

Stupidity Repeated

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This is a commentary concerning a repeat of a stupid government move that was one of the prime causes of the housing debacle. On December 4, 2008 the government announced that it wants to institute a program to enable home buyers to pay as low as 4.5 percent to encourage them to buy houses. To the unformed this sounds wonderful. To the informed it is the making of another disaster. I will explain why.

The only valid method to determine interest rates is via free market auction – a method that has worked very well over the years. The government setting an arbitrary interest rate is a manipulation of what is supposed to be a free market thus causing the usual problems that are often referred to as free market failures. It is government failure and a failure of socialism instead. An arbitrarily low (i.e. subsidized) interest rate will bring on more buyers as intended but the higher demand drives home prices upwards thus requiring the buyer to take on more debt and keeping monthly payments high even though at a lower interest rate. Whether interest rates are high or low the monthly payment for a given house is roughly the same as the price of the house moves in opposite direction to the interest rate. The savings often touted for low interest rates make the wrong assumption that home prices stay constant. One must realize that the specific purpose, as stated by the government, for low interest rates is to drive up home prices. I am not making this up. There are two common themes heard frequently from the government:

1. “The government must do all it can to make housing more affordable.”
2. “The government must do all it can to keep home prices up because our economy depends on high home prices and will collapse if home prices come down.”

These two themes are diametrically opposed but few seem to notice. The two themes converge if one understands that the phrase, more affordable, means making it easier to take on more debt. If the government would tell the truth (that will be the day!), a unified and honest statement would read:

“The government must do all it can to keep home prices up by making it easier for the population to take on ever higher levels of debt for the benefit of the debt mongers who control the government.”

It should be clear to all that the two numbered statements above from the government represent illegal market manipulation that would land private individuals in jail. The government openly admits to being corrupt but remarkably few understand that. The reality is that home prices should be set by a free market and it is the government’s job to strive to keep the market free and honest for the true benefit of all citizens, not just the economic elite. The government should be the enforcer of rules rather than the number

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one breaker of rules. That is the problem that caused the current housing debacle and that is the problem that will lead to the next debacle.

What amazes me is that there are a number of people (morons is the proper term) including various economists who obtained advanced degrees from various playboy colleges around the country who insist that I am completely wrong and that high home prices and high debt are great benefits to society and that the government should manipulate the housing market all it can. They further state that our entire economic system would collapse without that. I can state with confidence that those people who are often quoted on the news are totally ignorant. If you listen carefully you should realize that they speak in broad and nice sounding nebulous terms. If they are so smart then they should be able to provide credible answers to the following obvious questions:

1. How do high home prices help society and in particular individuals buying a house?
2. How does taking on higher debt help society and in particular individuals borrowing a lot of money?

I advise not to hold your breath while waiting for credible answers.

One justification that the morons use for manipulating home prices back higher now that they have fallen as the housing debacle continues to unfold is that people who owe more than their house is now worth will simply walk away from the mortgage thus exacerbating the problem. Sounds impressive, right? That is an absolute moron statement. People who can actually afford their mortgage will remain in the house regardless of whether it is worth more or less than the purchase price. It is true that they are stuck for a while as selling would require that a paper loss become a real loss. I have to ask how making the home price artificially high helps a potential buyer in this case. How did the previous artificially high price help the family now stuck in a house worth less than the purchase price? When you ask the right questions rather than blindly accepting what morons say, you begin to see how stupid the whole new deal is.

This new deal (that has a familiar ring from the past) is stupid because again it manipulates the price of housing upwards thus creating a new bubble that will ultimate burst as all bubbles do. One would think that would be common knowledge especially with all the agony brought on by the most recent housing bubble bursting. But the sheeple are forever gullible. I am expected to believe that the problems caused by government manipulation can be solved by more government manipulation. Rather, I am a heathen by definition since I do not believe as I am told to. I follow the anti-socialist philosophy of thinking for myself. The only real solution to the current situation is for the government to get out of the manipulation business. Yes, that will be painful for some – particularly in the short run. But it is going to be painful anyway over time with continued government manipulation.

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A good question to ask to people such as myself is, “What should be the price of a house?” The classic free market answer is that the price of the house should be the highest that a voluntary buyer will pay for it. Voluntary means that the buyer is not manipulated in any way by government or others with any kind of assistance or subsidies or coercion. The buyer must be using entirely his own earned money. Likewise, the seller must also be acting in a true voluntary manner free from any schemes to manipulate the total proceeds. Such a system of balance makes it impossible for the price to stay too high for the buyer or too low for the seller. Affordability comes through this balance. Depending on economic conditions the buyer may grumble at a high price or the seller may grumble at a low price but the sale goes through because it is either more beneficial or less bad than other options. The key is that both parties find some degree of satisfaction with the deal or it does not take place.

Another question to ask is, “What is affordable housing?” The answer is that the price of housing should be no higher than what a free market will support. Technically, this is the same question and answer as the previous one except cast from a different perspective. A person should only buy the house they can afford. Because people’s wants often exceed their financial capabilities this means that one may have to settle for a smaller (i.e. lower priced) house that is truly affordable rather than an unaffordable larger house where the deal is manipulated to make it appear affordable.

If the government truly wanted to make housing more affordable for lower incomers, it could make possible the construction of smaller (i.e. more affordable) homes that people with limited financial means could afford and pay back honest loans so that the net expenditure over time by the government was zero. Small homes generally do not have a sufficiently high profit margin for private contractors to be interested in as a business line. Not being in a debt trap, such buyers could then save money for a larger house in the future and ultimately sell the small house to someone else who could then enjoy the same benefit and without any public dole. In theory such an endeavor could be accomplished by a large group of investors expecting a return but that is not likely to happen on a sufficiently large scale as other venues typically provide higher return for the same risk. Thus, something the size of a government is needed to jump start the process. A key feature of what I have described is that the government makes a social investment that is paid back. The pay back is a necessary function. Otherwise the program degenerates into an endless socialistic dole.

There is a big difference between a social investment and socialism. A social investment provides a real return while accomplishing social good. By definition, socialism never returns anything. Socialism only begets more socialism. I can not conceive of any social benefit of encouraging the population to live on the dole. Socialism does benefit the economic elite in that they are the ultimate receivers of the money doled out after passing through the sheeple. Perhaps that is why a number of wealthy people are left leaning. Interestingly, they are the ones who control the government. Maybe I should stop here before I expose forbidden knowledge. I have already said more than I am allowed.