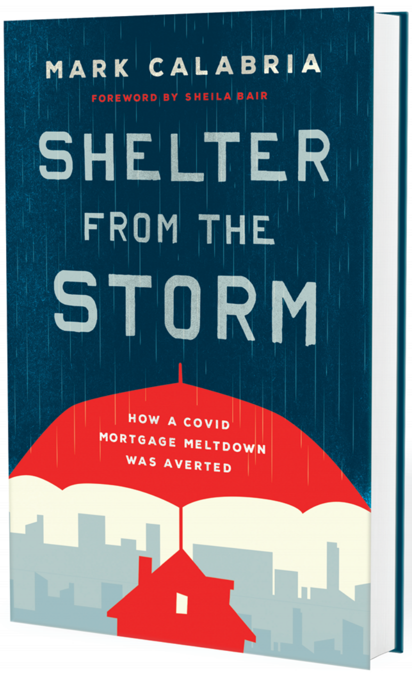
New Books on Financial Crisis—and a Noncrisis

Shelter from the Storm: How a COVID Mortgage Meltdown Was Averted



So many books have been written glorifying the bailouts of the banking industry during the COVID-19 pandemic that it is practically a genre. The government's "rescue first, ask questions later" approach was resisted by Mark Calabria, who served as director of the Federal Housing Finance Agency at the onset of the pandemic and has since returned to Cato as a senior advisor. Calabria resisted calls for Wall Street bailouts and instead provided millions of families with direct mortgage and rental assistance at little cost to the public. These decisions saved lives and helped keep financial markets functioning.

In his new book *Shelter from the Storm: How a COVID Mortgage Meltdown Was Averted*, Calabria takes us back to 2020 and details his welcome—and rare—example of a government official guided by libertarian principles and statistical realities, not political convenience or lobbyist pressures. His steady decisionmaking was informed by his observations of the 2008 mortgage crisis.

In this book, Calabria offers readers a peek behind the curtain of government decisionmaking in a crisis and shows how the Federal Housing Finance Agency minimized housing disruptions without asking taxpayers to foot the bill or giving into demands for industry bailouts and subsidies. Former vice president Mike Pence noted, "Mark Calabria led the charge to protect taxpayers and reform our housing finance system," and Sen. Pat Toomey, former ranking member of the Senate Committee on Banking, Housing, and Urban Affairs, praised Calabria's "fiscally responsible decisionmaking, even as the mortgage industry clamored for special treatment. Thanks to his leadership, we have a stronger financial system and a firmer commitment to free enterprise than we otherwise would."

Why Shadow Banking Didn't Cause the Financial Crisis and Why Regulating Contagion Won't Help

Many Americans have bought into the false narrative about the causes of the 2008 financial crisis, which claims so-called "shadow banks"—supposedly unregulated financial firms—caused the housing bubble to burst. Members of Congress and other federal officials credit bailouts and increased regulations for saving the economy in the wake of the crisis, when in fact the riskier financial activities contributing to the meltdown were backed or even pioneered by the federal government. *Why Shadow Banking Didn't Cause the Financial Crisis: And Why Regulating Contagion Won't Help* is a new book from Norbert J. Michel, vice president and director of the Cato Institute's Center for Monetary and Financial Alternatives. In it he highlights the falsehoods in the government's narrative on the causes of the 2008 financial crisis.

Today the Biden administration is using this same story to promote more regulations for money market mutual funds (a key part of the supposedly dangerous shadow banking system) and even to justify allowing only federally insured banks to issue stablecoins (a type of cryptocurrency that didn't exist in 2008). But most of the post-2008 regulatory efforts were concentrated in the traditional banking sector—not the shadow banking sector—which warrants skepticism toward the conventional story of the 2008 crisis and any new regulations based on that story. ■