

Obama's spending spree adds to deficit


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By WILLIAM F. SHUGHART II

Before the ink was dry on the \$787 billion American Reinvestment and Recovery Act, President Obama announced plans to ask for an additional \$275 billion to bail out as many as 5 million homeowners currently behind on their mortgage payments.

Two hundred billion dollars of the proposed total will go directly into the coffers of Freddie Mac and Fannie Mae, the two "government-sponsored entities" that aggressively guaranteed or bought outright many of the sub-prime and Alt-A mortgages that are at the heart of the bursting of the housing bubble. Only months after being declared insolvent and taken into federal receivership, Freddie Mac and Fannie Mae apparently now are to be major players in rescuing the home buyers they themselves helped lead down the garden path. Lending money to people who can't afford to repay it is in line to be rewarded; so much for market discipline.

The remaining \$75 billion is earmarked for lenders, who will become eligible to be paid \$1,000 for every mortgage they "modify" so as to reduce borrowers' monthly payments to 31 percent of income, provided that the borrower thereafter stays current on the loan.

One would have thought that lenders already had such an incentive. In a down real-estate market where homes can be resold only at prices below what the current owner owes, banks can either demand compliance with original contract terms and risk nonpayment and foreclosure, or they can cut their losses by renegotiating loan terms. Just as auto workers employed by General Motors and Chrysler can choose between having a job at, say, \$25 per hour rather than being unemployed at \$45 per hour, mortgage lenders can either watch the values of their loan portfolios evaporate or accept lesser returns. They don't need the carrot of \$1,000 — or the president's threat that if they don't provide relief "voluntarily" he will authorize bankruptcy judges to impose it — to make the right call.

The tens of millions of homeowners who continue to make their monthly mortgage payments should be outraged at the president's planned bailout of people who bought houses they can no longer afford — and many understandably are. They and America's taxpayers in general should be equally outraged by the \$410 billion, earmark-laden omnibus budget bill soon to be considered by Congress.

The economy is shrinking and unemployment is approaching double-digit levels, yet Washington is contemplating spending 8.7 percent more on

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discretionary programs in fiscal year 2009 than it did in 2008. Hard-working Americans can only dream about such a substantial raise.

Debtor nation

The federal budget deficit next year even now is estimated likely to exceed \$1.7 trillion. If the fiscal mania does not stop, America stands to be a debtor nation permanently, and we and our children will face confiscatory tax rates just to pay interest on the federal government's debt.

It is by now apparent that financial markets at home and abroad do not think that Washington's ad-hoc responses to an economic crisis that it itself created by an easy money policy and encouragement of risky lending — and which it will lengthen and deepen by ill-considered fiscal "stimulus" — is the recipe for a return to prosperity.

As a matter of fact, looming tax increases in New York, California, Kansas and other cash-strapped states will go a long way toward neutralizing whatever effects the federal stimulus package might have had. Other states, such as Mississippi, are planning to use at least part of the largesse they expect from the American Reinvestment and Relief Act to fund ordinary government operations.

Recovery will be possible only when both Washington and the states get their fiscal houses in order. As John Kennedy and Ronald Reagan most recently proved, across-the-board tax and spending cuts are the path to economic growth.

X William F. Shughart II is the Frederick Barnard distinguished professor of economics at the University of Mississippi and a senior fellow at The Independent Institute, Oakland, Calif. Distributed by McClatchy-Tribune Information Services.



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