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Is there a doctor in the house?

By J Dwight , *Populist Economics*
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In "Jurassic Market" and "Assigning Blame for the Bailout," two of my previous columns, I described the mating of new mortgage creations with bad lending practices to create the Subprime Mortgage Monster that Destroyed America.

This beast has been running around the financial landscape, creating havoc. It is larger, more destructive and more difficult to control than first thought. Millions of jobs have been lost and we have yet to pen this beast and figure out how to control it.

However, we are trying our level best to ignore it.

Here is the problem: about $1.5 trillion of subprime mortgages were issued during the recent real estate bubble. These were put into pools by brokerage houses, who created new mortgage securities (derivatives). These were sold in strange pieces to banks and insurance companies.

About $452 billion of mortgages tied to these creations are thirty days past due, effectively in default. Some $948 billion in mortgages are current, but are marked-to-market at less than fifty cents on the dollar. No one is willing to trust what's in them. The complex structures of the mortgage-backed securities prevent it. The only way to trust these complex structures is to re-finance the original mortgages. That is not easy to do.

Because of this overhanging problem, the secondary market for new mortgage issue is not working. It is severely hobbled and effectively closed. Most of the talk and walk by the Treasury and Federal Reserve has centered on trying to revive this market, without success.

I believe we are not making the same mistakes that were made in the Great Depression: over-tightening interest rates, letting the banking system fail, increasing taxes, imposing tariffs and not allowing wages to decline. But we are making mistakes nonetheless. One of the mistakes is to overspend on programs that have little or no impact on private sector growth or stability.

Like trying to stabilize a patient in the emergency room after a car crash, ER doctors must quickly and accurately diagnose the injuries, and move to stanch the flow of blood, reduce shock, and stabilize the primary systems.

Yet instead, all we heard from the newly appointed government ER docs were complaints about how the patient binged on alcohol, the cops didn't do their jobs, the doctors previously assigned were incompetent, and this is "the worst situation since the Great Depression."

They were running around the ER yelling that the patient is going into cardiac arrest, and that they are the only ones that could "jump-start" him to recovery. So they decided to administer an immediate prescription of a cocktail of stimulus drugs in a drip bag.

This cocktail includes inducements to improve his reliance on government programs, appetite suppressants to reduce the patient's dependency on fossil fuels, a mainline of broadband in rural areas to improve delivery of media and propaganda, potent hallucinogenic mixtures designed to have the appearance of economic growth by adding new government buildings, schools and 'rural development projects', and drugs of old weatherization programs designed to 'put on more sweaters' on the patient's home.

None of these drugs had anything to do with addressing the 'root causes' of the problems bedeviling the patient: The dead secondary market for mortgages and their derivatives.

Many of these stimulus drugs won't take effect for several years and may at best work against better homebrewed remedies the patient can self-administer.

Additionally, the side effects of these drugs could cause an inflationary fever to grip the patient, causing other problems as yet unforeseen.

The patient, meanwhile, was still breathing and trying to fend off well-meaning nurses and volunteers and government representatives ready to ply him with lollipops and cups of water.

Dusting himself off, the patient should have looked around, seen his family in the waiting room, and through all of the hubbub, just walked out of the hospital and resolved to "not do that again" and rebuild his life in the real world.

He knows the damage he caused and knows that some pain is involved in the rehabilitation. He just wants to 'get on with it' and is not afraid of doing the hard work, if the well-meaning interns and nurses would just get out of the way.

Unfortunately, when it was asked, "Is there a doctor in the house?" the answer was yes. (And it was the least funny of the Marx brothers who happened to answer: Karl.)

But stay tuned anyway for upcoming episodes of "E.R. Washington D.C."

How will it end? Probably the patient waking up to find out his new doctors were not up to the job, and prescribed the wrong medicine.

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