The New York Times

August 2, 2012

Debt, Depression, DeMarco

By PAUL KRUGMAN

There has been plenty to criticize about President Obama's handling of the economy. Yet the overriding story of the past few years is not Mr. Obama's mistakes but the scorched-earth opposition of Republicans, who have done everything they can to get in his way — and who now, having blocked the president's policies, hope to win the White House by claiming that his policies have failed.

And this week's shocking refusal to implement debt relief by the acting director of the Federal Housing Finance Agency — a Bush-era holdover the president hasn't been able to replace — illustrates perfectly what's going on.

Some background: many economists believe that the overhang of excess household debt, a legacy of the bubble years, is the biggest factor holding back economic recovery. Loosely speaking, excess debt has created a situation in which everyone is trying to spend less than their income. Since this is collectively impossible — my spending is your income, and your spending is my income — the result is a persistently depressed economy.

How should policy respond? One answer is government spending to support the economy while the private sector repairs its balance sheets; now is not the time for austerity, and cuts in government purchases have been a major economic drag. Another answer is aggressive monetary policy, which is why the Federal Reserve's refusal to act in the face of high unemployment and below-target inflation is a scandal.

But fiscal and monetary policy could, and should, be coupled with debt relief. Reducing the burden on Americans in financial trouble would mean more jobs and improved opportunities for everyone.

Unfortunately, the administration's initial debt relief efforts were ineffectual: Officials imposed so many restrictions to avoid giving relief to "undeserving" debtors that the program went nowhere. More recently, however, the administration has gotten a lot more serious about the issue.

And the obvious place to provide debt relief is on mortgages owned by Fannie Mae and Freddie

Mac, the government-sponsored lenders that were effectively nationalized in the waning days of the George W. Bush administration.

The idea of using Fannie and Freddie has bipartisan support. Indeed, Columbia's Glenn Hubbard, a top Romney adviser, has called on Fannie and Freddie to let homeowners with little or no equity refinance their mortgages, which could sharply cut their interest payments and provide a major boost to the economy. The Obama administration supports this idea and has also proposed a special program of relief for deeply troubled borrowers.

But Edward DeMarco, the acting director of the agency that oversees Fannie and Freddie, refuses to move on refinancing. And, this week, he rejected the administration's relief plan.

Who is Ed DeMarco? He's a civil servant who became acting director of the housing finance agency after the Bush-appointed director resigned in 2009. He is still there, in the fourth year of the Obama administration, because Senate Republicans have blocked attempts to install a permanent director. And he evidently just hates the idea of providing debt relief.

Mr. DeMarco's letter rejecting the relief plan made remarkably weak arguments. He claimed that the plan, while improving his agency's financial position thanks to subsidies from the Treasury Department, would be a net loss to taxpayers — a conclusion not supported by his own staff's analysis, which showed a net gain. And it's worth pointing out that many private lenders have offered the very kinds of principal reductions Mr. DeMarco rejects — even though these lenders, unlike the government, have no incentive to take into account the way debt relief would strengthen the economy.

The main point, however, is that Mr. DeMarco seems to misunderstand his job. He's supposed to run his agency and secure its finances — not make national economic policy. If the Treasury secretary, acting for the president, seeks to subsidize debt relief in a way that actually strengthens the finance agency, the agency's chief has no business blocking that policy. Doing so should be a firing offense.

Can Mr. DeMarco be fired right away? I've been seeing conflicting analyses on that point, although one thing is clear: President Obama, if re-elected, can, and should, replace him through a recess appointment. In fact, he should have done that years ago. As I said, Mr. Obama has made plenty of mistakes.

But the DeMarco affair nonetheless demonstrates, once again, the extent to which U.S. economic policy has been crippled by unyielding, irresponsible political opposition. If our economy is still deeply depressed, much — and I would say most — of the blame rests not with Mr. Obama but with the very people seeking to use that depressed economy for political advantage.