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Lessons To Be Learned From The Financial Crisis

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Abstract
This article aims to take a careful and sober inquiry into the political and economic origins of today's financial crisis. We find that the political and economic causes of this crisis lie in the easy money policy of the Federal Reserve and the drastic regulatory and policy changes in the mortgage industry, which developed during the Clinton years and continued into the Bush administrations. We find that these policy changes were motivated by an administration-wide political goal for affordable housing, a goal seen as having moral importance, which was advanced almost without regard to its potential consequences.

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I. Introduction

America is in a complex economic crisis. While it is natural to ask "Who is to blame?" most Americans seem to believe they already know the answer to this question: It is businessmen who are the guilty. President Obama echoed this sentiment when he warned CEOs of America's major financial institutions: "My administration is the only thing between you and the pitchforks" (Eamon, 2009). Individuals in this country have long held the belief that business is morally corrupt or, at least, a morally suspect enterprise, and Marxists-socialists have long predicted that the actions of capitalists – through their greed, selfishness, and profit-driven behavior – cannot go on forever. Like the drug addict's binge or the con artist's spree, capitalism's immoral activities too will have to come to a tragic end. Is this economic crisis a sign of that end?

The present article aims to take a careful and sober inquiry into origins of this crisis in contrast to the emotionalist "pitchfork" attitude that has captured our nation. In doing so, we come to the opposite conclusion that prevailing sentiment seems to hold. We find that neither the selfish pursuits of businessmen nor the system of capitalism is what is responsible for our current economic crisis. Most businesses we find were actually victims of irrational and shortsighted government policy, while capitalism, the system of free enterprise, was made out to be the scapegoat for this crisis. Corporate greed, irrationality, and individual short-sightedness very well might have existed in this business climate and, as White (2008) notes, "might have made matters worse for more than a few institutions…[b]ut to explain *industrywide* errors, we need to identify policy distortions capable of having industrywide effects." This is precisely the recommendation we follow in this essay, analyzing the roots of this crisis in the easy money policy of the Fed and the drastic regulatory and policy changes emanating from the various government entities participating in the mortgage industry in the last decade. Grasping that policy changes are not made arbitrarily, but are motivated by some type of ideology, we find that the policy changes that caused this crisis originated in the mortgage industry and were motivated by an administration-wide political goal of affordable housing for all. This goal was advanced by Democrats and later accepted by Republicans in the Bush administration, the only difference lying in a matter of degree of implementation.

This overzealous commitment to affordable housing, which became more and more ardent and intrusive, caused all the players in this crisis to throw caution to the wind and to strive toward realizing this end regardless of the consequences. The consequence of this "ends justify the means" government campaign resulted in the massive violation of rights and eventual scapegoating of businessmen, the lives of many working class people thrown in disarray, and a global economy in shambles – all in just over a decade. Learning from this crisis, we point out that one should not see this crisis as a failure of capitalism or the free market, but rather as a failure of the regulated economy. Looking at the early actions and statements of the new Obama administration, we find that those in this administration seem to have learned very little from this crisis and have demonstrated that we can come to expect little more from this administration in the way of proper policy than we did from the two prior administrations.

II. Origins of the Economic Crisis: Financial Turmoil Began in the Mortgage Market

In order to understand the origins of the present crisis, it is helpful to first have a clear understanding of the nature of savings. When individuals produce more than they consume, they save. The holders of these savings want to do more than put this money under their mattresses. They want to make this savings grow. And, there are plenty of individuals and companies who are willing to pay money, i.e., interest, to borrow this saved money. The key is to find somewhere safe to invest one's savings, while at the same time getting a worthwhile return. U.S. Treasury securities, regarded as the safest investment in the world, had long been a favorite conduit for investors.

In a speech following the September 11, 2001, terrorist attacks and in the midst of the accompanying U.S. recession, however, Federal Reserve Chairman Alan Greenspan made a declaration that turned the world of the investment bankers upside down. Greenspan declared that the FOMC (Federal Open Markets Committee) stood prepared to maintain a highly accommodative policy stance for as long as needed to promote satisfactory economic performance. Translated from central banker speak, what Greenspan meant is that he is willing to inflate the money supply and hence lower interest rates for as long as necessary to "revive" the economy and repair it from the shock it received on that fateful day. What this meant for investors in the U.S. Treasury bond market is that they were not going to make any money on U.S. treasury securities for a very long time. Smart investors, diverted from the bond market, scanned Wall Street for a similar low-risk, high-return investment that could take the place of U.S. Treasury securities, and they fell in love with residential mortgages.

The Federal Reserve's credit expansion to counteract the recession of 2001 thus provided the monetary fuel for the unsustainable financing of residential mortgages. In 2001, for instance, Greenspan lowered the federal funds rate from 6.25 percent to 1.75 percent, and by the middle of 2003, the federal funds rate had been lowered even further to 1 percent, where it was kept until mid-2004. As economist Lawrence H. White (2008, p.3) notes, though, in actuality, "[t]he *real* Fed funds rate was negative – meaning that nominal rates were lower than the contemporary rate of inflation – for two and a half years…during that period a borrower was not paying but rather gaining in proportion to what he borrowed." With interest rates at record low levels, droves of Americans found it advantageous to borrow money. The housing market swelled, and the housing bubble was created.

From the midpoint of 2003 to the midpoint of 2007, real estate loans at commercial banks grew at a remarkable 12.26 percent annual rate (White, 2008, p.4). This led to a continuous rise in the price of homes and condos and the construction of new housing on undeveloped land – a large share of which was financed using Alt-A and sub-prime loans. ("Sub-prime" and "Alt-A" are financial terms referring to riskier loans, loans where the borrower usually has a credit score below a particular level, e.g., a FICO score below 680. Sub-prime borrowers include individuals with a history of loan delinquency or default, those with a recorded bankruptcy, those with limited debt experience, or with little to no down payment. Sub-prime loans are considered riskier than Alt-A loans.)

In addition to the loans for existing and new homes being financed by subprime loans, adjustable rate mortgages (ARMs) also grew drastically in number relative to the age-old 30 year fixed-rate mortgage. ARMs made up 20 percent of the loans extended in 2001, but by 2004 they constituted 40 percent of the total number of housing loans made. In just one year, 2003, Washington Mutual Bank saw their ARMs rise from 5 percent to 40 (Norberg, 2009). The advantage to having an ARM is that when interest rates are low, one's mortgage payment is correspondingly low. These mortgages were risky, however, because there existed the chance that unscrupulous individuals who formed certain spending habits when interest rates (hence, mortgage payments) were low could be in for a real shock when interest rates rose. Yet, in February 2003, despite this risk and in the face of an already incredible rate of expansion in ARMs, Greenspan called for banks to increase their ARM percentages. As Johan Norberg (2009) notes, Greenspan urged this by presenting Fed research, which showed "that homeowners could have gained tens of thousands of dollars in the past decade if they had let the interest rates on their mortgages move freely instead of locking them at a certain level."

Accompanying this unprecedented plunge in interest rates and rise in adjustable-rate mortgages of the mid-2000s were a plethora of policy and institutional changes motivated by the bipartisan political goal of bringing home ownership to underprivileged and minority groups without considerations of the risks or costs involved. These policies and institutions would have the effect of grossly amplifying the risks posed by a rapidly growing, already unstable housing sector. The expansion of political measures to "encourage" greater home ownership by means of relaxed lending standards came in large measure from new changes in the Federal Housing Administration's accepted loan equity standards, a drastic new expansion of the provisions set forth in the Community Reinvestment Act (CRA), and a new mission adopted by Fannie Mae and Freddie Mac, under the pressure of the Department of Housing and Urban Development (HUD), to increase the availability of loans to low and moderate income groups.

The Federal Housing Administration (FHA) is an institution created during the New Deal to insure mortgage loans, much as the FDIC insures a portion of individual bank accounts. Whereas the FHA had for a long while required a 20 percent down payment on mortgages, the 1990s saw a steady decrease in these requirements until they reached a mere 3 percent in 2004. These depreciating standards were induced to help the government's mission of increased home ownership to underprivileged and minority groups.

The newly strengthened Community Reinvestment Act was a major policy change made during the Clinton administration that gave regulators "serious teeth," in the words of Lawrence H. White (2008). Whereas before the CRA required minor provisions of certain banks, for example, that a certain percentage of their loans stay within the community, new provisions gave the CRA expanded power to force banks to lower their lending standards for the sake of the community. Amendments added to it in 1995 provided banks with a CRA rating and enabled regulators to deny banks with poor CRA ratings the right to merge with other banks, open up new branches, or worse. Additionally, a mere unfounded complaint from a community organization, such as ACORN, could lower a bank's CRA rating. Yaron Brook (2008) notes: "According to one enforcement agency, 'discrimination exists when a lender's underwriting policies contain arbitrary or outdated criteria that effectively disqualify many urban or lower-income minority applicants'." What qualified as "arbitrary and outdated criteria," according to this enforcement agency? Brook remarks, precisely "the essentials of responsible lending: income level, income verification, credit history and savings history."

Thomas Sowell (2009, pp.105-8) gives the starkest examples of how some banks were affected by the newly strengthened CRA in his book *The Housing Boom and Bust*. It was in 1992 that the first bank was prosecuted for racial discrimination as a result of having racially disproportional mortgage lending records. Soon after this, banks were being highly scrutinized by the Fed and the Justice Department. Sowell cites the case of Shawnut National Bank whose request to acquire New Dartmouth bank in 1993 was denied by the Fed and whose case was forwarded to the Justice Department where charges were brought against the bank for racial discrimination. Later, the Justice Department got bolder and went so far as to bring suit against Chevy Chase Federal Savings Bank simply for not have branches in low-income and minority populated areas. It was clear that the Clinton administration was on a politically motivated manhunt for institutions they believed were in noncompliance with their affordable housing mission. As Sowell remarks, this was not just evident by their actions; it was explicitly stated by the administration's Attorney General, Janet Reno. Those who "closely examine their lending practices and make necessary changes to eliminate discrimination fare better in the department's stepped-up enforcement effort than those who do not," she said. "Do not wait for the Justice Department to come knocking" (as cited in Sowell, 2009). What Sowell remarks as being perhaps the most fantastic aspect of these cases is that in nearly all of them, not one complaint of racism was ever cited or brought forth by an actual customer.

Beyond lowering mortgage standards to the level that low and moderate income groups could now qualify, financial policy analyst Peter Wallison (2008a) notes that such devalued loan standards started to be applied to the prime market. For, since "[l]oan members of underserved groups did not come with labels…the same unsound practices were extended to borrowers who could have qualified under the traditional underwriting standards." In fact, it was typical for loan originators to encourage home buyers to buy bigger and more luxurious houses, as their down payment could easily be adjusted to a mutually agreed upon level. From the home buyer's perspective, this seemed to make some sense too because, they were told, even if the mortgage payments became onerous, one could simply sell one's home for a profit in the rapidly appreciating home market. In most of these individuals' lifetimes, home prices had always gone up. Thus, conventional wisdom hailed, home prices could never fall.

III. Fannie Mae and Freddie Mac: Financial Monsters Let Loose on the Economy

At this point, one might be wondering, "How could a bank go on making such a preponderance of bad loans without facing massive defaults?" Enter Fannie Mae and Freddie Mac. Fannie Mae, the Federal National Mortgage Corporation, and Freddie Mac, the Federal Home Mortgage Corporation, are Government Sponsored Entities (GSEs). They are financial centaurs, as one *The Wall Street Journal* article described them, because of the fact that they have government charters, government missions, and government privileges, but are driven by the profit motive, as a result of being publicly traded corporations on the New York Stock Exchange.[1]

Their government-endowed mission is to provide liquidity to the mortgage market by purchasing mortgages from loan originators, then repackaging these loans into Mortgage Backed Securities (MBSs), which investors could in turn purchase. Because our government believed Fannie and Freddie played an especially important role in the affordable housing mission, they endowed these GSEs with special privileges that other companies do not legally have. Such special privileges include access to a line of credit through the Treasury, exemption from taxes, and an exemption from registering their securities with the U.S. Securities and Exchange Commission (SEC). Perhaps of greatest significance to this crisis is the fact that Fannie and Freddie also were implicitly (and correctly) believed to be guaranteed by government (i.e., bailed out) in the event of bankruptcy. The authors can't emphasize strongly enough how important this implicit guarantee was to the explosive growth of the mortgage markets. Normally cautious lenders threw caution to the wind because they could easily unload their loans to buyers at Fannie Mae or Freddie Mac. Under such conditions, what was the incentive on the part of banks to make careful loans?

In 1992, Congress charged Fannie and Freddie with a new mission: to facilitate affordable housing for low-income and minority groups. In 1996, HUD gave Fannie and Freddie a mandate that 42 percent of its financed mortgages should go to "borrowers with an

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[1] "Fannie the Centaur." 2004. *The Wall Street Journal*. December 17. http://online.wsj.com/article/SB110324299258402878.html?mod=Review-Outlook-US

income below the median in their area" (Roberts, 2008).[2] Every year HUD would increase this percentage, moving it to 50 percent in 2000, to 52 percent in 2005, and to 55 percent in 2007. Fannie and Freddie met these goals each year and took their new mission seriously. While home ownership had risen only about 0.2 percent (64 percent to 64.2 percent) from 1982 to 1994, it leaped from 64.2 percent in 1994 to 67.5 percent in 2000 and continued to rise almost another two percentage points before falling to 67.8 percent in 2007. From 1994 to 2003, Fannie had increased the percentage of the newly originated loans it purchased from 37 percent to 57 percent (Wallison and Pinto, 2009). Commenting in this same year on the progress of their dual mission to serve the underprivileged and yet reward stockholders, Fannie Mae chairman, Frank Raines, announced that his company had "developed new mortgage products and devised underwriting experiments that redefined creditworthiness...," but that "Fannie Mae must expand its 'American Dream Commitment' to underserved families, especially minority Americans" (as cited in Salsman, 2009).

In the years 2001 to 2006, the most aggressive years of Fannie and Freddie, the standard 30-year fixed-rate mortgage predictably saw a dramatic decline. It gave way not just to ARMs (as mentioned earlier), but also, substantially, to sub-prime and Alt-A loans. Whereas 30-year fixed rate mortgages constituted 57.1 percent of all loans in 2001, by 2006 they had fallen to 33.3 percent. Sub-prime loans had, on the other hand, risen from 7.2 percent to 18.8 percent, and Alt-A loans increased from 2.5 percent to 13.9 percent in this five-year period (Wallison, 2009).

In the years before its collapse, 2005-2007, Fannie and Freddie acquired nearly $1 trillion in sub-prime and Alt-A loans. By 2007, Fannie and Freddie held 60 percent of all Alt-A loans. They are thought to have played a role in 80-90 percent of all mortgages originated in 2007 (Salsman, 2009). And, by the end of 2007, Fannie and Freddie held about 50 percent of the entire U.S. residential housing market, "mortgage assets of $6 trillion, but a net worth (capital) equivalent to less than 2 percent of that sum" (Salsman, 2009). This was no accident, as ex-Fannie Mae CEO Frank Raines

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[2] Roberts, Russell. 2008. "How Government Stoked the Mania." *The Wall Street Journal*, October 3. http://online.wsj.com/article/SB122298982558700341.html?mod=special_pagecampaign2008_most-pop.

remarked, "these assets are so riskless, that their capital should be under 2 percent" (U.S. House of Representatives, 2003). Representative Maxine Waters echoed this when she said that "when you look at the philosophy behind why down payments [exist], it just does not make any sense anymore. It used to mean that you were more worthy; that if you somehow put up a little bit more money, then you are likely to make your payments. Not true. The fact of the matter is there are people who will never have a down payment, who make their rental payments every month on time, and they would be just fine if they could get a product that could be offered to them by the people who really do the financing, who do the mortgages" (U.S. House of Representatives, 2003a). Congressman Brad Miller seconded this naïveté when he expressed frustration at the Republican's worry that Fannie and Freddie were taking on too much risk: "People may or may not pay their credit card bills, but they sure pay their mortgage. It certainly seems like Fannie Mae and Freddie Mac should not have to have the same kind of equity requirements that, say, MBNA has. What can cause the meltdown here? Is it that people don't pay their mortgage?" (U.S. House of Representatives, 2003a).

IV. Home Ownership for All: A Noble *Political* Ideal?

The politicians advancing the goal of affordable housing for all did more than just use faulty logic to vigorously defend the operations of Fannie Mae and Freddie Mac, they also played the "moral card" against skeptics who wanted to reign in Fannie and Freddie. Playing the "moral card" had the effect of challenging and even dividing the critics of Fannie and Freddie, since many Republicans at the time shared the moral goal of home ownership for all, but were divided as to what extent government should encourage it. Seeing "home ownership for all" as a moral ideal also united and invigorated defenders of Fannie and Freddie, however. Katherine Harris, for example, lauded President Bush's American Dream Downpayment Act, remarking that it was an indispensible means of achieving "the moral imperative of extending affordable quality housing opportunities to every American" (U.S. House of Representatives, 2003a). On the other hand, Rep. David Scott announced that too slow progress was being made in terms of minority home ownership and that "[t]here is something very morally wrong with that…if this persistent gap in minority homeownership is to be substantially narrowed, then the structural barriers to homeownership, particularly lack of capital for down payment and closing costs must be eliminated." (U.S. House of Representatives, 2003a).

It is these claims to the moral righteousness of their cause that emboldened proponents of the affordable housing mission and made them strive to achieve their goals without concern for the consequences of their actions. Rep. Maxine Waters, for instance, urged the Office of Federal Housing Enterprise Oversight (OFHEO), Fannie and Freddie's regulator, to do all it could not to "impede their affordable housing mission, a mission that has seen innovation flourish, from desktop underwriting to 100 percent loans" (U.S. House of Representatives, 2003b). Rep. Joe Baca openly stated in 2003 that "safety and soundness" should take a back seat to the moral mission of Fannie and Freddie: "Regarding the GSEs, safety and soundness is important, but whatever this committee does, we should not interfere with GSEs ability to innovate, to meet the needs of low-income families in underserved areas…. GSEs must have the flexibility and the products to develop and fulfill the responsibility of their congressional charter and housing mission (U.S. House of Representatives, 2003b). And, Barney Frank, Chair of the House Financial Services Committee, deepened the government's commitment to the affordable housing mission, declaring: "My primary interest – and I know I share this with others on this committee who care a lot about housing – is to make sure that nothing is done in this reorganization that weakens the ability, indeed the obligation of Fannie Mae and Freddie Mac to help us with our housing problem…. I don't want to treat Fannie Mae and Freddie Mac the same as I treat a regular bank…. I do not want the same kind of focus on safety and soundness that we have in OCC and OTS. I want to roll the dice a little bit more in this situation towards subsidized housing" (U.S. House of Representatives, 2003b).

Such narrow-focused commitment to the "moral imperative" of Fannie and Freddie, just months before Fannie and Freddie collapsed, further led Sen. Chris Dodd to brazenly ignore warning signs of Fannie and Freddie's precarious financial situation. He declared: "There's no reason to talk about failure…our primary focus is supporting Fannie Mae and Freddie Mac in their current form as they carry out their important mission" (as cited in Crittenden, 2008). But, if all this were not enough, beyond just burying their heads in the sand when financial panic set in, some had the audacity to justify the destruction they caused purely on the basis of their moral intentions. Countrywide Financial CEO Angelo Mozilo, for example, declared self-righteously on CNBC that "Democrats and Republicans alike wanted to extend home ownership to people who did not have credit…although it ended disastrously, it was a noble aspiration" (as cited in Salsman, 2009). In light of all the evidence presented, from the moral hazards posed by Fannie and Freddie to the government's manipulation of the market by the Federal Reserve and Community Reinvestment Act, it is important that we now look at what we can learn from this crisis.

V. What Can We Learn from this Crisis?

What all students of this crisis should take away from it is the lesson that, despite any "good intentions," government intervention is what *caused this crisis*. Peter Wallison (2000) warned of this as far back as December 1, 2000, stating: "It is no exaggeration to say that this is a threat to the private sector to the same degree as it is a threat to the taxpayers…. By combining the government's exemption from market discipline with the aggressiveness of private-sector management, Congress has created a financial monster." This "monster" was, as it has been shown, not a natural development of capitalism, but a deliberate creation of government.

Wallison (2006) points out that the GSEs Fannie and Freddie were "monsters" precisely because of the severe moral hazard they posed to the economy and the public. A moral hazard exists in the very nature of these entities, Wallison argues. Because of their implicit government guarantees, Fannie and Freddie were seen by U.S. and foreign investors as risk-free. And, being perceived as risk-free, these GSEs could borrow an unlimited amount of money with virtually no questions asked. This made it possible for these GSEs to avoid (for a long period of time) the mechanisms of market discipline that all other players under capitalism are constrained by, specifically the need to create and maintain a strong reputation in the marketplace (see Greenspan, 1966).

Exempted from having to answer to the SEC or having any other real regulations or restrictions, Fannie and Freddie were effectively outfitted with a false reputation and armed with a blank check book, then cast out into the economy and naively expected to behave. What Fannie Mae and Freddie Mac predictably did instead was to go gambling in the mortgage market on the one hand and on the other fill the wallets of their stockholders, executives, and political insiders with borrowed funds. When asked to help target low-income and minority individuals acquire a mortgage, Fannie and Freddie happily agreed, then simply called in loan originators and said to them, "We'll take anything," engaging in further gambling and borrowing. They even partnered up with groups like the NAACP in $100+ million deals to provide what Frank Raines explained as, "underwriting flexibility that put home ownership in [a minority person's] reach" (as cited in "NAACP Joins Fannie Mae," 1999).

Meeting the increasingly arbitrary goals of Congress was almost effortless and trouble-free for Fannie and Freddie, for they merely had to borrow money with their privileged "flawless" credit status. Whereas a typical bureaucratized company usually finds itself "bound to comply with detailed rules and regulations fixed by the authority of a superior body," wherein that company's "objective can no longer be profit, but compliance with the rules and regulations," (Mises, 1969, p.45,49) Fannie and Freddie had no rules or regulations to answer to, other than to make a designated amount of risky sub-prime purchases and repackage these as mortgage-backed securities. Having unlimited funds, they could have their cake and eat it too, pursuing profit for executives and shareholders and taking significant risks and even losses for their government benefactors. This government-created moral hazard was a condition that Fannie and Freddie took full advantage of, growing voraciously, like a "monster on steroids," until they exploded, taking other institutions down with them when they collapsed.

What we should take away from this travesty is not the fact that more regulation is needed, but that less is: "Today, more than fifty regulatory agencies enforce tens of thousands of rules on individuals and businesses; the average length of the *Federal Register*, which lists regulatory rules, has recently hovered around seventy-five thousand pages," Brook and Watkins (2009) note. Yet, no regulatory agency was able to stop this catastrophe, one of the largest in history. No regulatory agency was able to identify the accounting fraud perpetrated by both Fannie and Freddie in 2003, either. We must understand that regulation simply means government intervention and imposition of a "guilty until proven innocent policy." Regulation severely penalizes honest businessmen, costing nearly $1 trillion annually in accounting and record-keeping fees, as one estimate has it

(Brook and Watkins, 2009). This is in addition to the perverse incentives, moral hazards, and destructive consequences created when such regulations alter the overarching mission of every business – profit.

The profit-seeking behavior of Wall Street is not something that needs to be fixed or contained; it is something that must be permitted to operate and expand. The profit motive is a powerful force for good. Every individual's selfish drive for profit, one could even call it greed, "provides powerful incentives for the steady expansion and improvement of production" (Reisman, 1996, p.138). It leads one to improve his products and services by innovation, creativity, and increased production so that, as a producer, he is more attractive to others. The profit motive is what motivates competition, and together these institutions, unique to capitalism, are responsible for the unprecedented living standards, advanced technology, economic growth, and individual creativity we have today.

What *does* need to be fixed in our economy are the moral premises many businessmen and government officials operate under. Government bureaucrats need to recognize the extraordinary value of the system of capitalism (i.e., of free enterprise) and the positive role businessmen play to our society. They need to develop a newfound respect for the rights of the citizens they serve (businessmen included), and they need to recognize that they do not have *carte blanche* on our income or our lives, no matter how allegedly benevolent the end. Businessmen, on the other hand, need to recognize that morality is not a luxury, but is a profound need. When cast in the proper light, morality illuminates profit, production, and economic growth as real moral values, and it defines those virtues needed to achieve and sustain these values in the business world. A rational morality informs businessmen of what virtues are needed to make their business thrive (Locke, 2000, 2009; Ghate and Locke, 2003). A rational morality is thus indispensible for a business's well-being, just as it is for an individual's well being (Kirkpatrick, 1992; Ghate and Locke, 2003; Bernstein, 2005, pp.207-223).

VI. What Has our Government Learned?

Far from acknowledging the origins of this crisis in the government's interventionist policies, the new Obama administration has sadly avoided any discussion of the association between the government and Fannie and Freddie, much less a parental one. It has become the customary procedure of the Obama administration to steer clear of any serious inquiry into the causes of this crisis and to substitute in its place the excuse that we do not need to "play the blame game." We should instead "come together," make sacrifices, and recognize the need for increased oversight and control over Wall Street: "The key thing is for everybody just to stay focused on doing the job instead of trying to figure out who you can pass blame on to," Obama (*The Tonight Show*, 2009) has remarked.

A clear example of the indirect way in which the Obama administration shifted blame to the free market early in his administration is the remark President Obama made in regard to the public's discovery that executives at AIG were receiving bonuses: This type of business culture has "existed for far too long -- a situation where excess greed, excess compensation, excess risk-taking have all made us vulnerable and left us holding the bag," Obama insinuated (United States, 2009). Now that a significant amount of time has passed and most people are vague on the details, but still strong in their feeling that they were in someway wronged and harmed by this recent economic crisis, Obama (2009b) has been more confident in squaring the blame with Wall Street: "We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall." To ensure such a crisis does not happen again Obama (2009b) declared recently that he would create a Consumer Financial Protection Agency along with a bigger, further reaching (super) regulatory agency to oversee and "protect the system as a whole."

Obama, in fact, announced that this was his intention back in March 2009, when he said, "we still have a 1930s regulatory system in place…we've got to update our institutions, our regulatory frameworks" (Obama 2009a). What is ironic about this statement is that while GSEs, like Fannie Mae, were *creations* of 1930's New Deal policy, they were relatively harmless until their modern, mid-1990s regulatory expansion. Likewise, mortgage companies had their vast share of regulators, but it was *not until* the increased and "updated" regulations of the 1990s and 2000s that one saw mortgage banks driven to their own destruction. Worse, it was the government's deliberate calls for the origination of larger and larger non-prime loans, not some decadent element within capitalism, that motivated the kind of irrational and destructive decisions we saw take place recently in the mortgage industry. Nevertheless, Obama (2009b) seems oblivious to these facts and, to add insult to injury, has appointed as our country's financial physician the person perhaps most responsible for poisoning our economic system: Barney Frank. Obama's appointment of Barney Frank to implement and "shape the agenda going forward" with these new regulatory agencies has unfortunately shown that he is not concerned with getting to the bottom of our country's financial ills and that he does not want to cure them. This appointment and this regulatory expansion is, as we have seen, a recipe for real disaster, which, if left unchecked, could possibly lead our nation down the path to a far larger and more devastating economic crisis.

VII. Conclusion

The lessons of this financial crisis are thus of paramount importance because they have dire consequences and clearly have not been learned. The very mistakes that have brought about the current economic crisis are being repeated by our current political administration. What we have tried to show in this article is that real mistakes were made to cause this crisis. These mistakes were deliberately made by government entities and government bodies with full knowledge of the risks that were involved – hence, why Barney Frank described his decision not to rein in Fannie Mae and Freddie Mac as "rolling the dice." In this "New Era of Responsibility" we should not escape awareness of this fact and of the destructive role that government intervention plays in our economy in general.

But we would also not like to end this article on a negative note. There is a very clear positive case to be made for capitalism. We can do this briefly by recognizing that in this "New Era of Responsibility," real responsibility means *personal responsibility*, and this is precisely what the free-market system of capitalism stands for. In contrast to interventionism, which has bureaucrats dictate through orders, commands, and prohibitions how production and consumption should take place, capitalism, or the free market, operates most efficiently "without government orders telling everybody precisely what he should do and how he should do it… [because] it does not ask anybody to deviate from those lines of conduct which best serve his own interests" (Mises, 1949, pp.720-1). In other words, being a political-economic system that respects the freedom and rights of individuals, capitalism leaves individuals free to live their own lives according to their own design. It allows them to cooperate with others only to the extent that they find it in their best interest to do so. There could not be a better system for encouraging and promoting self-responsibility.

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