

## Systemic failure

*by Patrick\_Buchanan*

As the U.S. financial crisis broadens and deepens, wiping out the wealth and savings of tens of millions, destroying hopes and dreams, it is hard not to see in all of this history's verdict upon this generation.

We have been weighed in the balance and found wanting.

For how did this befall us, save through decisions that brushed aside lessons that history and experience had taught our fathers?

It all began with the corruption called sub-prime mortgages.

The motivation was not wicked. Democrats wanted to raise home ownership among African-Americans from 50 percent to the 75 percent of white folks. Rove Republicans wanted to do the same for Hispanics.

Banks were morally pressured by politicians into making home loans to folks who could not remotely qualify under standards set by decades of experience with mortgage defaults.

Made by the millions, these loans were sold in vast quantities to Fannie Mae and Freddie Mac. There they were packaged, converted into mortgage-backed securities and sold to the big banks. The banks put scores of billions of dollars worth on their books and sold the rest to foreign banks anxious to acquire Triple-A securities, backed by real estate in America's ever-booming housing market.

Computer whizzes devised exotic instruments — derivatives, which could soar in value, making instant multimillionaires, but also plummet, based on rises and dips in the underlying value of the paper.

Came now young geniuses at AIG to insure the banks against catastrophic losses, should the U.S. housing market crash. As the risk was minuscule, premiums were tiny. Payouts, however, should it come to that, were beyond AIG's capacity.

In AIG's Financial Products division, based in Connecticut and London, brainiacs were creating other exotic instruments, such as credit default swaps to guarantee against losses and insure profits. To keep these wunderkinds at AIG, they were promised million-dollar retention bonuses.

Who kept the game going?

The Federal Reserve, by keeping interest rates low and money gushing into the economy, created the bubble that saw housing prices rise annually at 10, 15 and 20 percent.

As the economy grew, however, the Fed began to tighten, to raise interest rates. Mortgage terms became tougher. Housing prices stabilized. Homeowners with sub-prime mortgages now found they had to start paying down principal. People losing jobs began to walk away from their houses.

Belatedly, folks awoke to the reality that housing prices could go south as well as north, and all that paper spread all over the world was overvalued, and a good bit of it might be worthless.

And, so, the crash came and the panic ensued.

Who is to blame for the disaster that has befallen us?

Their name is legion.

There are the politicians who bullied banks into making loans the banks knew were bad to begin with and would never have made without threats or the promise of political favors.

There is that den of thieves at Fannie and Freddie who massaged the politicians with campaign contributions and walked away from the wreckage with tens of millions in salaries and bonuses.

There are the idiot bankers who bought up securities backed by sub-prime mortgages and were too indolent to inspect the rotten paper on their books. There are the ratings agencies, like Moody's and Standard & Poor's, who gazed at the paper and declared it to be Grade A prime.

In short, this generation of political and financial elites has proven itself unfit to govern a great nation. What we have is a system failure that is rooted in a societal failure. Behind our disaster lie the greed, stupidity and incompetence of the leadership of a generation.

Does Dr. Obama have the cure for the sickness that ails the republic?

He is going to borrow and spend trillions more to bring back the good old days, though it was the good old days that brought us to the edge of the abyss into which we have fallen. Then he is going to spend new trillions to give us benefits we do not now have, though the national debt is surging to 100 percent of the Gross National Product, and may reach there by 2011.

Is Obama willing to speak hard truths?

Is he willing to say that home ownership is for those with sound credit and solid jobs? Is he willing to say that credit, whether for auto loans, or student loans, or consumer purchases, should be restricted to those who have shown the maturity to manage debt "and no others need apply?"

"Avarice, ambition," warned John Adams, "would break the strongest cords of our Constitution as a whale goes through a net. Our Constitution is made only for a moral and religious people. It is wholly inadequate to the government of any other."

In this deepening crisis, what is being tested is not simply the resilience of capitalism, but the character of a people.

Patrick Buchanan is the author of the new book "Churchill, Hitler and "The Unnecessary War."

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