Heller's rhetoric doesn't match proposals on housing, unemployment

Published in the *Las Vegas Review-Journal* | April 8, 2012

By Eric Grover

Nevada suffers America's highest foreclosure and unemployment rates. Politicians want to be seen doing something.

On the stump Sen. Dean Heller, a Nevada Republican, describes himself as "a small government man" and "a free-market capitalist," views consistent with maximum sustainable wealth, job creation and liberty. Heller's self-characterization, however, is hard to square with some of his proposed legislation.

On Feb. 9, Heller introduced the Keeping Families in Their Home Act of 2012. It would authorize Fannie Mae and Freddie Mac to rent foreclosed properties, increasing government support for housing. Heller's idea is to prop up housing prices by reducing the flow of foreclosed properties into inventory available for sale.

Heller appears to adhere to compassionate big-government conservative George Bush's view "when somebody hurts, government needs to move." But in housing, as with most economic problems, as Ronald Reagan cautioned, government is the problem, not the solution.

Easy Fed credit and government systematically weakening and politicizing mortgage credit standards fueled the national housing bubble, mortgage implosion, financial crisis and consequent Great Recession.

From 2001 to 2005 the Fed kept the real federal funds rate negative. And from 1996 to 2007 the FHA increased the target number for Fannie Mae and Freddie Mac to buy and guarantee mortgages to the less affluent. The mortgage behemoths exceeded their goals every year through 2007.

Washington's easy credit propelled the Case Shiller Real Home Price Index's unprecedented, unsustainable and dangerous 85 percent rise from 1997 through 2006.

Drowning in bad loans, Fannie and Freddie were taken over in 2008 by the U.S. Treasury. Taxpayers thus far have pumped $145 billion into the failed mortgage Goliaths. Losses are still mounting. The CBO now estimates they could reach

$400 billion, which may be optimistic.

With a cloud over Fannie and Freddie, Washington pivoted, increasingly employing the FHA to guarantee risky mortgages. In 2010 it guaranteed almost $1 trillion in mortgages.

Instead of increasing Uncle Sam's involvement in housing, Heller should champion legislation to end FHA's housing support and to break up and privatize Fannie and Freddie into pieces, each small enough to be permitted to fail.

On to joblessness.

The Silver State's January unemployment rate was 12.7 percent -- the nation's highest. Factoring discouraged Nevadans who've left the labor force or are only working part-time, it's closer to 25 percent. The human toll is horrific.

Last Nov. 17, Heller introduced the Responsible Unemployment Extension Act to extend unemployment insurance benefits. The political optics may be good, but it's bad policy. Paying people not to work prolongs unemployment. It's a job-destruction measure.

President Obama also wants to extend unemployment benefits. His spokesman, Jay Carney, preposterously argues it is a job creator.

The president's own economists, Alan Krueger and Larry Summers, before shilling for him in the administration, rightly said unemployment benefits reduce employment.

Obama's Council of Economic Advisors chairman, Alan Krueger, in 2002 wrote that "unemployment insurance and workers' compensation insurance finds that the programs tend to increase the length of time employees spend out of work." In 2008 he wrote "job search is inversely related to the generosity of unemployment benefits," and that "the job finding rate jumps up around the time benefits are exhausted." Who knew?

Summers, the former head of the president's National Economic Council, wrote, "Each unemployed person has a 'reservation wage' -- the minimum wage he or she insists on getting before accepting a job. Unemployment insurance and other social assistance programs increase that reservation wage, causing an unemployed person to remain unemployed longer."

The administration argues that the unemployed spending benefits stimulates the economy. But every unemployment benefit dollar must be taken from the private sector by taxes, borrowing or printing money. Those are resources reallocated from those producing to those who aren't, money that would have otherwise been productively invested or spent by businesses and individuals.

Paying people not to work for two years isn't compassion. It's cruel. They lose the habits of work and self-respect and become less attractive to employers.

Unemployment insurance should be an emergency bootstrap for those who've lost their jobs, not a medium or long-term entitlement. It is, however, a rare politician -- Democrat or Republican -- who has the political courage to vote against extending unemployment benefits.

Nonetheless, it's fair to demand a higher standard from our junior senator, who fashions himself a principled pro-growth, small-government advocate of free-market capitalism. Spearheading yet more government support for housing and extending unemployment benefits may win Heller a few votes in November, but it is horrendous policy -- for the Silver State and the country.

Notwithstanding his blemishes, however, Heller is more pro-growth than his November challenger, Rep. Shelley Berkley. The nonpartisan National Journal ranked the 2010 voting records of then-Rep. Heller and Rep. Berkley on economic issues as more conservative than 74 percent and 38 percent of their House colleagues, respectively.

So while Heller is not the small-government man he professes to be, Nevadans interested in growth have an easy choice come November.

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