CBPP STATEMENT

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STATEMENT BY ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, AND CHAD STONE, CHIEF ECONOMIST, ON THE SENATE-PASSED FINANCIAL RESCUE LEGISLATION

The House should quickly approve the financial rescue plan that the Senate approved in strong bipartisan fashion yesterday. Further delay would leave the U.S. economy increasingly vulnerable to a contraction more severe than any since the 1930s — one that could trigger large increases in unemployment and poverty and the loss of a sizeable portion of many families' retirement savings.

The Senate-approved plan is far from perfect, although it includes important improvements to Secretary Paulson's original plan that provide greater oversight and reduce the risks to taxpayers (the same improvements included in the bill the House defeated Monday) and also increases the amount of an individual's bank deposits insured by the Federal Deposit Insurance Corporation from the current $100,000 to $250,000.

The Senate demonstrated a lack of fiscal responsibility by adding an array of tax-cut extenders that are unrelated to the rescue plan and would be deficit-financed rather than paid for by closing unproductive (and in some cases, egregious) tax loopholes, as the House had sought to do in a separate "extenders" bill it passed last month. The package also lacks various elements that it would have been beneficial to include, such as bankruptcy protection for people facing foreclosure. Even with this financial rescue package in place, the federal government will need to undertake more work ahead to address the ongoing economic fallout from the mess on Wall Street.

The bottom line, however, is that the potential consequences of defeating this legislation are far too grave to ignore. Quick action to enact this legislation is imperative in order to reduce the great risk of a financial market meltdown that would harm millions of low- and moderate-income households. If a malfunctioning credit market cripples banks' ability to lend to individuals and businesses, the already weak economy will become much more vulnerable to a severe recession. And that, in turn, would trigger a rapid increase in unemployment. In addition, millions of people who are by no means affluent could see their retirement savings shrink.

A severe recession also would damage federal, state, and local budgets, primarily by shrinking government revenues considerably. In fact, it would undercut government's ability to meet Americans' needs in areas like health care and education much more severely than would the additional federal debt incurred under the rescue plan. States would be especially hard hit; many would be forced to make substantially larger budget cuts than those they are already contemplating.

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We also note that the rescue legislation would likely cost far less than the $700 billion the federal government would have available to buy troubled assets. The Congressional Budget Office has pegged the cost at "substantially smaller than $700 billion."

Members of Congress have been buffeted by arguments about who would "win" or "lose" from this legislation. Ordinary Americans, especially those of little or moderate means, will likely be the biggest losers if this imperfect but necessary legislation doesn't pass.

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