

Sidelines

Forgive Us Our Debts

DO YOU WANT TO KNOW WHY THE WORLD IS drowning in debt? Because promoting indebtedness is a matter of public policy. It has been for a long time—3,797 years, anyway. Debtors get bailouts, handouts and windfalls. People with clean balance sheets do not.

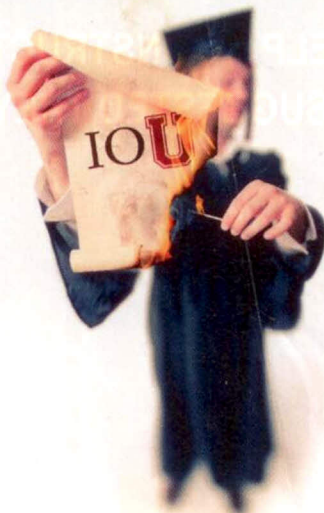
It's worth thinking about not only when you look at the economic mess we're in but when you look around for a place to put your money. This issue of the magazine features a big push for real estate (see p. 36). Load up on some debt-financed real estate, which you can do by either buying buildings with mortgages or owning investment trusts that do that. That way, when the next round of loot is dished out to debtors, you'll get your share.

How does public policy reward debtors? There are four ways.

The first is via loan forgiveness. As historian Niall Ferguson tells us, this kind of windfall goes back to at least 1788 B.C., when King Rim-Sin of Ur ordered a cancelation of all debts. Debtors outnumber creditors, so it's safe to assume this enhanced the king's standing in the polls.

Today's version of Rim-Sin is politicians falling all over themselves to bail out improvident home buyers and the banks that lent to them. This generosity will be financed by taxes on people who are frugal.

The Obama Administration is going to forgive some of the college loans owed by people who take public service jobs. It's hard to think of a worthier soul than the debt-burdened grad



who passes up a lucrative Wall Street career in order to be a teacher or nurse. But wait a minute. Shouldn't the rewards go to all the nurses, not just the ones who borrowed to the max? How about a pay raise instead?

All kind-hearted liberals favor debt forgiveness for the Third World. Call me a Scrooge, but I don't like this. I'd take the same dollars of aid and hand them out in a different way: not according to which impoverished nations run up the biggest tabs but according to which ones do the most to promote democracy, entrepreneurship and women's rights.

Next form of debtor aid is credit guarantees. When the government wants to subsidize a factory, small business or windmill, it does so by

cosigning the loan. Conservatively financed ventures miss out.

Third on the list is the deduction for interest, which assists homeowners, students and corporations that are hocked up. It's the stupidest and the most popular deduction in the tax code.

Last item is inflation, and this is where your debt-financed real estate comes in. It's too early to say whether the Federal Reserve, which has doubled its assets in the past year, will end up destroying the value of a dollar. But if it does, you can get a windfall. Borrow dollars now and pay them back with the funny money Ben Bernanke throws out of his helicopter.

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Forbes

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