



## INVESTOR'S BUSINESS DAILY®

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### Whose Bailout Is It?

**Congress:** Everett Dirksen, the late, great senator from the state of Illinois, said it best: "A billion here, a billion there, and pretty soon you're talking real money." That's where we are today with government bailouts.

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So far this year, the Federal Reserve and Treasury have spent literally hundreds of billions of dollars to keep Wall Street financial houses from collapsing and our highly leveraged banking system from imploding.

Here's just a partial list of the bailouts and guaranteed loans:

- \$29 billion to Bear Stearns to keep it from going belly up.
- \$200 billion from the Treasury to acquire and recapitalize Fannie Mae and Freddie Mac.
- \$85 billion in a guaranteed two-year term loan from the Fed to insurance giant AIG, which includes an 80% stake in its equity for the U.S. government.
- \$1.2 trillion pushed into the banking system by the Fed over the last year and a half to keep the credit crunch from getting worse.
- \$500 billion in miscellaneous other guarantees and bailouts, still on the federal government's books.

Dirksen would have been impressed. By our count, that's about \$2 trillion, or 14%, of a \$14 trillion economy. How did it happen?

One case after another has been made for intervention in the private economy, based on the principle that some private-sector financial institutions, such as Bear Stearns and AIG, are "too big to fail."

If they did fail, the reasoning goes, it would lead to a financial market catastrophe — or what the Fed on Wednesday referred to as "disorderly failure." Orderly failure, we suppose, would be OK.

Unfortunately, with the addition of taxpayer money, we've doubled down. Now the bet is the federal government is too

big to fail. Yes, some of the government's \$2 trillion exposure to these bailouts may be recouped through asset sales, and the impaired equity might even trade again. But taxpayers are still on the hook.

We recognize that in times of financial exigency, as this clearly is, government often steps in to do what it can to stop the hemorrhaging. Politically, it may not have a choice. But we can't forget that many, if not most, of the problems in the financial sector today are a result of government over-regulation, or misregulation, and political cronyism.

We've already documented how Fannie Mae and Freddie Mac were used as a jobs program for out-of-work Clinton administration officials and other Democrats, ranging from Franklin Raines to Jamie Gorelick to Jim Johnson.

And how tens of millions of dollars in political donations from those two government-sponsored enterprises distorted decision-making in Congress. This has been the problem all along.

The U.S. government regulates the private sector on behalf of taxpayers who expect competency, fairness and transparency.

But when the federal government messes up, those principles go out the window. And the lender of last resort isn't the Fed or Treasury, as some would have it. It's always the taxpayer.

Remember this when a Democrat-led Congress holds hearings — as House Speaker Nancy Pelosi now promises — and lambastes "the private sector" and "Bush economic policies" for these market meltdowns. Neither deserves the blame.

President Bush tried to reform Fannie and Freddie in 2004 but was rebuffed. A Democrat-led Congress, with some help from weak GOP members, has made repeated mistakes in turning our world-class financial system into an over-regulated, politicized piggy bank for Democratic causes and candidates (see editorial above).

Virtually all the mistakes have been caused by errors in regulation — not by "corporate greed," as liberal Democrats would have it. Corporations follow the signals and guidelines set by Washington. When those are faulty, bad things happen and taxpayers pay.

Remember this, too, when Congress cranks up hearings and vilifies one CEO after another for "looting" their companies. It was Congress that created the subprime crisis. Any promises that it makes to solve it should be viewed with serious skepticism.



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