A modest proposal

Congress is now wheeling and dealing with the Administration on a $700 billion legislative package to bail out the lending institutions caught up in the "mortgage meltdown." Needless to say, the federal government does not have an extra $700 billion lying around collecting dust, so that money has to be borrowed. (Some, if not much of the money needed, will come from other countries.) This enormous amount will be added to the already unfathomable national debt, and if the feds simply "print money" to partly deal with the situation the result will be inflation.

Why must the federal government be the buyer of the sub-prime debt? Legislators and regulators will be haggling over how much to pay for that debt, with some worrying that Washington will pay too much and be left holding the bag, and with others suggesting that if the debt is bought at fire-sale prices the government can end up making a profit by selling off the assets in the future. But regardless of the price the feds end up paying for the assets, Americans will end up with larger and more intrusive regulatory agencies and thousands of taxpayer-paid bureaucrats performing the bookkeeping.

Is there not another solution? Yes, and it's a relatively simple solution - let individual Americans and investors buy the debt at discounted prices. To encourage them to do so, provide one huge incentive: *eliminate the capital gains tax completely*. The revenue the federal government receives from the capital gains tax is chump change (about $122 billion in 2007) compared with a $700 billion (or more) bail-out, yet reducing that tax from its current 15 per cent to zero (Obama wants to raise it to 28 per cent) would be a phenomenal incentive for people to make investments. With the prospect of getting pennies-on-the-dollar prices for mortgage loans, and not having to pay capital gains taxes on any profits made on the deals, Wall Street could quickly unload those loans, get back on its feet, and it would cost the federal government almost nothing.

The simple truth is that no one knows what those mortgages are worth. Not everyone who got a sub-prime loan is going to default; most people who bought homes want to stay in them. If Wall Street were to bundle the loans into smaller "lots" and sell shares in those lots, existing brokers could handle the transactions for their clients, without the need for any expensive new federal bureaucracy to control the process. Just use the existing mechanisms.

The sellers of the bad loans would get only pennies on the dollar – but that's all they're going to get from Washington anyway. They may end up getting more from my private sector proposal, which should make them happy. In any event, no taxpayer dollars would be used in a bailout, and no taxpayers would be funding golden parachutes of Wall Street miscreants.

There is one caveat in my proposal, however. “You pays your money and you takes your chances.” If you buy shares in a loan bundle, you might make money. Then again, you might not. If you win, enjoy the profits and pay no capital gains. If you lose your shirt, don’t go whining to Washington.

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