Dance the dance, pay the piper

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EDITORIAL

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It is pretty hard to figure out what is coming next. Even with the US Congress passing $700 billion bail-out legislation, there are many who are saying it is not enough, and more money will inevitably have to be spent. (They sound rather like the people who say the best cure for a hangover is to keep drinking.) Other experts are saying that it doesn't matter how much is spent: the bottom has already fallen out of the soggy box. Some say we will be fine in a few months. Others say we will have a recession. Still others say we are on the verge of another Great Depression.

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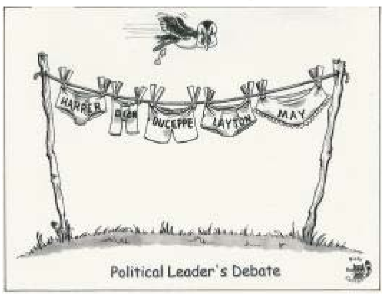

It is hard to know who to believe. If they were so clever, why didn't they warn of this economic catastrophe long before?

What seems to be true is that the current crisis will hit more than the United States, and that it was caused as much by folly on Main Street as greed on Wall Street. Everyone, including financial "experts" who should have known better, assumed that American housing prices would continue to rise. Mortgages were granted equalling 100 per cent of the value of the home. Often the mortgagees couldn't hope to pay the mortgage, because they didn't make enough money. In some cases, they didn't work at all.

The issuing banks didn't care, because they had no incentive to check credit worthiness. They packaged mortgages like bouquets of flowers and sold them to investors, who, in turn, sold them again. And again. Nobody required credit checks on the initial mortgagees, since the idea was that the good mortgages in the bouquet would more than make up for the bad ones. Rising housing prices would mean that the value of the property would always be more than the value of the mortgage loan.

They may as well have trusted the nice Nigerian fellow who sends us e-mails. Now the system is caught in a death spiral. The mortgagees can't pay, meaning there are more foreclosures, meaning there are more houses on the market, meaning the price of houses has dropped, meaning the mortgage loans aren't worth as much as the houses, meaning the mortgage holders are out money on many houses. People are out of their homes. Credit is severely tightened. Even creditworthy people have trouble getting a loan. People who are in debt up to their ears — most of North America — are in serious trouble, particularly if their debt is secured by a house that is declining in value.

Since the poisoned bouquets were sold around the world, the disease has spread even to Europe and Canada, where such free-for-all mortgages were never sold to consumers. We literally bought into the American problems.

We aren't immune here in isolated northern New Brunswick. We export wood used to build houses. If houses aren't being built, guess what happens to our forestry industry?

Richard Florida of the University of Toronto pointed out in Saturday's Globe and Mail that the root cause of all this is our addiction to endless consumption. We want bigger and bigger houses, into which we put more and more Stuff. This is done on credit. We feel hard done by if we can't take out a loan to remodel, or expand, or get more Stuff. Infinite growth of consumption is bad for the planet — and for ourselves too, if the world's major religions and secular philosophies are to be believed. Current events show why.

Our grandparents, a sterner and less frivolous lot, figured that they would save for what they needed, rather than go into debt. They did without, rather than take on too much debt. They may have had little, but they were solvent. If something good comes out of the human misery of the coming recession, let's hope it is a return to the old-fashioned virtue of living within your means.