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Finger-Pointing in Financial Crisis Is Directed at Bush

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WASHINGTON — For his entire presidency, George W. Bush has tried to avoid the fate of his father, brought low by a feeble economy. Now, as the financial crisis radiates far beyond Wall Street, Mr. Bush faces an even grimmer prospect: being blamed, at least in part, for an economic breakdown.

“There will be ample opportunity to debate the origins of this problem,” Mr. Bush said in the Rose Garden on Friday. “Now is the time to solve it.”

But in Washington, on Wall Street and on the presidential campaign trail, the debate has already begun.

Senator Barack Obama, the Democratic presidential nominee, denounces what he calls the Bush administration’s “failed philosophy.”

Senator John McCain, the Republican, claimed Friday that “the administration did nothing” to rein in the mortgage giants Fannie Mae and Freddie Mac, even though the White House did push some reforms on Capitol Hill.

And while economists and other experts say there are plenty of culprits — Democrats and Republicans in Congress, the Federal Reserve, an overzealous home-lending industry, banks and also Mr. Bush’s predecessor, Bill Clinton — they do agree that the Bush administration bears part of the blame.

These experts, from both political parties, say Mr. Bush’s early personnel choices and overarching antipathy toward regulation created a climate, that, if it did not set off the turmoil, almost certainly aggravated it.

The president’s first two Treasury secretaries, for instance, lacked the kind of Wall Street expertise that might have helped them raise red flags about the use of complex financial instruments that are at the heart of the crisis.

To his credit, Mr. Bush accurately foresaw the danger posed by Freddie Mac and Fannie Mae, and began calling as early as 2002 for greater regulation. But experts say the administration could have done even more to curb excesses in the housing market, and much more to police Wall Street, which transmitted those problems around the world.

Vincent R. Reinhart, a former Federal Reserve economist now at the conservative-leaning American Enterprise Institute here, said that, in retrospect, “it would have helped for the Bush administration to empower the folks at Treasury and the Federal Reserve and the comptroller of the currency and the F.D.I.C.” — the Federal Deposit Insurance Corporation — “to look at these issues more closely.”

He said it would also have helped "for Congress to have held hearings."

Instead, voices inside the administration for tougher policing of Wall Street found themselves with few supporters. William H. Donaldson, a former Wall Street executive with respected Republican credentials who became chairman of the Securities and Exchange Commission under Mr. Bush, quit after facing resistance from the White House and Republican members of the agency, who criticized his support for stiffer regulations on mutual funds and hedge funds.

Today, even some sympathetic to Mr. Bush say he cannot disentangle himself from a home-lending industry that ran amok or a banking industry that mortgaged its future on toxic loans.

"The crisis definitely happened on their watch," said Kenneth S. Rogoff, a professor of economics at Harvard who advises Mr. McCain. "This is eight years into the Bush administration. There was a lot of time to deal with it."

To some extent, Mr. Bush was simply following a deregulatory pattern set by his predecessor, President Clinton. Perhaps the most significant recent deregulation of the banking industry — the landmark act that allowed commercial banks to expand into other financial activities, like investment banking and insurance — was signed into law by Mr. Clinton in 1999.

Mr. Bush also inherited a culture of borrowing and a frothy housing market that has become "deeply embedded in the American psyche," Mr. Rogoff said.

And Mr. Reinhart said the markets seemed to be doing so well that few analysts, either in government or the private sector, had a critical eye. "When everybody is doing better," he said, "it is difficult to see the underlying weaknesses."

Still, the White House, in the view of critics, fostered a free-market hothouse in which these excesses were able to flower. It avoided regulation of banks and mortgage brokers, leaving much of that work to the Federal Reserve, which, under Alan Greenspan, showed little appetite for regulation.

By the time Treasury Secretary Henry M. Paulson Jr. proposed an overhaul of regulations governing the financial sector in April, the storm was already brewing.

The administration's push to rein in Fannie Mae and Freddie Mac was stymied by Congress. But the administration's intense focus on fending off what it foresaw as a looming housing crisis did not include an effort to curb the proliferation of fiendishly complex mortgage-backed securities, said Harvey S. Rosen, an economist who served on Mr. Bush's Council of Economic Advisers, briefly as chairman.

"Maybe there should have been" such an effort, Mr. Rosen said. "But we were focused more on the fact that if these entities just held plain-vanilla mortgage-backed securities, it was still a disaster in the making."

Beyond the administration's deregulatory bent, some economists argue that its fiscal and tax policies made the United States more dependent on foreign capital, which inflated the bubble in housing prices.

"A different Treasury would have taken a different approach," said Lawrence H. Summers, who served as

Treasury secretary in the Clinton administration. “I don’t think the economy has been well managed, and that has certainly been crucial for the problems we’re facing.”

The White House and Congress wanted to make housing affordable to more Americans, and freeing up the lending markets was a way to do that. As Mr. Rogoff said: “It was a market-based way to help poor people. There was an incredible belief in free markets.”

For all that faith, Mr. Bush’s first two Treasury secretaries, Paul H. O’Neill and John W. Snow, came from top jobs in industry, not Wall Street. They were viewed in Washington as advocating the interests of business, and being less comfortable with the mysteries of markets.

Neither was seen as having much influence with the White House, and the Treasury Department lost some of the primacy in economic policy it had enjoyed under Mr. Summers and his predecessor, Robert E. Rubin.

Mr. O’Neill and Mr. Snow declined to be interviewed for this article.

“The primary agency responsible for keeping an eye on these things is, and should be, the Treasury Department, and I think the president erred in the first place by appointing two secretaries who had no background in finance,” said Bruce R. Bartlett, a Republican economist who worked for President Ronald Reagan and President George H. W. Bush.

The White House did name people well versed in the markets to other posts, not least the chairmanship of the Securities and Exchange Commission. But Mr. Bush’s first S.E.C. chairman — Harvey L. Pitt, a prominent securities lawyer — was brought down by political missteps. Mr. Pitt was succeeded by Mr. Donaldson, who quit in 2005.

Critics say the S.E.C. has been less active under its current chairman, Christopher Cox, a former Republican congressman from California. It has spent less on enforcement and imposed less in fines on wrongdoers, according to the Government Accountability Office. This week, Mr. McCain called for Mr. Cox’s resignation.

In other areas, the Bush administration’s failures seem more a case of inaction. The administration, economists said, did little to curb the practices of mortgage brokers, who are regulated by the states. But Democrats in Congress were equally to blame for this, these people said.

“The Democrats pushed affordable housing goals, even in the face of evidence that people who got the loans shouldn’t have gotten them,” said Robert E. Litan, a senior fellow at the Brookings Institution.

He added: “I blame the Democrats for demanding that Fannie Mae keep buying these loans. I blame the administration for going along with it.”

White House officials note that the administration did propose reforms of real estate settlement procedures and the Federal Housing Administration, two areas it had identified as posing the greatest systemic risk to markets. Democrats in Congress, they said, blocked these efforts.