

Purveyors of Financial Destruction

by Richard W. Rahn

BLAME FOR NATIONAL DECLINE BELONGS WITH DEMOCRATIC INCOMPETENTS

On Dec. 28, the Financial Times announced, "China has again outshone the U.S. as the top venue for initial public offerings." How is it that since 2008, a self-proclaimed communist country raises more capital and has more new firms going public than the great bastion of free-market capitalism, the United States? Answer: Members of Congress have been killing the U.S. financial markets because of hubris, incompetence and a lust for power and money.

On Dec. 21, 2008, a Wall Street Journal editorial correctly stated after the U.S. lost the lead in initial public offerings (IPOs) for the first time: "For all of this, we can thank Sarbanes-Oxley [accounting reform act, passed in 2002]. Cooked up in the wake of accounting scandals earlier this decade, it has essentially killed the creation of new public companies in America."

Knowledgeable people had warned members of Congress about the likely costly and destructive consequences of the legislation, but their warnings were ignored. Rep. Mike Oxley and Sen. Paul Sarbanes wisely retired once the downside of their handiwork became obvious, but the bill still has not been repealed.

In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. The act was named after Sen. Christopher J. Dodd, Connecticut Democrat, who was forced to retire because of his financial conflicts of interest, and the notorious Rep. Barney Frank, Massachusetts Democrat, who has announced that he, too, will retire (probably because he would not be re-elected). Mr. Frank was perhaps the biggest protector of Fannie Mae and Freddie Mac in Congress, but he had plenty of allies in this willful cover-up of the most costly financial scandal ever. The reason these men are not in jail or have not been sued is

because they have protection that only public officials can accord to themselves, unlike those of us in the private sector.

The official Washington line has been that it was "Wall Street" that caused the Great Recession. Thanks largely to the tireless efforts of a former general counsel of the Treasury, Peter Wallison, and his American Enterprise Institute colleague Edward Pinto, we now know "the financial crisis would not have occurred but for government housing policy implemented principally through Fannie and Freddie and the Department of Housing and Urban Development (HUD)." The Securities and Exchange Commission (SEC) has confirmed that Mr. Wallison and Mr. Pinto correctly exposed the wrongdoing of government-sponsored enterprises (GSEs), including Fannie and Freddie. The SEC has documented \$1.03 trillion in previously undisclosed subprime and alternative-documentation loans in Fannie's and Freddie's credit guaranty portfolios, and it goes on and on.

The bottom line of all of this is that it was members of Congress who were responsible for the financial crisis because of bills they passed and their lack of oversight of the GSEs. Rather than admit their own complicity, Congress, the president and much of the Washington establishment blamed it on greedy bankers. They then rewarded two of their own, Mr. Dodd and Mr. Frank, who were among those most responsible for the problem and cover-up, by naming a financial "reform" bill after them. The Dodd-Frank Act has neither prevented frauds nor instituted fairness, but it has shut down much of the ability of banks and other financial institutions to make loans.

A prime example of how worthless the new regulations are is Jon Corzine, former Democratic senator and governor of New Jersey, who was a major supporter of the new legislation. His firm, MF Global, somehow lost \$1.2 billion of its customers' money because it apparently commingled client funds with the firm's money. This is exactly one of the acts the Dodd-Frank

Act was supposed to prevent. Vice President Joseph R. Biden Jr. has stated that Mr. Corzine was the person to whom he and President Obama first turned for economic and financial advice.

But it only gets worse. The United States is in the process of driving hundreds of billions of dollars, if not a trillion or more of needed foreign investment that creates jobs and fuels new technologies, out of the country because of the new Foreign Account Tax Compliance Act (FATCA). The law would hit with draconian fines foreign financial institutions that might have a U.S. citizen among their clients if they fail to identify that person as such. In an era when dual citizenships are common, it is practically impossible for any financial institution to know with absolute certainty the tax homes of all of its clients. The fines for noncompliance are so massive that many foreign financial institutions say they will no longer invest in the United States. You might ask, what kind of idiot would put perhaps a trillion dollars or more of investment at risk for an illusory gain of \$8 billion in tax revenue? The answer is Sen. Carl Levin, Michigan Democrat, a leader of the "let's-increase-taxes-no-matter-what-the-cost" crowd. Mr. Levin consistently uses bogus data, ignores basic cost-benefit analysis and the rights and liberties of both non-Americans and Americans in his never-ending quest to tax and spend other people's money. His reward: praise and campaign funds from his left-wing friends, including those in the media who don't care if they destroy the American economy.

Happy new year!

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