

# Who benefits from bailouts?

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Because they expect a bailout.

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When we have an election year coinciding with a real estate crash, we are sure to see Congress and state governments give billions of dollars to landowners who bought near the peak of the boom, mistakenly expecting their land value to escalate indefinitely, or at least until they sold to a bigger fool.

Of course, there were low-income buyers with poor credit that were deceived into buying a house, and then when the mortgage payment adjusted up, or when their income fell, they suffered a foreclosure. Many tenants are also have gotten hurt, as they have been ejected from their rental home when the property was foreclosed.

But homebuilders are supposed to understand their business. They know that real estate is cyclical. In the late 1980s some house builders got stuck with inventory when real estate fell in 1990. Now it's happening again. As in previous real estate booms, house builders overbuilt in the hot markets. Why don't they learn? Because they expect a bailout.

Congress is now crafting a \$15 billion real estate bailout. The legislation would refinance subprime loans, give a \$7000 tax credit for buying real estate in foreclosure, and give the home-building industry \$6 billion in "carry back" tax breaks. The bill would allow builders to use losses from 2008 and 2009 to offset profits earned over the previous four years rather than the usual two-year time limit. The largest builders would get the most benefit, amount to several hundred million dollars for a big builder.

Why is Congress giving this tax break to real estate developers? The National Association of Home Builders have a PAC (political action committee) which gives money to candidates for government offices. This PAC was one of the top contributors to federal office seekers in 2006. Since the 2000 election, the PAC has contributed \$11.3 million to federal candidates and parties.

You can see the money paid to politicians by real estate sellers and homebuilders in the web site [www.opensecrets.org](http://www.opensecrets.org), which lists the PACs and industries that finance political campaigns. There are contributions from the national as well as the state Realtor and home builders' associations. Among the donors since 1989, the third biggest is the National Association of Realtors, who have given \$32 million to politicians, while the National Association of Home Builders is ranked 23rd, having given about \$20 million. The finance/insurance/real estate interests - individuals and PACs - have given over \$200 million to politicians so far in the 2008 election cycle, according to the Center for Responsive Politics, which hosts the web site. Real estate interests rank fourth in payments to politicians, individuals and PACs contributing \$60 million so far in the 2008 election. A \$6 billion bailout is a rather good return (100 times greater) on this investment.

We should not blame these special interests, as they are playing the game by the rules the government has laid down, and we can't even blame politicians too much, because they need this money in order to use the mass media in their campaigns. The structure of mass democracy, where millions or many thousands elect a stranger to office, creates an inherent demand for campaign money, which special interests are happy to supply in exchange for favors. Governmental financing of campaigns would just add more

and restrictions on campaign financing are either circumvented or else end up stifling free speech. Taxing the profits of house builders is a crazy way to get government revenue, so giving back some of those tax payments would not be so bad if not for the fact that the profits of the real estate boom included huge subsidies as government services pump up land values that the builders then profit from. Builders had huge windfall gains as land prices rose, and they paid taxes on those gains, and now that land values are falling, they get back the tax money.


They should make a movie called “real estate gone wild.” We have a crazy quilt of taxes, subsidies, bailouts, and restrictions. The natural and simple solution to all this is a single tax on land value that would tap most of the land rent. That would smooth out the real estate roller coaster, and there would be no more bailouts, give-backs, and special favors. Once in place, it would not burden landowners, as what they pay in tax, they save in less mortgage interest.


The real estate crash will not bottom out until land values have fallen from their speculative peaks, and these government subsidies will help some folks but will also prolong the economic downturn. Tax credits, government purchases of foreclosed property, and other bail outs will temporarily prop up land values, but will be overwhelmed by the economic reality that is ultimately more powerful than governments.


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## Fred Foldvary, Ph.D.

### Economist

**FRED E. FOLDVARY, Ph.D.**, (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for [Progress.org](https://progress.org) since 1997. Foldvary's commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty*, *Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary's areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.

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