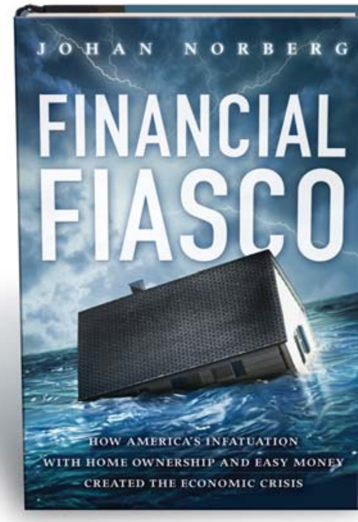
Johan Norberg tells the story of the financial crisis

Setting the Record Straight



"What exactly happened?" Johan Norberg, author of *In Defense of Global Capitalism*, asks in his new book on the recent financial crisis. "How could overenthusiastic home buyers in the United States sink the global economy?" Banks collapsed and thousands of Americans lost their homes. Two of the "big three" auto makers are reduced to beggars and wards of the federal government. Pundits and politicians attach blame to myriad actors, from the Federal Reserve to greed on Wall Street, from a Congress desperate to increase home ownership to reckless financial innovations. Understanding how we arrived at this recession means walking through a maze of regulation and deregulation, capitalism and corporatism. The task is daunting.

But with *Financial Fiasco: How America's Infatuation with Home Ownership and Easy Money Created the Economic Crisis*, Norberg acts as an articulate and insightful guide. In six short chapters, he tells the story of the crisis. The first three address monetary policy, housing policy, and financial innovations—the key components that combine, a chapter later, to create financial catastrophe. The final two chapters describe the government's mismanagement of the crisis and how we are repeating some of the very mistakes that caused it. Norberg calls his book a detective story and, as he carefully traces the clues, the causes of the crisis become clear. Understanding those causes is crucial for every American who has felt the recession's effects—and an understanding is exactly what *Financial Fiasco* provides.

It was government intervention, not laissez-faire capitalism, that created the recession. But that's not what the folks in Washington would have us believe. From the earliest days of the recession, "politicians who had never hesitated to claim credit for each one-tenth of one percentage point of growth or for each new job created . . . immediately went to great pains to pin the blame for the downturn on their lack of influence."

How does reality differ from the fantasies of politicians and pundits? "The story of this storm in the global markets is the story of how government intervention to solve previous crises laid the foundation for a new one," Norberg argues. He shows how housing policy—a desire by politicians to help more of us realize the American dream of home ownership—encouraged private sector financial innovations, innovations that misrepresented risk and, eventually, lead to the crisis. And it was the poor management of this crisis by federal regulators that exacerbated the recession.

Norberg ends the book with a warning. "After government authorities had helped create the worst financial crisis in generations," he writes, "the climate of ideas has now shifted dramatically in the direction of bigger and more active government." *Financial Fiasco* sets those ideas on their proper course and shows how liberty, not greater government control, is the true path to recovery.

Visit www.catostore.org or dial 800-767-1241 to get your copy of *Financial Fiasco* today; $21.95 hardcover.

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constituency demands to be included in the product. As they are included, the costs rise both in terms of premiums and the subsidies necessary to keep this affordable for people. As the premiums and subsidies rise, the public demands cost controls, and you begin to put in premium caps or other forms of cost control containment.

The primary reason we're told we need to have an individual mandate is to get people insured to deal with the problem of uncompensated care. But let's keep it in perspective. The cost of uncompensated care is actually about 2.5 percent of total health care spending. It is a much more manageable problem than is commonly believed. We should also note that the imposition of mandates does not necessarily eliminate uncompensated care. We haven't seen an elimination of uncompensated care in Massachusetts. In fact, the hospitals there say that they still need their subsidies for uncompensated care.

We are also told that we need to have an individual mandate in order to bring more young and healthy people into the pool, which will lower premiums for everyone. That's true only in so far as you prohibit actuarial underwriting of insurance. If people are underwritten on the basis of their health, it doesn't matter whether you have young and healthy people or old and sick people in the pool. Everybody's premium is based on their own health.

If we want to bring young and healthy people into the pool, reducing the cost of health insurance by eliminating things like community rating—which drives up the cost of insurance—might help. You would think that if you want people to buy a product, creating legislation that drives up the cost of that product isn't a good way to do it. Yet we do things that make insurance more expensive for young, healthy people to buy, and then we're surprised when young, healthy people don't buy insurance. New York State was a classic example. When they introduced community rating, some 500,000 people, mostly young and healthy, dropped their insurance because of the increase in premiums. There are ways we can do this better.