

Big Government

So, is Big Government our enemy, or is Big Government our friend? If you believe the political ads – generally not a wise thing to do – Barack Obama favors of Big Government, and John McCain doesn't. Since these are McCain's ads, presumably Big Government is a bad thing.

Of course, reality is always more nuanced than political ads. We're in favor of Big Government when it protects us from terrorists. But we're against Big Government when it taps our phones and pries into our personal lives. The irony, if you're prone to believe the McCain ad, is that on this particular issue it's the Republicans that support Big Government, and the Democrats that want to limit Big Government's reach.

It is Republican gospel that, as far as the economy is concerned, Big Government is a bad thing. And in many respects, I agree. But as the events of the past few weeks make perfectly clear, sometimes not enough Big Government is a recipe for disaster. It's a lesson we should have learned 20 years ago, but apparently didn't.

Remember the S&L debacle of the 1980s? Condos and commercial real estate were hot back then, and a lot of S&Ls were lending like crazy. Big Government wasn't actively monitoring them at the time, thanks to the Reagan Administration's Depository Institutions Act of 1982. A lot of S&Ls bet the pot on some high risk ventures. When the market cooled and those ventures didn't pan out, the S&Ls went bankrupt, and you and I had to make all their small depositors' savings accounts good again.

This time, it was the home owner market that boomed, but it most respects it's been the same story. Lenders were pouring money into questionable zero-down-payment mortgages, in part because of a 2004 Bush Administration initiative. Interestingly enough, the Congressional Budget Office forecast that the initiative would cost taxpayers as much as \$500 Million over the following 4 years. Nice guess, but a bit low.

The banks were gambling that housing prices would continue to skyrocket, and it worked for a while – that's how these price bubbles always work – drawing even more money into the lending fray. And then it stopped. And guess who's left holding the bag.

Modern economies are run on credit, and we can't afford to let our entire credit system collapse. But if the system is too important to be allowed to fail, it's too important to let go its merry way. An ounce more regulation three or four years ago would have saved us a ton of bad debts today. If only we hadn't been taken in by all that "Big Government" rhetoric.

So now we're going to buy the banks' worthless loans. We weren't willing to use Big Government over the last decade, to reign in Freddie Mac, Fannie Mae, and the mortgage industry, or to force Bear Stearns, Lehman Bros., and the other Investment banks to hold adequate reserves, or to limit the creation and sale of derivatives that no one can accurately value. So now we're stuck with using Big Government to clean up the mess.

The bailout – excuse me, "rescue package" – was necessary under the circumstances. But the circumstances absolutely stink. So this time, let's not get snowed with that "Big Government" rhetoric. Let's adopt stricter regulation of all those Financial Geniuses on Wall Street, regulation that doesn't get eroded over time. Because I'm personally getting a little tired of having to clean up the messes of the enemies of Big Government.