



The Obama Administration Wants another Housing Bubble...

By Daniel J. Mitchell
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More than 100 years ago, George Santayana [famously warned](#) that, “Those who cannot remember the past are condemned to repeat it.”

At the time, he may have been gazing in a crystal ball and looking at what the Obama Administration is doing today.

That’s because the White House wants to reinstate [the types of housing subsidies](#) that played a huge role in the financial crisis.

I’m not joking. Even though we just suffered through a housing bubble/collapse thanks to [misguided government intervention](#) (with all sorts of accompanying damage, such as [corrupt bailouts](#) for big financial firms), Obama’s people are pursuing the same policies today.

Including a bigger role for [Fannie Mae and Freddie Mac](#), the two deeply corrupt government-created entities that [played such a big role](#) in the last crisis!

Here’s some of what the *Wall Street Journal* [recently wrote](#) about this crazy approach.

Federal Housing Finance Agency Director Mel Watt has one heck of a sense of humor. How else to explain his choice of a Las Vegas casino as the venue for his Monday announcement that he’s revving up Fannie Mae and Freddie Mac to enable more risky mortgage loans? History says the joke will be on taxpayers when this federal gamble ends the same way previous ones did. ...unlike most of the players around a Mandalay Bay poker table, Mr. Watt is playing with other people’s money. He’s talking about mortgages that will be guaranteed by the same taxpayers who already had to stage a 2008 rescue of Fannie and Freddie that eventually added up to \$188 billion. Less than a year into the job and a mere six years since Fan and Fred’s meltdown, has he already forgotten that housing prices that rise can also fall? ...We almost can’t believe we have to return to Mortgage 101 lessons so soon after the crisis. ...Come the next crisis, count on regulators to blame everyone outside of government.

These common-sense observations were echoed by Professor Jeffrey Dorfman of the University of Georgia, [writing](#) for *Real Clear Markets*.

The housing market meltdown that began in 2007 and helped trigger the recent recession was completely avoidable. The conditions that created the slow-growth rush into housing did not arise by accident or even neglect; rather, they were a direct result of the incentives in the industry and the involvement of the government. Proving that nothing was learned by housing market participants from the market meltdown, both lenders and government regulators appear intent on repeating their mistakes. ...we have more or less completed a full regulatory circle and returned to the same lax standards and skewed incentives that produced the real estate bubble and meltdown. Apparently, nobody learned anything from the last time and we should prepare for a repeat of the same disaster we are still cleaning up. Research has shown that low or negative equity in a home is the best predictor of a loan default. When down payments were 20 percent, nobody wanted to walk away from the house and lose all that equity. With no equity, many people voluntarily went into foreclosure because their only real loss was the damage to their credit score. ...The best way to a stable and healthy real estate market is buyers and lenders with skin in the game. Unfortunately, those in charge of these markets have reversed all the changes... The end result will be another big bill for taxpayers to clean up the mess. Failing to learn from one's mistakes can be very expensive.

Though I should add that failure to learn is expensive for taxpayers.

The regulators, bureaucrats, agencies, and big banks doubtlessly will be protected from the fallout.

And I'll also point out that this process [has been underway for a while](#). It's just that more and more folks are starting to notice.

Last but not least, if you want to enjoy some dark humor on this topic, I very much recommend [this Chuck Asay cartoon](#) on government-created bubbles and [this Gary Varvel cartoon](#) on playing blackjack with Fannie Mae and Freddie Mac.

P.S. Now for my final set of predictions for the mid-term elections.

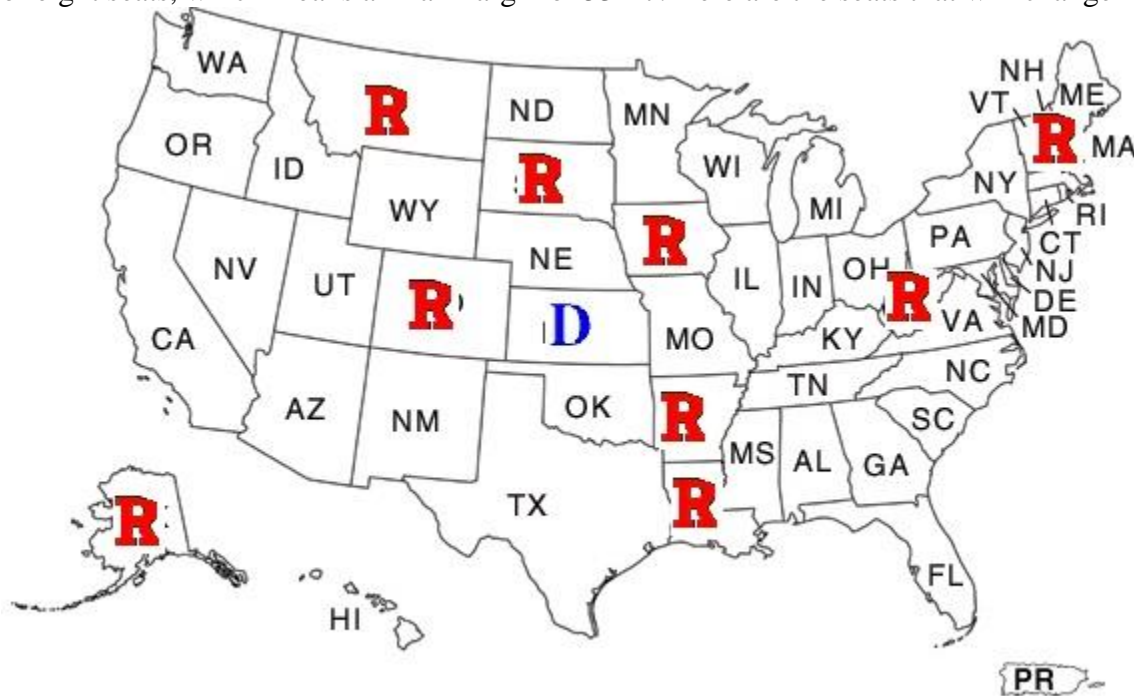
On October 25, [I guessed](#) that Republicans would win control of the Senate by a 52-48 margin and retain control of the House by a 246-189 margin.

On October 31, I put forward [a similar prediction](#), with GOPers still winning the Senate by 52-48 but getting two additional House seats for a 249-187 margin.

So what's my final estimate, now that there's no longer a chance to change my mind? Will I be prescient, like [I was](#) in 2010? Or mediocre, which is [a charitable description](#) of my 2012 prediction?

We won't know until early Wednesday morning, but here's my best guess. Senate races are getting most of the attention, so I'll start by asserting that Republicans will now have a net gain

of eight seats, which means a final margin of 53-47. Here are the seats that will change hands.



For the House, I'm also going to move the dial a bit toward the GOP. I now think Republicans will control that chamber by a 249-146 margin.

Some folks have asked why I haven't made predictions about who will win various gubernatorial contests. Simply stated, I don't have enough knowledge to make informed guesses. It would be like asking Obama about economic policy.

But I will suggest paying close attention to the races in Kansas and Wisconsin, where pro-reform Republican Governors are facing difficult reelection fights.

And you should also pay attention to what happens in Illinois, Connecticut, Maryland, and Massachusetts, all of which are traditionally left-wing states yet could elect Republican governors because of voter dissatisfaction with tax hikes.

Last but not least, there will be interesting ballot initiatives in a number of states. Americans for Tax Reform has [a list](#) of tax-related contests. I'm particularly interested in the outcomes in Georgia, Illinois, and Tennessee.

There's also [a gun-control initiative](#) on the ballot in Washington. And it has big-money support, so it will be interesting if deep pockets are enough to sway voters to cede some of their 2nd Amendment rights.

Returning to the main focus of the elections, what does it mean if the GOP takes the Senate? Well, not much as Veronique de Rugy explains in [a column](#) for the Daily Beast.

Republicans are projected to gain control of Congress this time around, worrying some Democrats that major shifts in policies, cutbacks in spending, and reductions in the size and scope of government are right around the corner. I wish! Rest assured, tax-and-spend Democrats have little to fear. Despite airy Republican rhetoric, they are bona fide big spenders and heavy-handed regulators.... Republicans may complain about bloated government and red tape restrictions when they're benched on the sidelines, but their track record of policies while in power tells a whole different story—and reveals their true colors. ... When in power, Republicans are also more than willing to increase government intervention in many aspects of our lives. They gave us No Child Left Behind, protectionist steel and lumber tariffs, Medicare Part D, the war in Iraq, the Department of Homeland Security and its intrusive and inefficient Transportation Security Administration, massive earmarking, increased food stamp eligibility, and expanded cronyism at levels never seen before. The massive automobile and bank bailouts were the cherries on top.

Veronique is right, though I would point out that there's a huge difference between [statist Republicans like Bush](#), who have [dominated the national GOP](#) in recent decades, and [freedom-oriented Republicans such as Reagan](#).

We'll perhaps learn more about what GOPers really think in 2016.

In the meantime, policy isn't going to change for the next two years. Remember what I wrote last week: Even assuming they want to do the right thing, Republicans won't have the votes to override presidential vetoes. So there won't be any [tax reform](#) and there won't be any [entitlement reform](#).

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