

I'm Mad As Hell, And I Won't Take It Anymore!

By John Tuccillo, PhD

June, 2008

My apologies to the readers, but the title is the famous tag line from the prophetic movie, "Network", that thirty plus years ago foresaw the explosion of news-as-entertainment, 24-hour surveillance of everybody, and content-free "reality" television. Go back and look at it if you want to be really scared. But, the line also describes the way I'm feeling as the Congress bumbles through the current problems of the real estate sector. So, who am I mad at? Let me count the villains.

1. Whiners and self-seeking opportunists. The poster children here are home builders. They were a major cause of the housing downturn as they built subdivision after subdivision in response to demand that wasn't there. The net result was that inventory piled up as new homes went unsold or speculators tossed their keys back to the builders. This depressed the price of all homes on the market. Why did they do this? They did it to keep their stock prices up and thus safeguard the windfall they received from going public. And when the market collapsed around them, they had the nerve to ask Congress to allow them to carry current losses back against past profits for tax purposes (they almost got it, and still may—the Congress hasn't finished fouling things up yet.) The builders are like the kid who shoots both his parents and then begs the court for mercy because he's an orphan.
2. The financial sector. Like the guy with a hammer who thinks every problem is a nail, the financial sector, having had risk land on their heads, portray themselves as the center of the universe. Surely if some financial firms fail, then the planet will break free of the sun's gravity and spin off into the void of space. Don't believe it. The financial sector is in the business of accepting large scale risk so that commerce can be done. It is paid handsomely for its efforts, as well it should be. But when deals don't work out, or when the price placed on the risks is too low, losses will occur and this is part of the business. To whine (see the builders above) to the Fed when things don't work out is breaking the rules of the game.
3. The Fed. Yes, this is the institution charged with maintaining the stability of the financial system. But in this case, the Fed has gone overboard in its actions. For example, arranging for the sale of Bear Stearns to Morgan for \$2 a share was entirely appropriate in defense of the system. Responding to the complaints of Bear executives and raising the price to \$10 stepped over the line. As you know from my last column, the actions of the Fed will result in the outbreak of inflation next year, unless those actions are reversed before the end of this year.
4. The Congress and the Administration. Here again, the "no pain" culture that seems to have gripped America is in full flower. No homeowner who has been foreclosed should suffer the loss of his home. Sorry, but failure to pay should have consequences. I'm not a hardhearted person, but the way in which Congress and the Administration are approaching the solution to the housing sector problems fails to distinguish between the sheep and the goats, rewarding the guilty as much as saving the innocent. This is bad public policy. Both the Fed and

the Congress have now created an expectation that no misjudgment will ever land on the head of its perpetrator. This is a precedent that will only encourage more reckless behavior in the future.

5. Realtors and mortgage bankers. I don't believe that the finger of blame can only be pointed outward. During the frenzy, point of sale professionals did all they could to get people into houses, since this is what generates revenue. Scant attention in many cases was paid to whether this was the right house of the right mortgage or whether the buyer could sustain the payments on the mortgage. To the extent that this happened, the industry bears part of the blame.

Notice the villain I left out. Many in the real estate world have blamed the media for fomenting the crisis. To some extent this is true, but not to the degree most real estate professionals believe. I think the media got lucky. They kept preaching about a housing bubble because this was the type of story that brought by-line credit. Meanwhile, there was an untenable market growing that eventually broke. Well, I guess even the blind chicken finds an occasional piece of corn.