May 23, 2012

Sen-EconDev Committee

RE: My testimony against SB 1123, SB 1124, SB 1125, HB 5477

Dear Esteemed Michigan Lawmakers,

Here are my problems with these bills:

It is not the role of government to be in the housing market, the banking market or to be subsidizing businesses. Not only that, but history has shown that government at the state and federal levels has been an abject failure when it has participated in these ventures.

These bills all manipulate free market forces.

It is not the state's place to be picking winners and losers.

Programs like MSHDA, MEDC, 21st Century Jobs Business Subsidy program, and the Michigan Strategic Fund should be phased out , certainly not doubled down on.

Central Planning and socialistic programs hinder economic growth. The Government doesn't create real jobs or real wealth. Government is a necessary burden on society and should be kept limited.

I'm here today to change hearts. Socialism is a loser. Government central planning is a loser.

Simply set up favorable tax policies, pass Right to Work and limit state regulations to make Michigan a fertile ground for businesses to come to the state, grow and prosper!

Everyone seems to forget that Michigan has it's own debt clock and it's huge. Fast approaching $77M with over $7700 owed by each man woman and child. Almost 2M of us are on Food Stamps. These economic programs have been given enough time to work and the fact is ... they don't.

Let's base economic growth policy on the only thing in human history that has proven to work... Free Market Capitalism.
Thank you for your time and consideration.

My Best,
Isabelle Terry
5822 Olde Meadow Ct. NE
Rockford, MI 49341

MACKINAC CENTER
FOR PUBLIC POLICY

Commentary: 'Corporate Welfare' Hype Yields Few Economic Results

The companies promoted by the MEDC on Youtube are in financial trouble

By Jarrett Skorup, published on April 12, 2012

The failure of high profile "green energy" firms with the loss of hundreds of millions of taxpayer dollars has made national headlines in recent months. Companies like Solyndra, Beacon Power and Solar Trust have become household names as a result. Less well-known are similar failures right here in Michigan, costing state taxpayers millions.

Ironically, the state government agency responsible for much of this waste has created a one-stop source documenting the hype and failed promises that have become the hallmark of such adventures. Michigan Advantage is the (now-defunct) YouTube channel for the Michigan Economic Development Corp. The intention is to promote state corporate welfare success stories, including subsidies for Hollywood film producers and "green energy" speculators. The reality is a playlist of crony capitalism failures.

The MEDC video on car battery assembler **A123Systems** is typical.

It features the firm's CEO, David Vieau, praising the MEDC and former Gov. Jennifer Granholm for having "stepped up" significantly and "helped us along the way."

The company was awarded $25.2 million in grants and $100 million in "refundable" tax credits from the state (meaning these too are most likely to be paid out as cash subsidies). It also received $249 million from federal taxpayers as part of President Obama's "stimulus" program.

More recently, the firm has laid off nearly half its workforce, lost hundreds of millions of dollars, seen the primary customer for its product go bankrupt and had the U.S. Energy Department cut off the balance of a $528.7 million government loan.

The MEDC video on a film studio proposal calling itself **Unity Studios** follows a similar script:

In the video, the operation's impresario, a man named Jimmy Lifton, boasts that his subsidized venture would support "more than 3,000 jobs." Lifton also says the application process for getting money from the state was "very easy" but also had "strict guidelines."

Unity Studios was awarded more than $40 million in local tax credits, loans and subsidies and another $2.8 million from the state. Wayne County also declared the studio's property a "Renaissance Zone," meaning it was exempt from state and county taxes. Politicians in the city of Allen Park were so swept up in the hype that they borrowed nearly $25 million to purchase a facility for the operation.

The adventure has nearly bankrupted Allen Park, threatening local tax hikes and mass layoffs of public employees while forcing city officials to request an emergency manager be appointed by the state. According to some claims the eventual cost to the small city of 28,000 could run as high as $100 million.

An MEDC video on converting the former Ford **Wixom Assembly Plant** into a "renewable energy technology park" repeats the same themes.

Promoter of the project David Hardee says his $725 million subsidized project will "create the world's largest renewable energy campus," consisting of several companies and supposedly creating 4,300 jobs. Based on these promises the Michigan Legislature authorized $100 million in tax breaks and outright cash subsidies. The promoters also sought $500 million in federal loan guarantees from the U.S. Department of Energy Department. Not surprisingly, Ford Motor strongly favored letting taxpayers help take a closed-plant off its hands, but eventually conceded it wasn't happening.

(In December 2011, the Legislature approved $50 million for a similar scheme at the Wixom site.)

This same video promotes a project by **Suniva**, a Georgia company awarded $15 million in state tax breaks and subsidies for its promise to create 500 jobs at a proposed plant in Saginaw County. The company's CEO, John Baumstark, tells viewers he is "happy to be a part" of the plan, and thanks Gov. Granholm, the MEDC and local governments for their support. However, the company failed to get a U.S. Department of Energy loan, and has suspended plans for the Michigan plant. The proposed site in Thomas Township remains vacant.

United Solar Ovonics was awarded $17.3 million in Michigan tax breaks and subsidies for its promise to create over 3,700 jobs in the state.

In the MEDC's video, CEO Dr. Subhendu Guha says these and local tax favors would let the company "stay in Michigan and to grow in Michigan." He adds that the business was growing at a rate of 50 percent annually.

Since then, the company saw its revenue fall 70 percent, with a quarterly loss of $243 million. On two separate occasions it was forced to lay off 20 percent of its workforce. The firm finally filed for bankruptcy in February.

"Green" energy subsidy supporters like to quote President Obama saying, "The understanding is that some companies are not going to succeed..."

This brings to mind the saying: "You can't make an omelet without breaking eggs." But a look at the promotional videos showing how badly "green" energy companies in Michigan have actually done brings to mind George Orwell's rejoinder: "Where's the omelet?"

One can't help wishing Michigan politicians would instead take their counsel from Mackinac Center President Emeritus Lawrence Reed, who wrote in his Seven Principles of Sound Public Policy, "Nobody spends somebody else's money as carefully as he spends his own." While perhaps also recalling a different Obama statement: "You know, the idea you would keep on doing the same thing over and over again, even though it's been proven not to work -- that's a sign of madness."

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See also:

The Problem With Allen Park

The Business Lesson of Pfizer and Ann Arbor

Video Shows President Obama, Top Politicians Praising Failed Green Company

Subsidized Green Energy Company Struggles, Lays Off Workers — Rewards Top Executives

Green Eyeshadow On Red Ink: 'Green' Jobs Fail To Live Up To the Hype

Chevy Volt Costing Taxpayers Up to $250K Per Vehicle

Rosy Solar Jobs Projections Fail To Live Up To the Hype

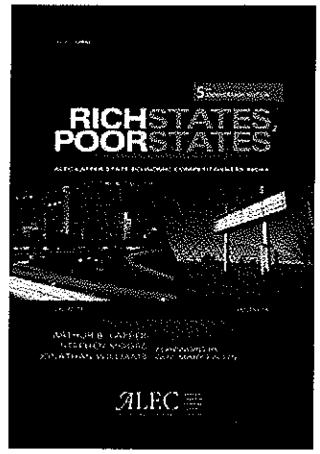
Trash Collectors Equal 'Green' Jobs? President's Campaign Ad Claims 'Green Energy' Job Growth From Criticized Study

Sun Not Shining on State Solar Subsidies

It's Not Easy Subsidizing Green

Rich States, Poor States

5th Edition – By Arthur B. Laffer, Stephen Moore and Jonathan Williams



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A Message from Gov. Mary Fallin of Oklahoma

In 2010, Oklahoma was just starting to climb out of the national recession that cost our state nearly 80,000 jobs. Like people all around the country, many Oklahomans were struggling. Jobs had disappeared in the wake of a financial crisis that was largely out of our control. Tax revenues were down, and the state was facing a budget shortfall of over $500 million. It was with that difficult backdrop that I reached out to our state's legislative leaders to help me build the best, most competitive economic climate possible. We set about reducing government waste and making state government smaller, smarter, and more efficient. Like many times in our state's history, we rose to the challenge.

While many other states were raising taxes in order to close their budget gaps—and driving out jobs in the process—we cut our income tax. We provided relief to working families and spurred economic growth in the private sector. As a result, we have seen a net increase of almost 30,000 jobs in the last 12 months, and our job growth rate ranks in the top ten among all states. Our unemployment rate continues to be one of the lowest in the country at 6.1 percent. And in 2011, Oklahoma ranked first in the nation for the growth of manufacturing jobs, which grew five times faster than the national average.

All of these successes are the results of the kind of common sense, conservative policies outlined by Dr. Art Laffer, Stephen Moore, and Jonathan Williams in *Rich States, Poor States*. I have been committed to these fundamental principles for years, and we are seeing incredible results because our legislators have had the courage to stand with me in support of conservative governance. Oklahoma's economy is outperforming the national economy, and our success stands in stark contrast to the record of dysfunction, failed policies, and outrageous spending that occurs in Washington, D.C.

Oklahoma could teach Washington a lesson or two about fiscal policy and the proper size and role of government—and so could the tax and fiscal policy reforms espoused by ALEC.

Our growth as a state stands as a testament to the fact that low taxes, limited government, and fiscal discipline are a recipe for job creation. But our work is not done. Based on the success we have enjoyed enacting pro-growth policies like those championed by ALEC, our state is moving forward with a bold tax reform plan that will represent the most significant tax cut in state history and chart a course towards the gradual elimination of the state income tax. It will give Oklahoma one of the lowest overall tax burdens in the entire country, making us a more competitive state for those looking to move jobs here. This is the conservative centerpiece of our pro-jobs agenda that will let working families keep more of their hard-earned money and provide a higher quality of life for all Oklahomans.

My advice to state officials around the country is to get to work enacting these policies, or get ready to help your friends pack as they and their jobs get moving to Oklahoma!

What Others Are Saying...

"*Rich States, Poor States* provides legislators, policymakers, and the American people with an in-depth, timely, and honest insight into which public policies encourage economic growth and prosperity and which do not. Armed with the facts and a clear prescription for how to make America more competitive, states are then able to avoid costly misadventures in big government and instead focus on positive, proven solutions that empower entrepreneurs and create opportunities for their citizens."

U.S. Representative Tom Price, Georgia

"As Speaker of the House in New Hampshire, my big concern is finding the best way to grow my state's economy. *Rich States, Poor States* demonstrates that a competitive tax system and smart, priority-based budgeting attracts businesses to our state and helps grow our economy. With a stronger economy, we can provide our taxpayers the best environment possible for prosperity."

Speaker William O'Brien, New Hampshire

"There is a light at the end of the tunnel and we are beginning to see signs of recovery. To accelerate this recovery, states can benefit from each other's expertise and experience. This requires access to information and analysis from which we can learn from one another and implement best practices. *Rich States, Poor States* is a vital resource that will help shape sound fiscal policy in states across the country."

Governor Gary Herbert, Utah

"*Rich States, Poor States* is an excellent resource for us in Mississippi as we move to attract businesses to our state. This publication provides ample evidence that a competitive business climate will only motivate businesses to invest, innovate, and create jobs for Mississippians."

Speaker Philip Gunn, Mississippi

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The Liberal Folly of Central Planning

As the Lame Duck Congress dies an ugly death, the debate for 2012 and the economic survival of America is becoming clearer.

The truth is, the formula for a global recovery is well underway in virtually all of the industrialized world; most notably Germany, France, and England.

It is a simple formula:

1. Slash the size of Government across the board

2. Reduce taxes and regulations on business

3. Flatten the cost curve on government funded entitlements

That's it, nothing more. What's amazing is that this is the first global recession that is being "treated" with government austerity" More amazing, this is the first recovery that is being led by nations other than The United States.

Actually that's not true. In the 1930's there was a recession that most of the world recovered from in a few short years. The only country that suffered for almost a decade was The United States. FDR believed that he could "deficit spend" his way out of the recession and the result was the Great Depression.

Sound familiar?

The Carnage of Central Planning

When I was studying economics in the 70's, my liberal professors referred to the Communist form of government as "Central Planning." This flawed notion professed that a bunch of really smart people could sit at the top of government and *plan* every element of economic activity. They would decide what to build, where to locate the factories, and how much money the workers would be paid.

It failed miserably. The Soviet Union no longer exists, China has embraced capitalism and become the new economic engine of the world, and even Cuba is slashing the size of government and encouraging private sector growth.

If we step back for a minute and look a Obama's economic agenda, it's hard to call it anything but Central Planning, *American Style*.

This week, the liberal tabloid THE NEW YORK TIMES, published an op-ed piece from David Brooks called **The Two Cultures**. Brooks is an interesting character. He has worked at both the conservative The Weekly Standard and the far left Newshour with Jim Lehrer. Anyway, Brook's piece contrasts the economic debate that is emerging in 2011. On one hand, you have the approach that has already proven successful in Europe and on the other hand you have Obama's new and improved version of Central Planning.

This is the debate that the nation needs to have, it is a classic "black and white" debate, one with no middle ground, compromise or bipartisanship. This is what I've been dreaming about for years.

Stay tuned...

Dave

The Two Cultures

By DAVID BROOKS

Many of the psychologists, artists and moral philosophers I know are liberal, so it seems strange that American liberalism should adopt an economic philosophy that excludes psychology, emotion and morality.

Yet that is what has happened. The economic approach embraced by the most prominent liberals over the past few years is mostly mechanical. The economy is treated like a big machine; the people in it like rational, utility maximizing cogs. The performance of the economic machine can be predicted with quantitative macroeconomic models.

These models can be used to make highly specific projections. If the government borrows $1 and then spends it, it will produce $1.50 worth of economic activity. If the government spends $800 billion on a stimulus package, that will produce 3.5 million in new jobs.

Everything is rigorous. Everything is science.

Conservatives, who are usually stereotyped as narrow-eyed business-school types, have gone all Oprah-esque in trying to argue against these liberals. If the government borrows trillions of dollars, this will increase public anxiety and uncertainty, the conservatives worry. The liberal technicians brush aside this soft-headed mush. These psychological concerns are mythological, they say. That's gaseous blathering from those who lack quantitative rigor.

Other people get moralistic. This country is already too profligate, they cry. It already shops too much and borrows too much. How can we solve our problems by borrowing and spending more? The liberal technicians brush this away, too. Economics is a rational activity detached from morality. Hardheaded policy makers have to have the courage to flout conventional morality — to borrow even when the country is sick of borrowing.

The liberal technicians have an impressive certainty about them. They have amputated those things that can't be contained in models, like emotional contagions, cultural particularities and webs of relationships. As a result, everything is explainable and predictable. They can stand on the platform of science and dismiss the poor souls down below.

Yet over the past 21 months, it has been harder to groove to their certainty. To start with, the economy has not responded as the modelers projected, either in the months after the stimulus was passed or this summer, when it was supposed to be producing hundreds of thousands of jobs. It has become harder to define how much good the stimulus package is doing. An $800 billion measure must leave a large footprint, but it is hard to find in a $70 trillion global economy.

Moreover, it has been harder to accept that psychological factors like uncertainty and anxiety really are a mirage. The first time a business leader tells you she is holding off on investing because she is scared about the future, you dismiss it as anecdote. But over the past few years, I've had hundreds of such conversations.

It's been harder to dismiss morality as a phantom concern, too. Maybe in a nation of robots the government can run a policy that offends the morality of the citizenry, but not in a nation of human beings, as the recent elections showed.

Nor has the world come to look simpler and easier to manipulate since the stimulus passed. It now looks more complicated. It's one thing to hatch an ideal policy in an academic lab, but in the real world, context is everything.

Ethan Ilzetzki of the London School of Economics and Enrique G. Mendoza and Carlos A. Vegh of the University of Maryland examined stimulus efforts in 44 countries. In a recent National Bureau of Economic Research paper, they argued that fiscal stimulus can be quite effective in low-debt countries with fixed exchange rates and closed economies.

Stimulus measures are generally not as effective, on the other hand, in countries like the U.S. with high debt and floating exchange rates. The authors of the paper pointed to a series of specific circumstances that complicate, to say the least, the effectiveness of increasing public spending: How much stimulus money ends up flowing abroad? What is the relationship between fiscal policy and monetary policy? How do investors respond to fear of future interest rate increases?

One could go on. It's become harder to have confidence that legislators can successfully enact the brilliant policies that liberal technicians come up with. Far from entering the age of macroeconomic mastery and social science triumph, we seem to be entering an age in which statecraft is, once again, an art, not a science. When you look around the world at the countries that have come through the recession best, it's not the countries with the brilliant and aggressive stimulus models. It's the ones like Germany that had the best economic fundamentals beforehand.

It all makes one doubt the wizardry of the economic surgeons and appreciate the old wisdom of common sense: simple regulations, low debt, high savings, hard work, few distortions. You don't have to be a genius to come up with an economic policy like that.

Friday, 19 November 2010 14:35

Written by Dave Horne

HOME
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OBJECTIVISM

If you love freedom, free-enterprise and reason you will find a home in the ideas of Ayn Rand. Rand was born in Russia in 1905 and moved to America in 1926 to pursue a career in the movie business. Once here she discovered that most Americans were unable defend capitalism and freedom using rational, fundamental and consistent principles. As she dug deeper into the philosophy of conservatives and libertarians she found it flawed all the way to the bottom.

Realizing that freedom could not endure if defended with flawed arguments she wiped the slate clean and sought to discover a rational philosophy for man to live his life on earth. When she finished this journey she called the philosophy Objectivism. Below are the key elements.

POLITICS
- The only proper function of government is to stop the initiation of force and arbitrate disputes.
- Government should only have a military, police and justice system.
- Government should not interfere in the economy nor take from one and give it to another.

ETHICS
- "Good" and "Bad" can only be scored at the individual level not the level of "society" since "society" is simply a group of individuals. What may be good for one may be bad for another.
- Each person is an end in themself and should not be used as a means to some other end.
- Each individual should live for their own long-term happiness.
- Use mutual voluntary trade to gain values not force of arms or force of law.

EPISTEMOLOGY
- Our senses, although affected by the environment, still objectively report the facts of reality.
- When our senses are combined with reason and logic we can know truths about the world.
- This is validated by the fact that planes consistently fly, buildings consistently stand, diseases are consistently cured, and people are generally able to obtain the values the need to live.
- "Faith" is not a means of gaining knowledge.

METAPHYSICS
- Existence exists
- Existence is identity: To exist is to exist a certain way that doesn't contradict itself
- Consciousness exists
- Trying to disprove these axioms will validate them.
- As axioms their truth can only be observed not proven since they are the base of knowledge.

ORGANIZATIONS
The Ayn Rand Institute
The Objectivist Center & The Atlas Society

WEBSITES
Importance of Philosophy
Philosophy of Liberty Video: Not Objectivist but real close and inspiring to watch.

There are too many other websites to list

BOOKS
Non-fiction
Capitalism: The Unknown Ideal
The Virtue of Selfishness
Objectivism: The Philosophy of Ayn Rand
The Ideas of Ayn Rand by Merrill

Fiction
The Fountainhead
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We The Living
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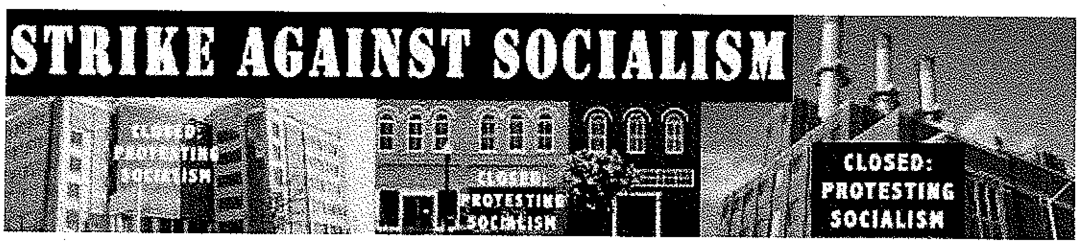


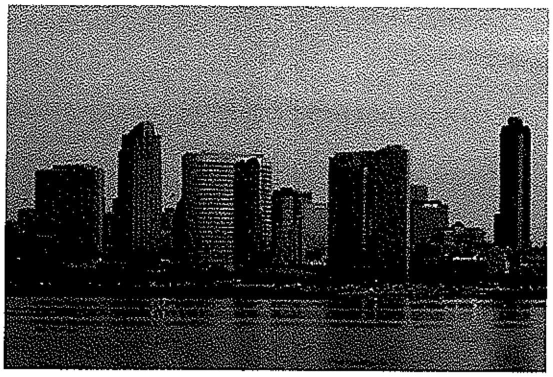
Objectivist Summer Conference 2012

Sheraton San Diego Hotel and Marina
San Diego, California

June 30–July 8

Welcome!

Dear Reader:



We are pleased to present the website for Objectivist Summer Conference 2012. We've assembled an exciting lineup of speakers and events, and we look forward to sharing th experience with you!

Ayn Rand's philosophy offers more than just ideas; it is designed to help us live happier more successful lives—and it has the power to change the world. For those who want to live in and explore such a new world for eight days this summer, we've put together a number of talks and courses. Peter Schwartz will deliver a talk titled "How to Dissuade a Altruist"; a panel of experts in medicine and advocacy will discuss the Supreme Court's decision on Obamacare; C. Bradley Thompson will discuss education reform in his talk, "The New Abolitionism: On Separating School and State"; and more. There will also be courses on a wide variety of other topics, including history ("The History of the Suprem Court [part 2]" by Eric Daniels); short fiction ("Preserving the Hero in Your Soul," by Shoshana Milgram); and astronomy ("The Inductive Way to Understand the Sky," by David Harriman).

In response to popular demand, we've also created a new optional course: an introduction to Objectivism, suitable for beginners or for those who want a refresher on the fundamentals of Objectivism. The course is taught by OAC staff members Doug Altner, Onkar Ghate ar Keith Lockitch.

As always, there will be a variety of events and social opportunities for conference attendees, with elegant opening and closing receptions group lunches, an Independence Day Celebration and the always popular RockStar Karaoke, in which singers are accompanied by a live band.

This year's conference is set on the beautiful San Diego bay, adjacent to the airport. There are many colorful local attractions in the area; see our San Diego local area page for more information.

We are looking forward to another inspiring and memorable conference—we hope to see you there!

Dr. Yaron Brook
President

P.S. Enroll by March 31 to take advantage of discount pricing.

P.P.S. For students there are a number of registration options at significantly reduced rates; see our Registration Options and Pricing page for more details.

Orientation

Within this site you'll find all the information you need to plan your trip to Objectivist Summer Conference 2012, and to select the best registration options for you and your family.

For an overview of the course content offered at this year's conference, look at our General Sessions listing, and at the Optional Courses and Events pages. Speaker bios a on our Faculty page. We've assembled some information on the San Diego local area, including the Sheraton San Diego Hotel and Marina, our host facility. And once you've made your selections of conference courses and events, our registration form and instructions can be found on our Registration page.

To maximize your enjoyment of Objectivist Summer Conference 2012, we recommend making air and lodging arrangements early—and if you have any questions, please call 1-800-365-6552, ext. 239, for more information.

What attendees have said about past conferences:

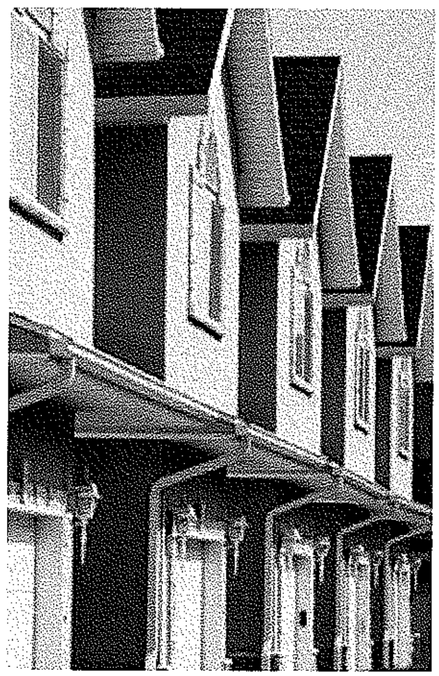
- *"I really appreciate the fact that the optional courses encompass such a wide variety of topics, from metaphysics to epistemology to psychology, esthetics and history."*
- *"I particularly enjoyed the dialogue with other Objectivists that takes place outside of the formal conference sessions."*
- *"This was my first conference, and the quality of the speakers and presentations exceeded my expectations."*
- *"Each year that I attend I value even more my interactions with fellow Objectivists, both teachers and attendees."*

Register now!

MICHIGAN PRIVATIZATION REPORT

Selling MSHDA Programs Can Raise Millions

By James M. Hohman, published on Jan. 8, 2008



State policymakers have been working to address the crises created by their overspending habit for half a decade now. Mostly, this has been accomplished through fee increases, revenue shifts, selling claims on future cash and, recently, major tax hikes. But should state government start looking for savings from within, an estimated $600 million can be found by reforming and restructuring the Michigan State Housing Development Authority.

MSHDA's mission and programs distort the market for low-income housing. Generally, the housing market has a mechanism for providing low-income housing without government assistance. Rental housing complexes are built initially for people of higher incomes, but as the complexes become used, or as newer complexes are built, the older buildings become increasingly available for low-income tenants.

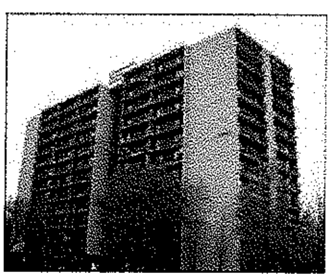
Many MSHDA functions can be done in the private sector. It is very likely that a private firm could do the job with fewer employees and would contract out for specific functions.

MSHDA's programs create a greater demand for the construction of new or renovated low-income housing. By doing so, capital is shifted from where it is needed most to where there is less need.

MSHDA is a 280-employee state government bureaucracy that is ultimately unnecessary and should be eliminated. But if the state chooses to continue operating these programs, it should at least operate them efficiently.

An article in the June 2007 issue of Michigan Privatization Report explained that MSHDA is ripe for reform. A good place to start would be for MSHDA to shed its multifamily loaning programs.

MSHDA sells bonds with low rates for its multifamily lending programs and writes loans for multifamily housing developments at higher rates. Interest from the bonds is usually exempt from federal income taxes. This arbitrage scheme allows the agency to operate without assistance from state tax money. Its bonding and loaning programs provide above and beyond the costs of administration. Multifamily loans make up 63 percent of the value of MSHDA's loan portfolio, so it represents a significant chunk of MSHDA's income.



The McDonnell Towers in

Financially, multifamily loaning is a big money generator for MSHDA. Last year these loans were responsible for $29 million of MSHDA's $63 million net investment income.

MSHDA should sell its current assets and

Southfield were built using MSHDA incentives.

MSHDA finances low-income housing across the state, but could be operated more efficiently if leased to a private lender.

its ongoing lending operations, either bundled or separately.

Assessing the value of MSHDA's cash, investments and multifamily loan portfolio is fairly simple. However, apart from spending less in servicing the multifamily loans, there are not a lot of other efficiencies to be gained. Selling these would be like securitizing the state's tobacco settlement money or selling the lottery proceeds — the state gets a lump sum of cash for an asset. Net assets of multifamily loaning programs are $127 million, which serves as a minimum the state can expect from a sale of its existing multifamily loans and bonds. An estimate on the net present value of the loan portfolio yields a value of $177.6 million. To get a precise figure, MSHDA would simply need to bring it to market.

> The Michigan State Housing Development Authority is a state agency that oversees a number of programs originally designed to help provide for low-income housing.
> The previous issue of Michigan Privatization Report detailed how MSHDA has become more of a political operation, promoting the Cool Cities Initiative and financing broadband development. MSHDA is ripe for reform. In lieu of eliminating MSHDA, this article looks at a number of reforms that would limit the political tendencies of MSHDA programs while generating revenues for the state.

Efficiencies can certainly be wrung from MSHDA's ongoing operations. In order to implement a proper lending program, there are specific functions that need to be performed: credit analysis; underwriting and project analysis; construction loan servicing; plan and cost reviews; environmental analysis; and employing a lawyer to draft the loan documents and make sure everything is properly executed.

All of these functions can be done in the private sector. In fact, it is very likely that a private firm could do the job with fewer employees and would contract out for specific functions, such as environmental analysis. MSHDA transferred $32.6 million from its multifamily programs to cover operating expenses for fiscal year 2007 and $31.3 million the year before. A contractor would be expected to incur only a fraction of that.

Contractors have leveled criticism of MSHDA for excessive bureaucracy and red tape in the administration of its multifamily loan programs. A private company that leases these programs could probably expect to expand them. With efficiency gains, and a modest increase in the average lending volume, MSHDA may be able to obtain $432 million for a 20-year lease of its multifamily lending programs.

MSHDA would still retain its bonding functions. In order for bonds to be tax-exempt, they must be issued on behalf of a state authority and used for an approved purpose. Financing low-income housing facilities under federal guidelines is one of those purposes. A buyer would have to request bond financing authority from MSHDA for any project to be financed.

Leasing MSHDA's multifamily lending may raise some eyebrows from the federal government, as well as state policymakers. But states have been given wide latitude from the federal government over how to implement these programs, though it appears that no other state has looked to contract out these programs. More importantly, there does not appear to be any legal statute that would prevent MSHDA from leasing this program.

There are issues in contracting that would need to be resolved, of course. There are programs that conflict with its lending, escape clauses and what to do if the federal government changes the program. These problems can be worked out in the contracting process.

For instance, MSHDA offers the Pass Through program to developers, whereby it authorizes a tax-exempt bond for a developer. Since this uses the limited amount of bond capitalization available to MSHDA, Pass Through would be in conflict with the program lessor's interests. However, including in the contract rules for the amount of bond cap the contractor could write would be an equitable way of overcoming this conflict.

A key provision in contracts would be the requirement that any project that the contract company finances would be subject to the same requirements and oversight that MSHDA currently applies to its projects.

Leasing these programs and selling its portfolio would affect MSHDA's current operations. MSHDA distributes $15 million to subsidize nonprofit housing developers, and uses multifamily lending to support its general operations. Unfortunately, many of these nonprofit agencies spend more developing a property than private firms. Instead of being an automatic handout, the money that MSHDA uses for this program should be subject to legislative scrutiny. In other cases, some of this money is not used to develop low-income housing at all.

Two other major programs, the Low Income Housing Tax Credit and its federal low-income rental subsidies, are self-sustaining. Administration of the LIHTC program is covered by fees, which carry federal restrictions limiting them to the costs of the program. Low-income rental subsidies are covered dollar for dollar by the federal government. While we should be skeptical of these programs, they are not likely to be attractive for competitive contracting without significant reforms.

MSHDA's multifamily loaning programs are attractive for leasing, however, and policymakers should follow through with these reforms. MSHDA already has a longstanding relationship with the private sector — companies underwrite their bonds, MSHDA sponsors single-family programs with private banks, and the agency is constantly consulted by private firms. Selling multifamily loan programs would simply be one more private-sector interface.

If MSHDA does decide to sell its portfolio and lease the programs (there is a constitutional question over state control over MSHDA and whether the state can use its funds), it may also want to pare down some of the $435 million it holds in escrow and reserves. This is the result of the ruling in the recent Parkwood v MSHDA case. With some of this money and the proceeds from the sale of the multifamily loan program, the state would receive an upfront payment which could be used to fund its employee healthcare benefits. The state is facing an estimated $6.9 billion in unfunded health benefits for state employees and $13.5 billion in unfunded retiree health benefits.

By selling or leasing MSHDA's multifamily loan programs, the state will get more efficient services and a lump-sum payment that can start funding the promises that it has made to retirees.

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Big lies in Politics

by Thomas Sowell (more by this author)
Posted 05/22/2012 ET

The fact that so many successful politicians are such shameless liars is not only a reflection on them, it is also a reflection on us. When the people want the impossible, only liars can satisfy them, and only in the short run. The current outbreaks of riots in Europe show what happens when the truth catches up with both the politicians and the people in the long run.

Among the biggest lies of the welfare states on both sides of the Atlantic is the notion that the government can supply the people with things they want but cannot afford. Since the government gets its resources from the people, if the people as a whole cannot afford something, neither can the government.

There is, of course, the perennial fallacy that the government can simply raise taxes on "the rich" and use that additional revenue to pay for things that most people cannot afford. What is amazing is the implicit assumption that "the rich" are all such complete fools that they will do nothing to prevent their money from being taxed away. History shows otherwise.

After the Constitution of the United States was amended to permit a federal income tax, in 1916, the number of people reporting taxable incomes of $300,000 a year or more fell from well over a thousand to fewer than three hundred by 1921.

Were the rich all getting poorer? Not at all. They were investing huge sums of money in tax-exempt securities. The amount of money invested in tax-exempt securities was larger than the federal budget, and nearly half as large as the national debt.

This was not unique to the United States or to that era. After the British government raised their income tax on the top income earners in 2010, they discovered that they collected less tax revenue than before. Other countries have had similar experiences. Apparently the rich are not all fools, after all.

In today's globalized world economy, the rich can simply invest their money in countries where tax rates are lower.

So, if you cannot rely on "the rich" to pick up the slack, what can you rely on? Lies.

Nothing is easier for a politician than promising government benefits that cannot be delivered. Pensions such as Social Security are perfect for this role. The promises that are made are for money to be paid many years from now -- and somebody else will be in power then, left with the job of figuring out what to say and do when the money runs out and the riots start.

There are all sorts of ways of postponing the day of reckoning. The government can refuse to pay what it costs to get things done. Cutting what doctors are paid for treating Medicare patients is one obvious example.

That of course leads some doctors to refuse to take on new Medicare patients. But this process takes time to really make its full impact felt -- and elections are held in the short run. This is another growing problem that can be left for someone else to try to cope with in future years.

Increasing amounts of paperwork for doctors in welfare states with government-run medical care, and reduced payments to those doctors, in order to stave off the day of bankruptcy, mean that the medical profession is likely to attract fewer of the brightest young people who have other occupations available to them -- paying more money and having fewer hassles. But this too is a long-run problem -- and elections are still held in the short run.

Eventually, all these long-run problems can catch up with the wonderful-sounding lies that are the lifeblood of welfare state politics. But there can be a lot of elections between now and eventually -- and those who are good at political lies can win a lot of those elections.

As the day of reckoning approaches, there are a number of ways of seeming to overcome the crisis. If the government is running out of money, it can print more money. That does not make the country any richer, but it quietly transfers part of the value of existing money from people's savings and income to the government, whose newly printed money is worth just as much as the money that people worked for and saved.

Printing more money means inflation -- and inflation is a quiet lie, by which a government can keep its promises on paper, but with money worth much less than when the promises were made.

Is it so surprising voters with unrealistic hopes elect politicians who lie about being able to fulfill those hopes?

Dr. Sowell is a senior fellow at the Hoover Institution and author of *"Applied Economics"* and *"Black Rednecks and White Liberals."*

Policy Analysis

No. 696 May 15, 2012

Questioning Homeownership as a Public Policy Goal

by Morris A. Davis

Executive Summary

For decades U.S. housing policy has focused on promoting homeownership. In this study, I show that the set of policies designed to further homeownership has been ineffective and expensive and that homeownership as a public policy goal is not well supported.

I document that homeownership rates have remained roughly constant over the past 40 years. I then show why homeownership policies have not boosted homeownership rates. The first policy I consider, the deductibility of mortgage interest from income for tax purposes, is a tax break enjoyed by people earning above-median incomes who should otherwise have no trouble buying a home. The other key policy, the subsidization of the large mortgage entities Fannie Mae and Freddie Mac for the purposes of reducing the rate of mortgage interest, has been ineffective because Fannie and Freddie marginally affect mortgage interest rates, and mortgage interest rates are essentially uncorrelated with homeownership rates. A back-of-the-envelope calculation suggests the present value of the cost of these two policies to U.S. taxpayers is a staggering amount, $2.5 trillion.

Finally, I show that policymakers fail to make the case for promoting homeownership as an explicit public policy goal. I note that the costs and risks of homeownership are almost never discussed by public agencies and that the benefits of homeownership as widely articulated are either hard to measure or are quickly refutable. I conclude that U.S. housing policies and government institutions designed to promote homeownership are deeply flawed. Serious discussion should occur at the highest levels about eliminating current policies and de-emphasizing homeownership as a policy objective.

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Homeownership policies in the United States have had little effect on homeownership rates.

Introduction

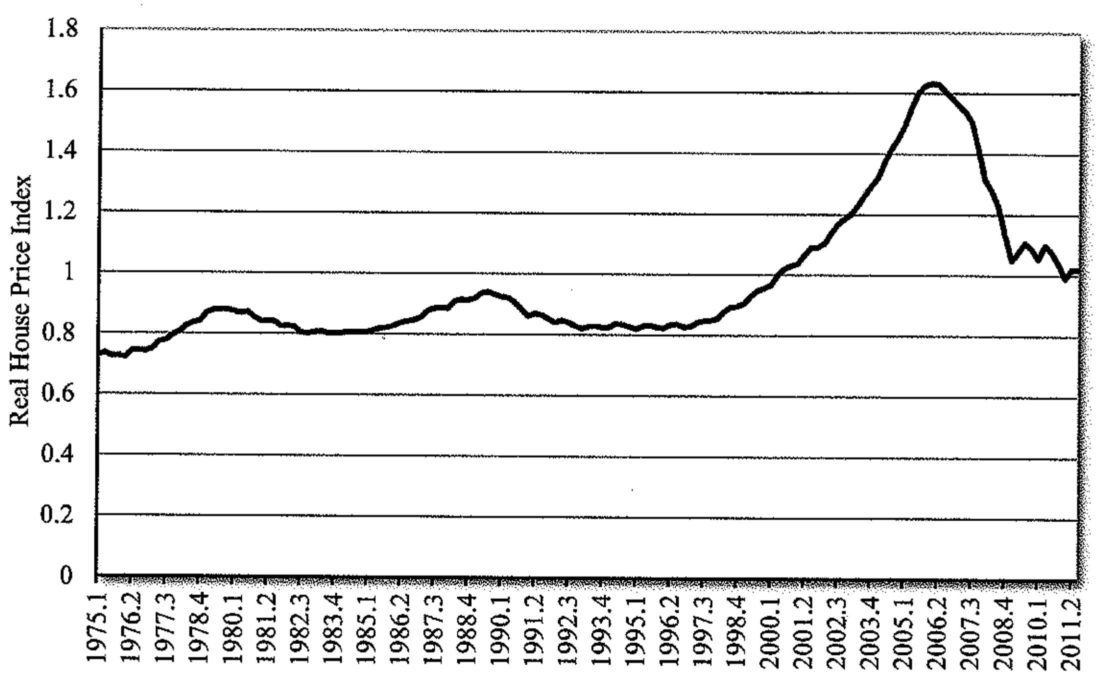
Figure 1 graphs an index of real U.S. house prices from 1975 to 2011. Prior to 1997, real house prices increased slowly but steadily, at a rate of roughly one-half percent per year. In sharp contrast to previous experience, from 1997 through 2006 house prices nearly doubled; subsequently, house prices declined by 40 percent. The collapse in housing values precipitated a wave of mortgage delinquencies and foreclosures, which ultimately caused a financial crisis and a severe global recession. It is not a stretch to say that the bust to owner-occupied housing in the United Stated led to a sizeable contraction of global economic output.

The erratic behavior of house prices in the past 15 years should naturally lead to a questioning of the nature, size, and role of housing policy in the United States. Specifically, I question the motivation and effectiveness of housing policies that subsidize or promote homeownership. I estimate that the net present value of U.S. housing policy designed to promote homeownership is $2.5 trillion and document that homeownership policies in the United States have had little effect on homeownership rates. I then demonstrate why homeownership policies have been ineffective. Finally, I question homeownership as a public policy goal. I list the risks and costs associated with homeownership that are infrequently articulated, and then one-by-one I dispute the commonly cited benefits of homeownership. I conclude that homeownership as a public policy goal is not well supported.

What Have We Done?

The federal government directly subsidizes the cost of homeownership using two different policy instruments. These instruments attempt to lower the cost of homeownership

Figure 1
Index of Real House Prices in the United States, 1975–2011 (Index 1997Q1 = 1.0)



Sources: Federal Housing Finance Authority, http://www.fhfa.gov/Default.aspx?Page=87; and S&P/Case-Shiller Home Price Indices, http://www.standardandpoors.com/home/en/us. Deflated using core consumer price index from Bureau of Economic Analysis, U.S. Department of Commerce.

Table 1
Homeownership Rates in the United States by Decade

Year	U.S. Homeownership Rate (%)
1900	46.5
1910	45.9
1920	45.6
1930	47.8
1940	43.6
1950	55.0
1960	62.1
1970	64.2
1980	65.6
1990	63.9
2000	67.4
2010	66.9

Source: United States Census Bureau, "Housing Vacancies and Homeownership (CPS/HVS)," Table 14, http://www.census.gov/hhes/www/housing/hvs/annual11/ann11ind.html; and United States Census Bureau, "Historical Census of Housing Tables," http://www.census.gov/hhes/www/housing/census/historic/owner.htm.

by reducing the after-tax rate of interest on home mortgages. First, the cost of mortgage interest is deductible from household income for taxpayers who itemize allowable expenses. Second, the federal government acts to reduce the cost of mortgage interest by explicitly insuring the principal on mortgages purchased by the Federal Housing Authority and by guaranteeing the debt of the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Fannie and Freddie, as they are commonly known, buy mortgages from banks, guarantee the performance of these mortgages against default, and then resell pools of these guaranteed mortgages to investors.

The cost of these policies is astounding. The Congressional Budget Office recently estimated that the total cost of Fannie Mae and Freddie Mac to current and future taxpayers is $317 billion,[1] and some economists argue that the Federal Housing Administration will lose another $50 billion or more in the upcoming years.[2] In addition, economists estimate that federal tax revenues would be roughly $60 billion higher each year if the mortgage interest deduction were eliminated from the tax code.[3] Assuming a 3 percent discount rate on these lost tax revenues, the net present value of the $60 billion in annual tax losses is $2 trillion. When added together, the net present value of the cost of housing policy designed to promote homeownership is likely on the order of $2.5 trillion.

The data suggest that all of this spending has done little to boost homeownership rates. Table 1 reports homeownership rates by decade, as computed by the U.S. Census Bureau. Between 1900 and 1940, the U.S. homeownership rate was stable at about 45 percent. Between 1940 and 1970, the homeownership rate increased by 20 percentage points, to about 65 percent. In comparison, since 1970 the homeownership rate has increased by only 2 percentage points—small potatoes compared to the change between 1940 and 1970. It is possible that homeown-

The net present value of the cost of housing policy designed to promote homeownership is likely on the order of $2.5 trillion.

The tax code provides incentives for homeownership only to families that "itemize" their expenses. This weakens the effectiveness of the policy, especially for lower-income households.

ership rates would currently be lower in the absence of federal policy, but I will present evidence below that suggests this is not the case.

Why Is Federal Policy Ineffective?

The tax code provides incentives for homeownership only to families that "itemize" their expenses. This weakens the effectiveness of the policy, especially for lower-income households. I will illustrate this with a thought experiment. Table 2 shows the outcome of an economy populated by identical people all living in identical housing that costs $100,000 per unit. People in this economy all own exactly one home and choose between being owner-occupiers or landlords. To keep matters simple, when people are landlords, they rent their housing unit from themselves; that is, they pay and collect rental income from themselves. Since all housing is identical, in this thought experiment people are assumed to choose the ownership status—owner-occupier or landlord—that provides the most after-tax rental income. Rental income is imputed in the case of owner-occupancy.

The first two columns of Table 2 show two scenarios related to owner-occupancy. In the first column, owner-occupiers itemize expenses on their tax returns, meaning they can directly deduct mortgage interest from their labor and capital income for the purposes of computing their income tax liability. In the second column, all assumptions are the same as in the first column, except owner-occupiers do not itemize. In columns 1 and 2, owner-occupiers are not allowed to deduct depreciation expenses.

The third and fourth columns show two scenarios related to renting and being a landlord. Landlords are assumed to be able to deduct mortgage interest and depreciation expenses from their rental income. In the third column, the depreciation rate for rental units is assumed to be the same as for owner-occupied units. In the fourth column, the depreciation rate for rental units is one percentage point higher than for owner-occupied units.

It is helpful to start with a comparison of columns 2 and 3. If owner-occupiers don't itemize (column 2) and depreciation rates on rental and owned units are the same (col-

Table 2
Rented vs. Owner-Occupied Housing and the Tax Code

	Itemizer Homeowner (1)	Non-itemizer Homeowner (2)	Low-depreciation Renter (3)	High-depreciation Renter (4)
Rental income *	$6,000	$6,000	$6,000	$6,000
Depreciation	$1,500	$1,500	$1,500	$2,500
Mortgage interest**	$4,000	$4,000	$4,000	$4,000
Taxes Paid (25% rate)	NA	NA	$125	$0
Tax Shield (25% rate)	$1,000	NA	NA	$125
Rental income net of interest, taxes and depreciation	$1,500	$500	$375	-$375

Source: Author calculations.
Notes: * Imputed for homeowners. ** Assumption: 80 percent loan-to-value on a purchase price of $100,000 and a 5 percent interest rate.

Table 3
Beneficiaries of the Mortgage Interest Tax Deduction by Income Bracket, Tax Year 2009

Adjusted Gross Income ($)	Returns	% of Returns	Returns Itemizing Mortgage Interest	% Returns Itemizing Mortgage Interest	Total Amount of Mortgage Interest Deductions ($thousands)	% Total Amount of Mortgage Interest Deductions
	(1)	(2)	(3)	(4)	(5)	(6)
< 15,000	37,624,407	27	1,146,719	3	10,450,143	2
15,000–30,000	30,096,507	21	2,655,450	7	22,724,296	5
30,000–75,000	43,862,952	31	13,217,728	36	119,801,025	28
> 75,000	28,910,262	21	19,521,923	53	267,837,247	64
Total	140,494,128		36,541,820		420,812,711	

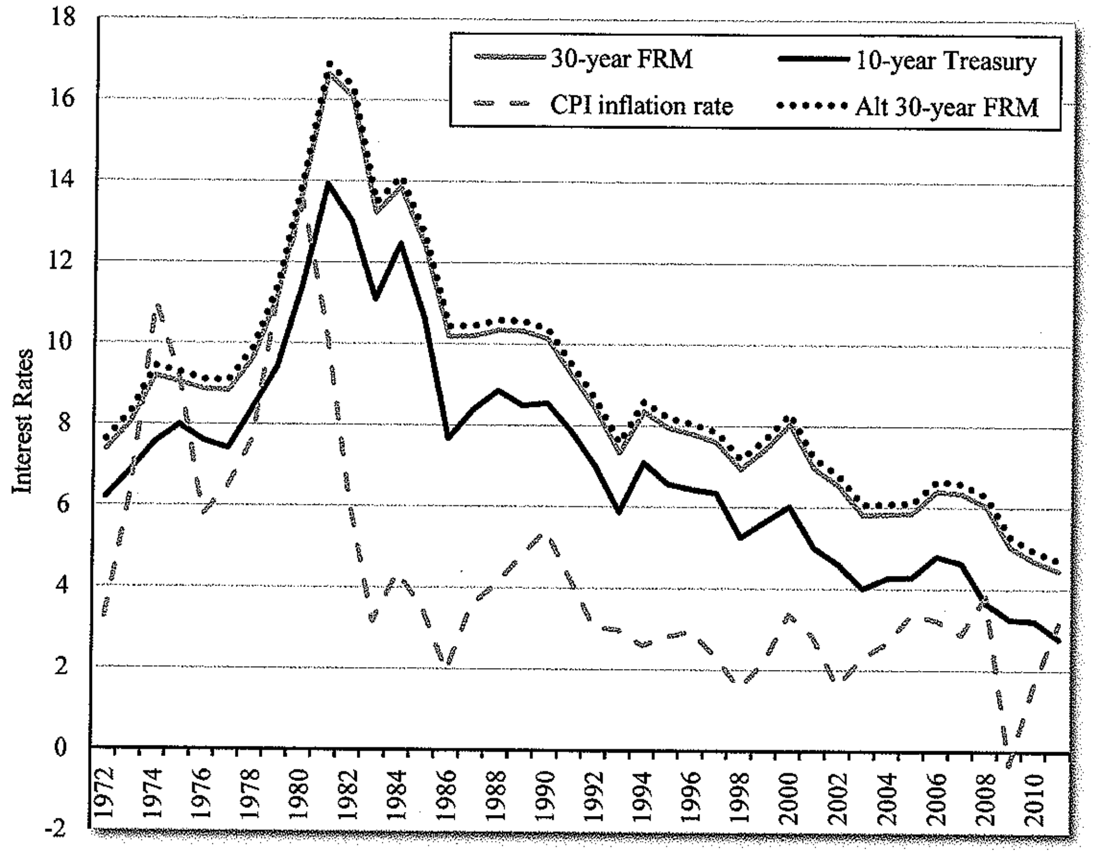
Sources: Internal Revenue Service, U.S. Department of the Treasury, "Basic Tables: Returns Filed and Sources of Income," http://www.irs.gov/taxstats/indtaxstats/article/0,,id=134951,00.html; and author calculations.

umn 3), then—abstracting from small differences—the tax code does not favor owner-occupancy over renting. Why? Owners of rental units have to declare their rental income on their taxes, and owner-occupiers do not declare their imputed rents as income; but owner-occupiers have no deductible expenses and owners of rental units are allowed to deduct both mortgage interest and depreciation as business expenses. For owners of rental units, these deductions are large enough that the taxes paid on rental income are low and the net benefit of owning over renting is small.

Now compare column 1 to column 3. When households itemize and deduct their mortgage interest from income (column 1), owner-occupancy is tax-advantaged relative to renting (column 3). In the example in the table, the tax code favors owner-occupiers by a significant amount, $1,125. This occurs because owner-occupied households that itemize report zero rental income but collect a tax shield based on mortgage expenses. This tax shield is used to reduce the tax burden on other sources of income. Owner-occupancy is thus tax-advantaged relative to renting. Rental owners are also allowed to deduct interest and depreciation expenses, but they report non-zero rental income.

Table 3 shows estimates of taxpayers in tax year 2009 who benefit from the home-mortgage interest deduction. The table is organized by income bracket, with each bracket representing roughly 25 percent of returns. Columns 1 and 2 show total returns by income bracket: 27 percent of returns report adjusted gross income less than $15,000, 21 percent of returns report income between $15,000 and $30,000, and so forth. Column 2 shows that the median adjusted gross income on IRS returns is about $30,000. Columns 3 and 4 report returns, by income bracket, where mortgage interest is itemized as a deduction on the tax return. Column 4 shows that the top 50 percent of income earners ($30,000 and above) account for 90 percent of returns where mortgage interest has been itemized as a deduction. Column 5 shows data on the total dollar value of the mortgage interest that has been deducted, for those that deducted mortgage interest, by income category. The top 21 percent of income earners ($75,000 and above) account for 64 percent of the total dollar value of mortgage interest deducted from income.

Figure 2
Various Interest Rates, 1972–2011



Sources: Federal Reserve Board Release H.15, http://federalreserve.gov/releases/h15/data.htm; and author calculations.

The mortgage interest deduction is a subsidy for homeownership that is enjoyed by relatively high-income earners who, in the absence of a subsidy, should not have trouble buying a house.

The key takeaway from Table 3 is that 90 percent of families that itemize mortgage interest on their taxes earn above-median incomes. The mortgage interest deduction is a subsidy for homeownership that is enjoyed by relatively high-income earners who, in the absence of a subsidy, should not have trouble buying a house. House prices must ultimately reflect the affordability of housing. In the event the mortgage interest deduction is phased out and people earning above median income can no longer afford housing (because of the lack of mortgage interest deductibility or some other reason), the price of housing must adjust until housing becomes affordable.

Finally, returning to Table 2, independent of whether or not owner-occupier households itemize mortgage interest on their tax returns, owning (columns 1 and 2) is strictly preferred to renting (column 4) if the depreciation rate on rental units is significantly higher than for owned units. This has nothing to do with the tax code. When depreciation rates on rental units are high, renting is an expensive way of consuming housing. In this case, homeownership is the efficient way of enjoying housing and, holding all else equal, we would expect markets to deliver high homeownership rates.

Fannie Mae and Freddie Mac

Next, I consider whether the GSEs have boosted homeownership rates by reducing the cost of mortgage interest to homeowners. There is a sizeable literature on this topic. A mainstream estimate is that Fannie and Freddie have lowered mortgage interest rates by about 25 basis points[4] (that is, 0.25 percentage points), and credible estimates are as small as 7 basis points.[5]

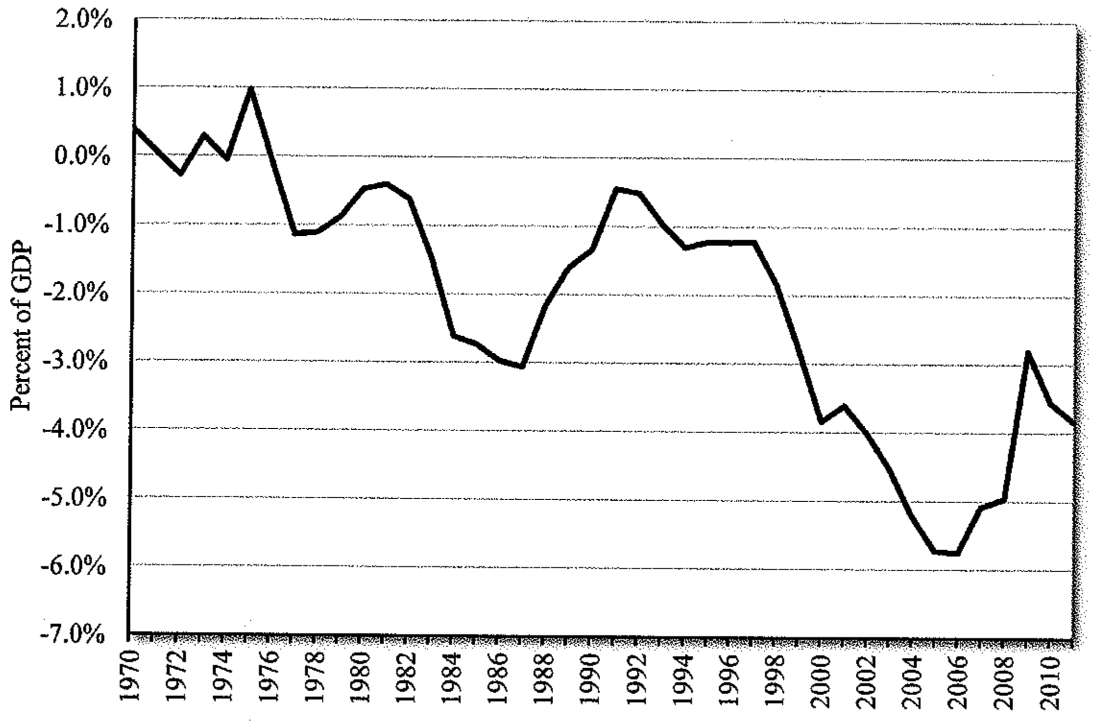
Suppose that the GSEs have lowered borrowing costs by 25 basis points. A strong case can be made that the impact of the GSEs on borrowing costs has been irrelevant given overall trends for interest rates. Figure 2 shows data starting in 1972 on various interest rates. The lighter solid line is the typical rate of interest on a 30-year fixed-rate mortgage. The darker solid line is the 10-year Treasury rate. The dashed line is the inflation rate. From 1970 through 1990 mortgage rates, the 10-year Treasury rate, and the inflation rate increased (1970–1980) and then fell (1980–1990) together. Starting in 1990 the inflation rate stabilized at about 2½ percent per year, but the 10-year Treasury and mortgage rates continued to fall. In 1990 the rate of interest on a 30-year fixed rate mortgage was about 10 percent. Today the rate of interest on a 30-year fixed rate mortgage is about 4 percent.

The dotted line that lies slightly above the solid line is the hypothetical rate of interest on a 30-year fixed rate mortgage that would have been expected to prevail if Fannie and Freddie had not existed. At every date, the dotted line is 25 basis points above the solid line. However, relative to the large time-series decline in mortgage rates starting in 1990, 25 basis points is inconsequential. Large macro trends have made the GSEs' impact on mortgage rates look trivial.

A commonly articulated view is that free trade caused interest rates to fall after 1990 because foreign investors readily lent money to American borrowers. Figure 3 shows the United States has been running a trade deficit with the rest of the world since 1975, which means that on net, each year U.S. residents receive goods and services from abroad and foreigners receive U.S. assets as payment.

Large macro trends have made the GSEs' impact on mortgage rates look trivial.

Figure 3
Net Exports as Percentage of GDP, 1970–2011



Source: Bureau of Economic Analysis, U.S. Department of Commerce; National Income and Product Accounts, Table 1.1.5, http://bea.gov/iTable/iTable.cfm?ReqID=9&step=1.

Because our trading partners have wanted to export goods and services to us, they must accumulate U.S. assets, and this has lowered yields on those assets.[6] It is commonly thought that foreign accumulation of U.S. assets has caused the gradual decline in mortgage interest rates that started around 1990 and then accelerated in the 2000s. In summary Figure 3 demonstrates that the one policy that has had the greatest impact on the cost of mortgage interest has been free trade; and, in the event that U.S. trading partners decide they no longer wish to accumulate U.S. assets, mortgage interest rates will rise independently of whatever the GSEs are doing.

The one policy that has had the greatest impact on the cost of mortgage interest has been free trade.

Finally, note that homeownership rates have been relatively stable since 1970, despite the dramatic rise and decline of mortgage rates. This is prima facie evidence that mortgage rates are uncorrelated with homeownership. It is suggestive that policies that attempt to boost homeownership rates by reducing the cost of mortgage interest to most homeowners will be of limited success.

Disputing the Benefits of Homeownership

Typically, policymakers list four benefits to homeownership that can be summarized as follows:[7]

1. Through homeownership, a family . . . invests in an asset that can grow in value and . . . generate financial security.
2. Homeownership enables people to have greater control and exercise more responsibility over their living environment.
3. Homeownership helps stabilize neighborhoods and strengthen communities.
4. Homeownership helps generate jobs and stimulate economic growth.

These points are refutable. Starting with the first, homeownership is not necessarily the right way to build wealth for many because housing is risky and house prices can decline. According to data from the S&P/Case-Shiller Home Price Indices,[8] since June 2006 nominal house prices have fallen by 38 percent in San Francisco, 45 percent in Tampa Bay, 49 percent in Miami, 56 percent in Phoenix, and 59 percent in Las Vegas, to name just a few examples. These significant declines are not unique to the 2006–2011 time period. For example, data from the Federal Housing Finance Authority suggest that house prices in San Antonio fell by 25 percent in nominal terms between 1984 and 1990, and house prices in Los Angeles fell by 23 percent between 1990 and 1995.[9] Since housing is a risky asset, it must pay on average a non-negligible positive rate of return. Whether or not homeowners are compensated appropriately for the amount of risk they assume is currently being debated.[10]

The fact that housing is a risky asset with some other peculiar risks means that it is not an appropriate investment for many. In a speech on January 5, 2010, Federal Reserve Board economist Karen Pence articulated some other risks associated with housing:

- It is an indivisible asset.
- Any given house is subject to location-specific shocks that cannot easily be diversified away.
- Buying and selling housing involves large transaction costs that are typically not associated with renters.
- Housing can be difficult to sell (that is, it is illiquid) during downturns, when, for many, a sale is most desirable.
- In smaller markets, the labor market and housing market are correlated, such that a closing of a plant in a small town leaves people without jobs and with less-valuable housing.

The second and third potential benefits to homeownership listed above are more difficult to measure and also more difficult to refute. Green and White and others estimate that children from lower-income families tend to have better outcomes, such as increased high school graduation rates, when their parents own a home.[11] But other intangible benefits are likely correlated with homeownership and not caused by homeownership. The distinction is important because homeownership is an expensive choice. Most of the population does not randomly choose between homeownership and renting; and this randomness of assignment is a requirement of statistical analysis that attempts to estimate the benefits derived from homeownership.[12] For example, it is not surprising that homeowners tend to have more income and be wealthier than renters, but this does not mean that homeownership causes higher income and more wealth. Standard mortgage underwriting requires that home buyers have a down payment (wealth) and a sufficient income stream (income); thus homeowners will be selected from a sample of high-income and high-wealth households that can qualify for a mortgage. People with more income and wealth will, on average, demand to live in nice neighborhoods. They will also have the financial means to exercise more control over their living environment.

In addition, we expect that homeowners will tend to move less frequently than renters, which will make mostly-owned-home neighborhoods appear more stable than mostly-renter neighborhoods. The sale of a home involves high transaction costs, which implies that a family will only buy a home if they expect to live in that home for a relatively long time. Homeownership will therefore be correlated with neighborhood stability but might not necessarily cause it.

The fourth commonly listed benefit of homeownership is that homeownership generates jobs and stimulates economic growth. For example, the U.S. Department of Housing and Urban Development states:

> Perhaps the greatest macroeconomic benefit of home-ownership is seen in the millions of jobs it creates for American workers. Building 1,000 single-family homes creates almost 2,100 full-time jobs. Almost half of these jobs are in onsite construction work; another 20 percent involve employment in transportation, trade, and other locally based services.[13]

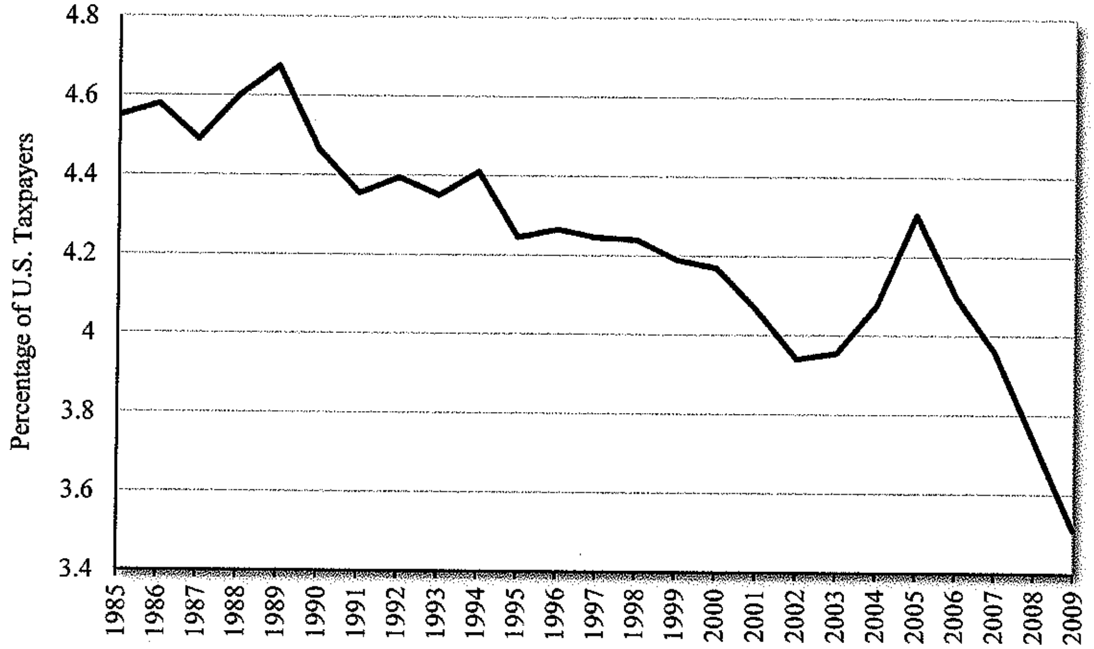
This idea that homeownership per se provides these kinds of economic benefits is astonishingly incorrect. To start, it takes labor to build any housing unit, owned or rented. Further, over long periods of time, the unemployment rate and the homeownership rate are uncorrelated. For example, the homeownership rate in 1950 was 55 percent and in 1990 it was 64 percent, almost 9 percentage points higher; whereas the unemployment rates in both years were nearly identical, 5.3 percent in 1950 and 5.6 percent in 1990.

In fact, there is some evidence that high homeownership rates may currently be inhibiting job creation. Figure 4 shows time-series data on across-metro-area migration rates for taxpayers. The data show a continuous downward trend over the entire sample, but there is a precipitous drop in migration rates starting in 2005. There is a lot of debate about why migration rates fell so fast after 2005. Some argue it is just a continuation of trends that started in the mid 1980s. Others have argued that it is due to the fact that many people own homes worth less than their mortgages and can't move. This lack of migration may be bad in the sense that people are not filling higher-wage jobs in different metro areas. That said, there is some evidence that migration rates for renters has also sharply declined after 2005 and more research on this topic is needed.[14]

Finally and perhaps most importantly, homeownership rates are not correlated with across-country standards of living. Table 4 lists homeownership rates and gross domestic product per capita (adjusted for purchasing power parity) for a set of advanced economies. The table shows that some relatively poor countries like Mexico, Greece, and Spain have higher homeownership rates than the United States and some relatively rich countries like Austria, Den-

Homeownership rates are not correlated with across-country standards of living.

Figure 4
Across-MSA Mobility Rates, 1985–2009 (percentage of taxpayers)



Source: Morris Davis, Jonas D. M. Fisher, and Marcelo Veracierto, 2011, "The Role of Housing in Labor Reallocation," Federal Reserve Bank of Chicago working paper 2010-18.

mark, Germany, and Switzerland have lower homeownership rates. In terms of the set of countries with data shown in Table 4, the United States is about in the middle of the pack in terms of its homeownership rate. The overall correlation of homeownership rates and standards of living is just about zero. If homeownership causes an increase in economic output, it is hard to observe from the data in Table 4.

It is quite possible that government policies to promote homeownership amplified the recent housing boom and bust.

Unintended Consequences of Homeownership as a Public Policy Goal

It is quite possible that government policies to promote homeownership amplified the recent housing boom and bust. At a minimum, government officials failed to try to soften the housing boom. For example, according to a *New York Times* article dated December 21, 2008:

> Lawrence B. Lindsey, [President George W.] Bush's first chief economics adviser, said there was little impetus to raise alarms about the proliferation of easy credit that was helping Mr. Bush meet housing goals. "No one wanted to stop that bubble," Mr. Lindsey said. "It would have conflicted with the president's own policies."[15]

The housing goals Lindsey refers to are related to homeownership targets for the relatively poor and underserved. To achieve those goals, HUD, under both presidents Bill Clinton and George W. Bush, directed Fannie Mae and Freddie Mac to increase the amount of mortgages they purchase from targeted income and geographic groups. Table 5 reports a summary of those directives. In 1992 HUD dictated that 30 percent of Fannie Mae and Freddie Mac's mortgage purchases should be from loans to low-income households. In 1996, the start of the housing boom, this target was increased to

40 percent. Between 2001 and 2007, a period of rapid acceleration of house prices, the low-income-mortgage target was gradually increased to 55 percent. Changes to other HUD low-income targets for Fannie and Freddie show similar time-series patterns.

Fannie Mae claims these targets affected its operation. According to Fannie's 10-K filed in May 2007:

> We have [also] relaxed some of our underwriting criteria to obtain goals-qualifying mortgage loans and increased our investments in higher-risk mortgages that are more likely to serve the borrowers targeted by HUD's goals and subgoals.[16]

The data on Fannie Mae and Freddie Mac's loan purchases, shown in Table 6, confirm that the percentage of higher-risk loans purchased gradually increased from 2003 to 2007. Focusing on Fannie Mae's books, the percentage of loans purchased with loan-to-

Fannie Mae claims these targets affected its operation.

Table 4
GDP per capita (adjusted for purchasing power parity) and Homeownership Rates, Various Countries, 2004

	2004 Real GDP (PPP) per capita	2004 Homeownership Rate
Spain	27,453	83.2
Ireland	35,457	81.4
Greece	25,456	73.2
Belgium	33,088	71.7
Mexico	10,682	70.7
United Kingdom	33,223	70.7
Australia	36,486	69.5
Luxembourg	67,856	69.3
Canada	35,640	68.9
United States	40,908	68.7
Italy	29,404	67.9
Finland	30,779	66.0
Netherlands	37,590	55.4
France	30,492	54.8
Austria	35,175	51.6
Denmark	33,861	51.6
Germany	31,389	41.0
Switzerland	36,848	38.4
Correlation	-7%	

Sources: Robert Summers, Alan Heston, and Bettina Aten, Penn World Table, "PPP Converted GDP Per Capita (Chain Series)," 5/2011, at 2005 constant prices; and Dan Andrews and Aida Caldera Sanchez, 2011, "Drivers of Homeownership Rates in Selected OECD Countries," Organization for Economic Co-operation and Development, Economics Department Working Papers no. 849, http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP%282011%2918&docLanguage=En.

Table 5
HUD Targets for Fannie Mae and Freddie Mac, Various Years (percentage of the total number of dwelling units underlying total mortgage purchases)

	1992	1996	1997	2001	2005	2006	2007	2008	2009
Low- and moderate-income (%)	30*	40	42	50	52	53	55	56	43
Geographic target (%)*	21	24	31	37	38	38	39	32	
Special affordable (%)**	12	14	20	22	23	25	27	18	

Source: Therea R. DiVenti, 2009, "Fannie Mae and Freddie Mac: Past, Present, and Future," *Cityscape: A Journal of Policy Development and Research* 11 (2009): 231–42.
Notes: *Total for low- and moderate-income and housing located in central cities. **Borrowers with less than 60 percent of their metro area's median income.

Table 6
Characteristics of Fannie Mae and Freddie Mac Loan Purchases, 2003–2007 (percentages are by volume of purchases)

Loan Purchases		2003 (%)	2004 (%)	2005 (%)	2006 (%)	2007 (%)
Fannie Mae	**Loan-to-value > 90%**	8	8	9	10	16
	Interest Only	1	2	10	15	16
Freddie Mac	**Loan-to-value > 90%**	7	7	6	8	15
	Interest Only	0	2	9	19	20

Source: Mark Calabria, "Fannie, Freddie, and the Subprime Mortgage Market," Cato Institute Briefing Paper no. 120, March 7, 2011.

value greater than 90 percent at origination (that is, the size of the loan was at least 90 percent of the value of the house, and thus the homebuyer was putting little of his own wealth at risk) doubled between 2003 and 2007. Also, the share of interest-only loans (that is, loans in which the borrower is not required to pay down the principal until the end of the loan) that Fannie purchased increased from 1 percent in 2003 to 16 percent by 2007. Patterns for Freddie Mac are similar.

Some researchers dispute that the HUD directives affected Fannie Mae and Freddie Mac's purchases of risky mortgages.[17] Table 6 confirms that the timing of purchases does not exactly align with the HUD directives. But my point here is that HUD encouraged Fannie and Freddie to expand mortgage credit and assume an increasingly risky portfolio at the height of the largest housing boom the United States experienced in at least 50 years. The housing boom was itself likely caused by the expansion of mortgage credit by private lenders. HUD thus encouraged the GSEs to engage in more risky mortgage lending at a point in time when risky mortgages were unusually widely available. If HUD had instead been concerned that the housing boom was in fact a "bubble," it might have directed Fannie and Freddie to scale back rather than expand lending.

Conclusions

In this paper, I have presented evidence that policies designed to promote homeownership are ineffective and poorly motivated. They are also expensive: the present value of the cost of homeownership subsidies equals $2.5 trillion. The body of evidence suggests we need to unwind the current set of public policies designed to promote homeownership and rethink whether homeownership is a desirable public policy goal.

Notes

1. Estimate from "The Budgetary Cost of Fannie Mae and Freddie Mac and Options for the Future Federal Rose in the Secondary Mortgage Market," Testimony before the House Committee on the Budget, June 2, 2011, http://www.cbo.gov/publication/41487.

2. Joseph Gyourko, "Is FHA the Next Housing Bailout?" American Enterprise Institute, November 2011.

3. A more common estimate is that the deductibility of mortgage interest reduced U.S. federal tax revenues by $91 billion in 2011. The estimate of $60 billion assumes that households would adjust their financial portfolios optimally after tax reform, whereas the $91 billion assumes households do not adjust their portfolio after tax reform. See James Poterba and Todd Sinai, "Revenue Costs and Incentive Effects of the Mortgage Interest Deduction for Owner-Occupied Housing," working paper, University of Pennsylvania, 2010.

4. For example, the former director of the Congressional Budget Office, Dan L. Crippen, said in his May 23, 2001, testimony to the Committee on Financial Services U.S. House of Representatives, "CBO estimates that interest rates on mortgages are reduced by one-quarter of one percentage point (0.25 percentage points, or 25 basis points) as a result of the federal subsidy."

5. Wayne Passmore, Shane M. Sherlund, and Gillian Burgess, "The Effect of Housing Government-Sponsored Enterprises on Mortgage Rates," *Real Estate Economics* 33 (2005): 427–63.

6. Alternatively, our trading partners have wished to accumulate our assets (thus pushing down their yields), requiring them to export their goods and services to us as payment.

7. These are taken from "Homeownership and Its Benefits," Department of Housing and Urban Development Urban Policy Brief no. 2, August, 1995, http://www.huduser.org/publications/txt/hdbrf2.txt.

8. The S&P/Case-Shiller data are available at http://www.standardandpoors.com/home/en/us.

9. The Federal Housing Finance Authority house price data are available at http://www.fhfa.gov/Default.aspx?Page=87.

10. Sean Campbell, Morris A. Davis, Joshua Gallin, and Robert F. Martin, "What Moves Housing Markets: A Variance Decomposition of the Rent-Price Ratio," *Journal of Urban Economics* 14 (2009): 248–61.

11. Richard K. Green and Michelle J. White, "Measuring the Benefits of Homeowning: Effects on Children," *Journal of Urban Economics* 41 (1997): 441–61.

12. Ibid. addresses the nonrandom assignment of families into owned or rented homes by using a "selection model" that explicitly accounts for the fact that ownership is a choice. Other studies attempt to break the nonrandom nature of the homeownership choice by using an approach called "instrumental variables."

13. These are taken from "Homeownership and Its Benefits," Department of Housing and Urban Development Urban Policy Brief no. 2, August, 1995, http://www.huduser.org/publications/txt/hdbrf2.txt.

14. Raven Molloy, Christopher L. Smith, and Abigail Wozniak, "Internal Migration in the United States," Federal Reserve Board Finance and Economics Discussion Series, 2011-30, 2011.

15. Jo Becker, Sheryl Gay Stolberg, and Stephen Labaton, "White House Philosophy Stoked Mortgage Bonfire," *New York Times*, http://www.nytimes.com/2008/12/21/business/21admin.html?_r=1&pagewanted=all.

16. Mark Calabria, "Fannie, Freddie, and the Subprime Mortgage Market," Cato Institute Briefing Paper no. 120, March 7, 2011. p. 8.

17. Ruben Hernandez-Murillo, Andra Ghent, and Michael T. Owyang, "Did Affordable Housing Legislation Contribute to the Subprime Securities Boom?" The Big Picture Working Paper, 2012.

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