Slippery slope

by The San Diego Union-Tribune

We have applauded Federal Reserve Chairman Ben Bernanke's aggressive moves to head off financial turmoil. But Bernanke's unprecedented orchestration of JPMorgan Chase's takeover of Bear Stearns - the Wall Street firm whose reckless packaging of risky mortgages as securities left it near bankruptcy - looks increasingly problematic.

Besides providing JPMorgan Chase with a line of credit to execute the deal, the Fed's initial arrangement would have required Bear Stearns shareholders to accept $2 for shares that were worth more than 80 times that much just last year. This fire-sale price would have been completely appropriate, given the extent of the company's financial straits (and irresponsibility). But the deal has evolved for the worse in recent days, with the share price pushed up to $10 and with taxpayers now more explicitly on the hook for $29 billion of Bear Stearns' potentially bad debt.

Bernanke's motive in rescuing Bear Stearns - his concern that the Wall Street titan's collapse could trigger a global financial meltdown - remains powerful and credible.

But it is one thing to try to keep the economy plugging along with measures that make cash and credit easier to come by. It is another thing entirely to signal the government might be willing to take over the hundreds of billions in debt facing investment bankers, investors and home buyers who acted as if the housing bubble were a permanent fact of American life. Such an approach would set a horrible precedent by wrongly rewarding the individuals and institutions responsible for the present debacle. It also would be hugely unfair to those who kept their heads during the bubble.

Ben Bernanke needs to tread very carefully. The last thing he should want to do is handle this crisis in a way that makes even worse future ordeals more likely.

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