

Commentary: Rethinking the American Dream

By Tamar Frankel

Lurking in the background of the sub-prime crisis is the question: What sustains the American Dream of owning a home? Is ownership of a home the best way to live? How much does home-ownership really cost the taxpayers? And behind this question rises the unthinkable question: Is home ownership for the American middle and upper middle class obsolete? Should the American Dream be to "rent a home" rather than "buy a home"?

America is an egalitarian society. That is its strength and the source of its world leadership. It is also the land of competition: "Let the best man win." It is not surprising that low-income persons would strive to own their homes if home-ownership is the symbol of the American Dream. It is not surprising that middle class and upper middle class persons do not wish to permanently rent homes if rentals have been the home of the poor.

Historically, land ownership has been not only the sign of independence, but also the signal of power and the basis for the right to vote. Historically, home-ownership in United States has also been the main form of savings, until securities investments began to compete and seems to be getting the upper hand.

The question here is: Does the government support both home-ownership and home-renting? The answer: Indeed it does.

The foundation of the enormous mortgage loan market is statutory. It is driven by public policy designed to enable Americans to own a home. But let it be clear: This desire alone has not driven the acquisition of homes by middle and upper middle class America, just as renting homes by the low earning poor was not driven by the market. Both home-buying and home-renting are strongly supported by statutes and by taxpayers' money.

Home-ownership. Americans are encouraged to borrow money in order to acquire a home by a federal tax deduction of the interest they pay on the loan. In addition, they can deduct from the federal income tax the state and local property taxes they pay on their homes. And they are not required to declare and pay tax on their "imputed" income — the rent they do not pay living in their homes.

That last amount can be very high. My guess is that the rent on a large luxurious home in Boston might amount to over \$4000 a month. Had the owner rented the place to someone else, the renting owner would have had to pay tax on an annual income of \$48,000 minus his expenses. Add to these amounts the value of the government's guarantee to Fannie Mae and Freddie Mac, which appears on the companies' balance sheet.

Renting. Rental property for poor people costs the taxpayers as well. Those who rent homes to poor persons receive benefits from government, but are subject to very strict and some would say too strict, regulation respecting the maintenance of

the rented buildings. These supports and subsidies are paid eventually by the taxpayers.

Therefore, our current system is far from cost-free. We, the taxpayers, pay for the American Dream in tax money and in government guarantees to government corporations. To be sure, people usually take better care of their owned property than of property owned by others. In other countries that is not the case. There are countries in which people take very good care of the homes they rent long term. The renters' attitude depends on culture, not necessarily on logic or economic considerations or even self-interest.

It may well be that our system of financial support for home ownership has turned homes into investments, and not very good investments at that. No longer are generations of people living in the home of their ancestors. In fact, in our mobile society home ownership may not be a blessing but a costly and stressful experience. There is a high cost to buying and selling a home, such as brokerage costs. In addition, the simultaneous sale and purchase of two homes is risky. Also, the prices of two homes in different locations might differ and the buyers and sellers at the same time are not always available.

So perhaps the time has come to peek outside the box and ask whether our model of home ownership has outlived its usefulness. The sub-prime disaster that is now upon us demonstrates that for many homeowners, the owned home is not the castle.

I raise for consideration the unthinkable: Let the American Dream include, and perhaps shift to, a rented home. It can be just as much of a castle as an owned one but will not involve the renters' borrowing, and should absorb some if not all the tax advantages of the ownership.

Renting can be long-term, and people can take care of their rented homes as much as they can take care of homes they may own. Financial penalties for destroying rental homes might help. Renting can provide the intermediaries with business of securitizing the rentals and the real estate management companies' loans. These might provide a better business to all. The only thing that is needed is to change the myth and culture to a somewhat different American Dream. A Person's Castle can be a Rented Home.