

Fear and greed: The financial crisis driving Bush's subprime mortgage plan

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7 December 2007

The near-panic in financial circles that lies behind the Bush administration's scheme to freeze some subprime mortgage interest rates is summed up in an article by *Washington Post* business columnist Steven Pearlstein published on Wednesday under the headline "It's Not 1929, but It's the Biggest Mess Since."

Pearlstein writes: "We are only at the beginning of the financial world coming to its senses after the bursting of the biggest credit bubble the world has seen. Everyone seems to acknowledge now that there will be lots of mortgage foreclosures and that house prices will fall nationally for the first time since the Great Depression. Some lenders and hedge funds have failed, while some banks have taken painful write-offs and fired executives. There's even a growing recognition that a recession is on the horizon.

"But let me assure you, you ain't seen nothing yet."

He then notes that the same financial giants which originated, packaged and resold hundreds of billions of dollars in shaky subprime loans also "originated, packaged, rated and insured home-equity loans, commercial real estate loans, credit card loans and loans to finance corporate buyouts."

Having described the process by which high-interest loans to borrowers with weak credit were leveraged into a massive edifice of cheap credit—and fantastic profits for the banks, mortgage lenders and investment firms—Pearlstein outlines the way in which the collapse of the credit bubble is undermining the stability of the financial system.

He continues: "If this sounds like a financial house of cards, that's because it is. And it is about to come crashing down, with serious consequences not only for banks and investors but for the economy as a whole.

"That is not just my opinion. It's why banks are hoarding their cash and why the outstanding stock of

bank loans and commercial paper is shrinking dramatically.

"It is why Treasury officials are working overtime on schemes to stem the tide of mortgage foreclosures and provide a new vehicle to buy up CDO assets.

"It's why state and federal budget officials are anticipating sharp decreases in tax revenue next year.

"And it is why the Federal Reserve is now willing to toss aside concerns about inflation, the dollar and bailing out Wall Street, and move aggressively to cut interest rates and pump additional funds directly into the banking system.

"This may not be 1929. But it's a good bet that it's way more serious than the junk bond crisis of 1987, the S&L crisis of 1990 or the bursting of the tech bubble in 2001."



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