Retrace steps to unsnarl meltdown

By now it's painfully clear that letting loose market players is a recipe for disaster. The actions of market players like Enron's Ken Lay and Bernie "I-lost-$50-billion" Madoff aren't aberrations. They were playing in a system that contended, "Trust us; we will do the right thing. Now get off our backs."

The idea that we should simply trust market participants to do the "right thing" because that's the way capitalist markets are supposed to operate is a historical myth. Capitalist markets function best only when there is regulation. This isn't socialism. It's historic reality.

This notion runs counter to a belief system many still cling to: individuals create wealth so let's leave them alone. Economists like Milton Friedman built an economic theory around it. Ronald Reagan built a political movement around it. Country club millionaires will tell you it's what made them rich.

Still, in the wake of the stunning market collapse of 2008, this mindset is tragically flawed. We're now relearning that market players don't always do the right thing. People will cheat one another in a market setting. But people cheating one another shouldn't be a surprise. In the real world, love stinks and doesn't conquer much. Good and innocent people get trampled on. To believe it could be any other way is a market arena driven by profit and greed suggests a level of naive utopianism.

Look, we're not angels. It's why our Founding Fathers created a political system of checks and balances. They understood that wishful thinking about human nature is no way to organize a society. We've lost track of this simple point when it comes to operating markets. We did this several times in the 1800s. We did it again before 1929. It's déjà vu all over again today.

As we are currently seeing, government actions can make things worse. Market players who built financial sand castles and sold them like snake oil were encouraged and winked at by both political parties. Republican Phil Gramm, for example, sponsored legislation Bob Rubin applauded and Bill Clinton signed. Their actions allowed market players to get into each other's business and sell the financial sand castles that have marbled their way into our economy.

Indeed, every day we're learning how favorable legislation, deregulation, lax oversight and a river of cheap political money created a flood of wealth. What's truly incredible is that most market players triumphantly claimed this wealth was the product of their own talent and acumen. It wasn't.

Favorable legislation that encourages market players to repackage loans into sweet smelling "debt instruments" might help people get rich. But this wealth has little to do with business genius. It is a legislated market crutch that skews market performance.

Federal Reserve policies that help to put cash into the hands of consumers might stimulate an economy. But the stimulus is hardly the product of more productive workers, or a more competitive economy. The point is, many of the financial profits and gains we've seen in the economy over the past 20 years have been the product of greed, stupidity and legislative smoke and mirrors. On the plus side, this means this meltdown isn't the product of a "once in a lifetime" set of developments, as Alan Greenspan has suggested.

In our evolving financial horror movie we need to do what the little boy did at the end of the Jack Nicholson movie, "The Shining." We must retrace our steps. Spending trillions is not enough. Legislation must be undone, even if it means embarrassing high level players.

If we're smarter than the financial monsters bearing down on us, we can fix this mess.

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