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October 10, 2008

Keith Hennessey

Good afternoon. Thank you for joining me today to discuss the economy and what our Administration is doing to restore stability to the markets. The President spoke from the Rose Garden this morning to reassure the American people that the government is responding aggressively to the challenges in our financial markets. Here is what he said:

"Here's what the American people need to know: that the United States government is acting; we will continue to act to resolve this crisis and restore stability to our markets. We are a prosperous nation with immense resources and a wide range of tools at our disposal. We're using these tools aggressively."

"The plan we are executing is aggressive. It is the right plan. It will take time to have its full impact. It is flexible enough to adapt as the situation changes. And it is big enough to work."

I look forward to taking your questions.

Sheri, from Greene writes:

Why doesn't anyone see that each time a government bailout has been announced, the stock market plummets? Most Americans do not want bigger government. Please allow the stock market and the economy work itself out. Free enterprise is the best for the best country in the world.

Keith Hennessey

President Bush is a strong believer in free markets. He believes that government should get involved in business transactions only as a last resort, and that firms that make bad decisions should be allowed to fail.

He does not, however, believe that we should allow the financial system to risk failure, and so that's why we're acting. The actions that the federal government has taken, and that we plan to take, are designed to restore confidence, patience, and capital to our financial system, so that firms can lend and trade again with each other, and with a minimum of government interference.

Haley, from Slippery Rock, PA writes:

Mr. Hennessey, Can you please explain in simple terms WHY the government is giving \$700 billion to companies and HOW it helps the economy? I think people would be more accepting of it if they saw how it would help them in the long run.

Thanks.

Keith Hennessey

The US banking system is undercapitalized. Banks, and some other large financial institutions like

insurance companies, made the same bad decision – they purchased mortgage-related assets, when they didn't understand the mortgages that made them up, and in some cases they didn't understand the complex securitization process that created them.

When banks lack capital, they can't lend. Our economy relies on credit to operate – even if you pay your credit card balance every month, you are still relying on the credit card company to loan you the funds between when you purchase something and when you pay your bill.

If you or your child, have a student loan, you are relying on credit to finance a long-term investment. If you have a mortgage, you're borrowing to finance a large asset purchase. If you get a car loan, you're also relying on credit. If you're a farmer who borrows early in the season to buy seed and fertilizer, and then pays back the loan after harvest, you rely on credit. If you're a small businessman who needs to manage his cash flow between when he buys the raw materials and when he sells the good, you're relying on credit. And if you want to buy a new lathe to make more widgets, you need credit for that loan.

Banks in the US and around the world are not providing the credit that we all need to live in the daily economy, and for that economy to grow.

Our first choice is that private investors provide that credit. But since we must have that credit, we have asked Congress to loan us \$700B of taxpayer money to provide that base amount of capital to banks. It's a last resort, and we're taking it.

Note that we expect to get some (most?) of that money back. These are investments, and we expect the taxpayer will get a return. So the actual cost to the taxpayer will be less than \$700B, and we hope much less.

Charles, from West Point, NY writes:

What kinds of precautionary measures is the Administration taking to prepare for the transition team coming in at the end of this year, at a time when the transfer of economic power from one President to the next is clearly going to be extremely fragile?

Keith Hennessey

The President signed an Executive Order yesterday to set up a Transition Council to make sure we have a smooth transition. The current financial crisis and economic stress is one of several areas when a smooth transition of power and knowledge is essential. Others obviously involve things like Iraq and Afghanistan, as well as protecting our homeland from terrorist attack.

As a member of the President's economic team, I'll be doing my part to make sure my successor, and the successors to the economic parts of the Cabinet, have what they need to be operational and effective on Day 1. And this is true no matter who wins the Election.

Bob, from Tolland, CT writes:

Hello, My background is not in economics. However, I have reason to believe the path taken to deal with the financial markets caving in is a very dangerous one. This leads to my question; would Mr. Hennessey's office care to comment on the potential for hyperinflation as a result of the planned drastic increase in the money supply?

Respectfully,

Bob

Keith Hennessey

We're significantly less worried about inflation than we are about the downside effects and risks from what we're seeing in the financial markets. When oil was \$140+ per barrel, there was more room for concern about inflation. Now, we're far more concerned that the economy is not growing fast enough.

Felix, from Washington, D.C. writes:

Mr. Hennessey: Can you explain why the Treasury Department's bailout is focusing on the purchase of

mortgage-backed securities to free up credit instead of trying to bolster the value of the underlying assets (i.e., the real estate homes) to aid in a housing recovery? It seems to me that the Treasury's TARP plan is completely backwards and will be too slow for the marketplace to aid in any sort of recovery, particularly when you consider that nobody can seem to place a value on these securities. Also, is there any movement at Treasury to work with other governments to create a global clearinghouse for making credit-default swaps more transparent and above-the-board?

Thank you.

Keith Hennessey

The value of homes fundamentally depends on the supply of and demand for houses. There were housing booms, especially in areas like CA, AZ, NV, and FL, for several years that dramatically increased the supply of houses. As long as supply greatly exceeds demand for houses, we expect that housing prices will continue to drop. And since the seller of a home is often quite reluctant to lower the sales price, this adjustment takes a lot of time.

So I don't think that the TARP will be slower than attacking the underlying value of the assets. We're doing our best to push on both fronts, and have taken actions to help homeowners keep their homes and avoid foreclosure (which would further increase supply), at the same time that Secretary Paulson and the Treasury are working hard to flesh out the details of the TARP.

Tony, from Boston writes:

So why had President Bush been so reluctant to declare that we in the USA are in a recession when all the economic signs point to being in one? It seems to me like he's an ostrich unwilling to confront the situation and trying feverishly to dodge the obvious questions - we seem to have elected a president who has problems when dealing with reality and the truth. Why?

Keith Hennessey

The best data we have show that the US economy grew around 1 percent in the first quarter of this year, and 3.3 percent in the second quarter. That's not even close to a recession, and 3.3% is fairly strong growth.

The economy is clearly in a worse position now than it was in the second quarter, due first to high oil prices, and now to the consequences of what's going on in the financial markets. But the term "recession" is a technical economic term, and I don't think it should be used to mean "something is wrong in the economy", as often is done in a political environment.

So things are tough now, and we're working to fix them as best we can. But I'll wait on evaluating the "recession" word until we see the data.

Valerie, from Mesa, AZ writes:

As a young working American...I would like to know what steps I can take to ensure a proper retirement for myself? In the current state of the economy today it is very hard to get ahead much less save for retirement. Eventually I will have children and wonder what kind of impact today's economy will have on my future?

Keith Hennessey

Start saving a little bit now with each paycheck. Once you get used to saving, it's easier to dial the amount up a bit. Even if the amount you're saving now seems trivial, you'll find that the amounts can go up as your pay increases over time, and you also may find that you're used to saving, and you'll find ways to squirrel a little more away.

And then, after a few years, you'll start to see the beauty of compound interest, as those small amounts you saved early in your career start to accumulate and grow.

Carrie, from Colfax, CA writes:

Hi, I was wondering now that the government has passed the Emergency Economic Stabilization and has

begun to buy up bad debts and property Mortgages which branch of the government will be in control of selling the properties once the economy starts to improve? I ask this because I plan to go back to school and would be interested in this field.

Keith Hennessey

Actually, the buying hasn't begun yet, but it will in the near future. I expect that the Treasury Department will hire one or more private firms to handle the mechanics of buying and selling assets.

Heather, from Las Vegas, NV writes:

When is the President going to give a State of the Union type of speech about the economy? We need to hear more from our President during this turmoil in the economy. I have been a strong supporter of the Republican party and voted for President Bush during both elections. Right now is the time to show true leadership and band our country together to be strong again.

Thank you.

Keith Hennessey

He has spoken a bunch over the past few weeks, including some serious speeches. The biggest speech was an evening speech from the East Room of the White House (that's a signal in itself – we use the East Room only for big speeches) on September 24th. You can find it [here](#).

Austin, from Pheonix writes:

Dr Mr. Hennessey, I am currently writing a school essay and wanted your opinion on a matter. If you could answer this question with your honest opinion it would be much appreciated. Do you believe that the problems with the economy are due to the mistakes of this presidency, or were built up over time with past presidencies.

Keith Hennessey

I believe that mistakes were made by investors and people on Wall Street, and by people in government. Many of those problems built up over time. We called attention to some of them and tried to solve them, like trying to get Congress to address problems that had been building for years with Fannie Mae and Freddie Mac, and Congress didn't act. Other things we learned about after bad things happened – so, for instance, the banking regulators have now strengthened the requirements placed on a mortgage lender to make sure that they give you good information, and that they don't give you a loan you can't afford.

I'm sure that there will be plenty of discussion about what caused the current situation, and that academics will be analyzing this for years to come. But right now, we're focused on doing what we need to do to fix the immediate problems we face.

Bruce, from Manitowoc Wi writes:

What is the government going to do when all our savings have vanished and we can no longer see a future of prosperity?

Keith Hennessey

It won't vanish, and we still see a future of prosperity. This is a tough time, and it's painful for most everyone. But here's what the President said this morning:

"Here's what the American people need to know: that the United States government is acting; we will continue to act to resolve this crisis and restore stability to our markets. We are a prosperous nation with immense resources and a wide range of tools at our disposal. We're using these tools aggressively.

...

The plan we are executing is aggressive. It is the right plan. It will take time to have its full impact. It is flexible enough to adapt as the situation changes. And it is big enough to work."

Keith Hennessey

Thanks everyone for joining this chat. I've got to get back to work.

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