Election Day 2010

REAL MONEY column for The Santa Fe New Mexican
By Rob Rikoon

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Today is Election Day, 2010 and we will see if Americans are willing to give the current Administration more time to accomplish their goals or if they just want less government. President Obama's election in 2008 was a signal that G.W. Bush's hands off style wasn't working but now many voters aren't sure they like the alternative of unlimited bailouts. This debate is being played out on the international scene with Great Britain opting for austerity, the exact opposite approach to the U. S. Treasury's huge bet that spending is the way to stimulate real economic growth.

The root challenges facing America are high unemployment and declining real estate markets, both complex and emotional areas. These two problem areas may be ones where more government money and regulations do not help but actually hinder the efficient relocation and retooling necessary for the economy to get back on a long term roll. Let's look at the real estate foreclosure mess now prominent in the media as an example.

Around 5% of all mortgages, around 2.1 million are now delinquent. On average, the last payment made on these loans was 16 months ago. Over half of the mortgages in the U.S. are under Fannie Mae and Freddie Mac, which now are seen as thinly veiled arms of the government. The cost so far to taxpayers for bailing out Freddie and Fannie is $135 billion and they predict this will rise to $260 billion if the real estate market, which is highly dependent on full employment, does not rally soon.

The five largest domestic banks dominate the mortgage servicing business and the recent expose of their paperwork shortcomings has further rattled the markets, both for investors holding mortgage bonds and for prospective purchasers of new /used homes. Since a majority of U. S. consumers' wealth is tied up in their houses, and with no end in sight for a crushing amount of new inventory to hit an already over supplied market, we truly have forces in place for a deflationary spiral in prices. When potential buyers decide to wait for lower prices and they turn out to be right, they impact other buyers, who also delay, driving the market further in the hole.

Can the government prevent the market from hitting bottom? No more than it can control the stock market or the value of the US dollar, but it can put off the day of reckoning as long as taxpayers are willing to shoulder the burden. Local courts are ill prepared to process the volume of delinquent mortgages that will be brought by opportunistic attorneys and delinquent borrowers who see a potential broad loophole. The result will be higher costs for the great majority of homeowners who are not in arrears, through higher title insurance, increased mortgage bank fees and overall a much less liquid system that will make most future transaction onerous.

As we look ahead to a new Congress, it is hard to imagine an end to fractious divisions in our country about taxes and the economy. The Fed is likely to step back into the market by purchasing more government bonds to once again blow air into a leaking balloon. The bubbles you will see are an overvalued bond market, stubbornly low real estate activity, and an increasingly impatient public that wants to know where its personal opportunity lies. I daresay it will not be in government work.

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