Section I: The Forgotten Lessons of Deregulation

The nation's attitudes toward regulation since the 1930s can be divided into three eras.

From the New Deal through the election of President Reagan in 1980, the country was generally welcoming of rules to ensure fair play, safe working conditions and a healthy environment. This can be illustrated in many ways, but perhaps most convincingly in the decisions of President Nixon, hardly a knee-jerk liberal, to create the Environmental Protection Agency and sign legislation establishing the Occupational Safety and Health Administration in the early 1970s.[1]

Reagan's election marked the beginning of an era of skepticism, in which regulation was often ridiculed as the "R-word."[2]

Then, the financial crisis of 2008 led to a period of intense conflict over the role of government.

The financial crash initially prompted obituaries to be written on the nation's anti-regulatory approach. *BusinessWeek*'s Michael Mandel, for instance, wrote in the fall of 2008 that "the 30-year era of deregulation came to a sudden and surprising end on September 16," when the government purchased most of American International Group to avert a full-fledged meltdown of the financial system.[3] But, shortly thereafter, critics began blaming regulations for stifling the recovery from the recession.

Section I of this book puts forth a simple proposition: the initial assessment that the financial crisis should have hearkened a new era of balance in government oversight was correct.

We provide detailed accounts of five episodes that illustrate the foolishness of relying on *laissez-faire* oversight.

Insufficient regulation of mortgage lending and the absence of regulation of financial derivatives were directly responsible for the housing bubble and financial crisis.

Deregulation of commodities trading led to a dramatic run-up in the price of oil that may have pushed the economy over the edge in 2008. At a minimum, few would argue that the surge in the price of oil to $147 a barrel in the summer of 2008 did the economy any good.

The failed deregulation of residential electricity services illustrates the danger of entrusting the delivery of a vital service to the whims of the free market.

Finally, privatization and lax regulation led to the fall of mortgage buyers Fannie Mae and Freddie Mac, prompting a massive taxpayer-funded bailout.

These examples do not suggest that all regulation is good or that all instances of decreased regulation are bad. They simply point out that a default position of opposing regulation at every stop, as has been put forth by many partisans and self-appointed advocates of the business community,[4] is utterly indefensible.