

# US has dwindling number of tools in econ crisis

WASHINGTON (AP) — What's left in Uncle Sam's economic tool kit?

The commitment of \$700 billion didn't impress markets here and around the world. Neither did fresh interest rate cuts. Stocks plunged yet again on Thursday.

The government still has some unused options — like buying up foreclosed properties and making direct loans to homeowners — that might ease the credit and housing crises and brighten the economic outlook.

But the options are dwindling and generally involve partly taking over private companies, an idea that's anathema to economic conservatives and others in America.

Even as policymakers counsel patience in waiting for the medicine already prescribed to fully kick in, they are searching hard for other approaches.

"So long as financial conditions warrant, we will continue to look for ways to reduce funding pressures in key markets," says Federal Reserve Chairman Ben Bernanke.

The Fed's primary tools are lowering interest rates and flooding the system with money. It's already done plenty of both.

It could further lower interest rates — and probably will if the downturn continues. But after this week's half-percentage-point cut, coordinated with other nations' central banks, there isn't a whole lot lower for the U.S. to go.

Since September 2007, the Federal Reserve has pushed its benchmark short-term rate down to 1.5 percent from 5.25 percent.

The Fed presided over by Alan Greenspan kept interest rates at 1 percent for a full year earlier in the decade — and many economists suggest that was one of the root causes of the housing bubble, making it too easy for people to take out loans they couldn't afford.

And besides, in Japan holding rates near zero for years did little to help a deeply troubled economy.

The Fed could inject more money. But it has already flooded the financial system with hundreds of billions of dollars.

And bold action by the central bank can have unintended consequences, signaling to investors that things may be worse than they thought, contributing to the downward spiral in markets.

Apart from the Fed, Congress last week enacted a bailout package backed by up to \$700 billion in taxpayer money, on top of a \$300 billion housing package passed in the summer. Treasury Secretary Henry Paulson says it will be weeks before the government actually starts using the bailout money to buy up soured mortgage-based securities.

The Treasury is now considering using some of the money to take part ownership in certain U.S. banks. But that could put the government in the uncomfortable position of regulating banks in which it is also an investor.

Many economists say that actions taken so far do little to address what is at the heart of the spreading financial contagion: falling housing prices and rising foreclosures.

Former White House economist Glenn Hubbard proposes that the government refinance every U.S. mortgage held by Fannie Mae and Freddie Mac into 30-year loans fixed at 5.25 percent. He also suggests that putting in place a cleanup agency modeled on the Resolution Trust Corporation of the late 1980s and early 1990s could help.

The RTC was set up to deal with the savings and loan crisis. The government actually took over more than a thousand failed S&Ls, and all their assets. It wound up owning foreclosed homes and other property, eventually reselling them.

It took six years to clean up that mess. The total cost to taxpayers: about \$125 billion.

Economist Rob Shapiro, of NDN, a think tank formerly known as the New Democratic Network, said that so far the Fed is "putting as many fingers as it can in the dike" without stemming the flood. He said the government should consider direct government loans to homeowners facing foreclosure.

"There are a range of proposals out there. The focus of the administration and Congress on Wall Street to the exclusion of homeowners is very economically and politically myopic," said Shapiro, a former economic adviser to President Clinton.

Republican presidential candidate John McCain has proposed a \$300 billion program for the government to help financially troubled homeowners stay in their homes by taking over their mortgages and renegotiating the terms — a step authorized by the \$700 billion package signed last Friday by President Bush.

While that would be expensive, McCain said, "until we stabilize home values in America, we are never going to start turning around and creating jobs and fixing our economy." Critics of the McCain plan complained that many of the mortgages involved have been repackaged into complex investments that are now nearly impossible to value — and that the government would be hard-pressed to unravel and buy them individually.

Democrat Barack Obama has called for the administration to move quickly to "use the authority they already have to purchase troubled assets, including mortgages."

World Bank President Robert Zoellick suggests greater coordination with other major economies in an economically interconnected world. For starters, he says, the Group of Seven club should be expanded. In addition to the G7 countries — the United States, Japan, Germany, Britain, France, Italy and Canada — membership might include Brazil, China, India, Mexico, Russia, Saudi Arabia and South Africa, Zoellick suggests.

Asked what tools the government has left, White House press secretary Dana Perino said, "They have a whole range of new tools from ... all sorts of technical terms that I do not know. But they're working very hard. And Neel Kashkari will be in charge of that. He's setting up shop and trying to hire as many people as possible."

He's the interim head of the program that will oversee the \$700 billion bailout.

(This version CORRECTS last graf, adding 'billion' after \$700)