



BY EDWARD H. CRANE

Message from the President Taking Ideas Seriously

“Fannie Mae Corporation is easing the credit requirements on loans that it will purchase from banks and other lenders. . . The nation’s biggest underwriter of home mortgages has been under increasing pressure from the Clinton Administration to expand mortgage loans among low and moderate income people.”

—New York Times, September 30, 1999

“The logic behind the superiority of capitalism hasn’t disappeared because of the recent economic unpleasanties.”

The utter foolishness of the commentaries about the collapse of laissez-faire capitalism and the end of libertarianism in light of the financial fiasco we face is laid bare by the above quote. In that *Times* article cheering the enlightened policies of the Clinton altruists, the one free-market person quoted was Peter Wallison of the American Enterprise Institute. Wallison said, “This is another thrift industry growing up around us. If they fail, the government will have to step up and bail them out the way it stepped up and bailed out the thrift industry.”

Let’s try to think clearly about all this. The federal government has been regulating banks and monetary policy intensely since the 1913 creation of the Federal Reserve and well into the 19th century in the case of banks. Laissez-faire capitalism this ain’t. It is not even clear it’s capitalism. This is a crisis born and bred in halls of the United States federal government. It is the furthest thing from a market failure. It is a pure example of government failure.

Jacob Weisberg, editor of *Slate*, begs to differ. In an article entitled “The End of Libertarianism,” he cites as “a source of mild entertainment” the efforts of libertarians to point out this government failure. Our efforts, Weisberg says, “fall wildly short of providing any convincing explanation for what went wrong.” Hmmm.

Let’s go back to the \$800 billion bailout of the savings and loan industry in the mid-eighties. Big government friends of Mr. Weisberg had clamored for more and more federally insured deposits (not per person, but per deposit) which had the effect of wealthy people spreading \$100,000 deposits around the country, oblivious to the financial conditions of the thrifts. In 1982, at a time when the federal government and other big government apologists were saying the thrift industry was sound, with a solid positive net worth, Cato published a Policy Analysis by Joe Stilwell that read in part, “*The financial health of the savings and loan industry has drastically deteriorated. The industry has a negative net worth in excess of \$70 billion and it is experiencing significant liquidity problems.*”

So much for libertarians not understanding how markets work. As for the subprime crisis, it was not just Peter Wallison sounding the alarm. In 1997 Cato published

a Policy Analysis by Vern McKinley entitled “The Mounting Case for Privatizing Fannie Mae and Freddie Mac.” Vern wrote: “*Because of their quasi-government status, there is a market perception that Fannie Mae and Freddie Mac mortgage-backed securities and debt carry and implicit federal guarantee against default. Hence, the GSEs expose the federal taxpayer to an ever-increasing potential contingent liability that could ultimately cost tens of billions of dollars to rectify.*”

In the meantime, the sophisticated big government types so admired by Jacob Weisberg were demanding more mortgages for people who should have been renting rather than buying. Rep. Barney Frank was typical when he said in 2003, “I do not see any possibility of serious financial losses to the treasury” because of Fannie or Freddie. He urged the agencies the “roll the dice” by making even shakier loans. To see the likes of Frank, Sen. Christopher Dodd, Rep. Maxine Waters, and others who demanded the Community Reinvestment Act and more sick loans from Fannie and Freddie preening in front of cameras celebrating the “end of capitalism” is, well, appalling.

The latest affront to common sense is the demand from House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid that the clueless secretary of the Treasury, Henry Paulson, use some of the unconstitutionally acquired \$700 billion bailout dough to bail out the auto companies. Never mind that those companies are in trouble for caving in to the very unions whose uncompetitive wages and benefits are the main source of the problem. Pelosi and Reid, both of whom support the “card check” proposal that will end up physically intimidating millions of workers into joining unions, are longtime union advocates in Congress. As with the subprime crisis, the creators of the auto industry disaster are demanding that you and I pony up to cover up their mistakes.

The logic behind the superiority of capitalism hasn’t disappeared because of the recent economic unpleasanties. Indeed, capitalism’s resilience in overcoming the spending and regulatory burdens from the New Deal to George W. Bush is a testament to the strength of the market. Bureaucrats and politicians make things worse. Always have, always will. Get rid of corporate welfare, to be sure, but free America’s entrepreneurs to do what they and only they do best: create wealth.