Meddling with Mortgage Finance

The passage of the Housing and Economic Recovery Act in July of 2008 expanded the federal government's authority to place Fannie Mae and Freddie Mac into conservatorship. As exercised, the government secured the right to stock warrants worth 79.9% of the company, as well as a 10 percent dividend on its gross investment. The existing shareholders kept the other 20.1%. However, as Ike Brannon of the George W. Bush Institute and Mark A. Calabria of the Cato Institute argue in **"The Paths to Mortgage Finance Reform and Their Budgetary Implications"** (Working Paper no. 18), the terms of the conservatorship were repeatedly amended. As the two government-sponsored enterprises (GSEs) returned to profitability, the government laid claim to the entire net worth of them. "This move effectively froze out the non-government shareholders from any residual profits," they write. It also allowed the federal government to report sharply lower deficits than would have otherwise been the case. The current reform plan that has garnered bipartisan support would wind down Fannie and Freddie and replace them with new entities, while explicitly guaranteeing their $5.2 trillion of debt. "Explicitly guaranteeing the debt incurred by Fannie Mae and Freddie Mac represents an unprecedented step for the government, and something the Treasury previously went to some lengths to avoid," Brannon and Calabria write. Neither the public assumption of all GSE debt nor the effective confiscation of the private shareholders' GSE stock would send an affirming signal to private investment. "Reform of the U.S. housing market is past due: if we hope to rebuild our mortgage finance system on a foundation of private capital, then property and contractual rights must be respected," they conclude.

EDUCATION'S COLLAPSE

Academic performance and preparation for college success are widely shared goals, and

so it is useful for the public and policymakers to know how they have varied over time. Yet such data have been scarce at the state level, where the most important education policy decisions are made. Using a time-series regression approach, Andrew J. Coulson, director of Cato's Center for Educational Freedom, adjusts state SAT score averages for factors such as participation rate and student demographics, then validates the results against

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recent state-level National Assessment of Educational Progress (NAEP) test scores—producing continuous, state-representative estimated SAT score trends reaching back to 1972. In **"State Education Trends"** (Policy Analysis no. 746), he then charts these trends against both inflation-adjusted per pupil spending and the raw, unadjusted SAT results, providing an unprecedented perspective on American education inputs and outcomes over the past 40 years. In general, the findings are not encouraging. Adjusted state SAT scores have declined by an average of 3 percent. "This echoes the picture of stagnating achievement among American 17-year-olds," Coulson writes. That disappointing record comes despite a more than doubling in inflation-adjusted per pupil public school spending over the same period. "Consistent with those patterns," he continues, "there has been essentially no correlation between what states have spent on education and their measured academic outcomes." In other words, America's educational productivity appears to have collapsed, at least as measured by the NAEP and the SAT. "Two generations seems a long time for a field to stand outside of history," Coulson concludes. "Perhaps it's time to ask if there are inherent features in our approach to schooling that prevent it from enjoying the progress typical in other fields."

TOP-DOWN TRANSPORTATION

The Metro rail transit system now under construction in Panama City, and planned extensions to that system, are poor investments. According to Randal O'Toole's

"Review of the Panama City Metro Project" (Working Paper no. 17), the U.S. $1.88 billion construction cost of the first 13.7-kilometer line of the system could cost as much as $15 per rider, depending on ridership. But O'Toole, senior fellow at the Cato Institute, calculates that the costs of operating the line are likely to be greater than fare revenues, and maintenance costs for the system will grow until, after about 30 years, much of the infrastructure will need to be replaced at a probable cost of more than $1 billion. "The government says Panama City needs a rail system because buses do not have the capacity to move the large numbers of people who enter and leave the center city each day," he writes. But the government has designed, and is building, a low-capacity rail system that will not be able to move more than about 6,400 people per hour. By comparison, transit buses can move more than 10,000 people per hour on city streets and double-decker buses can move at least 17,000 people per hour. "The one thing rail transit does is create winners and losers," O'Toole continues. The winners include the companies that design and build the expensive rail lines, owners of property near rail stations, and the few people who will find it convenient to take a train from where most people don't live to where most people don't want to go. The losers include the taxpayers who have to support the train, owners of property away from the rail stations, and anyone who wants to travel to the many places the trains don't go. ■

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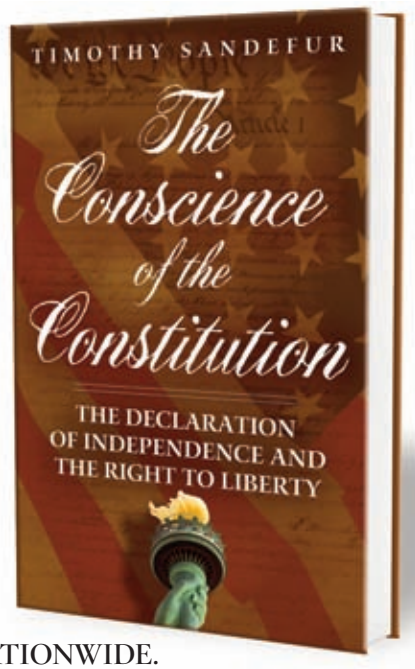

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