

## How The Democrats Created The Financial Crisis

From *Bloomberg*

By Kevin Hassett  
Op-Ed  
September 22, 2008

The financial crisis of the past year has provided a number of surprising twists and turns, and from Bear Stearns Cos. to American International Group Inc., ambiguity has been a big part of the story. ...

Enough cards on this table have been turned over that the story is now clear. The economic history books will describe this episode in simple and understandable terms: Fannie Mae and Freddie Mac exploded, and many bystanders were injured in the blast, some fatally. ...

Some might say the current mess couldn't be foreseen, yet in 2005 Alan Greenspan told Congress how urgent it was for it to act in the clearest possible terms: If Fannie and Freddie "continue to grow, continue to have the low capital that they have, continue to engage in the dynamic hedging of their portfolios, which they need to do for interest rate risk aversion, they potentially create ever-growing potential systemic risk down the road," he said. "We are placing the total financial system of the future at a substantial risk."

What happened next was extraordinary. For the first time in history, a serious Fannie and Freddie reform bill was passed by the Senate Banking Committee. The bill gave a regulator power to crack down, and would have required the companies to eliminate their investments in risky assets. ...

But the bill didn't become law, for a simple reason: Democrats opposed it on a party-line vote in the committee, signaling that this would be a partisan issue. Republicans, tied in knots by the tight Democratic opposition, couldn't even get the Senate to vote on the matter.

That such a reckless political stand could have been taken by the Democrats was obscene even then. ...

Now that the collapse has occurred, the roadblock built by Senate Democrats in 2005 is unforgivable. Many who opposed the bill doubtlessly did so for honorable reasons. Fannie and Freddie provided mounds of materials defending their practices. Perhaps some found their propaganda convincing.

But we now know that many of the senators who protected Fannie and Freddie, including Barack Obama, Hillary Clinton and Christopher Dodd, have received mind-boggling levels of financial support from them over the years.

Throughout his political career, Obama has gotten more than \$125,000 in campaign contributions from employees and political action committees of Fannie Mae and Freddie Mac, second only to Dodd, the Senate Banking Committee chairman, who received more than \$165,000. ...

There has been a lot of talk about who is to blame for this crisis. A look back at the story of 2005 makes the answer pretty clear.

Oh, and there is one little footnote to the story that's worth keeping in mind while Democrats point fingers between now and Nov. 4: Senator John McCain was one of the three cosponsors of S.190, the bill that would have averted this mess.

*To View The Entire Article, Please Visit:*

[http://www.bloomberg.com/apps/news?pid=20601039&sid=aSKSoiNbnQY0&refer=columnist\\_hassett](http://www.bloomberg.com/apps/news?pid=20601039&sid=aSKSoiNbnQY0&refer=columnist_hassett)