

Policymic

Should Americans Support the Tea Party or Occupy Wall Street?

By Tom Palmer

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"I'm an American underwater in debt and with a stagnant income. Which group should I support: the Tea Party or Occupy Wall Street?"

The Tea Party has a coherent message: Stop the bailouts, stop the cronyism, and stop swindling today's voters with empty promises and sinking future generations under mountains of debt.

What caused the crisis, the indebtedness, the unemployment, the stagnation? The culprits are state agencies and enterprises, including our Federal Reserve (our government's bank), Federal Housing Administration (FHA), Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac), which jointly flooded the country with cheap credit and encouraged and subsidized unsound banking and subprime mortgages, all to encourage wider home ownership, paper prosperity, and cozy relationships with their cronies. We got a housing bubble, mountains of unpayable debt, and a financial crisis. Thanks, Uncle Sam.

The Occupiers have the wrong address. The subprime crisis was designed in Washington, not New York. The FHA discouraged down payments (those old fashioned "savings"), pushing them from their traditional level of 20% down to 3% - and at the start of 2008 *to 0%*. Everyone, regardless of whether they can afford it, should own a home! Don't save; speculate in the hope that prices will rise!

Government sponsored enterprises Fannie and Freddie “securitized” home loans under congressional mandates to direct more funds to lower incomes. In 1996, the Department of Housing and Urban Development directed Fannie and Freddie to target 42% of financing to borrowers with incomes below the median in their areas, going to 50% in 2000 and 52% in 2005. Such funding was directed to financing even mobile homes, a move lauded by Rep. Barney Frank as “one of the most important things to happen to make home ownership affordable to people who might otherwise be shut out of the market.” Also, “special affordable” loans were created, with HUD directing Fannie and Freddie to target 12% of financing to borrowers earning less than 60% of the median income, a percentage that rose to 20% in 2000, then 22% in 2005. That percentage was scheduled to go to 28% in 2008.

A speculative bubble was pumped up by deliberate government policies. Gains were private, but losses were government guaranteed. Sound banking principles were discarded and people were encouraged to load up on unsustainable debt. And when the bubble burst, homeowners, who were encouraged by government policy to buy bigger houses than they could afford, found themselves under water. Insolvent banks – some of the biggest of the big guys - were bailed out, and the printing presses were fired up even further.

Cronyism is on the rise and getting worse. Obama’s Solyndra scandal is just the tip of the iceberg. Both Democrats and Republicans are raking in the money from the financial firms; as the *Washington Post* just noted, “Obama has brought in more money from employees of banks, hedge funds and other financial service companies than all of the GOP candidates combined.” When you’re in power, everyone wants to be your friend.

Government debts and printing-press money will harm future generations. It’s unfair. It’s immoral. And it’s going to be solved not by occupying Phoenix, or Wall Street, or Atlanta, but by demanding that spendthrift politicians stop the bailouts and the cronyism, put the brakes on spending, and pay attention to a truly radical concept: arithmetic. Those are sound Tea Party values.