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### Support Of Fannie And Freddie: Bipartisan And Beyond Words

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This is the fifth and final installment of our series excerpting the chapter on politics from Thomas Sowell's latest book, "The Housing Boom and Bust." We have run the series because of a general lack of knowledge about the mortgage meltdown that brought the world's financial system to its knees, bringing on an 18-month recession and triggering the second stock market crash in eight years.

We also think it offers lessons about what happens when the government, usually with the best of intentions, usurps functions previously carried out by the private sector and tries to force outcomes traditionally determined by a free market.

Sowell, now scholar in residence at Stanford University's Hoover Institution, is considered by some to be America's greatest economist and contemporary philosopher. "The Housing Boom and Bust" is his 43 rd book and 10 th in the past five years.

This series followed a nine-parter that ran on these pages from Oct. 28 to Nov. 9 and excerpted the chapter on "The Economics of Medical Care" from the other book Sowell has published this year, an update to his classic "Applied Economics." Both series are available at [IBDeditorials.com](http://IBDeditorials.com).

Congressional support for Fannie Mae and Freddie Mac went far beyond words. When the Office of Federal Housing Enterprise Oversight -- the agency overseeing these government-sponsored enterprises -- turned up irregularities in Fannie Mae's accounting and in 2004 issued what Barron's magazine called "a blistering 211-page report," Republican Sen. Kit Bond called for an investigation of the Office of Federal Housing Enterprise Oversight, tried to have their budget slashed and sought to have the leadership of the regulatory agency removed. Democratic Congressman Barney Frank likewise declared: "It is clear that a leadership change at OFHEO is overdue."

In short, Fannie Mae's political support in Congress has been bipartisan. "Fannie Mae and Freddie Mac's employees and political action committees donated nearly \$5 million to current members of Congress since 1989," according to the St. Louis Post-Dispatch. Sen. Bond received \$95,000 and Sen. Christopher Dodd received \$165,000. According to the Wall Street Journal:

The two companies employ armies of lobbyists and consultants and are major campaign donors. "There has been no more powerful organization in Washington than Fannie Mae," said Rep. Chris Shays, R-Conn. "They have been able to manipulate the regulatory and legislative process for years."

Such criticisms of the political protection of Fannie Mae and Freddie Mac were not confined to conservative publications like the Wall Street Journal. Essentially the same criticisms were made in the liberal Washington Post:

Blessed with the advantages of a government agency and a private company at the same time, Fannie Mae and Freddie Mac used their windfall profits to co-opt the politicians who were supposed to control them. The companies fought successfully against increased regulation by cultivating their friends and hounding their enemies. . . . The agencies that regulated the companies were outmatched: They lacked the money, the staff, the sophistication and the political support to serve as an effective check.

This pattern went back for years. The Washington Post recalled a 1992 attempt by Congressman Jim Leach to get

stronger regulation of Fannie Mae and Freddie Mac -- and the opposition by Congressman Frank to prevent it.

The Post also pointed out how the budget of the Office of Federal Housing Enterprise Oversight, which regulated Fannie Mae and Freddie Mac, was more tightly controlled by Congress than were the budgets of agencies regulating banks, giving the two hybrid companies' "congressional allies an easy way to exert pressure" on OFHEO and limit its ability to regulate.

Moreover, the rules on capital requirements for Fannie Mae and Freddie Mac were less strict than the rules for banks, allowing these government-sponsored enterprises greater opportunities for profit, by expanding their transactions without as much capital as banks would be required to have in order to do the same things.

Corruption of the political process can take many forms. Sen. Dodd, for example, received mortgages from Countrywide Financial Corp. on unusually favorable terms, saving him an estimated \$75,000. Sen. Bob Bennett of Utah not only received more campaign contributions from Fannie Mae and Freddie Mac than any other Republican in Congress over the years, his son was employed by Fannie Mae. In addition, The Economist magazine reported: "Ex-politicians were given jobs" by Fannie Mae and Freddie Mac.

One of the other perquisites of power has long been simply the ability to throw one's weight around. Although the Massachusetts-based bank called OneUnited was ineligible to receive money from the Troubled Asset Relief Program (TARP) under its general guidelines, Massachusetts Congressman Barney Frank intervened and suddenly it became eligible to receive \$12 million of the taxpayers money.

According to the Wall Street Journal, "Mr. Frank, by his own account, wrote into the TARP bill a provision specifically aimed at helping this particular home state bank. And later, he acknowledges, he spoke to regulators urging that OneUnited be considered for a cash injection."

At a meeting with U.S. Treasury Department officials were not only representatives of Congressman Frank but also representatives of Sen. John Kerry of Massachusetts and of Congresswoman Maxine Waters of Los Angeles, whose husband had served on the board of directors of the OneUnited Bank and has had at least a quarter of a million dollars worth of stock in the bank.

Fear, as well as favors, help explain how some programs and institutions become sacred cows. According to economist Gerald P. O'Driscoll, a former official of the Federal Reserve System and a former executive in private banking, before becoming a scholar in residence at the Cato Institute:

At heart, Fannie and Freddie had become classic examples of "crony capitalism." The "cronies" were businessmen and politicians working together to line each other's pockets while claiming to serve the public good. The politicians created the mortgage giants, which then returned some of the profits to the polls -- sometimes directly, as campaign funds; sometimes as "contributions" to favored constituents.

And because government backing let Fannie and Freddie dominate the mortgage-underwriting market, private-sector criticism was silenced. Local banks that wanted to offer mortgages dared not speak out against them. Large banks dared not complain about the giants' government-given advantage because they needed to be able to buy securities from Fannie/Freddie.

From the book "The Housing Boom and Bust" by Thomas Sowell. Excerpted by arrangement with Basic Books, a member of the Perseus Books Group. Copyright © 2009.

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