

PERSPECTIVES

The First Amendment to the U.S. Constitution:

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

A different perspective on government

By Frank Weltner
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"Government is not part of the answer, it's part of the problem." I often hear conservatives utter this sentiment. Governor Palin said something to that effect in this year's Vice Presidential debate. It has been the conservative's rallying cry for quite awhile. Every time I hear it, part of my brain locks up and I think; what the hell are you people talking about?

Every time I hear this phrase, it's like hearing someone proclaim, "Curse those who have paved our roads. Curse those who send our children to school. Curse those who put the police on the street. Curse those who defend the country."

When it comes down to it, almost every teacher, policeman, fireman, sol-

dier is almost exclusively employed through some form of government. Outside of the entertainment business, the most venerated professions in our culture tend to be jobs that exist solely due to the government. Government provides the essential services that our country could implode without. Government protects us from all sorts of danger and in general promotes our well being.

A little example: this summer I attended Bonnaroo '08, a large Woodstock type music festival located in Tennessee. Eight of my friends and I lived in a makeshift refugee camp with 80,000 other people for four days. It was anarchy. I'm not talking, 'let's go spray paint something and flip a car over' type anarchy, but anarchy in the classic sense.

Government essentially ceased to exist in that little bubble of our refugee camp. One sign of its disappearance

was the drug dealers. People would come walking through the packed campsites yelling "Eddies," or some other code for drugs. One would flag one of these people to enter their campsite. The 'Eddy' dude would display his wares. Transactions were made.

At first, my drug-purchasing friends were quite happy. Without government around, they could easily purchase a myriad of stuff not usually permitted (people like to make up absurd names for whatever strain of marijuana they are selling. I couldn't tell if they were selling a plant or a Rainbow Brite character).

Their ecstasy quickly turned to disappointment as most of the substances purchased turned out to be little more than expensive placebos. And while the placebo effect can be quite strong, it's not going to help you "trip balls." My friends had discovered that, in the absence of government, not only can

people freely sell illegal drugs but they can also freely sell you fake illegal drugs.

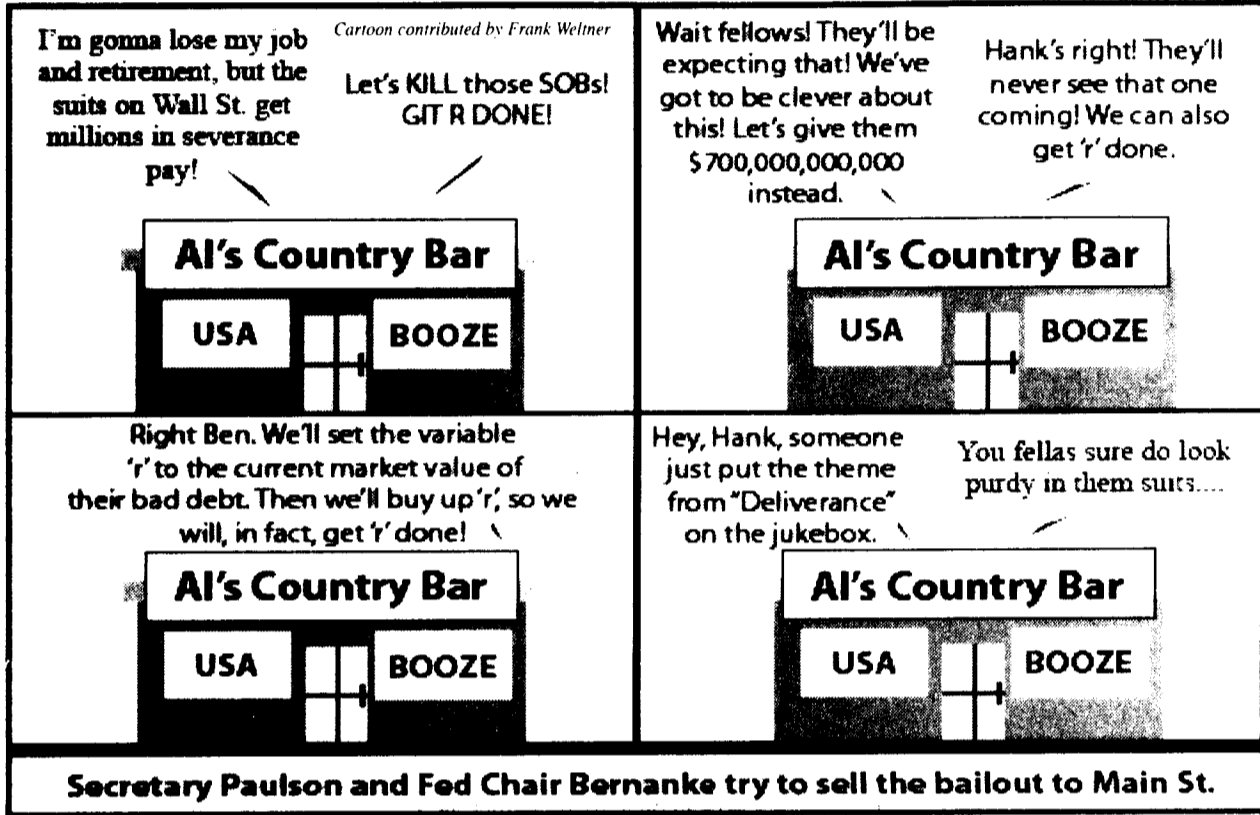
My friends were happy that the prohibitions of certain substances were gone but they failed to realize that consumer protection from charlatans and tricksters evaporated as well. Due to our government's legacy of protecting consumers, people expect to get what they pay for. People in our country tend to sell stuff that does what it's advertised to do. Otherwise, the government brings the hammer down on them. Want proof? The CEO of Enzyte just got fined \$93,000 and was sentenced to 25 years in jail because Enzyte won't give you that desired erection with lasers, GPS, and OnStar™ that you've always wanted.

Consumer protection and drug prohibition are a few of the small facets of our society created and enforced by government for our benefit. If you stop

and think about all that government does for us, it's pretty clear: government can be totally awesome. So please, don't tell me that government is the problem. There may be problems with the government, but it is also the solution to so many of America's problems.

Everyone should keep in mind that we live in a democracy. If we want something, we can eventually get it. If the people of our nation decided that they wanted "Super Freak" by Rick James to be our national anthem, then it would be. In a democracy, government can become WHATEVER we want it to be. I think as a nation we should be more aware of this fact.

In summation: I heart government. And since 'heart' is not a verb, maybe I should say that I love government.



Editorial Rebuttal: The subprime meltdown - greed or government?

The verdict is in and politicians are already writing the storyline: the subprime mortgage meltdown was a failure of capitalism caused by corporate greed combined with a lack of government regulation. Major newspapers are demanding more government oversight and an entire revamping of our financial sector in order to reel in Wall Street greed.

Fortunately (or unfortunately), this condemnation of capitalism is incorrect. In fact, it was government regulation that precipitated this crisis with the Community Reinvestment Act (CRA).

CRA required our nation's banks to make high-risk loans to unqualified borrowers or face sanctions by the government and community activist groups. Under CRA, equal opportunity lending was no longer sufficient. CRA and community activist groups demanded mortgage lending rates for low-income minorities and "communities of color" (term used by CRA activists) that mirrored the rest of middle class America, regardless of credit scores.

A Harvard study shows that from 1995 to 2005, minorities made up 49 percent of the 12.5 million new homeowners. CRA provided no exemptions for homeowners with poor credit scores or low income. Banks that did not meet the social engineering goals of CRA were punished and downrated.

In 1995, a large community activist group called Association of Community Organizations for Reform Now championed changes to the CRA to obtain billions of dollars in additional mortgage

loans for otherwise unqualified borrowers.

You may recognize ACORN because a community organizer by the name of Barack Obama happened to be a leading member of this organization.

Under the Clinton administration, Fannie Mae and Freddie Mac reserve requirements were reduced to only 2.5 percent versus ten percent for banks. Now, at the behest of ACORN and other community activist groups, Fannie and Freddie were able to package larger quantities of CRA subprime loans into mortgage-backed securities sold on Wall Street to insurance companies, banks and investment houses.

The infection had begun. For many years, Fannie and Freddie mortgage-backed securities were considered low yield, low risk investments preferred by banks, retirement accounts, and insurance companies with conservative risk-averse portfolios. They were certainly not the diet of choice for greedy investors seeking high returns. Unfortunately, thanks to CRA, these portfolios had become heavily "polluted" with risky subprime paper.

With millions of new but unqualified borrowers in the housing market, demand for houses skyrocketed and prices reached record highs. Of course borrowers, especially minorities, were also defaulting at an alarming rate, but this was of little concern because it seemed that every foreclosed home could be resold at a higher price.

Ongoing support of reckless lending policies by Fannie and Freddie under

the oversight of the Senate Banking Committee, chaired by Senator Chris Dodd (D-Conn.), enabled them to create even larger portfolios of mortgages that injected more liquidity into the housing market, allowing banks to provide more mortgages to unqualified borrowers.

This was further compounded by a continuous stream of cheap credit provided by the Federal Reserve under both Alan Greenspan and Ben Bernanke. All of these factors created a huge housing bubble that inevitably popped and created today's crisis. Now that the subprime spigots are dry, the abundant supply of houses is leading to a precipitous drop in prices, further aggravating the situation.

This brings us back to the question at hand. Was it greed and a failure of capitalism that created this problem?

At worst, banks may have been accomplices in the subprime meltdown. However, liberal government interference, driven by community activist groups with politically correct agendas, were the root causes of this disaster. Demanding more government oversight to fix this problem is akin to pouring gasoline on a fire.

Banks know how to qualify and underwrite loans. Only government interference in otherwise viable private capital markets, for purposes of social engineering could create a mess of this magnitude.

Brad
PSU parent

The blame game

By Christopher Brown
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In "On the Brink of Collapse (9/27)," I made the argument that it would "be all too easy to blame 'poor people who bought houses they couldn't afford' when the problem is deeper than that" for our current economic crisis. Ultimately, there is more than enough blame to go around for the economic crisis we find ourselves in. That seems to be as far as Brad is willing to go with his editorial rebuttal.

His response, like the conservative clarion call, said that the Community Reinvestment Act (CRA) is to blame for our economic crisis entering risky territory, one in which reason could be used to mask racism. If left unanswered, it could easily precipitate prejudice and hate. Brad's logic, while creative, distorts the reality of the situation and is fatally flawed.

Such logic would have you believe that a law passed in 1977 lies at the heart of an economic crisis 31 years later; that poor people who took out loans they couldn't afford brought the world's economy to its knees. Imagine that. If the sheer absurdity of this conclusion doesn't make you skeptical, hopefully what follows will?

What is the CRA? According to testimony in Congress by Michael S. Barr, Professor of Law at the University of Michigan, CRA "encourages federally insured banks and thrifts to meet the credit needs of the communities that they serve, including low and moderate-income areas, consistent with safe and sound banking practices."

Contrary to Brad's analysis, CRA did not force banks to make risky loans and engage in risky activity. Far from being unprofitable or risky, "Federal Reserve research suggests that CRA covered institutions [that] have been able to extend such loans profitably and that the performance of such loans is about the same as that of other mortgage loans," according to Sandra F. Braunstein, Director of the Division of Consumer and Community Affairs at the Federal Reserve in 2008.

There is little evidence to suggest a link between CRA and the increase in subprime lending. First, Robert Gordon, a senior fellow at the Center for American Progress, notes that much of CRA related activity trailed off sharply in 2001. Gordon also notes that weakened CRA regulations by the Bush administration pulled "small and mid-sized banks out from under the law's toughest standards. Yet subprime lending continued, and even intensified."

Lastly, Barr noted again in his testimony that "more than half of subprime loans were made by independent mortgage companies not subject to comprehensive federal supervision; another 30 percent...were made by affiliates of banks or thrifts."

Brad would like you to assume that every bank and lending institution has to meet CRA regulations. But this isn't true. The CRA only applies to federally insured banks, which, as noted above, did little of the risky lending.

The market is not the solution to our current problem; in many ways it is the source. The commercial mortgage market didn't exist as it does today until the mid 1990s. Before then, buying "securitized" debt involved a great amount of risk. According to Marcia Clemmitt in the CQ Researcher, "during the 1990s, however, financial institutions became more adept at 'structuring' the securities: slicing up a single mortgage package - totaling hundreds or thousands of loans - into several investment vehicles, or tranches, with a range of risk." This is where the government should have stepped in and started regulating: Wall Street was not effectively assessing the risk involved in subprime mortgages.

But, resistance to regulation was met at every avenue. As early as 1992 the General Accounting Office, according to The New York Times, warned regulators about the risk involved. Alan Greenspan, Federal Reserve Chairman through the 1990's, wouldn't have any of it. In Congressional testimony in 2002, Peter Fisher, Undersecretary for Domestic Finances, Department of Treasury, said, "...bringing mortgage-backed securities market into the registration process would be counterproductive...it would be potentially disruptive." In other words, it might slow down the mortgage market and hurt the profits of lenders.

Mortgage companies weren't making these loans because they were forced to but because they were profitable.

Brad also overestimates the impact of Fannie Mae and Freddie Mac, though by all means their hands are in the mud as well. As James K. Galbraith, Professor of Economics at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin, wrote, they "checked on borrowers' credit and they weren't giving out subprime, low-doc, or no-doc inflated appraisal loans."

Fannie Mae and Freddie Mac are at fault just as much as any other bank in that they got away with as much as they could. Like every other investor, they bought up MBS from other lenders, which is where they really got hurt, as explained in a BusinessWeek article from Sept. 26.

Brad's solution would be less government intervention, and while not explicitly stating such, the only logical conclusion to be made from his argument is that the government should repeal the CRA. Given the dubious connection between CRA lending institutions and the current economic crisis, doing so would be morally irreprehensible. In fact, it could exasperate the liquidity crisis. According to the Joint Center for Housing Studies at Harvard University, the direct result of the CRA has been positive on the economy, with the equivalent of reducing unemployment by 1.3 percentage points, boosting the accessibility of credit for businesses and increasing payrolls and reduced bankruptcies for small businesses in low-income areas.

Without government intervention in this area, lending institutions would ignore these businesses and people. That would be unacceptable: a permanent underclass would be created.

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Letters should be limited to 350 words and commentaries 700 words. The more concise the submission, the less we will be forced to edit it for space concerns and the more likely we are to run it.

The Beacon does not publish anonymous letters. Please include your major, faculty or administration position, and semester standing. Deadline for any submission is 3 p.m. Thursday afternoon for inclusion in the Friday issue.

The Behrend Beacon reserves the right to edit any submissions prior to publication. Please keep complaints as specific as possible.

Email submissions to jdj5061@psu.edu or drop them off at the Beacon office.

Beacon Thumbs Down



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