Kudlow Barney Frank Comes Home to the Facts

Lawrence Kudlow
Can you teach an old dog new tricks? In politics, the answer is usually no. Most elected officials cling to their ideological biases, despite the real-world facts that disprove their theories time and again. Most have no common sense, and most never acknowledge that they were wrong.

But one huge exception to this rule is Democrat Barney Frank, chairman of the House Financial Services Committee.

For years, Frank was a staunch supporter of Fannie Mae and Freddie Mac, the giant government housing agencies that played such an enormous role in the financial meltdown that thrust the economy into the Great Recession. But in a recent CNBC interview, Frank told me that he was ready to say goodbye to Fannie and Freddie.

“I hope by next year we’ll have abolished Fannie and Freddie,” he said. Remarkable. And he went on to say that “it was a great mistake to push lower-income people into housing they couldn’t afford and couldn’t really handle once they had it.” He then added, “I had been too sanguine about Fannie and Freddie.”

When I asked Frank about a long-term phase-out plan that would shrink Fannie and Freddie portfolios and mortgage-purchase limits, and merge the agencies into the Federal Housing Administration (FHA) for a separate low-income program that would get government out of middle-income housing subsidies, he replied, “Larry, that, I think, is exactly what we should be doing.”

Frank also said that any federal housing guarantees should be transparently priced and put on budget. But he added that the private sector must be encouraged to re-enter housing finance just as the government gradually withdraws from it.

Some would say Frank’s mea culpa is politically motivated in advance of an election where bailout nation and big government are public enemies No. 1 and 2. Of course, poll after poll shows that the $150 billion Fan-Fred bailout, which the Congressional Budget Office estimates could rise to $400 billion is detested by voters and taxpayers everywhere.

In fact, these failed government agencies are in such bad shape that they can’t even pay Uncle Sam the dividends owed under the conservatorship deal reached two years ago. That’s right. In order to pay a $1.8 billion dividend on Treasury department stock, Fan and Fred had to borrow $1.5 billion from — you guessed it — the Treasury.

Then there’s this head-scratching detail: In an absolutely outrageous move last Christmas Eve, President Obama signed off on $42 million in bonuses for the top 12 Fannie and Freddie executives, including $6 million apiece for the two CEOs. (Hat tip to attorney Stephen B. Meister.)

Voters are on to all this. So politics may indeed be motivating Barney Frank’s turnaround. But I’m going to credit him with more than that.

I think Chairman Frank watched these government behemoths descend into hell and then witnessed the financial catastrophe that ensued. And I think he has come to realize that the whole system of federal affordable-housing mandates that was central to the real-estate collapse —
including the mandates on Fannie and Freddie and the myriad bad decisions made by private banks and other lenders in response to the government’s overreach — simply needs to be abolished.

Noteworthy is the fact that Treasury Secretary Tim Geithner has come to a similar conclusion. Geithner told a recent Washington conference on the future of housing finance that the system needs fundamental change. He said, “We will not support a return to the system where private gains are subsidized by taxpayer losses.”

Of course, the withdrawal of housing markets from government programs, and the onset of a reinvigorated private sector for providing mortgages, must be done gradually over a period of years. But it is possible that the federal mortgage madness is coming to an end.

We will have to see if Congress really does say goodbye to Fan and Fred, as Republicans like Jeb Hensarling are advocating. Equally important, we will have to see if the federal affordable-housing mandates created by Congress and implemented by HUD and banking regulators are similarly repealed.

And then we will have to see if reformed federally guaranteed housing insurance includes larger down payments, stricter underwriting standards and greater reliance on private capital markets, lenders and insurers. In other words, we need to see if housing will be restored to a market-based system and removed from the government-backed system that has proved so disastrous.

The broader lesson here is that government planning doesn’t work. And if left to their own devices, market processes will work. I don’t know if President Obama gets this. But my hat goes off to a man who does, Chairman Barney Frank.

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