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Government against the People

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Officials ensure they're never blamed for their policy failures

Want more evidence that many government officials could not care less about protecting our person, property and liberty - which the American Founding Fathers saw as the basic purpose of government? Reports released this past week provided a bumper crop of evidence.

In May 2009, the Financial Crisis Inquiry Commission was established to investigate the causes of the financial and economic crisis. Six of the 10-member commission were chosen by the congressional Democrats, and four were picked by the congressional Republicans. (Rather than truly being independent, the commission was designed to protect the political flanks of many of those who had caused the problem.) The 500-page report that was sent to the president was only endorsed by the six Democratic members. Three of the Republicans filed one joint dissent, and the remaining Republican member, Peter Wallison, former general counsel of the Treasury under President Reagan and now a fellow at the American Enterprise Institute, filed his own 100-page dissent.

In explaining his dissent, Mr. Wallison wrote: "Like Congress and the Obama administration, the Commission's majority erred in assuming that it knew the causes of the financial crisis. Instead of pursuing a thorough study, the Commission's majority used its extensive statutory investigative authority to seek only the facts that supported its initial assumptions - that the crisis was caused by "deregulation" or lax regulation, greed and recklessness of Wall Street, predatory lending in the mortgage market, unregulated derivatives, and a financial system addicted to excessive risk taking. The Commission did not seriously investigate any other cause and did not effectively connect the factors it investigated to the financial crisis."

The Democratic majority never answered the basic question to support its assertion: Why did bankers and Wall Street suddenly become more greedy, and how did this cause the financial crisis? The three dissenting Republicans blamed the crisis on government housing policy, failures in credit-rating and other factors. Mr. Wallison argues that without destructive U.S. government housing policies, the other factors were, by themselves, insufficient to create the global financial crisis. The Democrats' report clearly was one of self-interest - no surprise. The three dissenting Republicans are fine folks, but each had major policy responsibilities in the U.S. government in the past decade. In contrast, Mr. Wallison last served in government two decades ago and, more importantly, had been warning about the coming disaster for the past decade, particularly with the two government-sponsored housing giants, Fannie Mae and Freddie Mac. Mr. Wallison had been prescient in forecasting the collapse because he spent the time to look at the data and other evidence and had no vested interest in not seeking the truth.

The administration and most of the congressional Democrats seemed to have learned nothing. They passed the Dodd-Frank financial "reform" legislation in 2010 before understanding or even acknowledging the primary source of the problem: Fannie and Freddie. (As has been well publicized, both then-Sen. Christopher J. Dodd and Rep. Barney Frank had serious conflicts of interest with the mortgage giants.) In sum, the "housing crisis" will continue, and the financial crisis will return sooner rather than later.

On Wednesday, Ralph Nader wrote in the Wall Street Journal that the government had ripped off the Fannie/Freddie stockholders, of which he was one. What delicious irony that the man who has been telling us for decades to trust the government instead of private business was abused by the government. I wonder if he has learned anything.

Another no surprise last week was a report issued by the Congressional Budget Office that the budget deficit is even larger (a mere $1.5 trillion larger) than previously forecast and financial doomsday is getting closer. Again, having learned nothing, President Obama responded in his State of the Union address by proposing more government spending. He seems to be making a real effort to have the collapse occur in his first term.

Meanwhile, more reports surfaced about the fact that many state and local governments have not been disclosing relevant information about their finances to their bondholders. Executives in private firms would be fined or sent to jail for similar lapses, but government officials are largely immune to rules that the rest of us must follow. Municipal bonds are often held by retirees and others seeking low-risk investments, so reckless government officials are endangering the income of the people they claim to care about most.

Public choice theory explains why government officials and bureaucrats put their own interests ahead of the interests of those who they are supposed to serve. Those in favor of ever bigger government ignore this fundamental reality, which is demonstrated time and time again. The American Founding Fathers implicitly understood this, which is why they tried to design a system to protect people from government. Recent events have shown that their fears were all too justified.

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