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Captains of Today's Titanics

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The captain of the Titanic set a course for his ship through a known ice field, with the hope that it would not hit anything and cross the Atlantic in record time. The Congress of the United States created two government-sponsored mortgage corporations - Fannie Mae and Freddie Mac - which were more lightly regulated than similar financial institutions, with the hope they would expand the pool of mortgages but would not be wrecked during a financial downturn.

The U.S. Congress has greatly restricted drilling for oil in U.S.-controlled territory, restricted the building of new oil refineries, restricted the building of new nuclear power plants, and restricted the burning of coal in power plants, all with the totally unrealistic hope that these actions would neither increase U.S. dependency on foreign energy sources nor lead to major price increases.

Rather than being tried and punished for destructive, negligent behavior, many of the same members of Congress responsible for the above disasters now try to enact legislation that has the intent of pressuring credit-rating agencies into giving issuers of municipal bonds higher ratings. The goal is to enable local governments to issue debt with lower interest charges, but the results are likely to be overrated debt, leading to more defaults and taxpayer bailouts.

Fannie Mae and Freddie Mac were created to buy mortgages from banks with the goal of expanding the ability of banks to create more mortgages so more people could become homeowners. Nice intention, greatly flawed execution.

Fannie and Freddie packaged their mortgages into "mortgage-backed securities" and sold them to hedge funds and other financial players, which, in turn, enabled both companies to buy more bank issued mortgages. Fannie and Freddie became very big donors to the political campaigns of many leading Democrats and Republicans in Congress, and in exchange were not required to meet the same strict financial regulatory requirements as other companies. Their senior managements and boards were stuffed with very highly paid political appointees - some of whom turned out (surprise, surprise) to be both corrupt and incompetent.

Knowledgeable observers, most notably Peter Wallison, former Treasury general counsel and now American Enterprise Institute fellow, warned for years that it was only a matter of time before Fannie and Freddie would become insolvent and need a taxpayer bailout. That is exactly what happened.

Despite books and articles from Mr. Wallison and other wise and responsible observers, some members of Congress up until recent months were still pressuring Fannie and Freddie to loosen their standards for purchasing mortgages. If politicians' taking money from government-sponsored companies in clear exchange for regulatory and other privileges is not corruption, what is? The only reason more has not been made of it is that Fannie and Freddie spread their largess on almost anyone who mattered. Too many in the mainstream press - with the notable exceptions of the Wall Street Journal and The Washington Times - were too lazy and indifferent to say much about it.

If you restrict the supply of energy (gasoline) and demand continues to grow, what will happen to the price of energy (gasoline)? I expect most readers would answer, "The price will rise." The only class of Americans who continue to not answer that question correctly is the U.S. Congress.

Why do old farmers continue to plant fruit and nut trees, even though they may not be productive in their lifetimes? Why do business people, particularly entrepreneurs, make investments that may not pay off for many years in the future? On the other hand, why do so many politicians promote policies that will cause great harm in future years? Farmers and business people tend to have long time horizons and care about future generations, while too many in the political class are narcissists and care only about the political cycle or maybe even the 24-hour news cycle.

As the predictable financial and energy problems have demonstrated, if politicians were to act more like farmers and entrepreneurs, the people would be far better off. Members of Congress can make a few changes in their own self-interest, which would likely improve their own behavior. They should stop giving themselves and the government bureaucracy "cost of living increases," which protect them from government-created

inflation, and instead index their salaries and pensions to changes in the average real wages, which would give them all a concrete stake in real economic growth over the long run.

In addition, Congress should get serious about requiring real cost-benefit analysis of any spending bill or regulation before passing it. This is a way to protect themselves against their own irresponsible passions. I am willing to bet, if a true and proper cost-benefit analysis were made of Democratic Rep. Barney Frank's and Richard Neal's "Municipal Bond Fairness Act," they would drop it in a moment.

Finally, the press needs to be far more diligent in exposing the previous statements and proposals of elected officials that cause current problems. With the development of massive computerized data bases, this chore is far easier than in the past, and hence no excuse for continued cover-ups.

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