



Commentary

My Own Crisis Of Confidence

Bob McTeer 10.10.08, 5:30 PM ET

One of the victims of the prolonged financial crisis has been my comfort with my belief system. I grew up reading Milton Friedman and taking classes from like-minded professors. When an unfamiliar issue came along, I was quick to ask myself, "What would Friedman think about this?" The answer was usually self-evident, seemed correct to me and fit nicely with my answers to other questions. I came to regard my economic philosophy as "classical liberal" or "economic conservative" to friends who wouldn't be familiar with the first term.

I'm pretty sure Friedman would be critical of most of the Federal Reserve and Treasury responses to the financial crisis, but I'm not so sure what he would have done instead.

Many lighter-weight conservatives adopted the attitude of "let them fail" no matter how big and interconnected the firms were. That response was very off-putting to me, given the magnitude of the pain they were willing to subject us to for their own ideological purity. I thought of Ogden Nash's "Purity is obscurity."

After 36 years in the Federal Reserve System, including almost 14 years as president of the Dallas Fed and a member of the Federal Open Market Committee, I'm astonished at how far this Fed has gone beyond what had been normal, prudent central bank practices. Yet, I felt like applauding their aggressive and innovative responses to unconventional challenges.

I sat beside Ben Bernanke in FOMC meetings for almost three years and had no inkling that he was a latent revolutionary, but I'm glad he was. The old rule book wasn't working, so he wrote another one on the fly. What is it they say? Keep doing what you're doing, and you keep getting what you're getting.

Chairman Bernanke's innovations weren't very libertarian and they may keep him out of central banker heaven, but I found myself thinking, "you've got to do what you've got to do." How's that for an economic philosophy?

I touched on this theme in a recent speech in San Francisco. I quoted the old saying that "there are no atheists in foxholes" and added that there are "no libertarians or objectivists dealing with a financial crisis." I borrowed the libertarian reference from Jeffrey Frankel, but I added objectivism myself. Objectivism was Ayn Rand's philosophy, and I wanted to bring one of her protégé's, Alan Greenspan, into the mix. Besides, it gave me an opportunity to make a joke: "An objectivist is similar to a libertarian, but without the libertarian's soft heart and warm personality."

I was pretty proud of how I was educating my audience with clever analogies and original humor. A few days later, though, I received an e-mail from a member of that audience. He identified himself as an activist, a card-carrying atheist, and he proceeded to point out the errors of my logic. He pointed out that there have always been atheists in foxholes who, by remaining so, remain true to their beliefs in the face of crisis. Libertarians, on the other hand, would be abandoning their principles if they changed them in a crisis.

Maybe so, but an alternative interpretation is that a crisis changes the paradigm and requires different behavior. If you want to remain true to your principles, you must prevent the crisis. That's a tall order, and above my pay grade.

A dilemma closer to home for me is whether, or to what extent, it is permissible to use analogies to make valid points if the analogy itself isn't air tight. It's a close call, but I come down on the side that "there are no atheists in foxholes and no libertarians in a crisis" teaches a valid lesson, even if some poetic license is involved. Do you agree?

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