



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

[fff@fff.org](mailto:fff@fff.org) [www.fff.org](http://www.fff.org)

## **The Corporate State Fails** **by Sheldon Richman**

According to popular myth, the current financial turmoil is the result of Bush administration deregulation. One problem with that theory: there was no deregulation. The last banking deregulation, the Gramm-Leach-Bliley bill, was signed by President Bill Clinton in 1999. Oops.

Gramm-Leach-Bliley undid the New Deal-era Glass-Steagall Act, which — for no good reason — separated commercial banking from investment banking. The act was finally scrapped because the artificial separation of banking functions prevented diversification and made American banks vulnerable to full-service foreign competition. Repeal of Glass-Steagall doesn't mean banks have not been subject to myriad regulations by the federal and state governments. Besides, Glass-Steagall has nothing to do with today's troubles.

So the turmoil is not the spawn of deregulation. What then? We distinguish between regulation and intervention. It is possible for the government to abstain from regulating while still intervening ruinously in markets.

For example — and this is at the root of the current problems — the government can subsidize, underwrite, or even require foolish lending practices that the free market would prevent or punish. Such a program is every bit as interventionist as restrictive regulation is because it keeps the market process from working properly. The financial debacle can be fully accounted for by the government's decades-long campaign to enable people to buy more housing than they can afford and then to underwrite the mortgages through its creations Fannie Mae and Freddie Mac, i.e., the taxpayers.

To put it in the simplest terms: Republican and Democratic governments deliberately shifted the risk of dubious mortgage-writing from lenders and borrowers to the public. This has been portrayed as a noble effort to make the American Dream accessible to all, regardless of income or credit-worthiness. In fact, it was a massive subsidy to special economic interests: bankers, homebuilders, and the real-estate profession.

It was the corporate state in action, and a dismal failure.

So now the taxpayers are to be forced to make good on the guarantees that economically ignorant politicians issued in their name. President Bush and Congress are conspiring to spend at least \$700 billion they don't have to buy bad loans and securities from struggling lending institutions. The bill could go far higher. This is more than the Pentagon spends in a year, more than has been spent on the Iraq invasion and occupation.

The government doesn't have the money, of course. It's already running a \$400 billion budget deficit. So it will have to borrow or print it. Either way, the public will suffer, through lost private investment and higher prices and interest rates.

This money will be entrusted to Treasury Secretary Henry Paulson. The administration's draft of the bailout package contains this little gem: "Decisions by the Secretary pursuant to the authority of this Act are non-reviewable and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency."

Even if Congress changes this provision, it will do no good. Do you really think Rep. Barney Frank and Sen. Chris Dodd, enablers of Fannie and Freddie, know what they are doing?

Has anything been learned from the debacle? Precious little. Here's the diagnosis made by John McCain, presidential candidate of the supposedly free-market, small-government Republican Party:

"The financial crisis we're living through today started with the corruption and manipulation of our home-mortgage system. At the center of the problem were the lobbyists, politicians, and bureaucrats who succeeded in persuading Congress and the administration to ignore festering problems at Fannie Mae and Freddie Mac."

This is incoherent. The problem lies not in ignoring problems but in the government privileges and guarantees extended to Fannie and Freddie and by extension to the whole lending industry. McCain claims he was on top of this issue three years ago. He's wrong. He supported a bill not to abolish Fannie and Freddie, which is what was needed, but to have them watched by an "independent" regulator rather than by the Department of Housing and Urban Development.

In other words, McCain missed the problem altogether. Barack Obama has no better understanding of what's going on. But let's hear no more about Republicans' loving limited government.

*Sheldon Richman is senior fellow at The Future of Freedom Foundation, author of **Tethered Citizens: Time to Repeal the Welfare State**, and editor of [The Freeman](#) magazine. Visit his blog "Free Association" at [www.sheldonrichman.com](http://www.sheldonrichman.com).*

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