# Get the Fed out of the housing market: Break up Fannie and Freddie into pieces no longer too large to fail

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A stable dollar and prices are consistent with maximum sustainable job and wealth creation. However, the Fed's dual mandate to pursue full employment and price stability has given it license to meddle in the economy to boost short-term employment, with disastrous consequences. The Fed's recent politicking for more government intervention in the housing market is a clarion reminder that Congress should remove the central bank's authority to manage job growth.

On Jan. 4, Fed Chairman Ben S. Bernanke sent a white paper titled "The U.S. Housing Market: Current Conditions and Policy Considerations" to the Senate Banking Committee, urging stepped-up government action to prop up the anemic housing market and spur recovery. On Jan. 6, Fed Gov. Elizabeth A. Duke, Boston Fed President Eric S. Rosengren and New York Fed President William C. Dudley in separate speeches echoed Mr. Bernanke's call. On Feb. 10, speaking at the National Association of Homebuilders International Builders' Show, Mr. Bernanke again called for more government support for housing and floated the idea of Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) renting foreclosing properties.

But easy Fed credit and Washington's politicizing and systematic weakening of mortgage credit standards caused the housing bubble, mortgage implosion and consequent financial crisis and Great Recession.

Maestro Alan Greenspan - with Mr. Bernanke at his side from 2002, kept the real Fed funds rate negative from 2001 to 2005. Annually, the FHA ratcheted up Fannie Mae's and Freddie Mac's goals to buy and guarantee ever-riskier mortgages for the less affluent. From 1996 through 2007, the government-sponsored enterprises met or exceeded their lending goals.

But that was then. Sinking under a mountain of bad loans, in 2008 the U.S. Treasury took over Fannie and Freddie. Taxpayers thus far have pumped $145 billion into the failed mortgage behemoths, and losses are still mounting. The Congressional Budget Office estimates they could reach $400 billion, which may be optimistic. With a cloud over Fannie and Freddie, Washington pivoted increasingly toward the FHA to guarantee risky mortgages. In 2010, it guaranteed almost $1 trillion worth.

Like the Obama administration, the Fed hasn't learned from government's disastrous housing intervention, which birthed the Great Recession.

The Fed contends it should buy yet more securities to keep interest rates low. Since September 2008, on a mortgage- and Treasury-note-buying binge, the Fed's balance sheet mushroomed 222 percent, from $907 billion to $2.92 trillion - i.e., it created $2 trillion. When you print money and create inflation, you tax by stealing the purchasing power of dollars saved. Inflation is brewing. Economist Robert Murphy notes that "interest rates coordinate production and consumption decisions over time." It is the market's most important price. Keeping the price of money artificially low punishes savers, distorts investment and consumption decisions, and conveniently puts a temporary lid on America's $15 trillion debt cost.

In "Housing and the Economic Recovery," Mr. Dudley sounded the loudest Fed trumpet for a battery of government subsidies to boost housing.

He suggested housing is no longer overvalued and yet in the next breath, in a bout of economic cognitive dissonance, observed that "housing currently remains in excess supply." If housing is in excess supply, prices have not yet found bottom.

If Mr. Dudley thinks housing is fairly valued and buying and renting foreclosed properties is an opportunity, he should plunge in - with his own capital.

Mr. Dudley urged Washington to provide bridge loans to unemployed borrowers and more government-backed financing and taxpayer-paid principal reductions for underwater borrowers and suggested expanding Fannie Mae's and Freddie Mac's mission to include renting foreclosed houses.

When the state keeps people in houses they can't afford, it delays market correction. Unwinding government housing support would help prevent a future crisis and enable a sustainable market-based recovery.

Congress should break Fannie and Freddie into privatized pieces - each small enough to be permitted to fail - stop the FHA from guaranteeing mortgages and pass Rep. Mike Pence's H.R. 6406 circumscribing the Fed's role in maintaining price stability.

The economy is languishing in the doldrums because of systematic anti-growth fiscal policy and regulation, not insufficiently loose monetary policy or inadequately inflated housing prices.

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