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## It's All or Nothing. I Prefer Nothing

By Arnold Kling - October 16, 2012

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Since the 1930s, we have dealt with mortgage lending through partially nationalized, partially privatized systems. We have gone through two total breakdowns, first with the savings and loans in the 1970s and 1980s, and then with securitized mortgage lending creating the housing bubble and the subsequent financial crisis.

If we want the government to get private risk-taking out of mortgage lending, then we have to nationalize the entire process, so that government originates loans, services loans (taking payments, handling foreclosures and so on), and holds the loans (not selling mortgage securities, as the government does now with Federal Housing Administration loans via the Government National Mortgage Association). Total nationalization would eliminate the conflict of interest that exists now between the taxpayers and the private firms that put taxpayers at risk.

However, nationalizing the industry would put a major management burden on an institution (the government) that handles such burdens poorly. Mortgage lending requires expertise, but the officials in charge would attain decision-making power not on the basis of experience in mortgage lending but on the basis of their ability to please political superiors. The corruption and incompetence that plague the Department of Energy's loan programs would likely be replicated in the nationalized mortgage lending system. Mortgage lending requires flexibility for dealing with local regulations and market conditions and adaptability in the face of changing circumstances. The bureaucratic process is not well suited to that environment.

I wish that we were moving in the other direction. Apart from consumer protection against predatory practices, the condition of the mortgage market need not merit government concern. If mortgage interest rates are higher than rock-bottom, then so be it. Above all, if businesses involved in mortgage lending become insolvent and have to go through bankruptcy, then so be it. By my reckoning, the costs of government meddling in the mortgage industry have been enormous, and the benefits have been microscopic.

Nationalization might work O.K. Privatization might work better. But neither option is politically feasible. The special interests (the National Association of Realtors, the National Association of Homebuilders, the Mortgage Bankers Association, Goldman Sachs and all the rest) will ensure that Congress keeps a partially nationalized, partially privatized system. Over time, through nimble financial innovation and effective lobbying, the private firms will manipulate any such system so that the profits become privatized and the risks become socialized. No matter how hard they try, policy wonks and regulatory staff cannot prevent this inevitable outcome.

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