

COMMENTARY



Bernie Smith of Bonney Construction places a window in a new home the company is building on Anchorage Avenue in Millidgeville.

NOEL CHENIER/TELEGRAPH-JOURNAL

U.S. ponders: how many people should own homes?

PAUL KRUGMAN
COMMENTARY

Owning a home lies at the heart of the American dream." So declared U.S. President George W. Bush in 2002, introducing his "Homeownership Challenge" – a set of policy initiatives that were supposed to sharply increase homeownership, especially for minority groups.

Oops. While homeownership rose as the housing bubble inflated, temporarily giving Mr. Bush something to boast about, it plunged – especially for African-Americans – when the bubble popped. Today, the percentage of American families owning their own homes is no higher than it was six years ago, and it's a good bet that by the time Mr. Bush leaves the White House homeownership will be lower than it was when he moved in.

But here's a question rarely asked, at least in Washington: Why should ever-increasing homeownership be a policy goal? How many people should own homes, anyway?

Listening to politicians, you'd think that every family should own its home – in fact, that you're not a real American unless you're a homeowner.

"If you own something," Mr. Bush once declared, "you have a vital stake in the future of our country." Presumably, then, citizens who live in rented housing, and therefore lack that "vital stake," can't be properly patriotic. Bring back property qualifications for voting!

Even Democrats seem to share the sense that Americans who don't own houses are second-class citizens. Early last year, just as the mortgage meltdown was beginning, Austan Goolsbee, a University of Chicago economist who is one of Barack Obama's top advisers, warned against a crackdown on subprime lending. "For be it ever so humble," he wrote, "there really is no place like home, even if it does come with a balloon payment mortgage."

And the belief that you're nothing if you don't own a home is reflected in U.S. policy. Because the I.R.S. lets you deduct mortgage interest from your taxable income but doesn't let you deduct rent, the federal tax system provides an enormous subsidy to owner-occupied housing.

On top of that, government-sponsored enterprises provide cheap financing for home buyers; investors who want to provide rental housing are on their own.

In effect, U.S. policy is based on the premise that everyone should be a homeowner. But here's the thing: There are some real disadvantages to homeownership.

First of all, there's the financial risk. Although it's rarely put this way, borrowing to buy a home is like buying stocks on margin: if the market value of the house falls, the buyer can easily lose his or her entire stake.

This isn't a hypothetical worry. From 2005 through 2007 alone – that is, at the peak of the housing bubble – more than 22 million Americans bought either new or existing houses. Now that the bubble has burst, many of those homebuyers have lost heavily on their investment. At this point there are probably around 10 million households with negative home equity – that is, with mortgages that exceed the value of their houses.

Owning a home also ties workers down. Even in the best of times, the costs and hassle of selling one home and buying another – one estimate put the average cost of a house move at more than \$60,000 – tend to make workers reluctant to go where the jobs are.

And these are not the best of times. Right now, economic distress is concentrated in the states with the biggest housing busts: Florida and California have experienced much steeper rises in unemployment than the nation as a whole. Yet homeowners in these states are constrained from seeking opportunities elsewhere, because it's very hard to sell their houses.

Finally, there's the cost of commuting. Buying a home usually though not always means buying a single-family house in the suburbs, often a long way out, where land is cheap. In an age of \$4 gas and concerns about climate change, that's an increasingly problematic choice.

There are, of course, advantages to homeownership – and yes, my wife and I do own our home. But homeownership isn't for everyone. In fact, given the way U.S. policy favours owning over renting, you can make a good case that America already has too many homeowners.

O.K., I know how some people will respond: anyone who questions the ideal of homeownership must want the population "confined to Soviet-style concrete-block high-rises" (as a Bloomberg columnist recently put it).

Um, no. All I'm suggesting is that we drop the obsession with ownership, and try to level the playing field that, at the moment, is hugely tilted against renting.

And while we're at it, let's try to open our minds to the possibility that those who choose to rent rather than buy can still share in the American dream – and still have a stake in the nation's future.

Paul Krugman is a syndicated columnist for the New York Times news service.

Housing crisis engulfs U.K.

TRISTAN STEWART-ROBERTSON
COMMENTARY

A friend here in the U.K. knew her one-bedroom apartment was worth about £130,000 (\$260,000 Canadian). Because she knew that most people now pay 25 to 35 per cent more than the asking price for a home, she put the flat on the market for £95,000. It sold within a week for £125,000 (\$250,000).

Crazy? Yes. That word is perhaps the only succinct way to encapsulate Scotland's property market, still just barely growing while the rest of the U.K. is starting to collapse, apparently.

The offers over concept is unique to Scotland, where the highest bidder wins. The only time I ever bid on a property, four years ago now, the one-bedroom flat was "offers over" £29,000 (\$58,000). I offered £37,000, which is what it was actually worth. It sold for £47,000 (\$94,000).

Property values have gone up by huge leaps, in tens of thousands of pounds sterling, not the mere pence or two. And that has caused much of the mess in which we are now swimming.

People were willing to take on more debt and the gleeful banks couldn't say no to mortgages at least three times a person's salary, with rumoured offers as high as four or five times annual earnings.

It makes for mortgages nobody

could ever hope to repay, and a property ladder inaccessible to first time buyers.

Part of the cause for the desperate climb up the social and housing ladders are TV personalities such as Colin and Justin, now afflicting Canadian television and somewhat forgotten here. Their show and others show the capacity to improve your home not for personal enjoyment, but to make more money when it is sold.

They famously ran a project in the U.K. in which they started with a relatively cheap apartment and kept selling and upgrading until the final property sold for £1 million.

Showing how to raise the value of a home helped everyone get in on the craze. Suddenly there was an entire section of the U.K. housing market that just changes hands to make money. It's not about having a home, or a life, but money.

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So now we're in a crunch. More than 23,200 Britons who took out 100 per cent mortgages could be facing negative equity, meaning that because of falling house prices their homes could soon be worth less than the amount they borrowed. Although these people represent just 2.5 per cent of all the mortgages taken out last year, the situation adds to the growing fears about the deflating

property bubble. Mervyn King, the Governor of the Bank of England, gave a stark warning on Tuesday that the financial excesses of recent years will lead to misery for homeowners.

Branded by one paper as "his gloomiest assessment to date," Mr. King said the recent financial "party" of cheap credit and excessive risk-taking has left a situation where "when the party ends, some innocent bystanders may lose their homes altogether."

Yet, despite homelessness still being an issue in modern Britain, most people do in fact have homes, either rented or owned.

The property bubble will hurt the banks, not most individuals who can keep up their payments.

There are a great deal of other elements connected to the debate on house prices. It is never in isolation. Large tracks of Britain are being "re-

generated," which typically includes hundreds of new homes that first-time buyers can't afford. And yet apparently too few new homes are being built.

When new swathes of homes are created, the drive is to satisfy the lust for being upwardly mobile in society, to promote the construction industry, to encourage the mortgage lenders.

What most people creatively ignore is that the banks own most of British

homes, not Britons themselves. Quite apart from the thousands who may lose their homes to repossessions this year because of the credit crunch, the rest of the nation is largely owned by other people.

So we come again to definitions, of "poverty" and of "value."

A religious leader speaking about his parish in Hull, England, referred to the disconnect between people, the failure of neighbours to engage with neighbours and create a sense of community as "a poverty." Not caring about nearly three million children who live below the poverty line? That is the true sign of a society in decline.

It might seem naïve to say this within a capitalist culture, but the value of a home is surely more than sum of its wood, bricks and/or mortar. A rich, "booming" society must be more than how many new mortgages are given out by a bank each year.

If, as seems to be the case, the property market is collapsing and the economy is in slowdown, then we must change our approach. Human value must be nurtured and cherished because a world in which we only care about our own house prices will be a very poor one indeed.

I don't know what my New Brunswick home is worth. The life inside it is worth a million – in any currency.

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CARBON TAXES? BETTER READ THE FINE PRINT...



LISA KEENAN
COMMENTARY

A few weeks back Energy Minister Jack Keir was on the radio expounding on carbon taxes and oil refineries. To make a long story short, the minister said that if his Liberal government ever winds up imposing carbon taxes on New Brunswickers (as is recommended in the government's newest discussion paper), then he would make certain that the Saint John oil refinery, one of the largest emitters of carbon dioxide in the province, paid the tax on every last emission.

As a statement it was clear and concise. However, for those who like to keep track of the comings and goings of the political word they should make note of the minister's statement on the refinery, for it will likely go down in history as:

a) The day the proposed second oil refinery for Saint John was scrapped, or

b) The moment that a broad-based carbon tax for New Brunswick died.

makes perfect sense that "polluters pay" the most. Unfortunately for the minister, "Polluter Pays" is not a slogan generally associated with Liberal governments; it's a Tory device.

Additionally, the minister's pledge falls short because the Saint John refinery, the largest in Canada, exports the majority of its output, either to other parts of Canada, or to other countries (primarily the United States). Because of this, a carbon tax, as proposed by the minister, would wind up increasing the costs of a major New Brunswick exporter. If this policy was carried through, it would change the economics for the proposed refinery at Eider Rock, and quite possibly lead to cancellation of the project.

So perhaps Minister Keir was, despite his clear words, actually referring to some other solution. One in which the refinery remits a carbon tax on fuel sold within New Brunswick, a carbon tax that it could collect from

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New Brunswickers. No! That couldn't be it.

Welcome to the world of carbon taxes. It's a new world for most Canadians, but it's something they should really get used to. In the "carbon tax world" governments impose taxes on industry and then shrug their shoulders when these taxes wind up

being paid by the consumer. In Quebec, where a carbon tax was imposed on petroleum companies last fall, consumers have seen pump prices increase by 0.8¢ per litre for gasoline, more for other products. Next week in British Columbia, gasoline prices are expected to pass \$1.50 per litre, when the carbon tax brought in by the B.C. Liberals bumps prices by 2.4¢ per litre (which will rise to 7.2¢ over four years).

In both B.C. and Quebec, fuel that is exported remains exempt from the carbon tax.

So, what will be the carbon tax in New Brunswick? The policy paper doesn't say, but it does suggest a plan similar to British Columbia's; although 3.8¢ per litre would seem apropos for this government.

All this is not to say that carbon taxes are, in and of themselves, wicked or devious. A properly constructed carbon tax, which increases over time as carbon use (by industry and consum-

ers) falls, would eventually result in government taking in less money in carbon taxes over the long term. Unfortunately for taxpayers, this last part appears to be missing from most of the carbon taxes that have been proposed in Canada (including New Brunswick). These taxes, such as they are, tend to

be light on the carbon, heavy on the tax. Even the much vaunted "green program" announced last week by federal Liberal leader Stéphane Dion proposes raising considerably more in carbon taxes (\$15.5 billion after four years) than it plans to give back in tax relief (\$9 billion). The remainder (about 40 per cent of the total), according to Mr. Dion's plan, will go into new spending. If his tax was actually projected to reduce carbon output, Mr. Dion wouldn't have tied future program spending to the carbon tax revenue.

That he did would seem to indicate that, for revenue purposes, the object of taxing carbon is to raise money, not reduce carbon; which is just as well. It seems unlikely that Canadians (and New Brunswickers) will be reducing their demand for energy (gasoline, heating fuel, electricity) over the near term.

Of course, our politicians know this, which is why carbon has become the new tobacco; a pariah product that government can tax to the hilt. As the saying goes, "Let he who is without a sin tax, start taxing business. All others can tax consumers!"

Welcome to the flaw in Minister Keir's plan. A carbon tax, despite statements to the contrary, is directed at you and me, not at big business. So it's time we all get used to paying that extra 3.8¢ per litre for gasoline. It's good for the environment. The minister said so!

Lisa Keenan of Saint John is a lawyer and the former president of the New Brunswick Progressive Conservative Party. Her column appears on Friday.