

The Free Market Fanatic Explains the Housing Bubble to the Average American

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The Free Market Fanatic (outraged): It is all the government's fault!

The Average American: I'm not sure I follow that. Can you explain?

The Free Market Fanatic: Look, the evil communist Alan Greenspan kept interest rates too low back in 2001 causing the housing bubble.

The Average American (looking puzzled): I don't follow that. Can you explain?

The Free Market Fanatic: Low interest rates made it easier for banks to borrow money from the Fed and lend it to unqualified borrowers and to inflate the housing bubble. It's all Alan's fault.

The Average American: OK, maybe that made it easier but did it cause the housing bubble? Aren't the banks responsible for the bad loans that they decided to make?

The Free Market Fanatic: No, no, no. It is Alan Greenspan's fault. In a free market, banks are only responsible for good loans that they make. If a loan doesn't work out, it is the Fed's fault!

The Average American: Hunh? Look, did Alan Greenspan *force* the banks to make the bad loans?

The Free Market Fanatic: Er, well, ... no. But he made it *easier* for the banks to screw up so it is his fault.

The Average American: Well, ok, Alan Greenspan is like the cop on the beat who drives by a house where a woman is screaming "help me! Help me!" and just keeps on driving, so the woman is murdered? Isn't the murderer still responsible?

The Free Market Fanatic: Look, it is all the government's fault. Let's forget about Alan Greenspan. The government created the entire mess by subsidizing the corrupt affordable housing hacks at Fannie Mae and Freddie Mac.

The Average American: Well, it sure does look like something went wrong at Fannie Mae and Freddie Mac. But all these banks like Wachovia, Washington Mutual, Goldman Sachs, and Morgan Stanley that are in trouble are private...right?

The Free Market Fanatic: No, no, no! Fannie Mae and Freddie Mac created the fiasco by buying mortgage-backed securities. See they created the market for mortgage-backed securities! It is all their fault.

The Average American: Well, but if Fannie Mae and Freddie Mac bought all the bad loans, why are the private banks like Wachovia, Washington Mutual, Goldman Sachs, and Morgan Stanley in trouble?

The Free Market Fanatic: Er, um, well, ...the Community Reinvestment Act!

The Average American: The *what*?

The Free Market Fanatic: In 1977, the evil communist Jimmy Carter and his liberal lackeys in the Congress created the Community Reinvestment Act to force banks to lend money to unqualified *poor minority* borrowers and destroy the American economy!

The Average American: But the housing bubble didn't start until 2000, twenty-three years later.

The Free Market Fanatic: Look, liberal hippie activists like ACORN used the Community Reinvestment Act to force Wachovia, Washington Mutual, Goldman Sachs, Morgan Stanley, and hundreds of other private sector banks to lend their money to unqualified *poor minority* borrowers and go bankrupt!

The Average American (looking puzzled): Are you sure?

The Free Market Fanatic: Absolutely!

The Average American: Well, you know, if I were the head of Wachovia or Washington Mutual and some really bad law was forcing me to bankrupt my company, I would cry foul and launch a major political campaign to get the law repealed before I went bankrupt.

The Free Market Fanatic: Exactly!

The Average American: So, can you show me the hundreds of op-eds in the *Wall Street Journal* and other conservative and business publications *before* 2008 attacking the Community Reinvestment Act and predicting a global financial crash caused by compulsory bad lending?

The Free Market Fanatic (holding up a sheaf of Wall Street Journal editorials): Er, um, well, ... look I can show you hundreds of editorials attacking the evil government sponsored enterprises Fannie Mae and Freddie Mac! See! We warned you! We were right all along! See!

The Average American: Yes, but they are government sponsored. Why are the private banks in trouble?

The Free Market Fanatic: The Community Reinvestment Act! The government *made* them do it!

The Average American: So, where is the massive campaign against the evil Community Reinvestment Act *before* 2008? Why weren't the heads of Wachovia, Washington Mutual, Goldman Sachs, Morgan Stanley, and all of the others predicting a crash? Why couldn't they get President Bush and the Republicans who were in power from 2001 to 2007 to repeal the bad law? Are Bush and the Republicans all liberal hippies?

The Free Market Fanatic: Er, um, well, ...look, politics is complicated. The important point is that the liberal hippie activists made the defenseless powerless bankers do it! They had no choice! The liberal hippie activists would have used the CRA to block bank mergers if the banks didn't invest their net worth and then some in sub-prime affordable housing loans!

The Average American (incredulous): Under the *Bush* administration? Under a *Republican* Senate and Congress?

The Free Market Fanatic: Absolutely. The CRA gave liberal hippie activists unlimited power to dictate lending policy to major banks!

The Average American: Well, can you show me where in the CRA it requires the banks to make unsound loans to unqualified borrowers that will bankrupt the banks?

The Free Market Fanatic: Well, er, um,... you have to read between the lines!

The Average American: Are you sure the badly run banks aren't using the Community Reinvestment Act and the liberal hippie activists as scapegoats for their own greed and stupidity?

The Free Market Fanatic (aghast): Of course not! They would never do that! Look, this is all the government's fault: Alan Greenspan, Fannie Mae and Freddie Mac, and the Community Reinvestment Act!

The Average American (looking just a tad suspicious): You know, I've noticed over the years that every time one of your "free market" policies implodes in a massive financial scandal and economic disaster, you always blame the government.

The Free Market Fanatic: What? That is nonsense. Our free market policies never fail. The free market is always right.

The Average American: What about that electricity deregulation fiasco in California?

The Free Market Fanatic: It was the government's fault!

The Average American: How? I thought the electricity market was deregulated?

The Free Market Fanatic: No, no, no. The EPA imposed limits on pollution in California that made it impossible for the deregulated industry to produce enough electricity in 2001. It was all the EPA's fault!

The Average American: Well, I was in California at the time. The deregulated electric utilities said they just didn't have the capacity to meet California's burgeoning electricity demand, nothing about the EPA regulations.

The Free Market Fanatic: It was the EPA.

The Average American: Well, some of those liberal hippie groups found out that the capacity of the electric power plants in California in 2001 exceeded the electricity demand and yet there were blackouts and brownouts all over the state. All the blackouts and brownouts magically went away after the State of California agreed to long term electricity contracts at much higher rates. Then, after the hippies brought up the production capacity numbers, you free market guys

started claiming the EPA pollution regulations put a limit on their production.

The Free Market Fanatic: Look, electricity deregulation in California was not true deregulation. Deregulation never fails! It was the government's fault!

The Average American: What about electricity deregulation in Texas? They have the highest rates in the US even though Texas is ...well... *Texas* with all that oil and natural gas.

The Free Market Fanatic: It is all the government's fault!

The Average American: Back during the Internet Bubble, George Gilder convinced me to put a good chunk of my life savings in Global Crossing. He was very big on how the deregulation of the Telecommunications industry would unlock boundless innovation and usher in a utopian age.

The Free Market Fanatic: George is a genius, the brains behind supply side economics!

The Average American: He also kept telling me how I didn't have to worry that Global Crossing chief Gary Winnick was one of Michael Milken's henchmen at Drexel Burnham Lambert. He kept telling me how Michael Milken was the victim of unjustified persecution by liberal hippies like Rudi Giuliani and the Reagan Administration. I shouldn't worry about the felony convictions, the insider trading, any of that stuff.

The Free Market Fanatic: Exactly! Michael Milken was the victim of a Marxist smear campaign. Rudi has backed away from attacking Mike. Mike is a champion of free enterprise. Did you know that Mike has set up the Milken Institute to fund free market guys like me?

The Average American (making a face): Yeah, well, I lost everything when Global Crossing went under.

The Free Market Fanatic: It was all the government's fault.

The Average American (sounding just a tad skeptical): Yeah. That's what George said *after* Global Crossing went under. It seems that the evil Al Gore put some evil regulations in the Telecommunications Act that sabotaged all of George's stock picks. Funny, George didn't seem

to notice these evil regulations until after I lost my money.

The Free Market Fanatic: See, once again, it was all the government's fault!

The Average American: What about the Savings and Loan deregulation in 1982 that was followed by the collapse of the entire savings and loan industry in a massive series of financial scandals?

The Free Market Fanatic: That was not true deregulation. I can show you a white paper from our institute demonstrating how the entire savings and loan fiasco was the government's fault.

The Average American: The financiers like Charles Keating who ran the savings and loans were blameless?

The Free Market Fanatic: Absolutely. Keating was the victim of a vicious liberal smear campaign. You know, his conviction was overturned on appeal after he had spent years in jail. He was a victim!

The Average American (looking just a little bit more suspicious): Hmm. Well, what about this? Many policies that are promoted as "deregulation" are actually *changes* in regulation that favor politically well-connected businesses that often contribute to both Republicans and Democrats, liberals and conservatives. When the policies are being enacted, you free market guys embrace them as deregulation and then after the fiasco, you back away, claim they weren't true deregulation, and blame the government. Am I getting warm?

The Free Market Fanatic (apoplectic): That, that,...*that is ridiculous!* We would never do that!

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