

The New Criterion

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Fantasy vs. Reality: You Decide

by James Bowman

On the cover of the most recent number of *National Review* is a photo of a pretty girl amidst a crowd of her fellow Occupy Wall Street protestors holding up a sign reading "Happiness is a Right" with the indefinite article crossed out and the word "your" written in its place. Is it possible that this is *not* the girl's little attempt at a joke? Could she, or indeed anyone, have drawn that sign with a straight face and a sober conviction that happiness *was* her, or indeed anyone's right? I think it's possible, incredible as it may seem. Political fantasy has made such progress in recent years in the eternal struggle with its old nemesis, reality, that the ultimate defeat of the latter by the former must be the latest political fantasy to capture the imagination of the fantastical left — to which this girl clearly belongs. If it is possible to believe that happiness is a right, it is possible to believe anything.

One interesting manifestation of life in an age of fantasy is that reality itself begins to look, at least to the dedicated fantasist, like a fantasy. I think it was James Taranto of *The Wall Street Journal* who first called the Occupy Wall Street demonstrators "Krugman's Army" — which is another joke that seems to be coming true. At any rate, Professor Krugman began a column recently by writing this:

Reading the transcript of Tuesday's Republican debate on the economy is, for anyone who has actually been following economic events these past few years, like falling down a rabbit hole. Suddenly, you find yourself in a fantasy world where nothing looks or behaves the way it does in real life.

I suppose that if you spend your life, as Professor Krugman does, in a Keynesian fantasy world of your own you must find it easy to think of that as the reality and reality as fantasy. And if you're a Nobel Prize-winning economist and a columnist for *The New York Times* you can presumably persuade a fair number of people to accept your version of what's real and what's fantasy.

The particular Republican "fantasy" he was writing about in that column had to do with the question of whether it was government regulation or the lack of it which caused the crash of 2008:

It's now obviously orthodoxy on the Republican side that government caused the whole problem. So what you need to know is that this orthodoxy has hardened even as the

supposed evidence for government as a major villain in the crisis has been discredited. The fact is that government rules didn't force banks to make bad loans, and that government-sponsored lenders, while they behaved badly in many ways, accounted for few of the truly high-risk loans that fueled the housing bubble.

"The fact," according to Edward Pinto, former chief credit officer of Fannie Mae and now of the American Enterprise Institute, is nothing of the kind. His AEI colleague Peter Wallison summarizes Mr Pinto's findings as follows:

His data, fully sourced, showed that in 2008, before the financial crisis, there were 27 million subprime and Alt-A mortgages in the financial system — half of all mortgages outstanding — of which two-thirds were on the books of Fannie Mae, Freddie Mac, FHA and other entities that were controlled by the government. Since there is no question that the mortgage meltdown triggered the financial crisis, the Pinto data indicated that the government itself — by imposing affordable housing requirements on Fannie and Freddie, and the Community Reinvestment Act on insured banks and S&Ls — had created the demand for those subprime and other risky loans. Pinto also showed that Fannie and Freddie were the largest buyers of private mortgage backed securities from Wall Street and subprime mortgages from Countrywide. Later, Pinto furnished another memo showing that HUD in both the Clinton and George W. Bush administrations had been pressing for a decline in mortgage underwriting standards in order to increase the home ownership in the U.S.

Is this "the supposed evidence" that Professor K. says "has been discredited"? If so, you'd think he might have mentioned where and when and by whom this discrediting took place. He might also have mentioned Messrs Pinto and Wallison by name, or anyone else whom he saw as being among the promoters of this false Republican orthodoxy and where they were promoting it. He might even have mentioned his *Times* colleague Gretchen Morgenson who, with Josh Rosner, has just published a book, *Reckless Endangerment*, coming to broadly similar conclusions to those of Edward Pinto and Peter Wallison. You can believe that all these people are the fantasists and the Professor is the realist, but you've got to wonder at least a little bit why he doesn't think it necessary to give you any reason for doing so. Given that he's the one puffing the demonstrators holding up the Happiness is Your Right sign, I know who I think is more likely to be the fantasist.

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