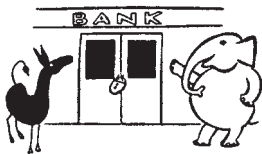




THE TALK OF THE TOWN

COMMENT LOAN RANGERS



Just before the start of last week's All-Star Game, Jim Bunning, a Major League Hall of Fame pitcher and, for the past decade, Kentucky's junior Republican senator, served up a high inside fastball to Treasury Secretary Henry Paulson, who was on Capitol Hill defending the Bush Administration's latest effort to bolster the ailing financial system. Cutting Paulson off in mid-sentence, Bunning said, in effect, Mr. Secretary, come next January, you will be gone, but some of us will still be here, and we will have to pick up your tab. I, for one, am not willing to give the federal government a blank check.

Bunning was objecting to Paulson's proposal that Congress empower the Treasury Department to lend an unspecified, but presumably vast, sum of taxpayers' money to Fannie Mae and Freddie Mac, the two troubled mortgage lenders. Bunning's financial logic was questionable—given that the lenders own or guarantee mortgages worth about five trillion dollars, letting them go under is not an option—but his political point wasn't. Policymakers now face a series of decisions that will determine not merely the fate of this particular cycle but the nature of the federal government's role

in the economy for the next generation.

In a political system as balkanized as ours, it is only in moments of genuine danger that meaningful reforms get enacted. The economic malaise of the nineteen-seventies facilitated the Reagan revolution. The budget crisis of the late nineteen-eighties persuaded first George H. W. Bush and then Bill Clinton to adopt some fiscal discipline, and Congress to go along with them. In some ways, the current situation is more alarming than either of those, but, so far, neither of the Presidential nominees has taken up the call for appropriately bold measures. The best that can be said of John McCain's economic plan is that it remains a work in progress. Barack Obama has advocated a second stimulus package, together with more aid for

struggling homeowners, but the rest of his program was largely put together before the current downturn began.

When the subprime squall swept through Wall Street, last summer, many described it as a "liquidity crisis," by which they basically meant that, although lenders and investors were too traumatized to put their money at risk, the financial system remained fundamentally sound. Today, we are facing something far more serious: a crisis of solvency. Having lent trillions of dollars to homeowners, developers, and condo-flippers who were busy inflating the largest housing bubble in recent American history, many financial institutions are saddled with huge bad debts. The I.M.F. has called the mortgage imbroglio "the biggest financial crisis in the United States since the Great Depression." Moreover, the banks' growing reluctance to extend more credit to their remaining customers risks making the situation even worse. Such downward spirals are what turn slumps into depressions.

The government's response has been to lend to the banks—openly through the Federal Reserve, indirectly through the Federal Home Loan Banks. But lending is only a temporary solution; unless the housing market improves, more drastic measures will be needed. Specifically, the federal government may have to take over the loan books of many stricken institutions, separate the good debts from the bad, sell off the latter to bottom-feeding investors, and recapitalize the businesses that remain so that



they can go out and resume lending.

This is essentially what the Resolution Trust Corporation did with hundreds of insolvent savings and loans from 1989 through the early nineties—and this crisis will potentially dwarf that one. It is also what the governments of Norway and Sweden did with many of their biggest banks—which were failing after financing real-estate booms—and shortly afterward those economies were again growing vigorously. (Japan, which was caught in a similar bind, waited a number of years before it finally recapitalized its financial sector at public expense, and it suffered more than a decade of economic stagnation in consequence.)

All of that comes under the heading of crisis management. To insure that we don't go through the same thing in the next economic upswing, Washington will have to enact a complete regulatory overhaul. For some twenty years, politicians of both parties have been using free-market rhetoric as a cover for favors to big campaign contributors. Starting in the Reagan Administration and culminating in the second Clinton Administration, Congress did away with many of the restrictions on the financial sector that had been in place since the nineteen-thirties, such as a ban on the merging of banks and brokerages. In recent years, predatory lending has gone unchecked, and, with little or no oversight, Wall Street banks bundled subprime home loans into complicated and ultimately toxic securities.

Effective financial regulation often involves limiting the opportunities for short-term profit in the interests of long-term stability. It may be asking too much of McCain, an ardent free marketer and onetime friend of Charles Keating, Jr., the disgraced S. & L. baron—Keating contributed to McCain's campaigns and flew him around on his private jet (McCain later reimbursed him for the trips)—to crack down on the "malefactors of wealth," although his recent invocations of Theodore Roosevelt suggest that he at least knows the origin of the term. Obama, perhaps, is a more hopeful case.

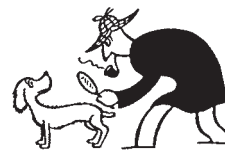
Seventy-six years ago, with the country facing the greatest economic calamity of the century, another moderately inclined Democrat saw the need for new thinking and the possibility of radical change. F.D.R.'s "brain trust" provided the intellectual framework for his New Deal speech at the 1932 Convention and for many of the policies that he enacted in his first term—policies that eased the financial crisis, expanded poverty relief, and created a modern regulatory system. The situation today is less extreme, but families face eviction from their homes; workers are losing their jobs; and last week saw long lines of anxious Californians waiting to get their money out of the failed bank IndyMac.

Although Obama has talked about the need for more effective regulation, he hasn't yet provided many details, and, unlike the two Roosevelts, he has been somewhat reluctant to couple his pro-

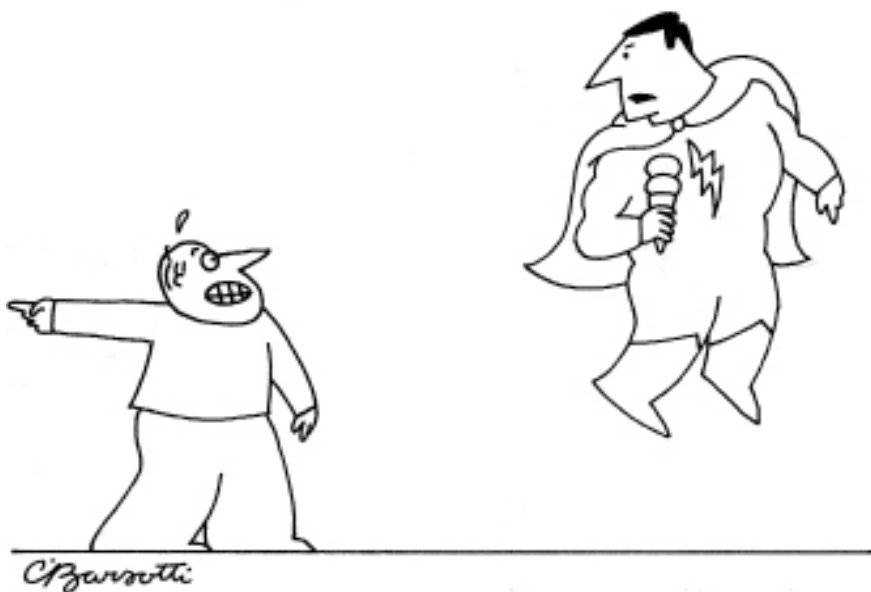
posals with a populist critique of American capitalism. During the primary campaign, he won support by making the case that the political system, having been captured by special interests, ignores the welfare of ordinary people. Putting together a similar indictment of the financial system seems like a logical next step, and it would help Obama build a mandate for the reforms that he has proposed, such as expanding health-care coverage, reversing the Bush tax cuts, and investing in alternative energy. Adding to that a coherent plan to deal with the banking crisis and restore the government's proper role as overseer of the economy wouldn't amount to a new New Deal, but it would be a good start.

—John Cassidy

MAN'S BEST FRIEND DEPT. SCOOPED

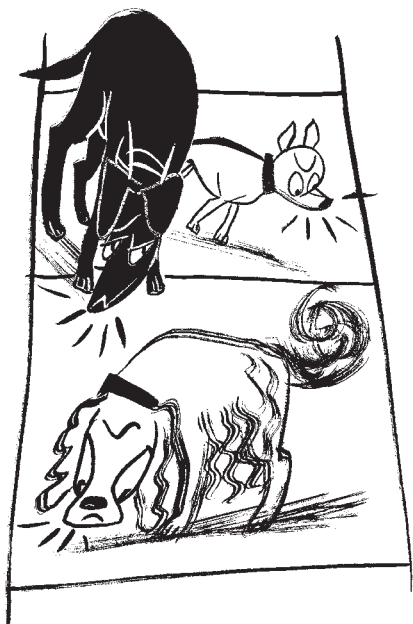


Michael Brandow, a freelance dog-walker in the Village, hadn't had much luck interesting publishers in a nonfiction manuscript that he'd been working on for the past eight years. In 2006, in the course of his research, he called Alan Beck, a professor of animal ecology at Purdue. Beck happens to edit a line of books about the bond between humans and animals for P.U. Press, and he told Brandow that he'd give the manuscript a look. "I read it and thought, This is a really neat book," Beck said recently. "So I wrote to our publisher and said, 'Over the years, I've given you a lot of shit, but this is a good one.'" The result is a three-hundred-and-thirty-nine-page social history entitled "New York's Poop Scoop Law: Dogs, the Dirt, and Due Process." Its bibliography cites, among others, Caro; Scorsese; *Dog Run: A Publication of the Washington Square Dog Run Association*; and Glickman, L. T., Shofer, F. S., "Zoonotic Visceral and Ocular Larva Migrans," *Veterinary Clinics of North America: Small Animal Practice*, Vol. 17, No. 1, January, 1987. Brandow has dedicated the book to "My sweet Samantha," his shepherd-chow-beagle bitch.



"You people are so crazy about Batman—ask him."

“Dogs, the Dirt, and Due Process” comes out on August 1st, the thirtieth anniversary (a hundred and thirtieth or so, in dog years) of Section 1310 of the New York State Public Health Law, which formally decrees, “It shall be the duty of each dog owner . . . to remove any feces left by his dog on any sidewalk, gutter, street, or other public area,” and which, informally, accounts for the



abundance of tightly knotted Gristedes bags in local trash cans. (Pre-1310, the largely ignored “curbing” rule held that animals were supposed to go in the gutter.) Brandow, on the phone the other day from Montreal, where he is spending the summer, admitted that “a lot of people just rolled their eyes” at the mention of his subject, but he sees the law, and the “civil war” that surrounded its adoption, as an urban parable. Notwithstanding a few groaners (“Tension filled the air like the smell of feces that radiated from the pavement,” “The number one complaint was number two”), the story—which begins in Nutley, New Jersey, in 1971 (some citizens band together against a neighborhood Great Dane), crosses the Hudson (a hundred and twenty-five tons of dog shit *a day* clotting the sidewalks of “Dung City!”), skips to Albany (Koch kicks the issue upstate after the City Council fails to take action), and culminates in New York’s becoming the first big city to force owners to clean up after their dogs—makes a fine Empire State procedural.

There was the usual bureaucratic

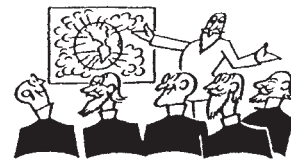
gridlock: Koch inherited the problem from Beame, who inherited it from Lindsay, a waffler on canine concerns, according to Brandow, whose “known pet affiliations were minimal.” Tineared functionaries, too: “You got *five* cats? And a *dog*?” one city official asked a woman at a hearing. “Christ. What you need is a good man.” Then you had your community activists—Max Schnapp, of POPA (Pet Owners Protective Association), a labor organizer and the owner of two Great Danes (Tiger and Sampson), a pet crow (Mitzvah), three rabbits (Pinkie, Dutchie, unnamed), a white mouse (Piggy), a baby squirrel (Elmer Wiggle), a gerbil, and half a dozen alley cats (Mau Mau, Nebisch, Sister, Freddy the Freeloader, Monty Wooley), vs. Fran Lee, the founder of Children Before Dogs—grinding out their small-bore issues on the grand stage. “It was an amazing time,” Beck, who was the director of the Bureau of Animal Affairs for the city from 1975 to 1980, recalled. “I was actually caught in the crossfire when dog feces were being thrown back and forth.” (Gross but true: Lee, at a public debate, got smacked in the head by a loaded baggie.)

For the book, Beck was happy to share his collection of memorabilia, including various cleanup devices, some of which, Brandow writes, were modelled on fruit pickers. “The drawings, they’re like looking at eighteenth-century flying contraptions or something,” he said. “There was one that supposedly had some sort of mechanical jaws and a flashlight attachment for evening scooping.”

Amid Doggy Tongs, Pooch Scoops, and Scoop de Doos, there is an original pooper scooper: U.S. Patent #3,685,088, formal title “Means for Collecting a Dog’s Excrement by the Dog’s Owner or Walker.” A cardboard shovel strapped to the hand by rubber bands, it was invented by Henry Doherty, an unemployed office manager from Wayne, New Jersey, and, while the Lindsay administration endorsed the contrivance, it is not Brandow’s preferred method. “I think it’s a waste of money,” Brandow said. “I steal as many bags as I can from the Korean grocer when I go there to buy vegetables.”

—Lauren Collins

ON THE TRAIL FIRST TIMER



Throughout American history, the number of blind rabbis serving in Congress has remained steady at zero. In a cluttered campaign office next to the Naturoll sushi takeout in Haworth, New Jersey, Dennis Shulman is trying to change that. Shulman, who is fifty-eight, has a snowy beard and a sunny disposition. “I’m going down to Atlantic City later today to meet with the building-trades guys, and I love them,” he said the other day, surrounded by a roomful of volunteers. “I don’t think of my life as the sacred and the profane. I just think of it as expanding my pulpit.”

Shulman grew up in a family of modest means in Worcester, Massachusetts. When he was five, he received a diagnosis of bilateral optic atrophy, a nerve disorder that gradually diminished his sight until, about a decade later, he was totally blind. Nevertheless, through high school he worked afternoons and summers at a toy factory. “I wrapped up little plastic brooms and little pans, so little girls would grow up to be housewives,” he said. “The guy who ran the factory was highly regarded at the national level, because he hired the handicapped. The only problem was that he paid minimum wage, eighty-five cents an hour, which was fine with me, but not with the thirty-five-year-old working next to me.”

Shulman graduated from Brandeis in 1972, and four years later he got a doctorate in clinical psychology from Harvard. His wife, Pam, was in medical school in New York, and eventually they set up practices in the city, hers as an obstetrician and his as a therapist to adults and couples. In 1981, they moved to New Jersey, where they raised two daughters, one of whom now works in Texas politics. “When I was in college, I thought I was going to be a rabbi when I grew up, but I had a spiritual crisis in my freshman year, when my high-school girlfriend died of leukemia,” Shulman said. “But the feeling never disappeared, and about ten or fifteen years ago I started

giving lectures to psychoanalysts about Bible stories, starting with Abraham and Isaac. My friends could see before I could that I was heading back to my old ambition." Ordained in 2003, Shulman conducts services every Saturday before a small congregation in the town of Alpine.

Even with two careers, he was restless. While teaching a course on the theologian Abraham Joshua Heschel, he became haunted by Heschel's remark "To speak about God and remain silent on Vietnam is blasphemous." "I read that and said, 'Oh, shit, I have to run for office,'" Shulman recalled. "Besides, my wife was sick of me almost throwing my shoe at the television."

Shulman, a Democrat, is running in New Jersey's Fifth Congressional District, which includes such suburbs as Ridgewood and Tenafly, in Bergen County, and some rural communities along the Pennsylvania border. Since 2002, the incumbent has been Scott Garrett, a Republican with the most conservative voting record of any member of the House from the Northeast. "He's a Neanderthal," Shulman said. (Garrett declined to comment.)

Starting as an unknown in the district, Shulman won sixty-one per cent of the vote in the June primary against two candidates, Camille Abate and Roger Bacon. ("My favorite headline from the primary was 'BLIND RABBI'S OPPONENT IS BACON,'" Shulman said.) Like New Jersey as a whole, the district has been leaning Democratic in recent years, but in 2006 Garrett won with fifty-five per cent of the vote. Still, the *Congressional Quarterly* has upgraded Shulman's chances, changing the district's rating from "Safe Republican" to "Republican Favored." Yet getting attention from the New York media for a corner of New Jersey is difficult. "The people in my district know what Mike Bloomberg eats for breakfast, but they don't know Garrett's voting record," Shulman said.

Shulman makes few concessions to his blindness; he uses a device that instantly translates Web sites and e-mail into Braille and audio. And he recognizes that the novelty of his candidacy helps draw attention. There has never been a rabbi in Congress, and its last blind members left office in 1941. Not long ago, Shulman received an encouraging phone call

from David Paterson, the governor of New York, who is also visually impaired. "We agreed that there should be a conspiracy by the blind to take over all levels of government," Shulman said.

—Jeffrey Toobin

SQUATTERS OBAMA'S IN-BOX



On July 27, 2004, a friend invited Guru Raj to create a Google e-mail account. A recent graduate of the University of Virginia, Raj, then twenty-one, was watching the Democratic National Convention on a television in his parents' basement, in Norcross, Georgia. The beta version of Gmail—available by invitation only—was less than four months old at the time, and largely unproved, but Raj's U.V.A. e-mail account was set to expire in a few weeks, so he decided to give Gmail a try.

At first, Raj tried to create an address using his own name, but, remarkably, both gururaj@gmail.com and rajguru@gmail.com were already taken. So he tried the name of the young senator from Illinois who was giving the Democratic keynote address on TV. To his surprise, it worked, and, moments later, barackobama@gmail.com was quietly born. "I'm not some cute little Indian boy who grew up in America with political aspirations," Raj, the first in his family to be born an American citizen, said recently. "I just thought it would be kind of funny to create an e-mail address based on a random senator whose name no one could spell."

Over the next four years, as Gmail became the third most popular Web-mail provider in the U.S. and Obama became a serious contender for the next President of the United States, Raj used the account for his personal e-mail. In the fall of 2006, he received, for the first time, a message intended for the Senator. By February, 2007, when Obama formally announced his candidacy, Raj was daily receiving dozens of misdirected notes from all over the world.

The letters expressed a range of sentiments: simple incredulity ("RUREAL?"), electoral reassurance ("Don't worry about California, they're old fogies anyway"),

mystical backing ("You represent the spirit of the Lotus sutra"), conspiratorial opposition ("Obama might not be a U.S. citizen and not qualified to run for president"), niggling criticism ("You were losing your OOMPH delivering your speeches in Texas and Ohio"), sound advice ("Don't lose your humility"). Raj's favorite e-mail was a nursery rhyme that went, "Hillary Dillery Dock / Obama will clean her clock / Monica's a sin / Bu Ba fell in / Now she's gotta deal with Barack."

Other correspondents were more practical-minded—one extended an invitation to a Seder in Hyde Park ("We heard you were shooting a movie at the synagogue by our place"), while another expressed regrets ("I can't make the meeting tomorrow, but I'd like to buy a shirt—preferably a medium"). At 11:14 P.M. on May 30th, a real-estate agent from Manhattan sent the following note to barackobama@gmail.com, as well as to barackobama@hotmail.com and barackobama@yahoo.com: "Mr. Obama, good luck in the rest of the election year. Please let me know if you have any real estate needs."

Raj, who now works for a software consulting company in Washington, D.C., never replied to these, or to any other e-mails meant for Obama, not even to tell an excited would-be pen pal that he is not, in fact, the Democrats' presumptive Presidential nominee. "It just became an interesting portal into Americana," he said. "From the beginning, I had no intention of manipulating anyone."

Still, the experiment has recently begun to overwhelm him. On June 12th, barackobama@gmail.com started receiving much more spam. Raj suspects that an international political Web site posted his Gmail address, "because suddenly I was inundated." (He now receives some sixty e-mails a day addressing the Senator, most of them in foreign languages, especially Russian.) It was becoming impossible for him to separate his own electronic life from Obama's, so last fall Raj began using a backup account. This new Gmail address incorporates his first name, his last name, and—the linchpin—his middle initial. All of "Barry's messages," and those few which Raj himself still gets at barackobama@gmail.com, are diverted to a spam folder in the new account. "I check it every once in a while," Raj said, "to see if Obama's got any interesting mail."

—Charles Bethea

THE FINANCIAL PAGE SPONSORING RECKLESSNESS

When do the words “not guaranteed” actually mean “guaranteed”? Whenever the mortgage giants Fannie Mae and Freddie Mac are involved. The two companies have long been required to tell investors that their securities are not guaranteed by the federal government. But in the financial markets everyone has always assumed that this demurral was just window-dressing, and everyone, it turns out, was right. Last week, when fears of a possible collapse of the two companies threatened to spark a major financial crisis, the Treasury Department and the Federal Reserve quickly came up with a rescue package. What had been an implicit guarantee became an explicit one.

Fannie and Freddie are the duck-billed platypuses of the financial world. They're profit-driven corporations, owned by shareholders and, in theory, beholden only to them. But they're also so-called “government-sponsored enterprises,” set up by the state with the explicit mission of fostering homeownership, by buying and selling home mortgages. Unlike ordinary corporations, they're exempt from most state and local taxes and certain S.E.C. requirements, and they have access to a government credit line. Other G.S.E.s play similar roles in other markets: the Federal Home Loan Banks make loans to banks, credit unions, and thrifts; the Farm Credit Banks facilitate the flow of credit to farmers; and Farmer Mac buys up farm and rural-housing mortgages. In each case, the government saw a hole in the marketplace and chartered a company to fill it.

The G.S.E.s are curious, because there's no obvious reason for them to exist in the form they do: instead of creating private companies to do all these jobs, the government could just do them itself. In fact, that's how Fannie Mae got started, back in 1938: originally, it was a government agency endowed with the authority to buy mortgages, in the hope that this would expand the supply of credit to homeowners. It wasn't until 1968 that Fannie was privatized. (Freddie Mac was created two years later, and

was private from the start.) The main reason for the change was surprisingly mundane: accounting. At the time, Lyndon Johnson was concerned about the effect of the Vietnam War on the federal budget. Making Fannie Mae private moved its liabilities off the government's books, even if, as the recent crisis made clear, the U.S. was still responsible for those debts. It was a bit like what Enron did thirty years later, when it used “special-purpose entities” to move liabilities off its balance sheet.

Making Fannie and Freddie into these weird hybrids may have spruced up the budget, but in the long run it also made it easy for the companies to grow too big, too fast. Because everyone as-



sumed that the government would make good on Fannie's and Freddie's debts, they could borrow money more cheaply than their competitors. They used this cheap debt to increase the number of mortgages they bought. Had Fannie and Freddie been ordinary private companies, there would have been a natural check: companies with more debt are usually seen as riskier, and that makes shareholders and bondholders less willing to invest in them. Or, had Fannie and Freddie been government agencies, budget constraints would likely have limited the scope of their lending. Since neither the market nor the state checked their growth, they were able to swell extravagantly. (Regulators might have reined the companies in, but, thanks in

part to ardent lobbying by Fannie and Freddie, Congress failed to provide them with sufficient power to do so.)

The result of all this was that the companies reaped the rewards of the private sector while enjoying the security of the public sector. Seemingly insulated from all harm, they became reckless. They constructed a giant pyramid of debt on a very small base of capital (eighty-one billion dollars, by the most recent publicly available figures), and by May, 2008, either owned or guaranteed more than five trillion dollars in mortgages. As a result, even though just a small percentage of Fannie's and Freddie's mortgages are delinquent, the potential losses are huge. That's why, in recent weeks, investors finally lost faith in them.

Whatever their sins, Fannie and Freddie clearly couldn't be allowed to fail, but that's no argument for letting them go on as they are. Either they should be forced to make it as private companies or they should be nationalized. Given that their business depends on the promise of government assistance and that their current state remains woeful (despite an upturn in their fortunes late last week), nationalization seems more sensible. If Fannie and Freddie are going to run up a tab and stick taxpayers with the bill, why should shareholders profit?

Beyond that question, though, is a more important one: Do we need Fannie and Freddie at all? Their supposed reason for being is that their ability to borrow money at low rates lowers borrowing costs for homeowners. But a paper by the economist Wayne Passmore, of the Federal Reserve, suggests that in fact Fannie and Freddie have only a small effect on the interest rates that homeowners pay, saving them less than one-tenth of a percentage point. More important, if the last few years have taught us anything, it's that homeownership is not an unalloyed economic good, and that we should be cautious about using gimmicks to make it more attractive. The government already offers homeowners a subsidy, in the form of a mortgage tax break. Given everything else we could be spending taxpayer money on, does the government really need to be in the mortgage-buying business, too?

—James Surowiecki