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BOOK REVIEW

Christopher Leonard: *The Lords of Easy Money: how the federal reserve broke the American economy*

Simon & Schuster, 2022

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> "Note that, unlike others, I worry less about the threat of inflation down the road, something that will become clearer later in the book … " Mohamed A. El-Erian, *The Only Game in Town* (2020, p. 25)

By late 2021, Mr. El-Erian may have recalibrated his worry meter.

As with many fine journalists, Christopher Leonard develops his theme by telling two stories. One is about the multiple dissents entered by Kansas City Federal Reserve President Thomas Hoenig at meetings of the Federal Open Market Committee in 2010. The second story revolves around the travails of Rexnord, a Midwest manufacturing company repeatedly refinanced by its owners into higher levels of debt.

Jerome Powell is the connection between these two stories. President Obama appointed Mr. Powell to the Federal Reserve Board in 2012 to fill an unexpired term and reappointed him in 2014 to a full term. He took office as Chair February 5, 2018 following nomination by President Trump and Senate confirmation. In late 2021, President Biden nominated him for a second term as Chair, but as of this writing in March 2022 the Senate has not confirmed the nomination and he is serving as Chair Pro Tempore. One of my tasks in this review is to explain the connection between the two stories.

Powell's connection to Rexnord was this, to quote from Wikipedia: "From 1997 to 2005, Powell was a partner at The Carlyle Group, where he founded and led the Industrial Group within the Carlyle U.S. Buyout Fund." Leonard's first chapter concerns Tom Hoenig, which is where my connection comes in.

I was sworn in as President of the Federal Reserve Bank of St. Louis in March 1998. My first FOMC meeting came later that month. Tom Hoenig was sitting at the same FOMC table I was. My final FOMC meeting was January 2008; Hoenig was at that meeting also. I was subject to mandatory retirement and left the Federal Reserve at the end of March 2008, after being disconnected from confidential information as per standard procedure once the Minutes of the January 2008 meeting were finished final editing.

Tom and I had a cordial working relationship. Our fundamental outlooks on monetary policy were compatible. He may or may not be accepting of my remarks in this review, but I know that we could have a friendly conversation about the issues.

Although Mr. Leonard's stories are gripping, they do not correctly relay the message Hoenig intends.[1] Nor was Mr. Hoenig's policy position, I believe, completely sound. The best place to begin is with a story of my own.

Several years ago I attended a Midwinter Rendezvous luncheon event of the Elk River Yacht Club. The speaker after lunch was a retired Delaware Bay pilot. He, like other pilots who guide giant ships into harbors, was very knowledgeable about the shifting characteristics of the Delaware Bay and River. He told a story about boarding a huge tanker at the mouth of the Delaware Bay and guiding it to the dock at an oil refinery a few miles south of Philadelphia.

A small pilot boat, docked in Lewes Delaware near the entrance to Delaware Bay, took him out to the tanker. The pilot boat cruised alongside the huge ship at the same speed and the pilot grabbed the ladder the tanker crew had

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[1] Mr. Leonard's book is very frustrating for a former academic to read. After 30 years as an academic and countless conferences reading and discussing research papers, in reading Mr. Leonard's book I was immediately confronted with an almost total void when it came to references documenting the facts asserted.

deployed. Climbing the ladder to the deck, the pilot was escorted straightaway to the bridge to take command. The ship's captain had timed the arrival so the tanker could reach the dock at high tide. The ship was heavily laden and the channel just barely deep enough to reach the dock at high tide.

The ship's captain briefed the pilot with some very unwelcome information—the ship's reverse gear was not functioning. That was bad news. To reach the dock at high tide the ship had to run up the Bay at top speed. A ship of this sort, perhaps 900 feet long, could stop in about two miles with engines fully reversed. With no reverse gear, the ship and its crew were in big trouble.

Needless to say, all of us at lunch were entranced. The pilot explained that one choice would be to proceed and then coast and drop anchor in an anchorage. The next day the ship could proceed slowly to the dock with the aid of tug boats. However, that was an expensive option. The crew had to be paid. Tankers are expensive to operate. The owners would want it headed back to the Mideast for another load as soon as possible.

The captain got on the radio and found that the tanker company could engage several extra tugs to meet the ship and bring it into dock, but with no reverse gear it would be a tricky operation. Heading north up the Bay at maximum speed, our speaker explained that he got the ship to the refinery area, coasted down to a speed low enough that the crew could get lines out to the tugs, and they brought the ship into dock safely.

What is the relevance of this story to readers of *Lords of Easy Money*? A fundamental proposition in the economic policy literature as it developed after World War II is that the number of policy instruments must be at least as large as the number of policy goals. The goal for the ship was to get to the dock. The usual piloting instruments, or controls, were the helm connected to the rudders, by which the ship could be turned; the engines controlled forward speed, another goal variable. It was important to understand the limitations of the control instruments. The turning circle of these huge ships would be close to a mile. A ship going normal speed at sea might take two miles to stop with engines in full reverse. The ship did not need reverse gear in the open ocean but it did to enter a harbor. In economist-speak, it needed the reverse-gear instrument to achieve the goals when entering the harbor.

There are many reviews of Mr. Leonard's book; not a single reviewer discussed Federal Reserve policy in the context of policy goals and policy instruments. Most reviewers were concerned, as was the author Christopher Leonard, with distributional issues. None of these authors, nor Federal Reserve leaders since the 2008 financial crisis, have shown much interest in the perils of inflation. Hoenig dissented because he thought monetary policy risked a dangerous increase in inflation.

"Hoenig was trying to stop something: A public policy that he believed could very well turn into a catastrophe. … But the wheels were already turning to make this policy a reality, and the wheels were far more powerful than he was. The wheels were powered by the big banks on Wall Street, the stock market, and the leadership of America's Federal Reserve Bank." (Leonard, p. 3). I note that Mr. Leonard does not offer any evidence of the role of big banks or of the stock market. Fed Chair Ben Bernanke was a former professor and not a banker.

Some pages later we get to Mr. Leonard's real message. "The allocative effect [that Hoenig emphasized] wasn't something that people debated at the barbershop. But it was something that affected everyone. Hoenig was talking about the allocation of money, and the ways in which the Fed shifted money from one part of the economy to another. He was pointing out that the Fed's policies did a lot more than just affect overall economic growth. The Fed's policies shifted money between the rich and the poor, and they encouraged or discouraged things like Wall Street speculation that could lead to ruinous financial crashes." (Leonard, p. 19).

My reading of FOMC transcripts yields the conclusion that Hoenig did express concern about allocative issues, but not primarily about distributional ones. Mr. Hoenig and Mr. Leonard both assumed that Fed policy was responsible for the 2008 crisis. That is clear from two speeches Hoenig gave in March and June of 2011 (Honig 2011a, b), and from Mr. Leonard's book. Neither mentioned the report of the Financial Crisis Inquiry Commission, officially released February 25, 2011. The majority Commission report blamed the Fed's lack of adequate regulation, whereas Hoenig's emphasis was on excessively expansionary monetary policy whether measured by interest rates or the increase in the monetary base. Most importantly, neither Mr. Hoenig nor Mr. Leonard mentioned the FCIC minority report by Peter Wallison. Readily available to Leonard was Wallison's more complete analysis in his 2015 book.

Wallison explained that the 2008 crisis was a consequence of HUD regulation requiring that the Government Sponsored Enterprises, Fannie Mae and Freddie Mac, buy weak mortgages under the affordable mortgage program launched by 1992 legislation. I find Wallison's work persuasive, including his FCIC dissent and his 2015 book. Wallison offers a huge amount of evidence, all of which withstands extensive scrutiny. In any event, for Mr. Hoenig to ignore the FCIC Report and Mr. Leonard to ignore both that report and Wallison's 2015 book is scholarly malpractice.

Mr. Leonard slips uneasily between goods price inflation and asset price inflation, as shown by the following passage.

> But the Fed wasn't just inflating consumer prices. It was inflating asset prices as well. This was the form of inflation that was alarming to bank examiners like Hoenig. The value of farmland, a key asset for banks within the Kansas City Fed district, was rising steeply. So was the value of commercial real estate, and the value of oil wells and drilling rigs. These assets were the collateral on banks' balance sheets, and their rising value encouraged more aggressive lending. Banks throughout the Midwest extended big loans to farmers, based on the theory that the value of farmland would keep rising and support the value of the loan. The same thing happened in the oil business, and real estate. Hoenig heard about short-term construction loans that were extended based on the theory that property values would rise so quickly that the loan could be refinanced as soon as the building was finished. This was pushing the banks to make riskier loans. High inflation and relatively low rates discouraged banks and investors from saving money, because savings earned only small interest payments compared to the value it lost from inflation. The banks had to find something to do with their money that earned a good return. They were pushed out further on the yield curve. Hoenig and his team watched this happen, but there was very little that they could do about it. As asset prices rose, the banks could credibly argue that the loans were safe and the banks were stable. The examiners at the Fed could argue otherwise, but the bankers had the numbers on their side. In 1981, Hoenig was promoted to vice president of the Kansas City Fed's supervision department, overseeing a team of about fifty bank examiners. He got the job just in time to learn his most important lesson about the role of the Fed in American economics. He got to see what happens when a long period of inflation comes to a sudden, unexpected stop.
> "You have this enormous collapse," Hoenig said. "Failure upon failure, loss upon loss, crisis upon crisis." (Leonard, pp. 50–51).

A central point to understand about this passage is that goods price inflation was driving asset prices. Once goods price inflation slowed, asset prices fell. The monetary policy conundrum arises when asset prices are rising *without* goods price inflation, as with stock prices in the 1995–2000 period.

Here is the instruments/goals issue. Does the Fed have enough instruments to control employment, inflation, *and* asset prices? If not, then it will necessarily fail to achieve its targets on one or more of its objectives. Hoenig was not quite a minority of one, as is clear from reading the 2010 FOMC meeting transcripts, but he was the only one entering a formal dissent. He feared that the Fed's expansionary policy would yield an economy like that of 2021, with inflation running far above target.

Legislation defines, though somewhat vaguely, the goals the Fed is to achieve: Put simply, the Fed is to achieve full employment, price stability, and financial stability. What policy instruments does the Fed have to promote these national policies? Mr. Leonard and his reviewers argue that the Fed has expanded its assets excessively. I do not disagree.

The problem, however, has nothing to do with income- or wealth-distribution issues. The Fed does not have policy instruments—policy "tools," as the Fed prefers to say these days—that it can use to achieve desirable distributional goals. Nor is the Federal Reserve an appropriate institution to make decisions on distributional goals. Congress is the appropriate institution and tax law the appropriate, and perhaps only, effective policy instrument.[2] The Fed expanded its portfolio in an effort to achieve employment and stable price goals.

Consider other goals in the law. What instruments does the Fed have to affect the trade balance—a goal in the The Full Employment and Balanced Growth Act of 1978? Suppose the Fed is exercising its powers appropriately to deliver stable prices and high employment. Its actions in adjusting interest rates may well affect the trade balance. What other instruments are there, so to speak, "left over" to be applied to trade issues? Congress and the President have instruments that affect trade—international treaties involving trade, for example. I do not believe that there is a trade imbalance problem, but if there is, what is the case for the Fed getting involved?

No case whatsoever is my answer, because diverting interest-rate policy for a trade objective, or a distributional objective, will necessarily guarantee that the inflation and employment objectives will be compromised. The same holds for attempting to influence asset prices through interest-rate policy. Success in contributing to achieving *all* goals requires at least as many policy instruments as goals.

1 A base-line macro model

Suppose the Fed is doing a good job keeping the economy on a good track using its policy instruments. It would be best to say, "instrument" singular, rather than "instruments" plural. I assert that the only instrument the Fed has to affect the

[2] Tucker (2018) emphasizes the importance of distinguishing between distributional choices and distributional effects. "Distribution" and "distributional" together appear 150 times in his book. He provides a very careful and well-informed treatment of central banking issues.

economy as a whole—the macro or aggregate economy—is the rate of interest. We used to talk of money growth and/or bank credit growth as instruments but Fed policy has long focused on interest rates. Putting aside extensive debates about these topics, most economists have agreed that the Fed can pursue a successful policy using its interest-rate instrument. What about quantitative easing and the Fed's balance sheet? I'll take up that subject shortly.

Economists widely accept the proposition that monetary policy—with exceptions to be discussed—does not affect real variables in the long run. The Fed cannot keep the unemployment rate below the natural rate, or "non-accelerating inflation rate of unemployment" (NAIRU), as some prefer to put it. The Fed has no instruments to affect population growth, productivity growth, immigration, the distribution of income, and other real variables. The Fed cannot affect the number of people who are vaccinated.

This argument concerning monetary effects on real variables needs to be modified to reflect the fact that inflation itself affects many real variables. Economists differ as to exactly how and why, but we know that inflation does affect real variables; therefore, Fed policy does affect real variables via inflation. Inflation above the Fed's target of 2% per year may create inefficiencies. Also, inequities. So also might inflation below 2%; *Variable* inflation is a special concern because it is certain to be inaccurately anticipated by economic agents—consumers and producers and government officials at all levels. Variable inflation also tends to create financial instability.

What do we mean by "financial instability"?It is normal in a market economy that asset prices fluctuate and that individuals and firms sometimes realize losses on their investments. What we must mean is something along the line of damaged market functioning. Examples would include the upset in the commercial paper market when Penn-Central Railroad declared bankruptcy in 1970. Same, at much larger scale, when Lehman Brothers declared bankruptcy in 2008. When markets are functioning properly, one firm can default on its obligations without affecting access to the market that other firms have. The Lehman failure created fear that other weakly capitalized firms holding real estate assets, and other assets of uncertain value, would also fail. The result was a stampede into safe assets.

Damaged market functioning is especially likely when a large bank fails, as so many did in the horrible slide from 1929 to the bottom of the Great Depression in March 1933. When market functioning becomes disrupted, the Fed can step in to provide support in several different ways.[3] However, doing so risks creating longer-run problems as market expectations evolve to expect Federal Reserve rescues—the problem of moral hazard. Banking regulators do have another instrument available—bank capital standards. Unfortunately, capital standards have been too low and remain too low. Evidence that capital standards were too low in 2008 is that too many banks failed and that the standards have since been increased. In 2008, many market professionals did not trust the regulatory process.[4]

There is another instrument that the Federal Government could and should use. An amendment to the corporate income tax code to eliminate or scale back the deductibility of interest would reduce the use of excessive amounts of debt by corporations. Another approach would be to permit corporations to deduct dividend payments in calculating corporate income subject to tax. Unfortunately, when discussing Rexnord neither Mr. Leonard nor his reviewers mention these options, long discussed in the public finance literature. Nor do they discuss higher bank capital requirements. These are changes that would make the financial environment more stable. Application of additional policy instruments could accomplish objectives monetary policy alone could not achieve.

It is also true, unfortunately, that Federal Reserve officials have not argued vigorously for these reforms.

As the U.S. economy recovered from the 1981–1982 recession, starting in November 1982, the inflation rate was much lower than it had been. Years of substantial growth followed, up to the crisis of 2008. During the Volcker-Greenspan years we saw Fed policy adjustments that helped the economy to get past hiccups of various sorts. Iraq's takeover of Kuwait triggered an upset in the oil markets and a relatively mild recession in the United States starting in July 1990. The Fed lowered interest rates and maintained an environment of price stability. Before 2008, there were several other mild upsets. The Fed's forecasts were not always accurate, nor its policy responses perfectly timed. Nonetheless, the analysis was good enough to bring the economy back to an even keel after each hiccups and growth continued.

This experience demonstrates that in an environment of price stability and expectations of continuing price stability the Fed's policy adjustments can contribute to a relatively stable and growing economy. Except for brief periods measured in quarters, the Fed did not affect real variables. The environment of economic stability surely contributed to enormous advances in computer technology and adoption of that technology by producers and consumers. Provided inflation expectations are firmly held, the Fed can simulate or restrain the real economy by adjusting its fed funds rate

[3] "The entire financial system experienced a total collapse." (Leonard. p. 6). Utter nonsense. Checks continued to clear as long as the accounts on which they were written had funds.

[4] Regulators always assert that banks are safe. Not to do so would invite an immediate run.

instrument down or up a bit. Thus, this single instrument can be used not only to stabilize inflation and inflation expectations but also can offset, at least in part, temporary conditions that would otherwise push the real economy off track.

Mr. Leonard and his reviewers have completely failed to understand that the Fed has only one instrument—the short-term interest rate—it can use to guide the macro economy. Using that instrument for other purposes guarantees that it will not be used to guide the economy appropriately.

Where We Are Today. Mr. Leonard and his reviewers discuss the effects of excessive Fed activism in growing its portfolio. What they do not examine sufficiently is the instability created by the huge growth in the Fed's portfolio over a period of years. They focus on distributional issues and ignore the really big issue—potential to create or enable inflation.

The inflation that began in early 2021 will have negative effects on income and wealth distribution. Inflation is punishing frugal households that invested conservatively. Inflation will reward households that borrowed on 30-year mortgages to buy houses they could just barely afford. They will look back and wonder why they ever had a doubt about buying those expensive houses. Even though residential property prices are today (January 2022) almost 20% higher than a year ago, market demand is still strong as families kick themselves for not buying sooner. These observations are consistent with Mr. Hoenig's observations about what happened as a consequence of the 1970s inflation.

The Fed's problem, as of early 2022, is that it has lost its reverse gear and has no tugboats to call. By the end of 2021, the 12-month inflation rate was higher than it had been for 40 years. Tom Hoenig worried in 2010 because he observed the enormous growth in the Fed's balance sheet without any apparent concern as to how to reverse the growth when the time came.

My complaint about 2010—the year of Mr. Hoenig's repeated dissents—and later years is very simple. Why did the Fed continue with massive asset purchases without figuring out *why* they were not working? A memo prepared for the March 2010 FOMC meeting is entitled, "Large-Scale Asset Purchases by the Federal Reserve: Did They Work?"[5] The authors say, "we discuss the economic mechanisms through which LSAPs may be expected to stimulate the economy and present some empirical evidence on those effects." In fact, they provide extensive analysis supporting the proposition that the asset purchases reduced long-term interest rates but no analysis of whether that effect increased business investment or increased real GDP in some other way.

Then, in later years the Fed continued to expand its LSAP program without any evidence as to why earlier efforts were unsuccessful. A physician who continued to prescribe the same drug without understanding why earlier dosages did not work would be guilty of medical malpractice. My review of FOMC materials available through 2016 does not identify *any* convincing studies of why the program was not working.

I did some research on the investment question in 2011. In December of that year I presented a paper at a Philadelphia Fed conference entitled, "Where is the Investment Boom?" In the paper I tracked regulatory decisions of the Federal Energy Regulatory Commission (FERC) with regard to licensing pumped storage energy projects.

I summarized my findings in a 2014 opinion piece in *Forbes Magazine*. "The federal government is not 'permitting' the economy to grow. Yes, that's 'permitting' as in Environmental Protection Agency permits, Federal Energy Regulatory Commission (FERC) permits, Department of Transportation permits, and the list goes on and on. Federal regulatory agencies are not granting permits for private firms to build infrastructure, and U.S. investment and employment growth are hurting because of it."

In 2014, Fed staff members Eugenio Pinto and Stacey Tevlin wrote a memo for the FOMC, "Perspectives on the Recent Weakness in Business Investment." They said nothing about regulation, instead basing their analysis on regression studies. Their regressions picked up the vigorous recovery in business investment after the 1980–1981 recession. That was an era characterized by the Reagan administration's emphasis on reducing regulation and the investment incentives in the Economic Recovery Tax Act of 1981. In contrast, the recovery after 2009 was marked by heightened regulatory scrutiny and opposition of environmental groups to all investment that—as I like to put it—involved moving earth. The Keystone pipeline was victim of this mentality.

Given the publicity over Keystone, my view was hardly obscure. Nonetheless, as best I can tell, the Federal Reserve never investigated the regulatory environment carefully. Wasn't my hypothesis at least viable enough to deserve careful consideration? Along with Tom Hoenig, I feared the inflation consequences of the Fed's asset purchases. My timing was far off—no question about that. That said, I wonder what the Fed would have found if it had done a thorough job investigating regulatory constraints.

The investment boom in 1983–1984, which followed the deep recession of 1981–1982, reflected lower inflation, the investment tax credit in the *1981 Economic Recovery Tax Act*, the Reagan administration's emphasis on less regulation and the military build-up. Defense procurement is generally on a cost-plus basis and is difficult to model correctly. Positive conditions like these were absent after 2009; that, I believe, helps to explain the slow recovery of investment and economic activity after the financial crisis. My explanation

[5] Gagnon et al. (2010).

is almost surely partial. The research is not yet in hand to finish the story.

2 Leonard's perception of rexnord

"Financial engineering was key to Rexnord's strategy." (Leonard, p. 187) I do not believe that statement is correct. U.S. manufacturing companies survive when they are successful in developing new technology. The high-value part of such a business is design, engineering, marketing, and management. Here are a few excerpts of what the company (at the time, Regal Beloit Corp.) says in its 2020 10-K filing with the SEC, dated March 2, 2021 (Fiscal year ending January 2, 2021).

1. "We believe that innovation is critical to our future growth and success and are committed to investing in new products, technologies and processes that deliver real value to our customers. … With our emphasis on product development and innovation, our businesses filed 21 Non-Provisional United States ("US") patents, 6 Provisional US patents and an additional 30 Non-Provisional foreign patents in fiscal 2020."
2. "We have manufacturing, sales and service facilities in the US, Mexico, China, Europe, India, Thailand, and Australia, as well as a number of other locations throughout the world. Our Commercial Systems segment currently includes 46 manufacturing, service, office and distribution facilities of which 14 are principal manufacturing facilities and 3 are principal warehouse facilities."
3. "At the end of fiscal 2020, we employed approximately 23,000 full-time associates worldwide. Of those associates, approximately 11,000 were located in Mexico; approximately 3,700 in the US; approximately 3,000 in China; approximately 2,200 in India; and approximately 3,100 in the rest of the world."

Managing facilities and 23,000 employees spread around the globe is no mean feat. Far more was involved than financial engineering. Did Mr. Leonard examine any of the company's 10-K reports? Apparently not.

Why did Mr. Leonard want to link the Hoenig and Rexnord stories? The common element is Jerome Powell, who helped to manage Rexnord when Carlyle Group controlled the company. Other than the Powell connection, there is no reason whatsoever to link Hoenig and Rexnord.

Mr. Leonard expands on his brief biography of Powell in his chapter 8, "The Fixer." … "He occupied the offices that connect the worlds of Washington and Wall Street. He was a fixer who helped things operate smoothy between big capital and big government …" (p. 152) Why the pejorative "fixer?" Argument by innuendo?

At the beginning of this review I noted that one of my tasks would be to connect the Hoenig and Rexnord stories. The outcome of my investigation is that there is no substantive connection whatsoever. Leonard does not even attempt to show how Powell's work with Rexnord provides any insight into his performance as Fed Chair.

3 Fact checking?

There are so many errors of fact and misleading statements in this book that the only reasonable conclusion is that there were no fact checkers. Consider just one example, referring to 1999: "The FOMC increased rates sharply after that, from 5.7 to 6.5%. This was the equivalent of hitting the emergency brakes on a subway train." (p. 86) How would Leonard characterize policy tightening in 1994–1995 which, starting February, totaled 3 percentage points, including an increase in the federal funds rate target of 75 basis points followed by another of 50 basis points in February 1995? Leonard's analysis of monetary policy is simply unreliable.[6]

It is often said that it is a mistake to judge a book by its cover. To that we need to add, "or by the publisher's information about the book."

Simon & Schuster's website info about the book is simply incorrect. The blurb states "The New York Times bestselling business journalist Christopher Leonard infiltrates one of America's most mysterious institutions—the Federal Reserve—to show how its policies spearheaded by Chairman Jerome Powell over the past ten years have accelerated income inequality and put our country's economic stability at risk." The book contains no data on income inequality nor anything about how the Fed "accelerated" it. With respect to the Fed's asset purchases, the blurb states, "Once it printed all that money, there was no way to withdraw it from circulation." Simply wrong. In fact, total Federal Reserve assets fell by 17% from early 2015 to mid 2019. Using the current Fed series, "Monetary base, Reserve Balances, monthly" we observe a decline of 48% from August 2014 to September 2019.

The publishers play up Leonard's argument at the end of his final chapter about wealth inequality. "Millions of people in the middle class were falling behind. To compensate for this fact they took on loads of cheap debt, which helped them feel like they were at least remaining in place." (p. 296).

[6] I urge readers of Leonard's book to follow up with Tucker (2018). Tucker, a former senior official of the Bank of England, has written a deeply informed and responsible book on central banking.

It takes two to tango. Who were the lenders? Above all, Fannie Mae and Freddie Mac. Why did they lend so much? Read Peter Wallison's (2015) book. The reason was that HUD regulations under the affordable mortgage program *required* that the GSEs make these loans. Where did the GSEs get all the funds? They borrowed from the market, which correctly assumed that the federal government would stand behind the loans. When Fan and Fred were headed for insolvency in September 2008, the federal government brought them into conservatorship. Sadly, they were conserved and not liquidated.

As I write, Fan and Fred are again feeding a housing boom with house prices rising at a rate a bit below 20% per year. The subtitle to Wallison's book is "What Really Caused the World's Worst Financial Crisis and Why It Could Happen Again." May I recommend that Leonard and his other reviewers read this book?

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