Wasting a Crisis

In the Wall Street Journal, **Culprits From Beltway Casting- *The financial inquiry commission lets a crisis go to waste,*** *(subscription required),* takes exception to the partisan conclusion of the commission.

The Financial Crisis Inquiry Commission reached a conclusion that appeared preordained. It was supported by the Democrats on the commission and rejected by the Republicans. The blame was heavily weighted to greed, derivatives and deregulation. But greed is nothing new and apparently it isn't quite clear from the conclusion when greed suddenly became a problem. And it was not just derivatives, but derivatives tied to the housing and mortgage market. Fixed income derivatives seemed to have no similar problem. And regulations have been growing, even under Bush. Losses on mortgages, not tied to derivatives, were also severe. Maybe it wasn't de-regulation- but poor or misguided regulations or inattentive regulators. Or maybe it was the interference of Congressmen with regulators after being plied with campaign contributions from the regulated.

Once again it is demonstrated that in the face of irrefutable evidence it is still possible to reach the wrong conclusion.

Blaming the economic crash on greed is like blaming an airplane crash on gravity. It is a force to be acknowledged but serves no useful purpose in preventing the next crash. There were clearly financial instruments allowed that should have been much more clearly regulated. But it is also true that government hubris especially at Fannie Mae and Freddie Mac drew the rules of the game that created this mess. But the Democrats, almost by straight party line, rejected efforts to tighten controls of Fannie and Freddie, years before the crash. But long before even the Republicans and Alan Greenspan thought the risk was worth the potential benefit of

expanding home ownership.

This crisis was a toxic mix of destructive government policy and poorly understood and poorly regulated toxic financial instruments. Housing was the perfect tool because it served the purpose of vote buying government policy. It was also the most dangerous because of its size and impact on so many people. By contrast Enron and WorldCom were record bankruptcies but posed no systemic risk.

But the problem was less from exotic financial instruments than from the same factor that causes all crashes: too much debt. The greed of Wall Street villains, which is nothing new, was much less of a cause than the consumers who wanted houses they could not afford, and a government more than willing to accommodate them.