Bush rejects “bailout” for homeowners, vows aid to Wall Street

Joe Kay
1 September 2007

President Bush made clear in remarks on Friday that there would be no comprehensive program to aid the millions of American homeowners who have already lost their homes or are at risk of foreclosure due to the collapsing US housing market.

In a brief speech at the White House, Bush outlined a few palliatives for mortgage holders. While feigning concern for ordinary Americans caught in the scissors of rising mortgage payments and declining home prices, the thrust of Bush’s remarks was to reassure Wall Street that the government will take steps to prevent a credit meltdown.

Also on Friday, Federal Reserve Chairman Ben Bernanke gave some indication that the Fed might lower interest rates in the next few weeks or take other action in order to stave off a liquidity crisis in world credit markets. Stock markets closed higher on Friday in response to Bush’s and Bernanke’s remarks.

Bush introduced his policy proposals Friday by insisting that while the federal government “has got a role to play” in the housing crisis, it is a “limited” one. “A federal bailout of lenders would only encourage a recurrence of the problem,” he said. “It’s not the government’s job to bail out speculators, or those who made the decision to buy a home they knew they could never afford.”

The bottom line in Bush’s statement is that ordinary Americans threatened with the loss of their homes will receive no direct aid from the US government.

This was in line with statements made by Bush in a press conference earlier this month, when he said that people losing homes deserve “empathy,” but nothing else. Asked if he supported a “bailout” for US homeowners, Bush responded, “If you mean direct grants to homeowners, the answer would be no, I don’t support that.”

The limited measures proposed by Bush are aimed at allowing an insignificant percentage of distressed homeowners to refinance their loans, merely perpetuating their unsustainable debt obligations. One measure would loosen some standards of the Federal Housing Administration (FHA), which provides mortgage insurance to borrowers. A bill proposed by the White House would allow “more homeowners [to] qualify for this insurance by lowering down-payment requirements, by increasing loan limits and providing more flexibility in pricing,” Bush said.

Bush said the FHA would also launch a new program that would allow homeowners with adjustable rate mortgages who fell behind because of a sharp rise in monthly payments to qualify for federal insurance. Presently, only individuals with perfect payment histories qualify for FHA insurance.

A *New York Times* article published Friday before Bush’s statements gave some indication of the extraordinarily limited nature of this proposal. It cited a senior administration official who “estimated that the change would allow 80,000 more homeowners to receive federally insured mortgages in 2008 on top of the 160,000 already projected to use the program.”

Eighty thousand is a tiny fraction of the homeowners facing default and foreclosure. Nearly 180,000 homes were foreclosed in July of this year alone. A Dow Jones article Friday noted, “According to estimates from the Center for Responsible Lending, 2.2 million borrowers have lost or will lose their homes to foreclosure as a result of the subprime implosion, racking up losses of $164 billion.”

The other measures proposed by Bush were even paltrier. He said that he would “work with Congress” to eliminate taxes on forgiven debt. Under current law, if a bank agrees to forgive a portion of a homeowner’s debt in order to avoid default, the forgiven debt is treated as income and taxed accordingly.

Besides this, Bush made vague promises to support groups that offer foreclosure counseling and said the government would find ways of making lending practices “more transparent, more reliable and more fair.”

Bush’s opposition to any “bailout” of homeowners is a sentiment shared by the entire US political establishment. Democratic Congressman Barney Frank, the chairman of the House Financial Services Committee, insisted in comments to the *New York Times* last week, “You cannot simply decree that there will be no foreclosures. You can’t just give people a free ride."

Democrats have proposed measures that are broadly similar to those outlined by Bush on Friday. Bush singled out Democratic Senator Debbie Stabenow of Michigan and Democratic Representative Rob Andrews of New Jersey as individuals with whom the administration wants to work to pass legislation.

Any real aid to embattled homeowners would ultimately require a significant shift of resources from the banks and big business to ordinary Americans—something no section of the ruling elite is willing to countenance. Even the very limited expansion of the FHA program would be financed by homeowners themselves. Banks and speculators have made billions of dollars in recent years, riding the housing bubble, but none of these funds will be made available to those who are facing the brunt of this bubble's collapse.

The political establishment's callous attitude to homeowners stands in stark contrast to its deep concern for the financial health of the Wall Street banks. Earlier in August, the Fed loosened lending standards to provide four major banks, including Citigroup and Bank of America, with discount loans of $500 million each.

One of the main aims of Bush's remarks was to reassure the financial markets that the government would act in some way to address the collapsing credit bubble. In parallel remarks on Friday, Bernanke said that the Fed "continues to monitor the situation and will act as needed to limit the adverse effects on the broader economy that may arise from the disruption in the financial market."

While Bush's and Bernanke's remarks may have had the temporary effect of pushing stock markets higher on Friday, they will do nothing to solve the underlying systemic crisis facing global credit markets. William O'Donnell, a strategist at the financial services firm UBS, told the *Financial Times* Friday that that Bush's proposal was a "palliative" that would not solve the subprime mortgage crisis. O'Donnell said that it would "play well in the popular press but do little to save the economy from the spreading damage from the housing recession."

While the ruling elite is unified in the determination that US homeowners must suffer, there are sharp divisions over other aspects of federal policy. Bernanke's remarks were taken by many investors as an indication that the Fed would give in to demands that it cut interest rates to free up liquidity, but such a decision would generate its own problems.

Bernanke went on to insist, somewhat ambiguously: "It is not the responsibility of the Federal Reserve—nor would it be appropriate—to protect lenders and investors from the consequences of their financial decisions. But developments in financial markets can have broad economic effects felt by many outside the markets, and the Federal Reserve must take those effects into account when determining policy."

In fact, if the Fed were to give in and cut interest rates substantially in the coming weeks, this could lead to a sharp drop in the value of the dollar, inflation, and a resurgence of speculative investment—which would only exacerbate the underlying contradictions. An interest rate cut would make borrowing easier, but it would also diminish returns on dollar-denominated assets.

Some of the contradictions facing the American ruling elite were highlighted in a *Wall Street Journal* editorial published on Friday. The *Journal*, which represents leading sections of the US financial oligarchy, opposes a rate cut, favoring a policy that would starve off funds to risky investments—including, above all, subprime mortgage borrowers.

Warning against the danger of an inflationary period similar to the 1970s, the *Journal* wrote, "A reckless reflation [through interest rate cuts] runs the risk of bigger problems down the road if it results in a global loss of confidence in Mr. Bernanke, or in the dollar as a store of value...One economic reality today is that the Fed's debt subsidy led to a misallocation of resources into real estate and certain debt instruments that is in the process of being worked off. The losses are real, and someone will have to pay them."

That "someone" is, ultimately, the working class. The Carter administration responded to the inflationary period of the 1970s by sharply raising interest rates, plunging the economy into a recession and initiating a period of intense attacks on the social programs and jobs. Rather than providing businesses with easier credit to hold off a recession, the *Journal* would prefer that they be forced to slash jobs and wages in order to boost profit levels.

The *Journal's* other solution to the problem: more tax cuts. As for the millions of Americans who will lose their homes, the *Journal* advised, in an editorial published August 25, that they look into renting.