

Credit ills blamed on globalized economy; in ToledoSnow traces subprime-loan crisis

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The growing global economy has displaced American workers, caused great anxiety, and forced businesses to change quickly, but indirectly it has caused the current credit crunch, according to former U.S. Treasury Secretary John Snow.

Goods made cheaply abroad provided countries like China and India with cash surpluses that they lent back to the United States.

That drove interest rates down and caused financial institutions to seek new products to derive higher monetary yields, Mr. Snow said.

Those products turned out to be bundles of prime and subprime loans that were treated as if they carried little to no risk - until questions were raised last year and a few of those bundles were found to be full of bad debt.

"Now it's like we have mad cow disease in our financial system," Mr. Snow told nearly 200 businessmen yesterday at the Pinnacle in Maumee as part of a lecture series sponsored by KeyBank and the University of Toledo College of Business Administration.

All of this, he explained, wouldn't have happened if not for globalization.

A University of Toledo graduate, Mr. Snow is chairman of Cerberus Capital Management, which bought a controlling stake in automaker Chrysler LLC last August. He was president and chief executive of CSX Transportation and was the nation's treasury secretary from 2003 to 2006.

Although globalization fueled the credit crunch, Mr. Snow said, it's foolish to become isolationist or withdraw from the global economy.

But in the short term, he said, there will be pain because the United States is going into a recession, largely because its residents consume far more than they produce. For every \$1 produced, Americans spend \$1.30 and do so by living on credit.

The world's financial markets are correcting that imbalance by driving down the value of the dollar, Mr. Snow said.

"You want the dollar to be adjusting so that it encourages better behavior," he said.

American consumption is slowing. Cerberus, despite slower auto sales, has big plans for the automaker and especially Jeep, which he called "the jewel in our crown," he said.

Jeep is "one of the great brands in the world," he said. Cerberus knows of opportunities and untapped markets worldwide where it could sell more Jeeps, he added.

As for Chrysler as a whole, Mr. Snow said there is work to do to make it a better car maker. First off, the number of models will be reduced to 20 from 30.

Then Chrysler will need to repair its relationship with its dealers, which former owner DaimlerChrysler AG damaged by dumping vehicles on them and demanding that the autos be sold.

"It's not going to be easy ... but we are committed to success," he said.