Government played signficant role in the nation's banking collapse

By Patriot-News Op-Ed
January 13, 2010, 5:28AM

Only those abdicating their own responsibility for the banking collapse ignore evidence that the debacle was caused by government interference of the free market. And those who persist in demanding more government control of the economy subvert the fundamental mission of our country.

A Cato Institute paper describes in part the cause of the financial mess: "The expansion in risky mortgages to underqualified borrowers was encouraged by the federal government. The growth of 'creative' nonprime lending followed Congress' strengthening of the Community Reinvestment Act, the Federal Housing Administration's loosening of down-payment standards, and the Department of Housing and Urban Development's pressuring lenders to extend mortgages to borrowers who previously would not have qualified.

"Meanwhile, Freddie Mac and Fannie Mae grew to own or guarantee about half of the United States' $12 trillion mortgage market. Congressional leaders pointedly refused to moderate the moral hazard problem of implicit guarantees or otherwise rein in their hyper expansion."

Similarly, the Great Depression, as Nobel Laureate Milton Friedman and others have identified, was caused by the Federal Reserve's mismanagement of the money supply and exacerbated by Roosevelt's New Deal.

Members of Congress are sworn in at the U.S. Capitol. Government shoulders some of the blame for the recession, argues Robert Marvel.

In his book "Capitalism and Freedom," Friedman lists three Fed actions responsible for the severity of the Great Depression:

1. Reducing the money supply by three percent from August 1929-October 1930.

2. Reducing credit to member banks in the face of unprecedented liquidation of the commercial banking system in the first five months of 1931.

3. Raising the discount rate in September 1931 more sharply than before or since to stem the drain of gold as a result of Britain going off the gold reserve.

The results:

A third of the banks went out of existence. Money stock declined by a third in four years. Money income decreased by half. Prices dropped by a third.

The FedÕs actions were ill-informed and oppressive.

While there well might be a place for governmental regulation of money supply, many of those arguing for more government involvement in the market do so on behalf of delivering goods and services to constituents (e.g. housing, cars, health care).

One need only scratch the surface to see the problem with government's promoting the greatest good.

What is the greatest good? Who gets to define it? What members of society receive it? Who pays for it? The answer is that government identifies the good, delivers it to the favored, and taxes the unlucky. But the answer almost does not matter because the questions are beside the point. The relevant question is for what purpose does the government exist?

The answer, based on the countryÕs founding principles, is to provide the greatest amount of freedom for all.

And, economically speaking, this is attained through free markets that permit each of us to decide the greatest for good for ourselves and our families.

In the context of the Constitution, the government's attempt to deliver the greatest good is nonsensical as a matter of logic and destructive to the liberty that we purport to hold dear.

Robert Marvel is a small-business man and retired teacher of economics and computer science in Central Dauphin School District.