Just How Stupid Does Elizabeth Warren (& Barack Obama) Think You Are?

Nick Gillespie | September 23, 2010

Last Friday, President Barack Obama named Harvard's Elizabeth Warren to head up the design and implementation of the new government agency whose creation she had spent years lobbying for. The Consumer Financial Protection Agency (CFPA) is supposed to be the watchdog over "policies and programs that are designed to protect the financial interests of middle-class families," says the president. And the CFPA will have broad powers, not quite clear yet, to regulate credit card terms, mortgages, and the like.

For an agency dedicated to openness and transparency, the ways in which Warren has come to power are disturbing. Writing in the Wall Street Journal, Bruce Ackerman notes that Warren will function in a role that traditionally would require approval by the Senate. "Since Ms. Warren will be a key executive in Treasury, earning the salary of an undersecretary, shouldn't she be treated as an undersecretary and be required to run the gauntlet of Senate approval?" he asks. Far from sounding the cavalry for the little guy mired in debt, Ackerman concludes that the way in which she has come to power "is another milestone down the path toward an imperial presidency. During America's first 150 years, Ms. Warren's appointment as a special adviser to the White House would have been unthinkable. Today, it's par for the course." (Read Gene Healy's June 2008 cover story to fully understand the rise of such a baleful development.)

Here's a taste of what to expect from the CFPA:

"The new consumer bureau is based on a pretty simple idea: People ought to be able to read their credit card and mortgage contracts and know the deal," Warren wrote on the White House's blog Friday.

"The new law creates a chance to put a tough cop on the beat and provide real accountability and oversight of the consumer credit market," she wrote. "The time for hiding tricks and traps in the fine print is over."

The agency is the centerpiece of the recently enacted financial reform law. An independent entity to be housed under the Federal Reserve, the agency will take over responsibility for writing rules — such as those governing disclosure forms — to protect consumers who are seeking mortgages, credit cards, pay-day loans and other financial products.

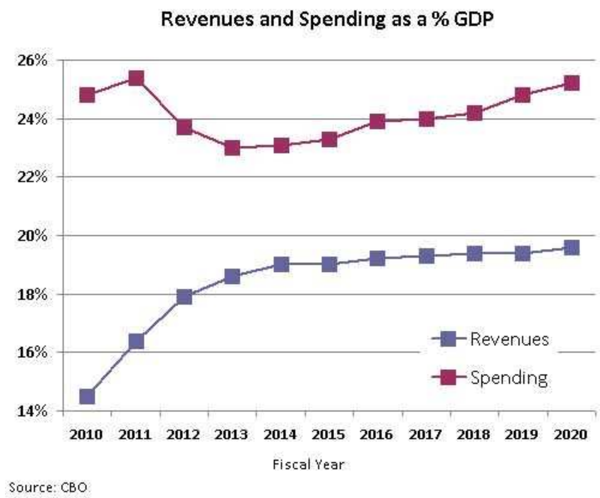
"Never again will folks be confused or misled by the pages of barely understandable fine print that you find in agreements for credit cards or mortgages or student loans," Obama said.

More here.

Earlier today, Warren was on *Morning Joe* and stressed that she's going up against big moneyed interests who prey on jes' plain folks who apparently didn't "know the deal" when they signed away their future on a jumbo mortgage with 0 percent down; elsewhere, she's talked about how no credit card or mortgage contract should be longer than two pages and should be comprehensible to average Americans within a few minutes' glance.

In the comments above from both Warren and Obama, you get a sense of where they are coming from: People only take on potentially ruinous debt because they don't understand what they're getting into. Hence the patronizing tone and flight from reality in their words.

I know a lot of people who experienced buyer's, borrower's, and debtor's remorse once their house price tanked or that college wasn't what they expected, but I know absolutely no one who didn't know exactly how much they were borrowing and at what rate. I just recently bought a new car (about my fifth or so new car purchase in my life, so I know the routine pretty well) and was amazed at the painstaking clarity of the dealer (a group not known for being straight-up about anything). The walk-through of the invoice and the financing (arranged via the dealer) was extremely thorough and totally easy to understand. And it didn't take very long, either. I've had similar experiences with house purchases, rental agreements, and credit card squabbles (of all my transactions, those tend to be the most frustrating because these motherfuckers actually charge late fees).



I realize that despite weak math skills, I've got a good salary and a basic understanding of these things. However, I've yet to meet anyone, including friends and family who haven't attended any college or make very little money, who entered into a mortgage (including relatively complex interest-only, ARMs, etc.) that didn't know exactly what they were getting into in. The same goes for car purchases and signing up for new credit cards. Nobody walks out of a car dealer not knowing what his monthly payment is. I do know people who have lied and exaggerated on varioius applications, sometimes at the lender's encouragement, or have literally bet their finances on idiotic scenarios (such as, housing prices can only go up). But these people are not confused about the terms they're entering into; they're indulging in magical thinking that has been totally abetted by the very government that now seeks to protect them.

The reason banks and other lenders have gone along with less-rigorous assessment of applicants is because they know they can off-load the downside of their risks, either by selling mortgages and bad loans to (ultimately) government-backed entities or getting bailed out when things go south. As for tricks and teaser rates when it comes to credit cards, these are not so much hidden as ignored by consumers. Warren and Obama act like Visa's and Mastercard's terms are written by Satan looking to steal souls by hook and crook. The reality is far more basic and consists of two parts: Financial institutions are insulated from their actions and, increasingly in an age of federal mortgage supports and other bailout programs to protect easily duped "folks," so are borrowers (and official policy to keep interest rates historically low or to push refinancing constantly does the same thing).

Certainly once it's up and running, the result of the CFPA will be fewer options for those "folks" who use credit and debt wisely and smartly to build their future. For insight into Warren's mental map, I recommend checking out this interview she gave to Guernica earlier this year. From the intro:

“Families with children are tightening the belt one more notch,” she says, “are working extra hours, are sending both people into the workforce, to try to get into the best possible school district for their children.” But she adds one key, and very humane, caveat:

“Families are in financial trouble, not because they’re irresponsible but because they’re too responsible.”

Precisely how that caveat is key or humane is lost to me. Even with a recession squeezing most people, responsible adults have generally squirreled away money to get through rough patches or live well within their means in anticipation of the periodic downturns that happens to families (regardless of the larger economy). And the suggestion that "both people" are entering the workforce because they *have* to - as opposed to they *want* to - is pretty stunning. The second earner in most two-parent households is still a woman, and female participation in the workforce is generally due to a) women wanting to work because they find it interesting and fulfilling and b) because people want more stuff. If contemporary families were happy with the working-class standard of living that Warren grew up with in Oklahoma, they could easily afford that on one salary. The plain fact is that the horizon of desire at all levels is much vaster and greater than it once was. And judging by the amount of cars, TVs, computers, clothes, education, and more that Americans generally enjoy now than 50 or more years ago, it's also still more within reach than it used to be.

Which helps explain this [April 2008 Pew study on middle-class attitudes]. Among the key findings:

Americans feel stuck in their tracks. A majority of survey respondents say that in the past five years, they either haven't moved forward in life (25%) or have fallen backward (31%). This is the most downbeat short-term assessment of personal progress in nearly half a century of polling by the Pew Research Center and the Gallup organization.

When asked to measure their progress over a longer time frame, Americans are more upbeat. Nearly two-thirds say they have a higher standard of living than their parents had when their parents were their age.

I'm sure that more respondents feel worse about the current moment, but what is surprising is that even in a recession, two-thirds say they have a higher standard of living than their parents at the same age. Look for that proportion to grow the minute the recession starts to fade.

Which it will do, assuming that we don't double-down on "policies and programs that are designed to protect the financial interests of middle-class families."

A year ago, Reason.tv talked with George Mason Law School's Todd Zywicki about the CFPA, its mistaken assumptions, and its likely effect on consumer choice.

http://www.youtube.com/watch?v=Ib4KrsFfvF0