

Congressman Ron Paul U.S. House of Representatives July 16, 2002

Mr. Speaker, I rise to introduce the Free Housing Market Enhancement Act. This legislation restores a free market in housing by repealing special privileges for housing-related government sponsored enterprises (GSEs). These entities are the Federal National Mortgage Association (Fannie), the Federal Home Loan Mortgage Corporation (Freddie), and the National Home Loan Bank Board (HLBB). According to the Congressional Budget Office, the housing-related GSEs received \$13.6 billion worth of indirect federal subsidies in fiscal year 2000 alone.

One of the major government privileges granted these GSEs is a line of credit to the United States Treasury. According to some estimates, the line of credit may be worth over \$2 billion. This explicit promise by the Treasury to bail out these GSEs in times of economic difficulty helps them attract investors who are willing to settle for lower yields than they would demand in the absence of the subsidy. Thus, the line of credit distorts the allocation of capital. More importantly, the line of credit is a promise on behalf of the government to engage in a massive unconstitutional and immoral income transfer from working Americans to holders of GSE debt.

The Free Housing Market Enhancement Act also repeals the explicit grant of legal authority given to the Federal Reserve to purchase the debt of housing-related GSEs. GSEs are the only institutions besides the United States Treasury granted explicit statutory authority to monetize their debt through the Federal Reserve. This provision gives the GSEs a source of liquidity unavailable to their competitors.

Ironically, by transferring the risk of a widespread mortgage default, the government increases the likelihood of a painful crash in the housing market. This is because the special privileges of Fannie, Freddie, and HLBB have distorted the housing market by allowing them to attract capital they could not attract under pure market conditions. As a result, capital is diverted from its most productive use into housing. This reduces the efficacy of the entire market and thus reduces the standard of living of all Americans.

However, despite the long-term damage to the economy inflicted by the government's interference in the housing market, the government's policies of diverting capital to other uses creates a short-term boom in housing. Like all artificially-created bubbles, the boom in housing prices cannot last forever. When housing prices fall, homeowners will experience difficulty as

their equity is wiped out. Furthermore, the holders of the mortgage debt will also have a loss. These losses will be greater than they would have otherwise been had government policy not actively encouraged over-investment in housing.

Perhaps the Federal Reserve can stave off the day of reckoning by purchasing GSE debt and pumping liquidity into the housing market, but this cannot hold off the inevitable drop in the housing market forever. In fact, postponing the necessary but painful market corrections will only deepen the inevitable fall. The more people invested in the market, the greater the effects across the economy when the bubble bursts.

No less an authority than Federal Reserve Chairman Alan Greenspan has expressed concern that government subsidies provided to the GSEs make investors underestimate the risk of investing in Fannie Mae and Freddie Mac.

Mr. Speaker, it is time for Congress to act to remove taxpayer support from the housing GSEs before the bubble bursts and taxpayers are once again forced to bail out investors misled by foolish government interference in the market. I therefore hope my colleagues will stand up for American taxpayers and investors by cosponsoring the Free Housing Market Enhancement Act.