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Reclaiming the narrative of the 2008 collapse

By TOM LOEWY

While out of the newsroom, I get a lot of questions.

Honestly, I don't know how to rank them in order of frequency. While attending local sporting events, I'm often asked if I ever plan to start writing about sports again. Sometimes those asking the question are more blunt and ask something along the lines of "Why in the world did you ever stop writing about sports?"

The other frequently asked question revolves around my columns. Many want to know where I find the people I write about. The answer is simple. Mostly I just bump in to them.

A minority of folks want to know where I get my information for my these Loewy Online blogs. All of the questions I get are interesting.

But asking what informs me is the most challenging.

In this blog, I'll attempt to answer that question as I discuss a recent project I embarked on outside work. I have, as faithful readers know, an intense interest in what happened to our economy in 2008 and 2009.

The struggle to win over the American people with an all-encompassing narrative explaining the causes of our economy's death spiral has been a war waged in newspapers, on television, and talk radio from the very moment we all realized the collapse started.

In think-tanks like the Heritage Foundation and the Cato Institute, the emphasis was placed on lending practices. From Fox News to op-ed pages across the country, many economists pointed to home loans given to risky borrowers. Many decried "the effort" to put low-income families in homes of their own. Explicit in much of this commentary was the notion "liberal social engineering" paved the way to the mortgage crisis because lending standards were "lowered" for the sake of helping poor people buy homes.

As the housing market collapsed, then the credit market imploded and unemployment soared to rates not seen since the great depression, the explanation fed two beliefs: first, it spoke to those who see government as nothing more than a huge cash register for people "who don't contribute" to our society; second, it seemed to bolster the notion that government holds back the market forces that make life better for everyone.

That narrative was - and still is - dead wrong.

I've written extensively about the film Inside Job in the past. It lays out the role deregulation of financial instruments like credit default swaps played in the collapse. Again, if you haven't taken the time to watch it, you are missing out.

I have another important recommendation for those who care to inform themselves about that forces that drove our economy into the ground.

If you haven't see The Flaw, go get it. It's available on Vudu or you can purchase it online.

David Sington's film is accessible, clear and - like "Inside Job" - gets right to the root causes of the 2008 economic meltdown.

Both films show the basic way in which Americans purchased homes fundamentally changed in the 1990s. In short, banking deregulation first allowed big banks to purchase mortgages - driving mortgage banking from a local transaction to one conducted by big banks. Couple that practice with the bundling of mortgages to create new financial instruments and you have the seeds of the 2008 economic crisis.

Big banks pushed two crucial items: high-risk home loans that were doomed from the start and refinance vehicles that would eventually strip troubled home owners of their equity and, eventually, their homes. In fact, many home owners were "refinancing" even as they were losing their homes.

That's not the practice of "liberal social policy" advocates. It was done so big banks could rake in ever-increasing profit.

Massive deregulation paved the way for bundled mortgages to be sold as investment instruments - many given Triple A ratings by the ratings houses even as massive mortgage defaults were taking place. Investors - including plenty of public pension programs - bled real money.

Why did few financial institutions stand up and start warning investors of the coming collapse? Because the largest insurance houses in this country were selling financial instruments that protected big investors from the collapse of bundled mortgages.

In the wake of the economic collapse of 2008, ordinary people were offered up simple narratives to a complex problem that has roots stretching back to the 1980s. If we care to remember, one of the guiding forces behind the formation of the "grassroots" Tea Party movement can be traced to an irate trader shouting on one of the cable stations about the "government" bailing out mortgage defaults and calling for a new "Tea Party."

The question each of us must ask - if we really want to know what caused the economic collapse - is one of narrative. Which are rooted in fact and history and which are based in obfuscation and agenda?

Watch "The Flaw" and decide for yourself.

Here are few 2009 documentary shows from Frontline that went largely ignored by those who sought to shape the narrative of the mortgage collapse as a by-product of too much government influence:

- “Frontline: The Card Game” is an illuminating look at how the credit-card industry reacted to new credit regulations.
- “Frontline: Inside the Meltdown” looks at the economic collapse of 2008.
- “Frontline: The Warning” looks at derivatives markets.
- “Frontline: Breaking the Bank” portrays Hank Paulson as the unwitting, unknowing government official trying to stave off economic doom. It is, at best, naive. Paulson knew the crisis was coming because he was, in fact, an architect of the deregulation in the credit markets that directly led to the collapse.

And for those of us who connect money, politics and Supreme Court decisions like Citizens United, I have two recommendations from earlier in the decade. Pay close attention to the film on Tom DeLay. What he did in Texas was nothing more than a precursor to the Super PACs of today.