Published on *Adam Smith Institute* (http://www.adamsmith.org)

Paul Krugman and Sub Prime [1]

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Allow me, for a moment or two, to take Paul Krugman's argument at full and face value [3] :

> We?re told that we mustn?t regulate subprime lending, despite the vast wave of foreclosures it has produced, because to do so would prevent minorities and other disadvantaged Americans from achieving the dream of homeownership. Yet homeownership is already back down to about what [4] it was before the big wave of subprime lending began. All that the wonders of the financial market achieved, it seemed, was to give a lot of people a brief taste of homeownership, followed by a nasty foreclosure.

If that is indeed what has happened, was that in fact all that has happened? And if it was, does that now bolster the argument for the regulation of sub prime lending? This is where I think I stray from Krugman's line, in that we didn't actually know that it was all a bad idea before we started out on this path. I'm just about old enough to remember redlining [5] as a serious political issue and it's certainly true that we still have people insisting that the poor should be given access to easy credit (Polly, for example [6]). Now we're being told that actually allowing such people access to credit gave them a brief taste of home ownership and nothing more.

So while a great deal of effort and treasure was expended trying to get from a to b, we've ended back at a again with liittle show for that effort and treasure. Except, of course, that we now know the move to b isn't in fact something that we should try again. And that's the value of what has happened. It is, in fact, the way that we want markets to work, want the whole liberal capitalism shtick to do. People try things out, people experiment, and then when they start losing money they realise that this is the universe's way of telling them they're doing something stupid.

Now agreed, it's been an expensive lesson but then that in itself actually tells us why such sub prime lending doesn't need to be regulated. Who is actually going to do it again, given the 50 billion [7] reasons why they shouldn't?

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