

September 30, 2008

[Robert Samuelson](#) says it turns out our modern economics is bankrupt.

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And [Supply and Demand Blog](#) doubts financial problems will sink the rest of the economy.

... The weak correlation between asset prices and non-financial sector performance and the strong profitability of today's non-financial capital are two good reasons to scoff at the idea that the non-financial sector will collapse because of the recent events on Wall Street, and even better reasons to scoff at the Bernanke-Paulson-Bush idea that a massive bailout of financial firms is the key to avoiding a non-financial collapse. Wall Street's woes are and will be largely limited to Wall Street. The Bush administration should not use the power of the IRS to force the rest of us to board Wall Street's sinking ship. ...

Mark Steyn returns for interviews at [Hugh Hewitt](#). Dean Barnett does the honors.

DB: Now Mark Steyn, what percentage of the United States Senate do you think knows what a credit default swap is?

MS: *I would imagine it's a very, very small number. One of the amusing things, well, it isn't amusing, really, it's tragic in a way, but one of the strange things about this is that whenever anything goes wrong in the economy, the fault is always blamed on capitalism, red in tooth and claw. And in this case, both candidates tend to blame greed, untrammelled greed. Well, greed is writ in the human heart and is embedded in our DNA, and has been since the beginning of time. So clearly, greed itself is not the factor, and in most cases, if you actually eliminate the lame-o class warfare thing, it turns out, as in this case, to derive from some previous round of government regulation and its unintended consequences. So now we'll pile, we'll have corrective government regulation to correct the last sort of government regulation, and that in turn will have another lot of unintended consequences. To be honest, I would rather take a flyer on a new depression. ...*

DB: *Actually, now it's old news, but since you bring up the sniffers at Sarah Palin, have you ever seen anything like that Charlie Gibson interview, who was seemingly channeling a metrosexual schoolmarm the way he was looking over his glasses with such fury at Sarah Palin?*

MS: *Yeah, I know, and I don't, I just don't get it. I mean, I don't understand why he thinks he's, that's in his interest. You know, you and I make our living from talking and giving opinions, and very often, as in this whole sub-prime business, Lehman Brothers, on stuff we know nothing about. Let's face it, that's what we do. If it wasn't Lehman Brothers in the news, and there was instead a coup in Azerbaijan, as professional commentators, we would be within three minutes instant experts on Azerbaijan and the coup situation. That's what pundits do. They chatter about stuff all day long. And I think it behooves us to have a respect for people who actually run things and do things like the Governor of Alaska. And why Charlie Gibson thinks he would come out, some worthless twit who reads a teleprompter for a living, would come off looking good being condescending to a woman who runs a state, I've no idea. ...*

More on financial affirmative action from [American Spectator](#).

When the history of the Great Economic Meltdown of 2008 is written, in-your-face shakedown groups like the Greenlining Institute will be held to account.

Greenlining, headquartered in Berkeley, California (where else?), is a left-wing pressure group that threatens nasty public relations campaigns against lenders that refuse to kneel before its radical economic

agenda. Its principal goal is to push politicians and the business community to facilitate "community reinvestment" in low-income and minority neighborhoods.

The Greenlining name is a play on the unlawful practice of "redlining." That's when financial institutions designate areas, typically those with a high concentration of racial minorities, as bad risks for home and commercial loans. The Institute wants banks to give a green light to loans in these areas instead.

Recently profiled by [John Gizzi](#), Greenlining uses carrot-and-stick tactics to blackmail public agencies, banks, and philanthropists to achieve its objectives. The Institute brags it has threatened banks into making more than \$2.4 trillion in loans in low-income communities.

Was this a good idea? ...

[Peter Wehner](#) has a good summary of the race.

... 5. The truth is that Senator McCain, facing a considerable uphill struggle, has made the race closer than it ought to be, given all the advantages Democrats have this year. And one thing this campaign has taught us is that a new dynamic can be injected in the blink of an eye. We still have five weeks before the election. But then again, we only have five weeks to go before the election. And the task Senator McCain faces is to alter, in some fundamental way, the trajectory of the race. Friday's debate certainly didn't do that; if anything, his job is now harder.

John McCain has faced far more difficult challenges in his life than he does now. But politically speaking, the race, never an easy one, looks considerably more difficult. Senator McCain can still prevail, but at this point, he may need an assist from outside events or from Barack Obama. And one thing Senator Obama has shown is that, for whatever flaws he has, he doesn't make many glaring, stupid, and unforced errors. He's hard to knock off stride. Obama and his team, while certainly not flawless, have run a very impressive campaign for 20 months. To hope they'll badly slip up in the last five weeks is asking for a lot. As we've seen this year, a lot can happen, including in a short period of time. But for McCain it needs to happen, and soon.

...

[P.J. O'Rourke](#) writes about coming down with cancer.

... I have, of all the inglorious things, a malignant hemorrhoid. What color bracelet does one wear for that? And where does one wear it? And what slogan is apropos? Perhaps that slogan can be sewn in needlepoint around the ruffle on a cover for my embarrassing little doughnut buttocks pillow.

Furthermore, I am a logical, sensible, pragmatic Republican, and my diagnosis came just weeks after Teddy Kennedy's. That he should have cancer of the brain, and I should have cancer of the ass ... well, I'll say a rosary for him and hope he has a laugh at me. After all, what would I do, ask God for a more dignified cancer? Pancreatic? Liver? Lung? ...

Pickerhead wonders if we are going to keep building [bigger and bigger](#) until one leans over too far, and fails to right itself.

Washington Post

Bankrupt Economics

A Crisis Resists The Usual Remedies

by Robert J. Samuelson

What we are witnessing, in the broadest sense, is the bankruptcy of modern economics. Its conceit has been that we had solved the problem of stability. Oh, there would be periodic recessions, but the prospects of a major economic collapse were negligible because we knew how the system worked and could take steps to prevent it. What's been so unsettling about the present crisis is that it has not conformed to the standard model of business cycles and has not submitted to familiar textbook solutions.

A hallmark of the crisis has been the stark contrast between the "real economy" of production and jobs and the tumultuous financial markets of stocks, bonds, banks, money funds and the like. Even with the 60 percent drop in housing construction since early 2006, the real economy has so far suffered only modest setbacks. Yes, there are 605,000 fewer payroll jobs than there were in December; still, 137.5 million jobs remain. Meanwhile, financial markets verge on hysteria. The question is whether this hysteria will drive the real economy into a deep recession or worse -- and what we can do to prevent that.

The word that best epitomizes mainstream "macroeconomics" (the study of the entire economy, not individual markets) is *demand*. If weak demand left the economy in a slump, government could rectify the situation by stimulating more demand through tax cuts, higher spending or lower interest rates. If excess demand created inflation, government could suppress it by cutting demand through more taxes, less spending or higher interest rates.

Economists of this tradition watch consumer and business behavior. Are car sales soft? How much are companies raising prices? What about profits? The \$152 billion "stimulus" program earlier this year was a classic exercise in "demand management." It didn't work well mainly because this crisis originated in frightened financial markets. Massive losses on mortgage-related securities caused some financial institutions to fail. As fear spread, financial institutions grew wary of dealing with each other because no one knew who was solvent and who wasn't.

To [Treasury Secretary Hank Paulson](#) and Federal Reserve Chairman [Ben Bernanke](#), this financial breakdown now threatens the real economy. Companies depend on bank borrowings and sales of commercial paper (in effect, short-term bonds) to conduct everyday business -- to buy inventories, to pay suppliers and workers before cash arrives from sales. Credit markets were freezing, Paulson and Bernanke decided. Panicky investors were shifting from commercial paper to Treasury bills; banks weren't lending to each other. If it continued, consumers and firms wouldn't get essential credit.

If you reject that conclusion, then the whole crisis has been a contrived farce. Some economists do; they note that downturns always involve losses and disruptions. This one isn't so different. But many economists agree with Paulson and Bernanke. "If we can't calm down short-term credit markets, we're looking at a pretty severe recession," says Michael Mussa of the [Peterson Institute for International Economics](#). "If businesses can't roll over their short-term debt, [they] ask where can we cut back" -- firing workers, reducing spending -- "to avoid bankruptcy."

Unfortunately, we lack experience with stabilizing financial markets, and the issue has been at the fringes of economics. Mostly, markets should operate freely. When is intervention justified? How?

Of course, economists recognized that the [Federal Reserve](#) should act as a "lender of last resort" and that permitting two-fifths of banks to fail in the 1930s aggravated the Depression. But the creation in 1933 of deposit insurance (now up to \$100,000) was thought to prevent most bank runs, and the "lender of last resort" role never anticipated a worldwide financial system that mediated credit not just through banks but also through hedge funds, private equity funds, investment banks and many other channels. In

congressional testimony last week, Bernanke admitted the Fed has been "shocked" at how elastic the "lender of last resort" role has become.

The resulting intellectual vacuum has spawned political chaos. Unpleasant and untested ideas invite opposition. Paulson's plan to buy up to \$700 billion of impaired securities is wildly unpopular. It may not work and raises many problems. If the government pays too little for the securities, financial failures may mount; if it pays too much, it may create windfall profits for some investors and losses for taxpayers. But Paulson's plan has better prospects for restoring confidence by removing suspect securities from balance sheets than suggested alternatives would. Selective injections of capital into banks, for instance, might involve favoritism and operate too slowly to improve confidence. Psychology matters.

The economy will get worse. Mussa thinks unemployment (now 6.1 percent) could peak near 7 percent; other projections are higher. The harder question is whether financial turmoil heralds an era of instability. Our leaders are making up their responses from day to day because old ideas of how the economy works have failed them. These ideas were not necessarily wrong, but they're grievously inadequate at the moment.

Supply and Demand

Wall Street Will Drown Alone

by Casey Mulligan

There was a time when people believed that the Sun and stars revolved around the Earth. Of course, now we know that the Earth is not the center of the universe, or even the center of our little solar system. In the somewhat more recent past, economists thought that the non-financial sector in a modern economy revolved around financial markets, despite the facts that only 4 percent of the workforce was employed in the financial sector (including insurance and real estate), and even today that sector employs only 6 percent of the total. President Bush and supporters of the recent massive Wall Street bailout plan still believe Wall Street to be the center of the entire economy.

Economic research over the last couple of decades rejects this belief. It has shown that the financial and non-financial sectors experience quite independent changes, especially over the short and medium term. Take for example the promised yield on the best commercial paper. Fluctuations in this yield are critically important to persons in the financial sector (such as money market traders), but have hardly anything to do with activity outside of that sector. Since World War II, the correlation between the inflation-adjusted commercial paper yield and subsequent inflation-adjusted growth of GDP per capita is zero. That is, GDP growth has been high following high yields just as often as it has been low. It is equally hard to detect a correlation between stock returns, long term bond returns, or commodity returns and subsequent GDP growth. Quite simply, history has shown that the non-financial sector can do well when the financial sector does poorly, and vice versa.

In order to find good predictors of non-financial sector performance, and GDP growth generally, we look to the non-financial sector itself. One of those predictors is the profitability of non-financial capital, or the "marginal product of capital" as we economists call it. The marginal product of capital after-tax is a measure of how much profit (revenue net of variable costs and taxes) that each unit of capital is producing during, say, the last year. When the marginal product of capital after-tax is above average, subsequent rates of economic growth (and subsequent marginal products of capital) also tend to be above average.

Since World War II, the marginal product of capital after-tax averaged between 7 and 8 percent per year. During 2007 and the first half of 2008 – exactly the time when financial markets had been spooked by oil price spikes and housing price crashes – the marginal product had been over 10 percent per year: far above the historical average. Compare this to the marginal product of capital in 1930-33 (the years of Depression-era bank panics): 0.5 percentage points per year less than the postwar years and significantly less than in 1929. The marginal product of capital was also below average prior to the 1982 recession (in this case, far below average) and prior to the 2001 recession. Thus, the surprise was not that GDP continued to grow

2007-8 despite the bleak outlook from Wall Street's corner of the world, but that GDP growth failed to be significantly above the average. More important from today's perspective is that much capital in America continues to be productive, and that this will likely permit Americans to advance their living standards as they have in years past. The non-financial sector today looks nothing like it did in 1930.

The weak correlation between asset prices and non-financial sector performance and the strong profitability of today's non-financial capital are two good reasons to scoff at the idea that the non-financial sector will collapse because of the recent events on Wall Street, and even better reasons to scoff at the Bernanke-Paulson-Bush idea that a massive bailout of financial firms is the key to avoiding a non-financial collapse. Wall Street's woes are and will be largely limited to Wall Street. The Bush administration should not use the power of the IRS to force the rest of us to board Wall Street's sinking ship.

Of course, six percent of the workforce is bigger than zero, so a Wall Street mess has indirect effects on the non-financial sector as it absorbs former Wall Street employees and finds alternatives to the financial services Wall Street once provided. But, as long as the government does not get in the way, the marketplace will quickly react to provide the non-financial sector with financial services, even if the main players in that marketplace are no longer named Lehman, Merrill, or Goldman. There are two basic obstacles that Washington might create in this process, both of which are included in the Bernanke-Paulson-Bush proposal. One is to pile on regulation and further impede entry by new firms that might provide financial services to the non-financial sector in the years ahead. The second is to impose a heavy tax burden on the non-financial sector to pay for Wall Street subsidies. The Treasury and the Fed should let Wall Street drown alone, to be replaced by new financial service providers who can swim as robustly as are non-financial American businesses.

Hugh Hewitt

[The Triumphant Return Of Mark Steyn](#)

by Dean Barnett

DB: Once again, [we are rejoined by Mark Steyn](#), who only came on the air because I promised I would not Swift Boat him. Welcome back, Mark Steyn.

MS: Hey, it's great to be back on the air, Dean. I think I can, if I can figure it out, I can try to remember how this things works. It's not second nature anymore.

DB: Well basically, I ask you silly questions, and you make silly responses.

MS: Okay. We'll get to that.

DB: And the audience gets amused.

MS: Okay, give it a shot.

DB: Silly question, is this, are we on the cusp of a great depression, Mark Steyn?

MS: No, I don't think we are on the cusp of a great depression if you mean soup kitchens and mass unemployment, which is what the Great Depression was.

DB: And I'm specifically referring to Obamavilles.

MS: (laughing) I don't think there are going to be any Obamavilles. I mean, one of the depressing things since the whole Lehman Brothers/AIG thing blew up a week and a half ago, or whenever it was now, is just realizing how platitudinous and disconnected politicians are from the reality of this situation. And the

difference is that John McCain seems bored by the economy when he talks about it, and Obama and Biden just fall back on either these platitudes or this sort of rather lame class warfare.

DB: Now Mark Steyn, what percentage of the United States Senate do you think knows what a credit default swap is?

MS: I would imagine it's a very, very small number. One of the amusing things, well, it isn't amusing, really, it's tragic in a way, but one of the strange things about this is that whenever anything goes wrong in the economy, the fault is always blamed on capitalism, red in tooth and claw. And in this case, both candidates tend to blame greed, untrammelled greed. Well, greed is writ in the human heart and is embedded in our DNA, and has been since the beginning of time. So clearly, greed itself is not the factor, and in most cases, if you actually eliminate the lame-o class warfare thing, it turns out, as in this case, to derive from some previous round of government regulation and its unintended consequences. So now we'll pile, we'll have corrective government regulation to correct the last sort of government regulation, and that in turn will have another lot of unintended consequences. To be honest, I would rather take a flyer on a new depression.

DB: Well, it would be interesting. So now let's take the candidates one at a time. Have you been impressed with the way Barack Obama has shown steadfast and inspired leadership the past fortnight?

MS: (laughing) I couldn't say that. I think he's very grateful, or he should be grateful if he's shrewd enough, which isn't always clear, but he should be very grateful just in crude political terms for the economy coming along and knocking Sarah Palin off the front pages, because it put an end...McCain was rocketing up in the polls, and the Obama campaign was in effect self-destructing when every day that came by you had some condescending, metropolitan sniffer like Maureen Dowd making patronizing remarks about Sarah Palin. The meltdown on Wall Street, the new great depression, the new Hooverville and all the rest of it, has in that sense saved the Obama campaign.

DB: Actually, now it's old news, but since you bring up the sniffers at Sarah Palin, have you ever seen anything like that Charlie Gibson interview, who was seemingly channeling a metrosexual schoolmarm the way he was looking over his glasses with such fury at Sarah Palin?

MS: Yeah, I know, and I don't, I just don't get it. I mean, I don't understand why he thinks he's, that's in his interest. You know, you and I make our living from talking and giving opinions, and very often, as in this whole sub-prime business, Lehman Brothers, on stuff we know nothing about. Let's face it, that's what we do. If it wasn't Lehman Brothers in the news, and there was instead a coup in Azerbaijan, as professional commentators, we would be within three minutes instant experts on Azerbaijan and the coup situation. That's what pundits do. They chatter about stuff all day long. And I think it behooves us to have a respect for people who actually run things and do things like the Governor of Alaska. And why Charlie Gibson thinks he would come out, some worthless twit who reads a teleprompter for a living, would come off looking good being condescending to a woman who runs a state, I've no idea.

DB: Yeah, I agree. It was absolutely crazy. Now let's go to the other campaign, the way it's handled this economic meltdown, this financial crisis, John McCain, that the McCain campaign seems to have found its footing in the past 24 hours, but it's been a rough ten days, has it not?

MS: Yes, and as you say, I think it's the campaign that's found its footing. It's not clear to me that McCain has found his footing.

DB: Good point.

MS: McCain's weakness, I think, is on economic issues, because he seems generally, entirely unengaged by economic matters. In many ways, he's an admirable candidate in a somewhat erratic manner, and if you get a subject that interests him, for good or bad, whether it's the war or climate change, he's got a zillion things popping off the top of his head. But the economy just doesn't seem to grab him in the same way, and so there was a banality to his response which reached its absolute nadir in this idea that he was going to

bring Andrew Cuomo in as the white knight on a charger. And at that point, after all the headiness of the sort of Sarah Palin euphoria, the entire conservative base suddenly remembered everything it disliked about McCain. Now it's true that in the 24 hours, I think his minders have fired one of heavier dosage tranquilizer darts into his, elephant tranquilizer darts into his butt so he's saying less idiotic things, but again, the problem, I think, with his campaign generally is the lack of a clear economic agenda or philosophy.

DB: Yeah, it's interesting, one thing about McCain that makes you love him sometimes, and sometimes he really drives you bonkers, is he seems to respond to everything viscerally rather than intellectually.

MS: Yes, and I think that's why he's a difficult character for people to get behind 100%, because it does all seem personal to him. The difference...when he describes himself as a Ronald Reagan conservative or whatever, the reason he's not is because he doesn't have a worldview informed by a set of philosophical ideas. Instead, it seems as much to do with who happened to diss him in the Senate Men's Room in 1988. Now assume Andrew Cuomo has never dissed him in the men's room, and that's why Andrew Cuomo is the solution to what's ailing America. But it's actually very hard to frame any of this stuff as a coherent platform. I mean, this in a sense is a personality campaign. He had great fun mocking Obama as an airhead personality like Paris Hilton, and I think that's true. You know, Obama is the Paris Hilton celebrity campaign. But McCain in his own way seems to be running just as sort of mercurial a personality campaign.

DB: You know, it's interesting, Mark Steyn, you refer to the nadir of his campaign coming with the Andrew Cuomo thing, but I would actually take issue with that. When the Lehman Brothers bankruptcy came down a week ago on Monday, I was up in Kennebunkport doing a book project, so I was out of pocket all day...

MS: Right.

DB: ...got into my car at 5:30, and was greeted by the news that John McCain had pronounced the economy fundamentally sound.

MS: Right, right.

DB: And that was a low that I think was...and any slippage he's had in the polls, I think, has been because of that initial very bad mishandling of this crisis.

MS: Well, I think the politics of that were bad, but I mean, I do think it is worth bearing in mind what is not going to happen here. You know, it is true that, for example, if there were to be a shortage of credit, an unavailability of credit, that that can have terrible, terrible problems for an economy. But that what we're dealing with here is not anything like the Wall Street crash. What we're dealing with here is effectively an absurd situation where the United States legislators decided that credit had a racist concept, and so enough credit was not being given to certain types of people, so they encouraged lending institutions to abandon any standards and throw money at people who shouldn't have been getting into the home ownership business in the first place, or at least not at that stage in their life. And as a result, sub-prime mortgages went from 2% of the market in 2002 to 30% of the market in 2006.

DB: So Mark, you have watched with horror, as I have, the devolution of the Atlantic Monthly in the way the Atlantic Monthly blog page as led by Andrew Sullivan, have taken an incredible interest in Sarah Palin's reproductive history. Is this something that institution can ever recover from?

MS: No, I thought it was embarrassing when Andrew Sullivan was demanding that Sarah Palin's obstetrician produce the birth video. I mean, I thought this was pathetic. I like, I left the Atlantic Monthly after a little dispute with them, but I've always liked David Bradley, the owner of that magazine personally. I was, he was very kind to me. I flew down to Washington to have lunch with him, and you know what it's like...New Hampshire is a bit of a culinary wasteland, no disrespect to my fellow Granite Staters, so I was really looking forward to eating at a swank Washington eatery. And David Bradley thought that as a sort of simple New Hampshireman, I might not be comfortable in a swank, Washington eatery, so he took me to a diner and bought me a corned beef on rye.

DB: Oh, how lucky for you.

MS: Well, so other than sort of slight beef with him, corned beef with him, other than that, I actually, I think he's been on the whole a good steward of that institution. And I do not think he can view calmly the decline in its reputation caused by letting this absurd buffoon rage over the paternity of Sarah Palin's child. I think that's simply unbecoming to a great institution, and is a form of mental illness.

DB: No, what I found interesting, and this goes for both Palin and McCain, is why people on the left, and why his adversaries have felt, and their adversaries, have felt it so necessary to develop this loathing for him that you read in the blogs – John McCain is despicable, John McCain is evil, Sarah Palin's a pathological liar. And all that, I spent the past eight years not being a big fan of John McCain, but I never wrote or thought anything along those lines. It just strikes me as how easily the left can be pushed over the edge into such hateful commentary.

MS: Yeah, I mean, I think what was amazing is that within twenty minutes of Sarah Palin's nomination, Alaska had become the new Texas. Wasilla is the new Crawford. Everything...the embodiment of everything that is wrong with America, everything that is crass and vulgar and worthless simply transferred itself from the Lone Star State up to north of British Columbia. And this idea that in college towns all over the United States, everybody was taking their...you know, somewhere in Texas, a village is missing its idiot stickers, and chiseling off the Texas, and taping in Alaska over it. I mean, it's this herd mentality. Condescension, snobbish condescension has to be extremely rarified to be effective. And when you have mass, herd-like snobbish condescension, it generally is a rather banal phenomenon, and not something that any sensible person should get over-invested in.

DB: You know, what's interesting is that I always wondered, I frequently wonder what would have happened if the Republicans had nominated Tim Pawlenty for Vice President, because now I know on this show, we like Tim Pawlenty, but you know, let's be honest, he's one of America's ten or twenty most boring people. It would have been interesting to see how the left would have developed this rabid, foaming at the mouth hatred for a guy like Tim Pawlenty.

MS: Yeah, I mean, I think that's, I find him personally very pleasant. He does a radio show, and I've been on his show, and I enjoy it. But it's true. You know, that's the fact, that simply put, if you nominated Andy Williams and the Mormon Tabernacle Choir singing "It's Beginning To Look A Lot Like Christmas" as the Vice Presidential nominee, then suddenly Andy Williams would be the most deranged, extremist, ferocious, crazed, lunatic figure in the United States. I mean, this is simply like a visceral reaction now, and I don't think it's worthy of that. I mean, as I said, Sarah Palin is one of 50 out of 300 million Americans who gets to govern a state. And that should command a basic kind of respect before you start going on about her as some kind of northern hillbilly.

DB: No, absolutely spot on, Mark Steyn. Now I don't know if you've heard this. A liberal PAC run by Howard Dean's brother, Democracy For America, is about to run an ad that shows vivid and unflattering images of the fresh scar that appeared on John McCain's face following his melanoma operation, and concludes with the tagline, why won't John McCain release his medical records. So is this the politics of hope that we've been promised?

MS: No, it's very interesting the way it all comes back down to the same old playbook. You know, the fact is that McCain, whatever one feels about them, McCain and Palin have been scrutinized in far more detail than either Obama or Biden. So when the New York Times shows any kind of elementary curiosity about Barack Obama's previous four decades, then it'll be the time to obsess about facial blemishes on John McCain.

DB: But it is something. This is a very low and dirty ad, and it's the kind of thing that I think is going to redound to the McCain campaign's advantage, that it's because it's particularly ugly.

MS: Oh, yes, I think so. I mean, I think this is what is so stupid about it. I mean, that's really the whole lesson of the Sarah Palin thing, that in fact if you were Karl Rove, you would be meeting with these people and

saying hey, you know, I think running an ad about John McCain's melanoma, or his inability to type an e-mail, yeah, I think that's a really good idea, guys. Let's make it a really big media buy. I don't think these fellows...you know, one of the healthiest things in public life is that moment when you feel a thought rising in your gorge to express itself and come out between your lips, and you suddenly realize it's a stage too far, and you hold it back. And that detector seems to be entirely absent on at least one side of the political spectrum this season.

DB: One more minute with Mark Steyn. So, Mark Steyn, what kind of president is John McCain or Barack Obama going to be?

MS: Well, as I said, I can't say I'm that enthusiastic about either choice, but I think essentially, Obama is someone who has presented himself, I think either consciously or not, as an utterly fraudulent image, and I would be deeply concerned. What disgusted me about the Berlin speech is the awful passivity of it, the way he said we saw that when the world stands together, when the world stands as one, then a wall came down and a Continent was united. It wasn't because a world stood as one. It was because a couple of brave people like Reagan and Thatcher stood against the conventional wisdom of the day. And Obama's passivity would be a terrible comment on the United States at this hinge moment in history.

DB: Indeed it was. Mark Steyn, Columnist To The World, you can read him at National Review, his book, America Alone, one of the books of the decade. Mark Steyn, thanks so much for being with us.

American Spectator

Financial Affirmative Action

by Matthew Vadum

When the history of the Great Economic Meltdown of 2008 is written, in-your-face shakedown groups like the Greenlining Institute will be held to account.

Greenlining, headquartered in Berkeley, California (where else?), is a left-wing pressure group that threatens nasty public relations campaigns against lenders that refuse to kneel before its radical economic agenda. Its principal goal is to push politicians and the business community to facilitate "community reinvestment" in low-income and minority neighborhoods.

The Greenlining name is a play on the unlawful practice of "redlining." That's when financial institutions designate areas, typically those with a high concentration of racial minorities, as bad risks for home and commercial loans. The Institute wants banks to give a green light to loans in these areas instead.

Recently profiled by [John Gizzi](#), Greenlining uses carrot-and-stick tactics to blackmail public agencies, banks, and philanthropists to achieve its objectives. The Institute brags it has threatened banks into making more than \$2.4 trillion in loans in low-income communities.

Was this a good idea?

Not according to University of Texas economist Stanley Liebowitz. He [wrote](#) that the current mortgage market debacle is "a direct result of an intentional loosening of underwriting standards -- done in the name of ending discrimination, despite warnings that it could lead to wide-scale defaults."

Liebowitz isn't alone in pointing out that U.S. financial markets are now being asphyxiated by a terrible credit crunch that might have been avoided if lenders had refrained from doling out loans they ought to have known were doomed to default.

Activist groups were encouraged to agitate by the Carter-era Community Reinvestment Act, which enshrined in law a kind of lending protection racket. Banking regulators were given the power to make trouble for

banks that failed to lend enough money to so-called underserved communities. Banks that paid enough -- whatever that means -- got left alone, but banks that didn't, got their legs broken.

How much money is enough to satisfy the law? Even the Federal Reserve Board can't say for sure. From the Fed's online [summary](#) of the Act:

The CRA requires that each depository institution's record in helping meet the credit needs of its entire community be evaluated periodically. That record is taken into account in considering an institution's application for deposit facilities.

Neither the CRA nor its implementing regulation gives specific criteria for rating the performance of depository institutions. Rather, the law indicates that the evaluation process should accommodate an institution's individual circumstances.

One can almost imagine a CRA commissar saying, "It'd be a real shame if something happened to that nice bank of yours." When in doubt about potential CRA liability, don't risk committing a crime against diversity: make the loan. Or else.

After CRA came into effect, Saul Alinsky-inspired "community organizer" groups such as Greenlining, ACORN, and National Council of La Raza got into the shakedown business. They preach the hateful class-warfare rhetoric of their fellow community organizers Jeremiah Wright, Jesse Jackson, Al Sharpton, and Michael Pfleger.

They rage against capitalism and demand crushing taxes and aggressive wealth-redistribution programs. They demand more government spending on social programs, a higher minimum wage, and gun control. Depending which way the economic wind is blowing, they demand more subprime lending, or curbs on subprime lending, which through the magic of dysphemism, is linguistically transformed into "predatory lending."

La Raza ("The Race," in Spanish), which has lobbied to strengthen CRA, performed an amazing sleight of hand last year. After decades of demanding more loans for racial minorities, the group performed a dramatic about-face, suddenly [warning](#) that lenders, realtors, and investors who bought up subprime loans could be sued under a federal law that forbids housing discrimination.

It was the lenders' responsibility to "match families to the sustainable loans that they should have gotten in the first place," said Janet Murguia, La Raza's president. Pointing to 2005 data that show subprime loans with high interest rates comprised more than 50% of all mortgages taken by African-Americans and 40% of Latino borrowers, compared to 19% of white borrowers, she raised the specter of racism. Murguia failed to mention that without a subprime market many members of racial minority groups would have remained renters, unable to buy a home.

And the Greenlining Institute played rough with Rabobank, an international Netherlands-based "megabank" (assets: \$740 billion) that was expanding its U.S. operations.

Even though Rabobank had received an "Outstanding" rating in its most recent CRA performance evaluation by the Federal Reserve Bank of San Francisco, that wasn't enough for Greenlining.

The group targeted Rabobank, demanding that it shell out \$7.5 billion for loan programs to help farmworkers buy their own farms. When the bank balked, Greenlining launched a campaign last year against its proposed acquisition of another bank.

Activists noisily picketed Rabobank until it caved.

"Congratulations to everyone," "Rabobank is totally afraid of you," Greenlining's top legal dude Robert Gnaizda yelled in offering congratulations to at demonstrators through a bullhorn. "Rabobank is totally afraid of you." Earlier this year, Greenlining proudly unveiled what it called a "unique agreement" with Rabobank

"to turn San Joaquin farmworkers into farmowners."

This is the kind of political activism that drove banks to make irresponsible decisions, and that now threatens to put taxpayers on the hook for bank bailout packages costing potentially trillions of dollars.

Even though the left's pathological preoccupation with economic egalitarianism never takes a vacation, the left isn't entirely to blame for Wall Street's current troubles.

The Federal Reserve Board encouraged bad behavior by keeping interest rates artificially low for far too long after the 9/11 attacks. Since money was cheap, bankers went overboard with exotic mortgage products, and investors kept inflating the housing bubble, sending home prices into the stratosphere.

But no one can deny the fateful role that these liberal financial activist groups played in making a bad situation much worse.

Matthew Vadum is a senior editor at Capital Research Center, a Washington, D.C. think tank that studies the politics of philanthropy.

Contentions

Some Thoughts on Where Things Stand

by Peter Wehner

1. Friday's debate was one of the better presidential debates we've seen. Both Senators McCain and Obama did well. McCain was sharp and often on the offense, particularly when it came to national security issues. Concerns that he would come across as unprepared, haltering, or old didn't materialize; in fact, he was the opposite. He was in many respects a commanding presence.

Senator Obama was more often on the defensive, but we saw what an effective counter-puncher he is. He is impossible to fluster and came across to many viewers as temperate, steady, and knowledgeable. As one McCain supporter I know wrote me in an e-mail, "I was reassured by Obama's debate performance in some ways. I can easily imagine him as President."

That impression is the most damaging one for McCain - and one he frankly doesn't have a lot of control over. McCain did well in the debate; but so did Obama. And since the main task of Obama is to reassure the public that he's not a risky choice, the debate helped him more than it helped McCain. And that is showing up in the polls, most of which show a small but significant **boost** for Obama.

2. The last few weeks have been quite damaging for McCain. For one thing, this period has acted as an unfortunate circuit breaker. Senator McCain came out of his convention with a blast, achieving the first real lead in the polls. That bounce was almost certainly artificial, but it was something to build on. What the crisis in the financial system did was to dramatically shift the election debate onto terrain that is more favorable to Obama.

What compounded the problem is that McCain's actions during that period - when his early responses seemed all over the lot and later, when his gamble to temporarily halt his campaign and postpone the debate if no deal was reached didn't work - have damaged him further. It also seemed to me that McCain's criticism of SEC Chairman Christopher Cox was symptomatic of a larger failure, which was to explain to voters the key role Democrats played in blocking necessary reforms, backed by both McCain and President Bush, of Freddie Mac and Fannie Mae. This allowed the history of the crisis to be presented in a way that was very incomplete and far too generous to Democrats.

That McCain tried a game-changing tactic was bold and in some ways impressive. He appears to have played an important role in bringing House Republicans into the negotiations. Yet the acid test on these things is whether they work or not — and in this instance, given how things unfolded, the McCain campaign gambled and lost. As a top McCain aide [told](#) the *Washington Post*, “Thursday was a disaster. The vision on Wednesday did not play out as we thought.”

On Wednesday, when McCain announced his gambit, it appeared to many people as if it might work to his advantage (showing him as a forceful, decisive leader). Twenty-four hours later, having walked into a snare set by Democrats (who leaked word that a bail-out deal was imminent when it clearly was not, thereby making McCain look to be a disruptive force), things looked quite different. The McCain campaign was forced to engage in damage control and eventually back down from its declaration that they would not attend the debate absent a deal.

3. What helps a campaign immeasurably is when the charge it makes seems to fit the person against whom the charge is being made. So, for example, the Bush strategy in 2004 to make John Kerry appear to be a flip-flopper and haughty was aided by the fact that it played to a pre-existing (and largely accurate) view of Kerry.

The difficulty Senator Obama presents is that his demeanor and countenance seem to act as a shield against the charge that he is, in terms of his policies and political philosophy, quite liberal and on the extreme end of the political spectrum. Senator Obama’s voting record certainly shows that to be the case. But the way he carries himself — combined with his post-primary, head-snapping shifts in policy — are designed to make Obama appear as a centrist. I don’t for a moment believe he is; Obama’s political career, taken in its totality, makes him the most liberal presidential candidate since George McGovern. But Obama has shown himself to be a nimble candidate, against whom it is difficult to land clean blows.

In addition, Obama came across in the debate as mostly agreeable, repeatedly saying “I agree with John” on this or that. I think that was an effective tactic; it gave Obama the patina of being bipartisan and a man ever in search of common ground. In fact, Obama has complied, in the [words](#) of Joshua Muravchik, “one of the most partisan of all voting records.” But once again, his style and manner send a different signal.

Potentially, the most lethal political charge against Obama is that he is a deeply liberal/ideological figure who has associated with radical individuals in order to advance his political career. The question is whether Obama’s countenance and personal style make those charges seem far-fetched; or whether the McCain campaign can convince voters that Obama’s appeal is at its core fraudulent and his new-found centrism a mirage.

I have some sympathy with the task faced by Team McCain; telling a campaign what needs to be done is much easier than actually carrying it out. That’s why it would be useful for more commentators to actually have had some experience in governing and political campaigns, which tend to be more complicated and difficult than pontificating.

4. Adding to McCain’s problems is the altitude that Sarah Palin has lost. Her selection, and especially her nomination speech, electrified many conservatives, as well as independent women. She came across as a fresh new face, charming and anti-political, a very popular governor and a reformer. But for a variety of reasons, including cultural ones, the media turned on her and began a systematic effort to portray her in the worst possible light. It is undeniable that many members of the MSM took an instant dislike to her, or at least to what they took her to embody. And so they went after her with particular ferocity.

At the same time, we need to recognize that it’s perfectly legitimate to ask tough questions of Palin, and it’s perfectly appropriate to expect her to answer them in a way that is informed, fluent, and confident. She hasn’t always done that, particularly in her uneven interview with Charles Gibson and a worse one with CBS’s Katie Couric. It may be we’re seeing Palin in the midst of a learning curve; if so, it better be complete by Thursday night, when she debates Senator Biden (it should help Palin that Biden’s record is a target-rich

environment, including in his supposed area of specialty, national security; see [this op-ed](#) I wrote in the *Wall Street Journal*).

It's worth bearing in mind that in her brief political career, Palin has shown herself to be smart and tough, an effective communicator, and extremely popular with the voters of Alaska. And under enormous pressure, she delivered an excellent convention speech. Those are all important qualities for a political candidate, as is basic good judgment. Palin has the capacity to rise to the occasion. At the same time, it is easier to deliver a speech to an overwhelmingly supportive audience than it is to participate in a debate that may influence the outcome of a presidential election. A lot is on the line for both Palin and McCain on Thursday; she needs to shine.

5. The truth is that Senator McCain, facing a considerable uphill struggle, has made the race closer than it ought to be, given all the advantages Democrats have this year. And one thing this campaign has taught us is that a new dynamic can be injected in the blink of an eye. We still have five weeks before the election. But then again, we only have five weeks to go before the election. And the task Senator McCain faces is to alter, in some fundamental way, the trajectory of the race. Friday's debate certainly didn't do that; if anything, his job is now harder.

John McCain has faced far more difficult challenges in his life than he does now. But politically speaking, the race, never an easy one, looks considerably more difficult. Senator McCain can still prevail, but at this point, he may need an assist from outside events or from Barack Obama. And one thing Senator Obama has shown is that, for whatever flaws he has, he doesn't make many glaring, stupid, and unforced errors. He's hard to knock off stride. Obama and his team, while certainly not flawless, have run a very impressive campaign for 20 months. To hope they'll badly slip up in the last five weeks is asking for a lot. As we've seen this year, a lot can happen, including in a short period of time. But for McCain it *needs* to happen, and soon.

LA Times

[Give me liberty and give me death](#)

As one's mortality swings into view, be thankful for life - - and for whiskey.

by P. J. O'Rourke

I looked death in the face. All right, I didn't. I glimpsed him in a crowd. I've been diagnosed with cancer, of a very treatable kind. I'm told I have a 95% chance of survival. Come to think of it -- as a drinking, smoking, saturated-fat hound -- my chance of survival has been improved by cancer.

I still cursed God, as we all do when we get bad news and pain. Not even the most faith-impaired among us shouts: "Damn quantum mechanics!" "Damn organic chemistry!" "Damn chaos and coincidence!"

I believe in God. God created the world. Obviously pain had to be included in God's plan. Otherwise we'd never learn that our actions have consequences. Our cave-person ancestors, finding fire warm, would conclude that curling up to sleep in the middle of the flames would be even warmer. Cave bears would dine on roast ancestor, and we'd never get any bad news and pain because we wouldn't be here.

But God, Sir, in Your manner of teaching us about life's consequential nature, isn't death a bit ... um ... extreme, pedagogically speaking? I know the lesson that we're studying is difficult. But dying is more homework than I was counting on. Also, it kind of messes up my vacation planning. Can we talk after class? Maybe if I did something for extra credit?

Why can't death -- if we must have it -- be always glorious, as in "The Iliad"? Of course death continues to be so, sometimes, with heroes in Fallouja and Kandahar. But nowadays, death more often comes drooling on the toilet seat in the nursing home, or bleeding under the crushed roof of a teen-driven SUV, or breathless in a deluxe hotel suite filled with empty drug bottles and a minor public figure whose celebrity expiration date has passed.

I have, of all the inglorious things, a malignant hemorrhoid. What color bracelet does one wear for that? And where does one wear it? And what slogan is apropos? Perhaps that slogan can be sewn in needlepoint around the ruffle on a cover for my embarrassing little doughnut buttocks pillow.

Furthermore, I am a logical, sensible, pragmatic Republican, and my diagnosis came just weeks after Teddy Kennedy's. That he should have cancer of the brain, and I should have cancer of the ass ... well, I'll say a rosary for him and hope he has a laugh at me. After all, what would I do, ask God for a more dignified cancer? Pancreatic? Liver? Lung?

Which brings me to the nature of my prayers. They are, like most prayers from most people, abject self-pleadings. However, I can't be the only person who feels like a jerk saying, "Please cure me, God. I'm underinsured. I have three little children. And I have three dogs, two of which will miss me. And my wife will cry and mourn and be inconsolable and have to get a job. P.S. Our mortgage is subprime."

God knows this stuff. He's God. He's all-knowing. What am I telling him, really? "Gosh, you sure are a good God. Good -- you own it. Plus you're infinitely wise, infinitely merciful, but ... look, everybody makes mistakes. A little cancer of the behind, it's not a big mistake. Not something that's going on your personal record. There's no reason it can't be, well ... reversed, is there?"

No doubt death is one of those mysterious ways in which God famously works. Except, on consideration, death isn't mysterious. Do we really want everyone to be around forever? I'm thinking about my own family, specifically a certain stepfather I had as a kid. *Sayonara*, you s.o.b.

Napoleon was doubtless a great man in his time -- at least the French think so. But do we want even Napoleon extant in perpetuity? Do we want him always escaping from island exiles, raising fanatically loyal troops of soldiers, invading Russia and burning Moscow?

Well, at the moment, considering Putin et al, maybe we do want that. But, century after century, it would get old. And what with Genghis Khan coming from the other direction all the time and Alexander the Great clashing with a Persia that is developing nuclear weapons and Roman legions destabilizing already precarious Israeli-Palestinian relations -- things would be a mess.

Then there's the matter of our debt to death for life as we know it. I believe in God. I also believe in evolution. If death weren't around to "finalize" the Darwinian process, we'd all still be amoebas. We'd eat by surrounding pizzas with our belly flab and have sex by lying on railroad tracks waiting for a train to split us into significant others.

I consider evolution to be more than a scientific theory. I think it's a call to God. God created a free universe. He could have created any kind of universe he wanted. But a universe without freedom would have been static and meaningless -- the taxpayer-funded-art-in-public-places universe.

Rather, God created a universe full of cosmic whatchmajiggers and subatomic whosits free to interact. And interact they did, becoming matter and organic matter and organic matter that replicated itself and life. And that life was completely free, as amoral as my cancer cells.

Life forms could exercise freedom to an idiotic extent, growing uncontrolled, thoughtless and greedy to the point that they killed the source of their own fool existence. But, with the help of death, matter began to learn right from wrong -- how to save itself and its ilk, how to nurture, how to love (or, anyway, how to build a Facebook page) and how to know God and his rules.

Death is so important that God visited death upon his own son, thereby helping us learn right from wrong well enough that we may escape death forever and live eternally in God's grace. (Although this option is not usually open to reporters.)

I'm not promising that the pope will back me up about all of the above. But it's the best I can do by my poor

lights about the subject of mortality and free will.

Thus, the next time I glimpse death ... well, I'm not going over and introducing myself. I'm not giving the grim reaper fist daps. But I'll remind myself to try, at least, to thank God for death. And then I'll thank God, with all my heart, for whiskey.

P.J. O'Rourke is a correspondent for the Weekly Standard and the Atlantic. A longer version of this article will appear in Search magazine. searchmagazine.org.

Daily Mail

[Mind the gap! The world's biggest cruise ship squeezes out of dock and sets sail](#)

by Eddie Wrenn

It might be time for the phrase: 'We're gonna need a bigger boat' to enter retirement.

For this mighty vessel, the largest ever passenger ship, dwarfs all that stands next to it, making the thousands of spectators which came to see its launch look little more than ants as they waved the graceful ship out of the port.

The 315m-long ship is so wide it barely squeezed out of the Papenberg watergates, but ably helped by two tug-boats it escaped on it's to the North sea, where it will head to Denmark.



People watch the cruiser 'Celebrity Solstice' dragged through the watergate of the Meyer Dockyard in Papenburg

She is one of five Solstice ships launching between now and 2012, and can carry nearly 3,000 passengers.

And, after thousands of years, landlubbers might be able to escape their phobia of the sea... This cruiser is the first one to boast an authentic grass lawn on its top deck.



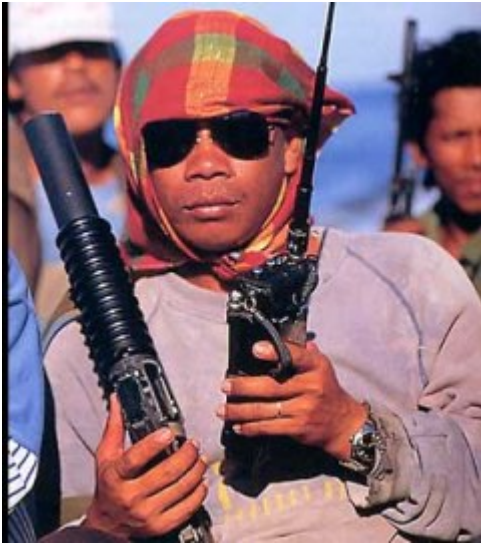
Celebrity Solstice is the most widely heralded ship to enter the cruise industry this year

The ship is 'virtually complete' - 98 per cent, to be exact - and is on track for it's November debut, when it will begin life as a U.S. cruise ship.

Borowitz Report

Somali Pirates Take Break for Jewish Holidays

Raise Star of David Over Captured Ship



Somali pirates who stunned the world by seizing a Ukrainian ship in the Gulf of Aden announced today that they would take a brief hiatus from terrorizing the high seas out of respect for the Jewish holidays.

"To all of our Jewish friends, we say a hearty Shana Tova," said pirate spokesman Sugule, moments before the pirates hoisted a Star of David flag over the captured ship.

Sugule took pains to indicate that while the pirates were taking a Rosh Hashanah break from their usual plundering and pillaging schedule, they were doing so only out of respect for Jewish pirates and not because they are Jewish themselves.

"None of us Somali pirates are Jewish," he said. "Except for Abe in accounting, who's half."

In a related story, former president Bill Clinton, who had earlier said he would not campaign for Barack Obama until after the Jewish high holidays, announced today that he would extend his hiatus until Purim, which falls on March 10, 2009

Responding to Mr. Clinton's decision to remain on the sidelines until four months after the election, Sen. Obama issued the following terse statement: "Oy."

Bush new rescue plan 'is to collect up all the 5 cent water bottles'



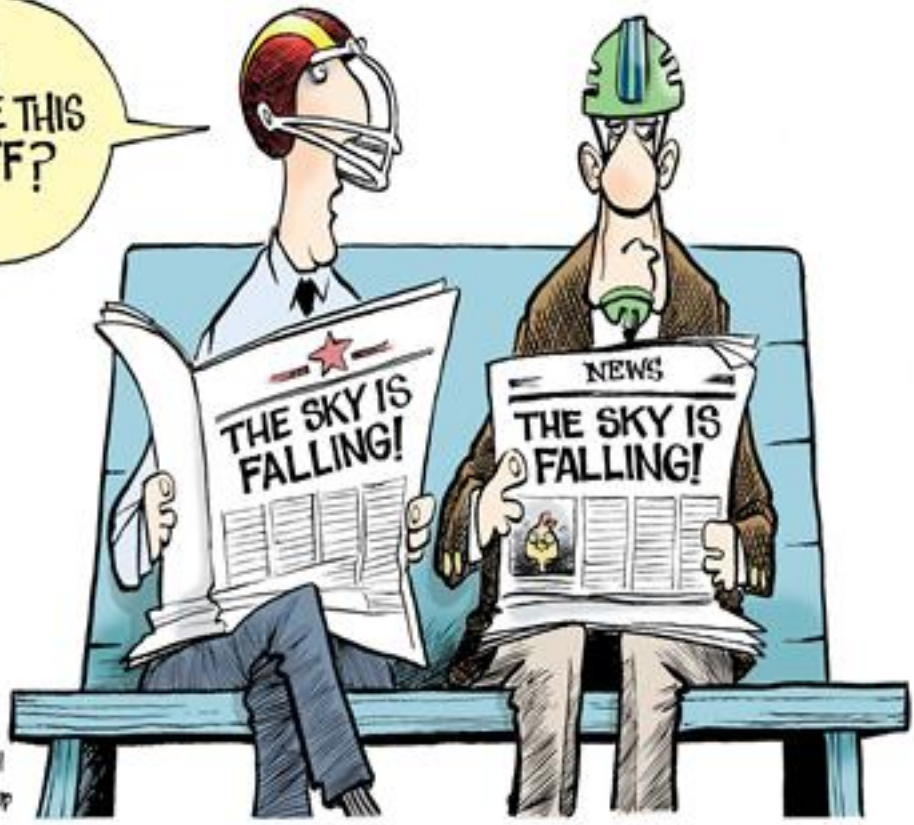
George Bush today revealed the detail on a new economic rescue package which it was hoped would pull America back from the brink of financial ruin. Less complex than the previous plan rejected by Washington, the President is proposing simply to collect up the empty mineral water bottles that can be exchanged for 5 cents at the recycling centre, and pay off America's \$700 billion debt that way.

'It works out as only 14000 billion empty plastic bottles' explained one upbeat White House aide, 'And the President already collected about thirty. We are tidying up the streets of our cities AND solving America's debt crisis so it is a win-win solution.'

In recent years, collecting plastic water bottles has generally been a job for the homeless and destitute, who could be seen on the streets of many U.S. states carrying bags and bags of them. But for want of any other ideas as to where to find hundreds of billions of dollars, the US government has followed the lead of its poorest citizens; 'Once again, the initiative and resourcefulness of the American people has pointed the way for big government,' said the President pushing his over-laden trolley through the park, as mothers with small children moved away to avoid the smell.

Meanwhile other money making initiatives have been gaining popularity on Wall Street, following the failure of the White House rescue package. Some bank executives are now cleaning car windscreens at busy traffic junctions while others are getting jobs holding signs advertising cheap pizza restaurants. 'Plus some of the guys in Wall Street found they could raise a few extra bucks selling their blood' said one stock-broker. 'The idea seemed to work for a while, but then a Wall Street Blood Bank bought out a Philadelphia Blood Bank, lending blood it didn't have to European and Far Eastern Blood Banks, and the whole world blood banking system has just come crashing down.'

YOU BELIEVE THIS STUFF?



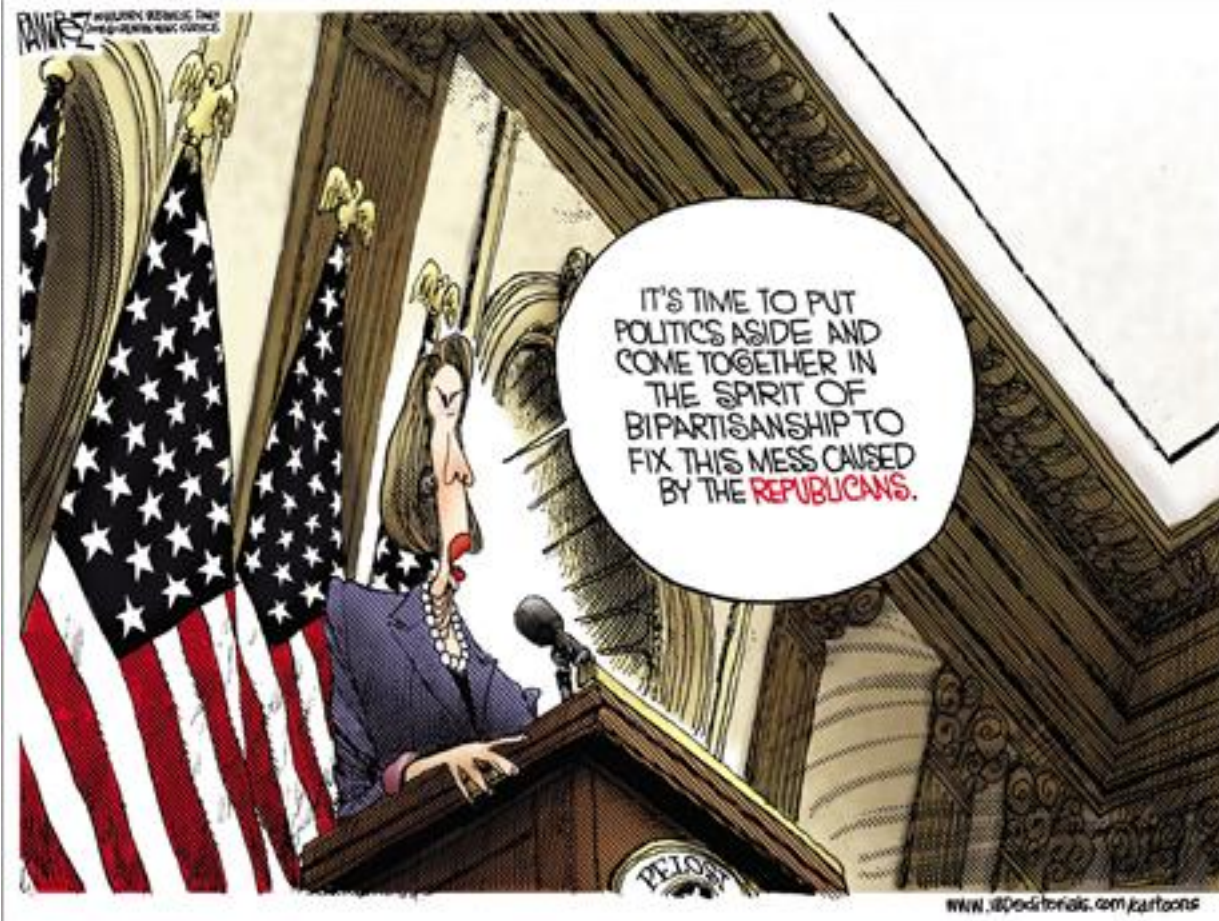
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SEN. MCCAIN IS RIGHT. I WOULD NOT RECOMMEND PRESIDENTIAL TALKS WITH IRAN

SEE? MR. KISSINGER AGREES WITH ME: I SAID REPEATEDLY THAT SENATOR MCCAIN IS RIGHT



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