



# FACTS & OPINIONS

*On Public Interest Issues*

## Quotes

That which is common to the most people has the least care bestowed upon it.

– Aristotle

The man who is ungrateful is often less to blame than his benefactor.

– Francois de la Rouchefoucauld

The attempt to produce heaven on earth invariably produces hell.

– Karl Popper

## The 'Own-to-Rent' Solution?

Doug Wilson

**C**EO's heads are rolling, millions of homeowners are facing foreclosure and the public's sense of frustration is palpable: Isn't there something Washington could do to make the mortgage mess go away?

Well, lots of things, actually — though few of them would really help to restore the vitality of the American housing market. Treasury Secretary Paulson, responding to criticism that the Bush Administration was doing nothing, announced a messy plan for a voluntary freeze on “teaser rates” on some high-risk loans that raises more questions than it answers. Meanwhile, the House unwisely proposed new regulation that would raise mortgage costs and narrow access to homeownership in the name of consumer protection.

Everyone, ironically, is ignoring a surprisingly simple change in market incentives

that would allow moderate-income owners to stay put after foreclosure, even as it speeds the recovery of the housing market.

The outlines of the mortgage crisis are now distressingly familiar. After years of housing-price inflation, lenders grew increasingly casual about the credentials of borrowers even as home buyers grew less wary about commitments to monthly payments they could barely afford. After all, rising prices assured lenders that they could always recoup their money in the event of default, while the never-ending boom meant that property owners could always refinance — or sell at a profit.

For their part, institutional investors ranging from Merrill Lynch to the Bank of China exhibited seemingly insatiable appetites for mortgages repackaged as derivative

*continued on page 4*

## FACTS & OPINIONS

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**President**  
Dr. Don Racheter

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## Focus on Iowa Wesleyan College

Iowa Wesleyan College continues to grow and prosper. A total of 252 new students have enrolled for the 2007-2008 academic year — a 7 percent increase from last year. The student body, which represents 25 different states and 22 countries, now totals 834.

In December, IWC added three new members to its College Board of Trustees: Dr. Richard L. Ferguson, Chairman and CEO of ACT, the nation's most widely used college entrance exam; Joy Anderson, a former instructor in the IWC English Department; and Warren Ludvigsen, a business professional who currently serves on the IWC alumni board.

On 20 December, IWC announced that it was the recipient of a \$10,000 grant courtesy of the Enhance Henry County Community Foundation. The grant will help finance the renovation of the Chapel Auditorium, the largest performance arena in Henry County and among the largest in Southeast Iowa.

That same day, the college announced that Dr. William Johnston, President of IWC, would be leaving the

*continued on page 8*

## What's New at Public Interest Institute?

Jon Miltimore

In January, Research Analyst Jon Miltimore traveled to Baltimore, MD to represent the Institute at a state policy summit hosted by Cato Institute. The summit included representatives from dozens of free market groups across the country and sought to identify state solutions and market oriented policy initiatives to combat the rising cost of healthcare.

From 3-5 December, Research Analyst Deborah Thornton was in Washington D.C. for a conference cosponsored by State Policy Network and Institute for Policy Innovation. The three-day event focused on a multitude of state government concerns including insurance regulation, healthcare, and telecommunications. Discussion also centered on strategic methods for enhancing government transparency and the utilization of the internet to facilitate a national limited government grass roots network.

*Have you renewed your  
membership with  
Public Interest  
Institute?*

## Squeezing the Middle Class?

Jon Miltimore

**E**ntering a new year I sometimes take a moment to reflect on how much we Americans have to be thankful for, not the least of which is a stable and healthy economy. Economies will always fluctuate, and it's possible that a number of economic factors and conditions — increasing energy prices, a retreating housing market built on bad credit, a waning dollar, etc. — will lead to a great and dire economic slow down, possibly even recession. Then again, maybe it won't.

One thing, however, is certain: The U.S. economy has enjoyed 24 consecutive quarters of economic growth — the second longest streak of economic growth in U.S. history (since the government

began measuring and recording such data in 1930). Since the passage of the Jobs and Growth Tax Relief Reconciliation Act of 2003 the economy has averaged a robust 3 percent growth per quarter. Since August 2003 — a total of 52 months — the U.S. has created a total of 8.3 million jobs, the longest streak of uninterrupted job growth in history.<sup>1</sup>

Despite the healthy state of the economy, however, many Americans are anxious. A CNN poll<sup>2</sup> taken in October showed that 46 percent of Americans believed the U.S. was currently in recession despite its 24 consecutive quarters of growth.

To be sure, some of this anxiety is to be expected. Job markets have become more volatile and fluid, giving the impression to some Americans that the economy is unstable. Sharply rising prices of commodities that Americans are heavily dependent on — say, gasoline and healthcare — undoubtedly contributes to the public's angst as well. But facts by nature are stubborn, and the fact is the U.S. economy continues to grow at a rapid pace.

Some persist in insisting that the fruits of this economic boon have not been enjoyed equally by all. This tale runs as

*continued on page 5*

**Table 1: More than 50 percent of taxpayers in the bottom quintile moved to a higher quintile within ten years**

*Income Mobility Relative to the Total Tax Filing Population, 1996 to 2005*

1996 Income Quintile	2005 Income Quintile					Total	Top 10%	Top 5%	Top 1%
	Lowest	Second	Middle	Fourth	Highest				
Lowest	42.4	28.6	13.9	9.9	5.3	100.0	2.3	1.3	0.2
Second	17.0	33.3	26.7	15.1	7.9	100.0	3.0	1.2	0.1
Middle	7.1	17.5	33.3	29.6	12.5	100.0	4.2	1.4	0.3
Fourth	4.1	7.3	18.3	40.2	30.2	100.0	8.6	2.7	0.3
Highest	2.6	3.2	7.1	17.8	69.4	100.0	43.4	22.5	4.4
Top 10%	2.6	2.2	4.9	11.8	78.6	100.0	61.1	37.6	8.3
Top 5%	2.6	1.8	3.9	8.6	83.1	100.0	71.6	54.4	15.2
Top 1%	3.2	1.3	2.2	4.9	88.4	100.0	82.7	75.0	42.6
All Income Groups	13.2	16.8	19.6	23.3	27.1	100.0	13.4	6.4	1.2

## Facts & Opinions Question of the Quarter:

**What should be the Iowa Legislature's number one priority in 2008?**

Send your thoughts on this issue to us at [public.interest.institute@limitedgovernment.org](mailto:public.interest.institute@limitedgovernment.org). We may publish some of your ideas in the next issue of *Facts & Opinions* in April 2008 and on our Website at: [www.limitedgovernment.org](http://www.limitedgovernment.org).

## The 'Own-to-Rent' Solution?

Doug Wilson

*continued from page 1*

securities that could be traded on global markets. The private rating agencies helped out by giving the seal of approval to these complex financial instruments, based on — you guessed it — the assumption that housing prices would always go up.

Happily, Wall Street's efforts last fall to get Washington to bail out the mortgage market with government-guaranteed credit never got much traction. But, eager to do something, the House, led by Democrat Barney Frank, produced a bill that would proscribe a laundry list of aggressive mortgage-marketing practices, bar outright the types of mortgages most likely to lure lower-income borrowers into deals with unaffordable payments, and widen the potential liability of both mortgage originators and investment banks when mortgage-backed securities go south.

It sounds good. But the well-intentioned attempt to micromanage the multi-trillion dollar mortgage market threatens to throw out the proverbial baby with the bathwater.

Remember that the expansion of mortgage brokerage beyond the control of traditional lenders has sharply increased competition. New limits on who can borrow and on what terms would raise mortgage costs — and, as important, put housing credit beyond the reach of millions of Americans. What's more, the new rules would raise the costs of mortgage securitization — an innovation that has made it possible for American homebuyers to borrow from Japanese housewives, Asian central banks, and European pension funds as well as the corner bank.

Secretary Paulson's response to the mortgage crisis is at least focused on helping moderate-income homeowners already caught in the credit crunch. The goal is to freeze interest rates for owners who can't afford to pay more, yet could manage to keep paying current rates. No one really knows, though, how to identify these borrowers; nor does the government have a way to enforce a voluntary deal that depends on the cooperation of dozens of institutional lenders to have much impact.

But, ironically, Dean Baker, an economist at the liberal Washington-based Center for Economic and Policy Research, has proposed a cheap, ingenious fix that would alter both borrowers' and lenders' incentives in ways that let markets manage what the Bush Administration attempted

to orchestrate in bank boardrooms. He would simply give foreclosed homeowners the right to remain in the houses by paying the fair-market rent (as determined by court-appointed appraisers) to their former creditors.

This "own-to-rent" approach would spare the most sympathetic victims of the mortgage bloodbath without giving them a free ride — along with paying rent, the reality that they had defaulted on mortgages would surely damage their credit. What's more, it would keep many foreclosed houses off the market, reducing the glut that will likely depress housing prices for years to come. And it would give mortgage holders an added incentive to renegotiate terms before foreclosure, short-circuiting the need for the sort of one-size-fits-all fix cobbled together by the Treasury. Not surprisingly, then, its appeal extends beyond liberals to free-market boosters like Desmond Lachman, a resident fellow at the conservative American Enterprise Institute.

Of course, it wouldn't please those who would use the mortgage conflagration as an excuse to go back to a era in which only solid middle-class types with a 20 percent down payment in hand could hope to own their own homes. Nor would it satisfy the impulse to put politicians and captains of

*continued on page 8*

## Squeezing the Middle Class?

Jon Miltimore

*continued from page 3*

follows: While the super-rich and the fat-cats on Wall Street have prospered, the middle-class and the “little guy” have missed out. It’s the same old saw: “The rich get richer; the poor get poorer.” The U.S. Treasury Department recently debunked this myth as well.

The Treasury Department’s report,<sup>3</sup> issued on 13 November 2007 and based on federal income tax returns from 1996-2005, reveals the extent of income mobility in the U.S. Among the reports conclusions were the following:

- "About half (58 percent by one measure and 45 percent by another measure) of those in the bottom income quintile in 1996 moved to a higher income group by 2005.
- Median incomes of taxpayers in the sample increased by 24 percent after adjusting for inflation ... The median inflation-adjusted incomes of the taxpayers who were in the very highest income groups in 1996 declined by 2005.
- Less than half (40 percent or 43 percent depending on the measure) of those in the top 1 percent in 1996 were still in the top 1 percent in 2005. Only about 25 percent of the

**"In truth, no such squeeze is taking place...any 'shrinkage' of the middle class has been a result of the sheer number of Americans moving up the income ladder."**

individuals in the top 1/100th percent in 1996 remained in the top 1/100th percent in 2005.

- The degree of relative income mobility among income groups over the 1996 to 2005 period is very similar to that over the prior decade (1987 to 1996)."

The Treasury data reveal the impressive economic mobility that still exists in the U.S. and reminds us that the terms “rich” and “poor” are not permanent conditions but often merely life stages.

However, an increasing number of Americans are beginning to succumb to the false perception that some great squeeze is wreaking havoc on the middle-class in the United States. Unfortunately, this belief is being fueled by a political discourse that is becoming increasingly shrill and populist. On the left, rhetoric

decrying “corporate greed” and “two Americas” is becoming increasingly prevalent. Meanwhile, the right is seeing a resurgence in the “economic nationalist” wing of the party — a faction long believed to be on the brink of extinction.

In truth, no such squeeze is taking place. Economist Stephen Rose recently debunked this myth by pointing out that although the number of Americans with annual incomes between \$30,000 and \$100,000 has shrunk since 1979, the number of Americans making less than \$30,000 has remained constant. The percentage of Americans making over \$100,000 per year, however, has doubled from 12 percent to 24 percent in that same period. What this means is that any “shrinkage” of the middle class has been a result of the sheer number of Americans *moving up* the income ladder.<sup>4</sup>

This is hardly a problem. More Americans making healthy incomes and improving the lives of themselves and their families — not to mention providing fuel to the economy and the government which runs upon it — is hardly a bad thing. Unless, that is, you make your living preying on the fears and anxieties of an apprehensive electorate by pedaling false theories of “two Americas.”

### Endnotes

- 1) United States Bureau of Economic Analysis, “Gross Domestic Product: Percent Change From the Preceding Period,” October 21, 2007, <<http://>

*continued on page 8*

## Religion: An Enduring Principle of the United States

John Hendrickson

**J**ohn Adams once observed, “Our Constitution was made only for a moral and religious people. It is wholly inadequate to the government of any other.”<sup>1</sup>

In a similar vein, Calvin Coolidge once stated, “The foundation of our independence and our government rests upon our basic religious convictions.”<sup>2</sup> President Coolidge was not breaking new ground, but was citing an American truth and principle that was at the center of the Founding. The First Amendment of the Constitution reads: “Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof...”<sup>3</sup> It is clear that the Founders created a system intended to secure and protect religious liberty; that is, Congress could not declare an official church as England had, but neither were the Founders advocating a secularized country.

Over the years, as government has swelled and blurred the lines between “public” and “private,” the debate over the role of religion in public has intensified. A secular push by modern

liberalism through various institutions — academia, the courts, and numerous political action groups — seems intent on purging religious symbolism and expression from public life. Advocates of secularism cite the First Amendment's establishment clause as grounds to declare that the Pledge of Allegiance, Christmas nativity displays, the Ten Commandments, the slogan “In God We Trust,” and a multitude of other religious expressions and themes should all be expelled because they violate the First Amendment.

Such a lazy and obtuse reading of our Founding document is degrading to the plaintiffs, the Constitution, and representative government. As Robert Bork has effectively argued, “No one reading the establishment clause (First Amendment) when it was ratified in 1791 could have anticipated the unhistorical sweep it would develop under the sway of modern liberalism to produce as Richard John Neuhaus put it, a ‘public square naked of religious symbol and substance.’”<sup>4</sup>

The Founding Fathers would hardly agree with this secular drive to undermine Christianity and religious expression from the public square. As the constitutional historian Dr. Matthew Spalding has explained, “Far from wanting to expunge religion from public life, the Founders encouraged religion as a necessary and vital part of their

new nation. They sought the official separation of church and state in order to build civil and religious liberty on the grounds of equal natural rights, but never intended — indeed, roundly rejected — the idea of separating religion and politics.”<sup>5</sup>

Religious liberty is the idea and principle that attracted various Protestant faiths and Catholics to the American colonies. But religious liberty does not mean a complete separation of church and state; rather, it is the idea that individuals can practice their faith independently of government interference. The Founders viewed religion as a part of natural law and political philosophy, which transformed into our constitutional system. As Dr. Spalding wrote: “The Founders’ support for blending religion and politics was based on the following syllogism: Morality is necessary for republican government; religion is necessary for morality; therefore, religion is necessary for republican government.”<sup>6</sup>

The Declaration of Independence, the Constitution, and the American System at large are based on moral law and liberty. Russell Kirk, the political philosopher and one of the leading conservatives of his time, understood this. As Kirk wrote, “Our American laws ... are a reflection of moral law, and especially of Christian moral belief.” However, Kirk adds that “they are not the

whole of moral law or Christian morality.”<sup>7</sup>

Richard John Neuhaus, a distinguished scholar on religion and faith, stated four truths that need to be kept in mind when considering religion and politics:

- “We know, first, that we must continue to make the public argument for Judeo-Christian tradition, recognizing that, uniquely in America, Jews and Christians can cooperate in giving political and legal expression to moral truth.
- We know, second, that from grade school through graduate school, we must again tell the American story straight, disestablishing establishment secularism’s bowdlerized version of our history that has been imposed upon young Americans for half a century.
- We know, third, that the separation of church and state does not mean and cannot mean the separation of religion and religiously grounded morality from public life, and, therefore, the First Amendment jurisprudence of the past half century and the public policy issuing from it require thorough amendment.
- We know, fourth, that just government is derived from the consent of the governed, and, therefore, we must strive relentlessly to turn back the judicial usurpation of politics.”<sup>8</sup>

In 1838, Abraham Lincoln, who was just starting his political career, addressed the Young Men’s Lyceum of Springfield, Illinois. In his address, Lincoln spoke of

the “political religion of the nation.”<sup>9</sup> He urged the nation to have a “reverence for the Constitution and laws.”<sup>10</sup> Lincoln’s political religion for the nation was based on respect and faithfulness to the Declaration of Independence, the Constitution, and the rule of law. Those principles are found in our Nation’s governing documents and the principles were derived from Judeo-Christian doctrine and teachings.

“We are a Christian nation that observes religious principles in its public acts, though enforcing religious convictions upon no one,” wrote Russell Kirk.<sup>11</sup> Dan Quayle, former Vice President and United States Senator, reflected on John Adam’s famous quote on our Constitution being created only for a moral and religious people when he wrote: “That does not mean Americans must line up behind one denomination or one faith. It does mean, however, that we must always be mindful of our nation’s religious heritage — and, when discussing issues respecting faith and free government, return to the wellspring of the founding generation.”<sup>12</sup>

Both Kirk and Quayle are correct. When examining individuals for public office, it is important to consider faith, but more importantly to consider how that individual will govern based on the enduring truths of the American Founding — truths based on

Judeo-Christian values.

Dr. Spalding has expressed this idea perfectly: “America does not depend on a shared theology, but it does depend on a shared morality.” Lincoln was right — that is our “public religion.”

## Endnotes

- 1) John Adams, “Address to the Military, October 11, 1798,” in Matthew Spalding (ed.), *The Founders’ Almanac: A Practical Guide to the Notable Events, Greatest Leaders, & Most Eloquent Words of the American Founding*, The Heritage Foundation, Washington, D.C., 2002, p. 191.
- 2) Peter Hannaford (ed.), “The Quotable Calvin Coolidge: Sensible Words for a New Century,” *Images from the Past*, Bennington, Vermont, 2001, p. 139.
- 3) First Amendment, United States Constitution.
- 4) Robert H. Bork, “Coercing Virtue: The Worldwide Rule of Judges,” *American Enterprise Institute*, Washington, D.C., 2003, p. 68.
- 5) Matthew Spalding, “The Meaning of Religious Liberty,” WebMemo No. 1722, The Heritage Foundation, Washington, D.C., December 5, 2007.
- 6) *Ibid.*
- 7) Russell Kirk, “The American Cause,” ISI Books, Wilmington, Delaware, 2002, p. 44.
- 8) Richard John Neuhaus, “Faith,” in Edwin J. Feulner Jr. (ed.), *Leadership for America: The Principles of Conservatism*, The Heritage Foundation, Washington, D.C., 2000, p. 242.
- 9) Abraham Lincoln, “The Perpetuation of Our Political Institutions: Address Before the Young Men’s Lyceum of Springfield, Illinois,” in Joseph R. Fornieri (ed.), *The Language of Liberty: The Political Speeches and Writings of Abraham Lincoln*, Regnery Publishing, Washington, D.C., 2003, p. 30.
- 10) *Ibid.*, p. 33.
- 11) Kirk, p. 38.
- 12) Dan Quayle, “Foreword,” in Daniel C. Palm (ed.), *On Faith and Free Government*, Roman & Littlefield Publishers, Inc., New York, 1997, pp. vii-viii.

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## Focus on Iowa Wesleyan College

*continued from page 2*

college to become President of Wesley College of Dover, Delaware. The Chair of the Board of Trustees at IWC, Dr. Lori Wright, said Dr. Johnston "brought new life and vision to Iowa Wesleyan, the community of Mt. Pleasant, and southeast Iowa. We are extremely grateful for Bill's strong leadership and wish him the very best in his new position."

On a sadder note, the college recently announced the passing of Burton P. Mahle, professor of music at IWC from 1960-1990. He was 79 years old.

## The 'Own-to -Rent' Solution?

**Doug Wilson**

*continued from page 4*

finance in charge of sorting out the equities. And that's just the point: Washington should manage the crisis by minimizing the collateral damage - not by eliminating the risks inherent to free markets.

***Doug Wilson heads Next Solutions, a California-based advisor to the home-building industry.***

***For more, visit:  
<http://www.tcsdaily.com/>***

## Squeezing the Middle Class?

**Jon Miltimore**

*continued from page 5*

[www.bea.gov/national/xls/gdpchg.xls](http://www.bea.gov/national/xls/gdpchg.xls)  
(November 13, 2007).

2) CNN Political Ticker, "Poll: Nearly half think U.S. in recession," October 18, 2007, <<http://politicalticker.blogs.cnn.com/2007/10/18/poll-nearly-half-think-us-in-recession/>> (November 20, 2007).

3) United States Department of the Treasury, "Income Mobility in the U.S. From 1996 to 2005," November 13, 2007, <<http://www.ustreas.gov/press/releases/reports/incomemobilitystudyfinal.pdf>> (November 17, 2007).

(Also, see Table 1.)

4) Stephen Rose, "5 Myths About the Poor Middle Class," *The Washington Post*, December 23, 2007 <<http://www.washingtonpost.com/wp-dyn/content/article/2007/12/21/AR2007122101556.html>> (January 5, 2007).

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