The Real Culprits In This Meltdown

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Big Government: *Barack Obama and Democrats blame the historic financial turmoil on the market. But if it's dysfunctional, Democrats during the Clinton years are a prime reason for it.*

Obama in a statement yesterday blamed the shocking new round of subprime-related bankruptcies on the free-market system, and specifically the "trickle-down" economics of the Bush administration, which he tried to gig opponent John McCain for wanting to extend.

But it was the Clinton administration, obsessed with multiculturalism, that dictated where mortgage lenders could lend, and originally helped create the market for the high-risk subprime loans now infecting like a retrovirus the balance sheets of many of Wall Street's most revered institutions.

Tough new regulations forced lenders into high-risk areas where they had no choice but to lower lending standards to make the loans that sound business practices had previously guarded against making. It was either that or face stiff government penalties.

The untold story in this whole national crisis is that President Clinton put on steroids the Community Redevelopment Act, a well-intended Carter-era law designed to encourage minority homeownership. And in so doing, he helped create the market for the risky subprime loans that he and Democrats now decry as not only greedy but "predatory."

Yes, the market was fueled by greed and overleveraging in the secondary market for subprimes, vis-a-vis mortgaged-backed securities traded on Wall Street. But the seed was planted in the '90s by Clinton and his social engineers. They were the political catalyst behind this slow-motion financial train wreck.

And it was the Clinton administration that mismanaged the quasi-governmental agencies that over the decades have come to manage the real estate market in America.

As soon as Clinton crony Franklin Delano Raines took the helm in 1999 at Fannie Mae, for example, he used it as his personal piggy bank, looting it for a total of almost $100 million in compensation by the time he left in early 2005 under an ethical cloud.

Other Clinton cronies, including Janet Reno aide Jamie Gorelick, padded their pockets to the tune of another $75 million.

Raines was accused of overstating earnings and shifting losses so he and other senior executives could earn big bonuses.

In the end, Fannie had to pay a record $400 million civil fine for SEC and other violations, while also agreeing as part of a settlement to make changes in its accounting procedures and ways of managing risk.

But it was too little, too late. Raines had reportedly steered Fannie Mae business to subprime giant Countrywide Financial, which was saved from bankruptcy by Bank of America.

At the same time, the Clinton administration was pushing Fannie and her brother Freddie Mac to buy more mortgages from low-income households.

The Clinton-era corruption, combined with unprecedented catering to affordable-housing lobbyists, resulted in today's nationalization of both Fannie and Freddie, a move that is expected to cost taxpayers tens of billions of dollars.

And the worst is far from over. By the time it is, we'll all be paying for Clinton's social experiment, one that Obama hopes to trump with a whole new round of meddling in the housing and jobs markets. In fact, the social experiment Obama has planned could dwarf both the Great Society and New Deal in size and scope.

There's a political root cause to this mess that we ignore at our peril. If we blame the wrong culprits, we'll learn the wrong lessons. And taxpayers will be on the hook for even larger bailouts down the road.

But the government-can-do-no-wrong crowd just doesn't get it. They won't acknowledge the law of unintended consequences from well-meaning, if misguided, acts.

Obama and Democrats on the Hill think even more regulation and more interference in the market will solve the problem their policies helped cause. For now, unarmed by the historic record, conventional wisdom is buying into their blame-business-first rhetoric and bigger-government solutions.

While government arguably has a role in helping low-income folks buy a home, Clinton went overboard by strong-arming lenders with tougher and tougher regulations, which only led to lenders taking on hundreds of billions in subprime bilge.

Market failure? Hardly. Once again, this crisis has government's fingerprints all over it. [*It begs the question: Is it all by some sinister design?*]