

The Washington Times

BOOK REVIEW: Fannie and Freddie's bubble

[1 Comment and 3 Reactions](#) | [Share](#)[Tweet](#)[Email](#)

| [Print](#) |

By Doug Bandow

-

The Washington Times

7:06 p.m., Friday, July 22, 2011

RECKLESS ENDANGERMENT: HOW OUTSIZED AMBITION, GREED, AND CORRUPTION LED TO ECONOMIC ARMAGEDDON

By Gretchen Morgenson and Joshua Rosner

Times Books, \$30, 311 pages

The government did it - cause the economic meltdown. Of course, there were other factors. But in "Reckless Endangerment," reporter Gretchen Morgenson and analyst Joshua Rosner point the biggest finger at Fannie Mae and Freddie Mac. These so-called government-sponsored enterprises (GSEs) used any means - fair or foul - to create a housing bubble. When it popped, economy-wide havoc resulted.

Although the financial meltdown lies three years in the past, we continue to pay a high price for past follies. The housing market continues to look for its bottom as the GSEs, now under direct government control, continue to lose money. Bailouts have become the new norm. America faces rising spending, continuing deficits and mounting debt.

It is time to respect George Santayana's dictum and learn from the past. Reading "Reckless Endangerment" is a good place to start.

Ms. Morgenson and Mr. Rosner have done what is uncommon: produce a book that is substantive but also readable even entertaining. The result is a Washington "whodunit" story - the authors report not only what happened, but who did what. They explain: "the American economy was almost wrecked by a crowd of self-interested, politically influential, and arrogant people who have not been held accountable for their actions."

The sordid tale begins in 1994, with President Bill Clinton and his National Partners in Homeownership. U.S. politicians long have sought to win votes with homebuying subsidies, but Mr. Clinton took the strategy to new levels. "It was unheard-of for regulators to team up this closely with those they were charged with policing," observe the authors.

Few paid attention to the dangerous incentives created. When Massachusetts Democrat Rep. Barney Frank, long one of Fannie Mae's Capitol Hill champions, was asked about the risks of inflating the housing market, he responded: "We'll deal with that problem if it happens."

The result, as they say, is history. Write Ms. Morgenson and Mr. Rosner: "By 2008, the American economy was in tatters, jobs were disappearing, and the nation's middle class was imperiled by free-falling home prices and hard-hit retirement accounts. Perhaps most shocking, homeownership was no longer the route to a secure spot in middle-class America. For millions of families, especially those in the lower economic segments of the population, borrowing to buy a home had put them squarely on the road to personal and financial ruin."

The chief miscreant in "Reckless Endangerment" is James A. Johnson, chief executive officer of Fannie Mae. His

objectives were money and power. He was determined, ruthless and manipulative.

The story of how Mr. Johnson bought politicians, neutralized academics and acquired partners - through generous campaign contributions, professional fees and shared profits - vividly demonstrates how Washington works. Few people have gained so much benefit by causing so much harm.

One of Mr. Johnson's most successful ploys was to ensure that Fannie Mae was regulated by the Office of Federal Housing Enterprise Oversight rather than the Treasury Department and to keep the OFHEO - located within the Department of Housing and Urban Development - weak and underfunded. This, write the authors, "allowed Fannie to shift the power of oversight to congressional subcommittees, run by members who could be easily swayed by the company's lobbying efforts and campaign contributions."

For years, Fannie Mae, joined by Freddie Mac, launched nuclear strikes against any individual or institution criticizing the two institutions' increasingly risky activities. One of the heroines of the story is June O'Neill, head of the Congressional Budget Office, who refused to back down from a critical review of Fannie and Freddie.

The villains, alas, are far more numerous. The GSEs more easily made friends among Democrats, like Mr. Frank. But House Speaker Newt Gingrich and Missouri Republican Sen. Christopher Bond were two notable Republican allies.

Others to blame include Angelo Mozilo, head of Country-wide Financial, which wildly and dishonestly degraded lending standards, Goldman Sachs, which steered investors into the subprime market while reducing its own exposure, and rating agencies, which followed fees rather than facts to stamp triple A on securities filled with junk mortgages.

At least this depressing tale would have been redeemed by justice being done. But no. Tragically, "the cast of characters that helped create the mess continues to hold high positions or are holding jobs of even greater power," note Ms. Morgenson and Mr. Rosner.

That's bad enough. However, "Reckless Endangerment" ends on an even more pessimistic note. The authors write: "Will a debacle like the credit crisis of 2008 ever happen again? Most certainly, because Congress decided against fixing the problem of too-big-to-fail institutions when it had its chance."

Those most deeply involved in nearly wrecking the American economy ended up writing "reform" legislation that did not even mention the two GSEs that did so much to spark the crisis. Such is the way of Washington.

Books often are called "must-read." But "Reckless Endangerment" really is "must-read" for anyone who wants to understand the crash of 2008 and why more government-created economic crises are likely in the future.

Doug Bandow, a senior fellow at the Cato Institute and former special assistant to President Ronald Reagan, is author of "Foreign Follies: America's New Global Empire" (Xulon, 2006).

· **Ads by Google** 

[Criminal Records](#)

[Police Records](#)

[My Criminal Records](#)

[Clear Police Records](#)

[Get Criminal Records](#)