

BAILOUT MANIA

We might live in the postindustrial era, but economic booms and busts have not disappeared. Unfortunately, these days the taxpayers seem to get stuck with the losses.

The current crisis results from expanded mortgage lending, much of it financed by subprime loans secured through "collateralized debt obligations" (CDOs) by private investors and the government-sponsored enterprises Fannie Mae and Freddie Mac. The federal government spurred lending at every turn: Banks had been targeted for "red-lining" — not lending in poor neighborhoods. Fannie Mae/Freddie Mac subsidized ever more mortgage lending. The Federal Reserve's expansive monetary policy artificially inflated property and commodity values.

Rising housing prices caused borrowers, lenders, and investors to treat subprime loans as a no-lose proposition. Even if a borrower got into trouble, the home could be sold for a profit, making everyone whole.

Eventually, the housing market slowed, causing the entire "don't worry, be happy" mortgage-based system to collapse. Prices fell, foreclosures rose, mortgage repayments dropped, and the value of mortgage-backed securities collapsed. This set off an ever-worsening financial cycle, taking down homeowners, brokers, mortgage firms, commercial banks, and investment banks.

To date, total subprime losses and write-downs are about \$500 billion. We may have another \$500 billion worth to go.

Government policies accelerated the downward spiral. Fair Value Accounting and "mark to market" rules, endorsed by government regulatory agencies, force asset write-downs based on current sales. In unsettled markets where values are uncertain, the rule poisons corporate balance sheets by treating long-term, cash-producing assets as essentially valueless.

At the same time, the prospect of a government bailout discouraged private action. Why act when the government might cover the loss? Moreover, the Bear Stearns, Fannie/Freddie, and AIG bailouts sacrificed shareholders to bondholders. That made it harder for firms such as Lehman to raise additional capital, since potential investors feared they would be the first ones tossed overboard if the enterprise failed.

So far Washington has provided \$300 billion to refinance failed mortgages, \$200 billion in bank loans through the Federal Reserve's Term Auction Facility, \$200 billion to purchase Fannie Mae/Freddie Mac stock, \$87 billion in loans for JPMorgan Chase to finance Lehman trades, \$85 billion for AIG, and \$29 billion to finance JPMorgan Chase's purchase of Bear Stearns.

There is more: Federal Reserve cash infusions to the financial markets; Treasury Department plans to purchase mortgage-backed securities directly; Treasury setting aside \$50 billion to guarantee money-market funds. The government's takeover of Fannie/Freddie put the taxpayers on the hook for a multitude of bad mortgages.

In mid-September the Bush administration proposed the mother of all bailouts: buying up \$700 billion in bad mortgages and other assets. The presidential candidates and congressional leaders all voiced their general assent. Their only disagreement was whether everyone else, such as Main Street and "working families," should be bailed out too.

There is an argument for the Federal Reserve to help maintain liquidity for creditworthy financial institutions facing a temporary cash crunch. But the presumption should be against bailouts. Where the entities are quasigovernmental, such as Fannie/Freddie, the government may have fewer choices. Even then, however, any support should be combined with full privatization, with no more

political interference, lower-interest loans, or implicit guarantees.

Ultimately, the bad mortgage assets that underlay the financial crisis must be liquidated. But government purchases merely shift the pain from foolish businesses and individuals to innocent taxpayers. The Paulson plan would enshrine loss-free capitalism, creating incentives for even worse corporate misbehavior and larger bailouts in the future.

Better, not more, regulation is necessary. The financial markets already answer to the Sarbanes-Oxley Act, Federal Deposit Insurance Corporation, Securities and Exchange Commission, Office of the Comptroller of the Currency, Federal Reserve, state authorities, and international standards. The deregulation of the 1990's helped spur a lengthy period of strong economic growth. In contrast, no institutions were managed more directly by government than Fannie/Freddie, with disastrous results.

Streamlining rules and agencies and emphasizing transparency makes sense. The lack of transparency, and failure to understand how highly leveraged market participants had become through subprime CDOs, was a major cause of our present difficulties. Unfortunately, we can't trust those who have presided over the current mess — and who have given us a \$9.5 trillion national debt and \$100 trillion in unfunded liabilities for Social Security and Medicare — to fix the financial system.

The best antidote to the financial crisis is a stronger, growing economy. That requires growth-oriented policies and federal fiscal responsibility. Imposing counterproductive regulation and enacting wasteful bailouts would undermine the overall economy.

Financial adjustment is inevitable. Government cannot save us from paying the cost of past mistakes. The long-term solution requires America to start living within her means.

—Doug Bandow

CATHOLICS AND PALIN

John McCain's selection of Sarah Palin as his running mate was surprising, but the surprise pales in comparison to the reaction of conservative Christians, especially Catholics. In their sudden race to endorse McCain-Palin, they have cast aside any questions about the complementarity of the sexes, or even the late John Paul II's "theology of the body."

Catholic laymen who have always voted Republican but were unhappy with McCain were, not surprisingly, the first to crumble at the sight of the moose-hunting, pistol-packing, pro-life mother of five, but I have also heard orthodox priests say that they wish Mrs. Palin were at the top of the ticket. And one well-known traditionalist Catholic is even implying that it might be sinful to vote for a third-party candidate instead of for McCain. (In fairness, he sees the pick of Palin as one of several signs that the Republican Party is avowedly pro-life with no exceptions in this election cycle.)

The negative reactions have been few and far between. One Catholic mother of seven, upon hearing the news, wondered why the mother of a four-month-old child (let alone a child with Down syndrome) would want to run for vice president. Of course, that same child was born prematurely after Palin, leaking amniotic fluid, refused to cancel her keynote speech at a Republican Governors Association conference. The Palins chose not to abort baby Trig (not a minor matter, when upward of 90 percent of Down's babies are murdered in their mothers' wombs today), but they were willing to take a calculated risk with his life in order to advance Sarah's political career.

The revelation of the pregnancy of Palin's 17-year-old daughter has been jumped on by the left with glee, but Catholics can certainly understand that sin happens. Far more disturbing is the fact that Mrs. Palin knew that accepting the nomination meant exposing her daughter to international scrutiny and ridicule—yet she did it anyway. Unlike her daughter's

premarital sex, that was not a decision made in the heat of passion. As she told ABC's Charlie Gibson, when John McCain asked her to be his running mate, "I didn't blink."

This is just sexism, some Catholic women (and not a few men) have responded. Would I be raising the same issues if Mrs. Palin were a man? Well, if we were discussing Todd rather than Sarah, the question of throwing the 17-year-old daughter under the bus would remain. But most of the other questions wouldn't come up, not because I would go easier on a man, but because they wouldn't exist.

That doesn't mean, however, that it is sexist to raise them. Instead, it points to the very heart of the problem: From a Catholic understanding of the complementarity of the sexes, should a woman ever find herself in the position where she has to choose between her vocation as a wife and mother and political service? Even considering this a choice that needs to be made implies that, at best, motherhood and political service are of equal value.

But they aren't—not in the eyes of the Church. That is not to demean wives and mothers, but to raise their vocation to its proper dignity—a dignity that dwarfs any that may once have been attached to politics.

It's hard not to like Sarah Palin. There is no doubt that, compared with Barack Obama, Joe Biden, and John McCain, she seems more normal—more one of us. Her failings as much as her virtues bolster that feeling.

But that doesn't change the decision before us in November. Anyone who votes for John McCain because of Sarah Palin still votes for John McCain and all of his baggage: rabid support for a war that two consecutive popes have condemned; the possible expansion of that war to Iran; a new cold war with Russia (or even, God forbid, a "hot" one); expanded funding of embryonic stem-cell research (ESCR), including the creation of new lines, which requires the destruction of more embryos (while stressing adult stem-cell research at the moment, McCain has never stated that

he was wrong to vote for ESCR); an unwillingness (as McCain repeatedly stated back in 1999) to overturn *Roe v. Wade* (a position that Cindy McCain indicated, in a September interview with Katie Couric, her husband still holds today, despite campaign promises to the contrary); support for contraception, sex education, and family-planning programs.

Anyone who planned to abstain from voting in November or intended to vote for a third-party candidate and is now considering voting for McCain-Palin needs to ask himself this question: Why? Is Sarah Palin providing cover for his desire to vote for McCain? Or is her nomination simply a convenient excuse to allow him to vote against Barack Obama?

If the latter, it would be better to own up to the reason and state forthrightly that he is not voting for McCain-Palin but against Obama-Biden. Then his vote for the Republican ticket at least would not imply support for all of the anti-Christian policies that McCain has proposed, and the voter will not feel compelled to defend McCain when he carries through on his promises.

For me, nothing has changed. Neither ticket will receive my vote. Instead, I will offer a prayer on Election Day that Mrs. Palin's presence on the ballot does not signal the final triumph of feminism over the traditional Christian understanding of the proper relationship between the sexes.

—Scott P. Richert

ELECTIVE ABORTION

Flip-flopper. Like *racist* or *isolationist*, it's not a word that you'd like to have attached to your name. In recent years, it has been used to whap the likes of John Kerry and Mitt Romney over the head. It means that your finger is in the wind, that you are not a Decider, that, like most politicians, you're full of shift.

Now comes the godless leftist media once again to pound "psychologist and author" Dr. James Dobson with flip-floppery, since he predictably

ate his own words, as told to the *New York Times* last year: "If neither of the two major political parties nominates an individual who pledges himself or herself to the sanctity of human life, [I] will join others in voting for a minor party candidate."

That was then, when Rudy Giuliani or—gasp!—John McCain threatened to capture the GOP nomination. Now—well, now we have Sarah Palin, who neither flip-flops nor blinks. And technically, she was in fact nominated by a major political party.

Sarah Palin, we are told, is a sign, a *winkie-winkie* to the pro-life community that the long-awaited *Roe*-reversal is in the cards. Just one more election; just one more justice. "Change is coming!"

Senator McCain, as he proclaimed at Saddleback, to a stirring round of applause, believes that life begins at conception. (Obama, pay grade notwithstanding, seems to think otherwise; or perhaps it is merely his "faith" that teaches him about the origin of life, and God forbid that something so personal as faith should ever pole-vault over the Wall of Separation.) Is abortion murder, or infanticide? Well, you bet, says John McCain, since life begins at conception. So here is this human life, made in the image of God, the product of dinner-and-a-movie, when "no" didn't mean "no" (read: rape). Kill it, says John McCain. It's a human life, but it's small, it's out of sight—and hasn't this young woman been through enough?

John McCain has flip-flopped on *Roe v. Wade*. Whether purely out of political expedience or not, we cannot say. But we can say that it has been politically beneficial to him. He's no longer talking about "family conferences" and never, ever wanting to overturn *Roe*, although a woman named Cindy McCain, who claims to know what he really thinks, said otherwise. "We contacted the McCain campaign to clarify Cindy McCain's position on abortion," reports Katie Couric. "They told us that, like Laura Bush, Mrs. McCain does not favor overturning *Roe v. Wade*, which guarantees the legal right to an abortion." Perhaps her

husband hasn't flip-flopped after all.

These days, "life begins at conception" and "culture of life" flow easily from the McCain campaign, but when pressed, the candidate has only said that he would like to see the culture of life grow to the point where *Roe* would become irrelevant. As long as he wants to make exceptions for "rape and incest," however, *Roe* will remain very relevant. Sarah Palin, on the other hand—and commendably—would not allow abortion at all; they have agreed to disagree.

John McCain, like Hillary, Pelosi, Barack, and Michael J. Fox, has thought long and hard about embryonic stem-cell research and has come to a very special, personal, and painful decision. Unlike the rest of the aforementioned cavalcade of stars, he promotes a culture of life and knows when life begins. Kill 'em anyway. People have diseases. Make a pill; down the hatch. Sarah Palin, once again, agrees to disagree.

Wait, we are reminded by both the NRLC and NARAL, Sarah Palin is a symbol, a window into the true soul of John McCain. And through that window, we can see just the sort of justices that a McCain administration would nominate. As first lady, Cindy McCain would not nominate Supreme Court justices; then again, neither would Sarah Palin, as vice president. And as for windows, no one seems to disagree that, at least for a very long while, Joe Lieberman (one of McCain's many "safe, legal, and rare" buddies) was his choice for running mate. That choice would not have energized a significant segment of voters. Palin has.

If the primary source of "energize-

ment" for the McCain ticket is Sarah Palin's views on abortion and ESCR, another letdown awaits the "culture of life." Sadly, James Dobson knew that a McCain administration would mean this, but, like a growing host of "excited" antiabortionists, he flip-flopped and fell for *winkie-winkie*.

—Aaron D. Wolf

OBITER DICTA

Rockford Institute Vice President **Christopher Check** will speak on "Henry VIII's Divorce" at 7:30 p.m. on Sunday, October 26, at Saint Mary's Roman Catholic Church in Norwalk, Connecticut. Saint Mary's is located at 699 West Avenue. For more information, call (203) 866-5546.

Our poet this month is **Timothy Murphy**. His collections of poetry include *The Deed of Gift* (Story Line Press) and *Very Far North* (Between the Lines). Over 30 of his poems have been published in the pages of *Chronicles*.

Our cover art is provided by our interior artist, **George McCartney, Jr.** Mr. McCartney studied at the Metropolitan Museum of Art and received a bachelor's of art from the State University of New York at Geneseo. Since 1997, he has worked in various media in the fields of illustration, graphic design, and textiles. George currently resides in North Carolina with his wife, Kristin, and their children.

Our interior art is provided by **Melanie Anderson**. Mrs. Anderson, our designer, received her B.F.A. from Northern Illinois University.



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Whither the Republic?

This month, we shall have an answer to an all-important question: Which arm of our bipartisan party state will occupy the White House for the next four years? This is an issue second in importance only to such urgent American questions as “When will Britney Spears be allowed to see her kids?” “How much weight will Jennifer Lopez drop after giving birth to twins?” And—for those of us with an interest in ancient history—“Who shot J.R.?” I know these are the most important issues because they have been featured on the cover of America’s most honest newspaper, the *National Enquirer*.

I suppose we should also add to the list, “What absurd name will Bristol Palin give the love child whose conception is nobody else’s business?” Both camps have their own reasons for the *cordon sanitaire* that has been placed, quite properly, around Mrs. Palin’s children. Since neither party has the slightest interest in decency or good manners, what they are really saying is that the way in which politicians conduct themselves or manage their family responsibilities is of no interest to the electorate. I wish someone had told the Republicans this when they were going after Bill Clinton. In some states, Bristol could marry a Suzie instead of a Levi, and, before this generation passes away, she will be able to marry both Levi and Suzie and perhaps the family’s entire team of sled dogs, because marriage has been made the mere creature of the state, which can choose to define it in any way that pleases the current consensus of college professors, media moguls, and judges we call “public opinion.”

How should family issues such as same-sex “marriage” be addressed? I mean politically, because there can be no such thing as same-sex marriage. It is a mere figment of the imagination like the unicorn, but worse: It is a self-contradictory figment, something like a unicorn with two horns. As a colleague once sagely observed to me, erotic relations between two men or two women are not sexual, since the very word *sex* requires male and female.

Then what to do politically? It depends, I suppose, on our political orientation. We do have two parties in the United States, and their names at least should point to the existence of two ideologies, one called “democratic” and the other known as “republican.” In theory, the advocates of “democracy” champion the rights of the people to rule themselves, according to the principle of majority rule, without any impediment in the form of aristocracy, religion, tradition, family ties, or moral principles.

In a democracy, then, a poor majority can confiscate the wealth of a minority—as is done in every socialist state in

the world including the United Socialist State of America. Some democracies have gone further—for example, in insisting that children be reared and educated according to the ruling majority’s ideology. Minority children—such as the children of fundamentalist Mormons or those of suspects in the French Revolution—might conceivably be taken from their parents because their religion or ideology is offensive to the majority who putatively support the regime. In the most extreme case, governments purportedly representing majorities have attempted to outlaw Catholic schools and subject homeschooling parents to rules that would force them to comply with the same regulations as public schools. So in a perfect democracy the status of same-sex “marriage” will be determined by majority rule.

Republican governments, though they may call themselves “popular” and rest on broad-based support, impose severe restrictions on the principle of majority rule. By definition, almost, republics are not supposed to be monarchies, but this is a question of words rather than facts. The English monarchy of 1800 was closer to republican principles than was the Venetian Republic of the same era. A better way to look at this distinction is through the eyes of Aristotle, who said that a *politeia* or commonwealth is governed by law and tradition, not by the arbitrary rule of a sovereign, and it makes no difference whether the sovereign is one man, a hundred men, or a democratic majority. This Greek word *politeia* was typically translated into Latin as *res publica*, which means the people’s business, the origin of our word *republic*. In this sense, a republic is not defined by the formal absence of a king but by its institution, which makes it, in Burke’s famous phrase, a “government of laws and not of men.”

Republics come in many shapes and sizes, but they share some features. In a republic, legislation cannot, on the arbitrary whim of the sovereign, override custom, tradition, and legal precedent. Thus, such Supreme Court decisions as *Roe v. Wade* and *Brown v. Board of Education* would be unthinkable in a republic. Republicans also agree that civil rights and privileges can and should be restricted to the more responsible classes of the nation—for example, taxpayers, property owners, and native-born citizens. Finally, republican governments do not rule directly over the citizens but rest upon a broad and deep substructure of lower

