

## Lex

by FT.com FT Administrator 

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### Dear US president-elect ?

 07 Nov 2008 04:27 PM

by Alan Rohrbach

Can the president-elect correct the Masters' cart & horse 'core' problem?

LEX was very right to advise Mr. Obama to divide problems into ones his administration can actually help to solve and those it cannot; and then move decisively. Yet, there is one area where you advise restricting activity to the margin that might actually benefit from more direct action.

One of the key areas where the current lot have been less than effective (tacitly supported by the benign neglect of everyone from the Fed to the financial fourth estate) is US housing values. The president-elect's indication he would move forcefully on this is among his most important challenges.

The rising tide of criticism directed at Secretary Paulson for less than optimal efforts in this area is reasonably more so economic than partisan. And Chairman Bernanke suffers collateral damage for supporting him. Criticism is indeed in order, yet for other than obvious reasons.

Traders complaining about lack of a Lehman Brothers rescue are engaged in myopic Masters of the Universe 'throw money at the symptoms' navel gazing. That also (not surprisingly) afflicts the Paulson-Bernanke approach, and is likely at least one reason why Main Street took such offense at the request to pay down past sins.

As was apparent to me and many others since September of last year, this was going to be an asset value destruction problem centered on solvency, and not liquidity. And while Messrs. Paulson and Bernanke freely acknowledge the sharp fall in US home values is the core problem, they failed to do much more than backstop losses. After years of GSE guarantee-driven home price escalation, 2008 seems a funny time to 'get religion' on pure free market policies; especially in light of the almost total abrogation of those principles at the institutional level.

The free market is indeed finally reacting, as most recently evidenced by JP Morgan's foreclosure freeze. However, that is typically only occurring once the situation reaches crisis proportions, as banks seek to avoid a vacant home repossession tsunami. Was this really the best way to go? Even as massive sums were thrown at symptoms, was Master of the Universe aversion to direct at-risk borrower relief the mistake that caused Main Street's debacle to backlash onto Wall Street, and not *vice versa*?

The 'optimal' approach to all this will be debated for many years. Yet, placing the Wall Street securities loss cart out in front of Main Street's housing weakness horse was quite likely a substantial error. That's not just about banks and (now defunct) independent securities firms; ask the governors and mayors dealing with local and regional fallout.

While there might be significant expenditure involved in addressing the shortfalls they are now facing, the president-elect could do worse than to begin by stabilizing housing, which would assist communities and regional economies along the way.

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