



Written by [Michael Tennant](#) on September 7, 2010

## Shock Therapy for the Housing Market

The Obama administration, writes the New York Times, has done just about everything in its power to prop up the sagging housing market, but all of its attempts have failed.

Housing sales in July were down 26 percent over July 2009. Now, says the newspaper, “there is a growing sense of exhaustion with government intervention. Some economists and analysts are now urging a dose of shock therapy that would greatly shift the benefits to future homeowners: Let the housing market crash.”

When even the *Times* is willing to consider the possibility of do-nothing government, you know things are bad. But what else is there to do? The government caused the housing bubble in the first place by artificially keeping interest rates low, forcing banks to lend to less-than-creditworthy persons, and (via Fannie Mae and Freddie Mac) handing out subprime mortgages like candy and creating securities backed by these mortgages. Since the bubble burst Washington has tried a slew of patches — “tax credits, mortgage modification programs, low interest rates, government-backed loans and other assistance” are examples cited by the *Times* — but the march toward reality, in the form of lower housing prices, has continued unabated. Further attempts to reinflate the bubble can only delay the day of reckoning, making the final crash that much worse.



The paper explains the reasoning behind the let-the-market-crash mentality:

When prices are lower, these experts argue, buyers will pour in, creating the elusive stability the government has spent billions upon billions trying to achieve.

“Housing needs to go back to reasonable levels,” said Anthony B. Sanders, a professor of real estate finance at George Mason University. “If we keep trying to stimulate the market, that’s the definition of insanity.”

... The deteriorating circumstances have given a new voice to the “do nothing” chorus, whose members



Written by [Michael Tennant](#) on September 7, 2010

---

think the era of trying to buy stability while hoping the market will catch fire — called “extend and pretend” or “delay and pray” — has run its course.

“We have had enough artificial support and need to let the free market do its thing,” said the housing analyst Ivy Zelman.

Michael L. Moskowitz, president of Equity Now, a direct mortgage lender that operates in New York and seven other states, also advocates letting the market fall. “Prices are still artificially high,” he said. “The government is discriminating against the renters who are able to buy at \$200,000 but can’t at \$250,000.”

Even the National Association of Realtors, which pushed for a housing tax credit last year, isn’t asking for more housing-market stimulus.

The *Times* is being somewhat disingenuous — or its reporter, David Streitfeld, is displaying his ignorance — in writing that only now are experts recognizing the underlying problem and arguing that the government’s doing nothing is better than the alternative. Austrian economists were [warning](#) of the housing bubble at least as far back as 2003. And in 1931, in the midst of another depression, one of the founders of this school of economics, Ludwig von Mises, [explained](#) that the solution to such government-created crises is not *more* intervention but *less*:

All attempts to emerge from the crisis by new interventionist measures are completely misguided. There is only one way out of the crisis: Forego every attempt to prevent the impact of market prices on production. Give up the pursuit of policies which seek to establish interest rates, wage rates and commodity prices different from those the market indicates.

The *Times* is, therefore, nearly 80 years late to the do-nothing party — but better late than never.

This is not to say that Washington’s letting the market fix itself would not have some painful consequences. As the *Times* points out, “homeowners who have already seen their home values drop an average of 30 percent” will be less likely to spend their money on other goods and more likely to default on their mortgages. In addition, says the paper, “since 2006, the Federal Housing Administration has insured millions of low down payment loans,” many of which will be among the first to default, leaving taxpayers holding the bag.

However, the long-term consequences of continuing to intervene in the market will be far worse. Housing prices will fall faster and farther when the crash is finally allowed to occur. The inflation needed to keep housing prices high — name another sector of the economy where the government publicly states its objective is to make things cost more — will erode the value of everyone’s savings and drive the prices of everything else higher. Resources will continue to be allocated toward home construction, sales, and financing despite clear market signals that such resources would be better used elsewhere, preventing complete economic recovery.

None of this fazes the Obama administration much, of course. The administration, said Shaun Donovan, secretary of housing and urban development, will “go everywhere we can” to keep the housing bubble inflated. Thus, they are plowing ahead with various initiatives aimed at stabilizing the housing market, none of which is likely to have any significant effect other than putting off the day of reckoning a little while longer.

The experts who argue that the government should leave the housing market alone are correct. While we’re at it, let’s ditch Fannie Mae, Freddie Mac, HUD, and the myriad other federal, state, and local



Written by [Michael Tennant](#) on September 7, 2010

---

government interventions into the market. The immediate consequences may not always be pretty, but they will set the stage for a faster, more thorough recovery.



## Subscribe to the New American

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



[Subscribe](#)

### What's Included?

- 24 Issues Per Year
- Optional Print Edition
- Digital Edition Access
- Exclusive Subscriber Content
- Audio provided for all articles
- Unlimited access to past issues
- Coming Soon! Ad FREE
- 60-Day money back guarantee!
- Cancel anytime.