

Reasons you don't have the right to own a house

There is no right to a house. People should keep their promises. People should not be shielded from the consequences of their actions. Trying to improve on the market makes things worse.



OPINION
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If these ideas were engraved on the Capitol dome, the mortgage meltdown would not have happened. You and I would not be on the hook for another trillion dollars.

First, there is no right to a house. Houses require capital to construct, typically more than people have. Banks solve this problem by gathering capital from depositors and loaning it to you.

After you get your house, you may not care about paying back the loan. The bank's depositors, however, care a great deal. Depositors don't want to lose their money, they're just funny that way. That's why, if you can't pay back the loan, the bank gets the house. Which brings me to...

Point number two: Keep your promises. A mortgage is a promise to give your house to the bank if you cannot pay back the money that made your house possible. Even if the inability to pay is not your fault, you don't have the right to make other people bail you out. Ultimately, that's what any government rescue is.

Bailouts create a terrible moral hazard. When government says people don't have to keep promises, it also says promises aren't worth keeping. In that world, people who keep promises and manage their affairs prudently are just stupid chumps. Such a world is far, far worse than one where people move out of houses they can no longer afford.

Point three: Shielding people from the consequences of their actions is bad. The unique American experiment in self-reliance is degenerating into one where people aren't responsible for any decisions they make.

Once a Wall Street investment firm gets big enough, it cannot be allowed to fail "for the good of society." Main Street must be helped out too, "for the good of society."

Sorry, but two wrongs don't make a right. Some of us believe that no one, rich or poor or anywhere in between, has the right to be shielded from their decisions. Sadly, there are too few of us to be worth pandering to.

Point four: Trying to improve on the market makes things worse. Stupid borrowing is only part of the story; lots of people who make bad decisions are just responding to incentives. In fact,

the meltdown happened because of stupid laws, passed because nobody cared about the first three points.

The US government is the only real player in the mortgage game. Fannie Mae and Freddie Mac are government-created entities that buy about three quarters of all mortgages in America. For the past 40 years Fannie Mae has been chartered by Congress "to provide liquidity and stability to the U.S. housing and mortgage markets". Permit me to suggest that mission was not accomplished.

Under the guidance of our elected officials, Fannie and Freddie drive the train of American mortgages. Unfortunately, after twenty years of drunken engineers at the throttle, that train has crashed.

It left the station in the '90s when Bill Clinton told Fannie Mae and Freddie Mac to reduce lending requirements to levels no sane bank would ever have agreed to, for the politically popular goal of "increasing home ownership". Given that the poor and some minorities are less likely to own homes, who could argue with that? Unfortunately, nobody.

But we can't just blame Democrats. Some of the most egregious arm-twisting of lenders occurred while Republicans ran the show. In 2004, for example, the Bush Administration proudly announced the new HUD "Zero Down" mortgage as a way to increase home ownership. The fact that banks require down payments to help keep depositors' money safe seems to have eluded politicians of both parties.

So now we're stuck with a trillion-dollar bailout, under the spin that good people were subject to the excesses of unregulated capitalism. We believe nobody is responsible for their actions, but if we just vote for the right people who will tell us what to do, we'll be fine.

Enough. The morality of individual freedom and the prosperity of free markets are intimately connected. If you diminish one, you will destroy the other. It is time we learned that lesson.