

## Editorial

### 'Mr. Bubble' Greenspan

While there is little question that the hedge-fund blow-out, already under way, is the process driving most forcefully toward a global financial collapse, there is nothing which can quite rival the insanity of the housing bubble which has taken over not only the U.S. real estate market, but also that of Britain, France, Australia, Spain, Ireland, and Sweden. Closely inter-linked with the hedge funds, through the mortgage securities market, the housing bubble, once popped, threatens to not only collapse on top of the big-time speculators, but also to take away the homes of millions of Americans, who just won't be able to pay the huge mortgages with which they've been saddled.

Federal Reserve Chairman Alan Greenspan found it politic to mention the bubble during his recent testimony before Congress, referring to it as "froth" in the market in various regions of the country. So incredible was this evaluation that the *New York Times*, in its June 12 editorial, echoed Lyndon LaRouche, and labelled Greenspan "Mr. Bubble." Greenspan is hard to take seriously, the *Times* concluded, when he protests that the rise in housing prices by double digits in many urban centers, is not a bubble.

Indeed, Greenspan's reference came nowhere near conveying the wild nature of the situation, some of which was elaborated in newspaper articles over ensuing days.

One of the most dramatic markers of this craziness is the phenomenon of "interest only" mortgages, which, in the short term, represent pure profit for the mortgage lenders, and smaller payments who those taking out the mortgages. Yet, these short-term "benefits" are dwarfed by the fact that, after a few years, the "owners" have to begin catching up their payments of principal and the rest of the interest, with dramatically increased monthly payments. What's to say that these people, who couldn't afford a downpayment, will have the cash flow to pay? Who's to say they will even have a job?

And don't think this is a small problem. According to figures being released, the percentage of new mortgages which are "interest only," has risen nationally

from 2% in 2001, to 19% during the first part of 2005! In Washington, D.C., 54% of new mortgages in the first quarter of 2005 were interest-only. That may be a blip, but there are eight states of the Union which had more than 20% of new mortgages being "interest only" in the first quarter of 2005. They were, in order of the highest percentage to the lowest: Arizona, Colorado, California, Washington, Virginia, Nevada, Maryland, and Georgia.

It doesn't take a rocket scientist to figure out that when many of these borrowers lose their jobs—such as airline pilots, autoworkers, and salesmen—these mortgages are *not* going to be paid.

Asked about this looming disaster during his June 16 webcast, Lyndon LaRouche declared that this catastrophe *is* going to happen; it's only a question of when. Then the question on the table is what to do about it.

At that point, the principle has to be clear. We quote LaRouche:

"We can't have social chaos. We can not have social disorder. These people are going to stay in those same houses, in general, for the time being," while we sort the situation out.

"What we need is the ability to freeze the situation to continue the normal functioning of life in the meantime, and sort it all out later. But, in the process of sorting it all out, we have to make sure that essential institutions, including the functioning of essential financial institutions which are also our savings institutions, and so forth, survive."

"The principle of the general welfare is preeminent. We must protect the people. We must protect them in a just way. Shareholder value is not a primary consideration. If somebody invested, even in issuing a mortgage, as a gamble—they gambled. If they gambled on somebody's ability to pay a certain amount for that place to live—they gambled. The person who took a place to live was not gambling. They needed a place to live."

So, therefore, we provide protection to the person, to the householder. "The general welfare comes first."