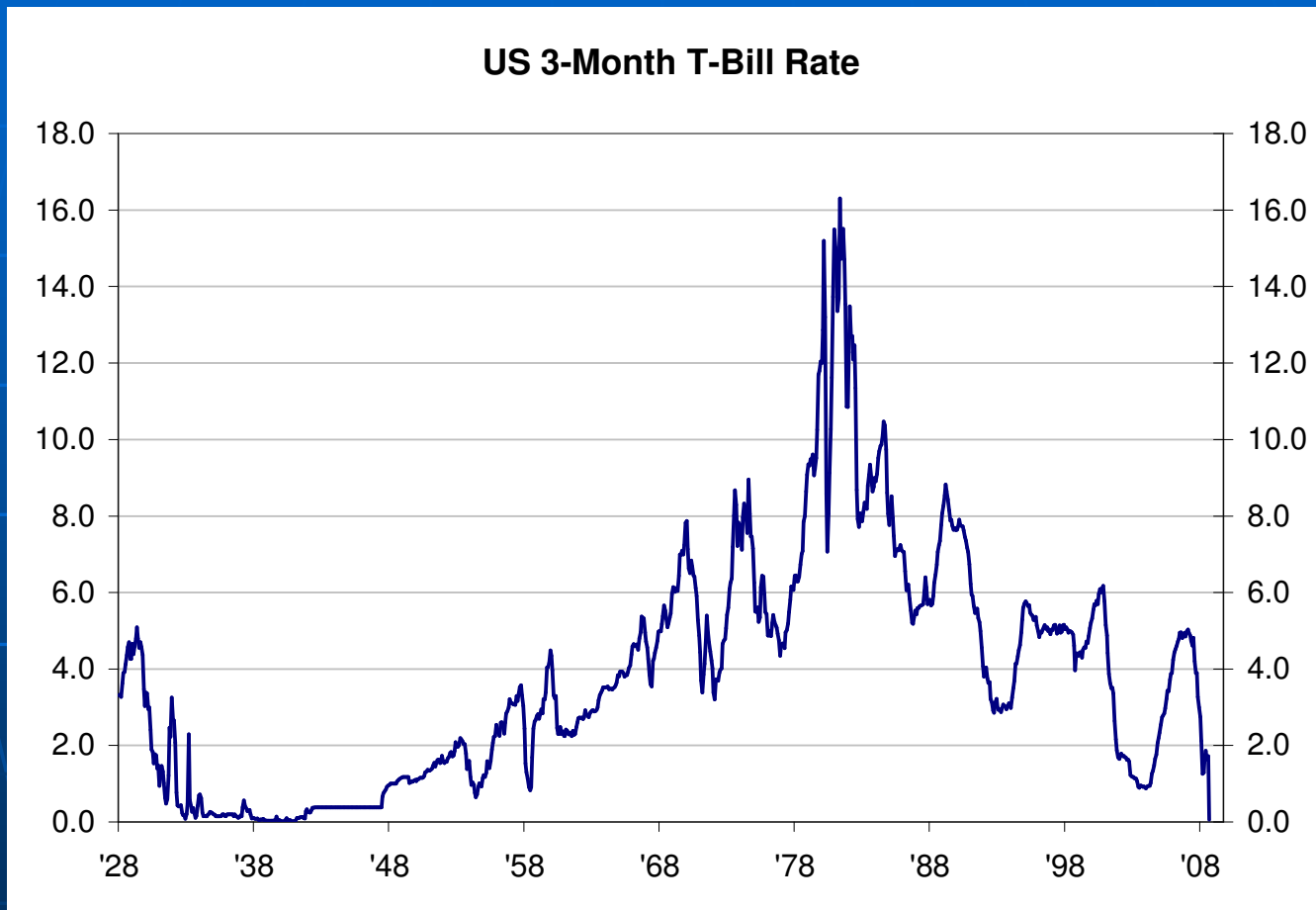
Country (Start date)	Fiscal Cost (% GDP)
Spain (1977)	16.8
Norway (1987)	4
Finland (1991)	8
Sweden (1991)	6
Japan (1992)	20

Source: Reinhart and Rogoff AEA.

3-month Treasury bills fell close to zero for 3 days last week...



... which haven't been seen since the 1930s.



Financial rescues may be necessary but have costs – higher Treasury rates and a weaker dollar.

