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Statism Means Never Having To Say You're Sorry

By: David King - February 19, 2013

Even though the 1999-2007 housing bubble and subsequent housing meltdown/financial crisis/recession was a monument to government stupidity and interference in the market, the statist backlash from it was a call for yet more government interference (and likely more stupidity) in the market. This is somewhat akin to hiring Charles Ponzi to fix your financial portfolio, but this is how statists roll. When their interference fails, they think they just haven't interfered enough. To illustrate the point, the aftermath congressional legislation to allegedly fix our financial situation was championed by Barney Frank (D-VT) and Chris Dodd (D-CT), two guys who were up to their eyeballs in the original housing mess, two guys who headed their respective banking committees in the House and Senate as the problem grew, two guys who denied there was a problem until the whole thing blew up in their faces, two guys who then blamed everyone but themselves. Then those same two foxes were charged with guarding the new legislative henhouse. Go figure. Their incompetence was rewarded with more responsibility. You couldn't make this stuff up, nobody would believe it.

Here's the best one-paragraph summation of what caused the housing problem that I've read, from the American Enterprise Institute:

"Government policies forced a systematic industry-wide loosening of underwriting standards in an effort to promote affordable housing. This paper documents how policies over a period of decades were responsible for causing a material increase in homeowner leverage through the use of low or no down payments, increased debt ratios, no loan amortization, low credit scores and other weakened underwriting standards associated with NTMs. These policies were legislated by Congress, promoted by HUD and other regulators responsible for their enforcement, and broadly adopted by Fannie Mae and Freddie Mac (the GSEs) and the much of the rest mortgage finance industry by the early 2000s. Federal policies also promoted the growth of overleveraged loan funding institutions, led by the GSEs, along with highly leveraged private mortgage backed securities and structured finance transactions. HUD's policy of continually and disproportionately increasing the GSEs' goals for low- and very-low income borrowers led to further loosening of lending standards causing most industry participants to reach further down the demand curve and originate even more NTMs. As prices rose at a faster pace, an affordability gap developed, leading to further increases in leverage and home prices. Once the price boom slowed, loan defaults on NTMs quickly increased leading to a freeze-up of the private MBS market. A broad collapse of home prices followed."

After the crash, the political left and it's mouthpiece media covered up most of the information I presented above and blamed the whole thing on greedy Wall Street bankers, or "banksters", as my friend the Reverend calls them. There's no doubt that profit (profit is "greed" to left-wingers) motivates Wall Street, or that many banks went hog wild when the grand new mortgage game was created, but the rules of the game were set in Washington D.C., and all the statist politicians in both parties patted themselves on the back for the wonderful game they had created and the wonderful home ownership rates they had achieved...mm-hmm.

After the failure of their statist interference policies harmed nearly everyone in the country, the statists called it a failure of the free market, a product of deregulation. Left-wingers who cheered the policies five minutes earlier now demonized them as crazed right-wing extermism. FIngers began pointing all over the place, as everyone chose to blame somebody else. The main fall guy was the statist President George W. Bush, who was unlucky enough to have the bipartisan, government-created ponzi scheme fall apart on his watch.

Side note - if you don't believe Bush was a statist, and you think he was a conservative, check out what happened to federal spending, federal debt, and the regulatory burden during his tenure as President. Here's a taste. Don't be fooled by the word 'Republican' next to his name. That's just a word. His actions are what tell the tale. It takes more than tax cuts to call oneself a conservative. We haven't had many Presidents more big government-oriented than George W. Bush. If you compare Bush to Clinton, Clinton comes out the more conservative one on fiscal matters, and Clinton was a liberal. They also called Bush a NEO-conservative because he didn't adhere to traditional conservatism, which would have eschewed pro-active foreign policy intervention and nation building, but that's a topic for a different day.

What led me to revisit this old news is some new words written by the Nobel Prize-winning pseudo-economist and full-time liberal propagandist Paul Krugman, who writes a liberal op-ed column for the New York Times, just as all non-biased, science-and-fact-based economists do. Krugman is somewhat of an icon to left-wingers, and somewhat of a laughingstock to everyone else.

In his latest regurgitation, Krugman writes:

"The financial crisis of 2008 and its painful aftermath, which we're still dealing with, were a huge slap in the face for free-market fundamentalists. Circa 2005, the usual suspects — conservative publications, analysts at right-wing think tanks like the American Enterprise Institute and the Cato Institute, and so on — insisted that deregulated financial markets were doing just fine, and dismissed warnings about a housing bubble as liberal whining. Then the nonexistent bubble burst, and the financial system proved dangerously fragile; only huge government bailouts prevented a total collapse".

That "free market fundamentalists" line was a nice touch by Krugman. It conjures up images of rigid fire and brimstone puritanic zeal, and It also distracts from the fact that free markets and free people are what made this nation a superpower and a beacon of liberty to a largely-oppressed world. The Krugmeister conveniently omits that part. This isn't (wasn't?) called the Land Of Opportunity for nothing.

What is also inconvenient to Krugman's spew is the fact that Krugman himself called for a housing bubble in 2001 and again in 2002. Here's the 2002 version of Krugman The Economic Wonder Boy:

"To fight this [2000-2002] recession the Fed needs more than a snapback; it needs soaring household spending to offset moribund business investment. And to do that, as Paul McCulley of Pimco put it, Alan Greenspan needs to create a housing bubble to replace the Nasdaq bubble".

Oops.

Krugman got his wish for a government/Fed-orchestrated housing bubble to end the previous recession...and we ended up with the Great Recession because of it. Once it was apparent the housing bubble Krugman recommended was spiraling out of control in 2005-2006, Krugman then switched course again and decided those darned right-wingers were to blame. Perhaps being a statist liberal means never having to say you're sorry.

Because Krugman threw some dirt at my libertarian compadres at the Cato Institute by stating, "right-wing think tanks like the Cato Institute...insisted that deregulated financial markets were doing just fine, and dismissed warnings about a housing bubble as liberal whining", I feel compelled to respond.

First of all, I don't remember much "liberal whining" about the housing bubble that Krugman wanted and then didn't want. I remember just the opposite. I remember guys like Barney Frank saying things like, "These two entities [Fannie Mae and Freddie Mac] ...are not facing any kind of financial crisis ... The more people exaggerate these problems, the more pressure there is on these companies, the less we will see in terms affordable housing", and, "I do not want the same kind of focus on safety and soundness [in the regulation of Fannie Mae and Freddie Mac]...I want to roll the dice a little bit more...", and, "Fannie and Freddie are fundamentally sound...they are not in danger of going under...they are in good shape going forward"

I remember Chris Dodd and the rest of the Democrats in financial and banking services on the Hill saying the same things. They weren't whining. They were cheerleading. Then Fannie and Freddie lost billions, and now they are by far the two largest outstanding debtors from the TARP loan program. These government-sponsored enterprises still owe the taxpayers over $137 billion. In total, TARP is in the red by $147 billion. Good call, statists.

As for the Cato Institute, Krugman could have easily checked Cato's policy recommendations regarding housing and monetary policy, but he chose instead to go with the stock sound-byte about "right-wing deregulation" that appeals to his low-information readers. In reality, the so-called "deregulation" was a conscious effort by both parties, and ESPECIALLY the do-gooder Democrats, to increase homeownership.

Cato's actual position on the housing bubble was that the housing market was not deregulated at all in the sense of allowing the free market to make it's own fiscal decisions, but rather that the market was being engineered by the government and Federal Reserve monetary policy. This is a far more accurate representation of what took place.

Historical tidbit - Guess who created the secondary mortgage market and mortgage-backed securities on Wall Street in the first place, in order to foster more homeownership, which transformed the way the mortgage market worked ??? If you answered "the government", you win a kewpie doll. WIthout the government creating and manipulating the housing market, the financial crisis would not have happened.

And now, as always, the statists call for more government interference to fix the problem government interference caused in the first place. In his State Of The Union address, President Obama has already gone back to the future and called on banks to make more mortgage loans to people who don't have adequate down payments. Sure, Barack, what could possibly go wrong there ? As they say, those who don't learn from the past are doomed to repeat it.