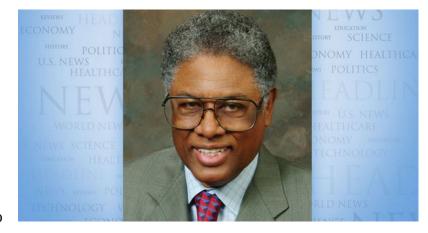




# **Bouncing Ball Politics: From the Housing Bubble to Middle East Democracy**

If you are driving along and suddenly see a big red rubber ball come bouncing out into the street, you might want to put your foot on the brake pedal, because a small child may well come running out into the street after it.

We all understand that an inexperienced young child who has his mind fixed on one thing may ignore other things that are too dangerous to be ignored. Unfortunately, too much of what is said and done in politics is based on the same tunnel vision pursuit of some "good thing," in utter disregard of the repercussions.



For years, home ownership was a big "good thing" among both liberal Democrats like Congressman Barney Frank and Senator Christopher Dodd, on the one hand, and moderate Republicans like President George W. Bush on the other hand.

Raising the rate of home ownership was the big red bouncing ball that they pursued out into the street, in utter disregard of the dangers.

A political myth has been created that no one warned of those dangers. But among the many who did warn were yours truly in 2005, *Fortune* and *Barron's* magazines in 2004 and Britain's *The Economist* magazine in 2003. Warnings specifically about the dangerous roles of Fannie Mae and Freddie Mac were made by Federal Reserve Chairman Alan Greenspan in 2005 and by Secretary of the Treasury John W. Snow in 2003.

Many, if not most, of the children who go running out into the street in pursuit of their bouncing ball may have been warned against this by their parents. But neither small children nor politicians always heed warnings.

Politicians are of course more articulate than small children, so the pols are able to not only disregard warnings but ridicule them. That was what was done by Congressman Barney Frank and Senator Christopher Dodd, among many other politicians who made the pursuit of higher home ownership rates the holy grail.

In pursuit of those higher home ownership rates, especially among low-income people and minorities, the many vast powers of the federal government — from the Federal Reserve to bank regulatory agencies and even the Department of Justice, which issued threats of anti-discrimination lawsuits — were used to force banks and other lenders to lower their standards for making mortgage loans.

Lower lending standards of course meant higher risks of default. But these risks — and the chain reactions throughout the whole financial system — were like the traffic ignored by a small child dashing out into the street in pursuit of their bouncing ball. The whole economy got hit when the housing boom



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became a housing bust, and we are still trying to recover, years later.

What makes all this painfully ironic is that the latest data show that the rate of home ownership today is lower than it has been in 18 years. There was a rise of a few percentage points during the housing boom, but that was completely erased during the housing bust.

Housing has been just one area where the bouncing ball approach to political decision-making has led the country into one disaster after another.

Pursuit of the bright red bouncing ball of "universal health care" has already begun to produce collisions with reality in the form of rising insurance premiums to cover the cost of generous government-mandated benefits, to be paid for by someone else.

Here again, there have been many warnings, but the political response to those warnings was to rush ObamaCare to a vote before even the Congressmen who voted for it had a chance to read it. Now, one of the Democratic Senators who voted for it — Senator Max Baucus — has called it "a train wreck." And ObamaCare, with its thousands of regulations, has not even fully taken effect yet.

The same mindset has prevailed internationally. Trying to make Middle East countries more "democratic" is the bipartisan bouncing ball of American foreign policy. Some of these countries existed thousands of years before there was a United States — and, in all that time, they never came close to being democratic.

Maybe democracy has prerequisites that do not exist in all places at all times. And maybe pursuing it in utter disregard of the repercussions — which we have already begun to see in Libya and Egypt — is one of the most dangerous pursuits of a bouncing ball.

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