

## FREEDOM MEANS RESPONSIBILITY

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Nearly 16 years ago in these very pages, I wrote that "'one-size-fits all' rules for business ignore the reality of the market place." Today I'm watching some broad rules evolve on individual decisions that are even worse.

Under the guise of protecting us from ourselves, the right and the left are becoming ever more aggressive in regulating behavior. Much paternalist scrutiny has recently centered on personal economics, including calls to regulate subprime mortgages.

With liberalized credit rules, many people with limited income could access a mortgage and choose, for the first time, if they wanted to own a home. And most of those who chose to do so are hanging on to their mortgages. According to the national delinquency survey released yesterday, the vast majority of subprime, adjustable-rate mortgages are in good condition, their holders neither delinquent nor in default.

There's no question, however, that delinquency and default rates are far too high. But some of this is due to bad investment decisions by real-estate speculators. These losses are not unlike the risks taken every day in the stock market.

The real question for policy makers is how to protect those worthy borrowers who are struggling, without throwing out a system that works fine for the majority of its users (all of whom have freely chosen to use it). If the tub is more baby than bathwater, we should think twice about dumping everything out.

Health-care paternalism creates another problem that's rarely mentioned: Many people can't afford the gold-plated health plans that are the only options available in their states.

Buying health insurance on the Internet and across state lines, where less expensive plans may be available, is prohibited by many state insurance commissions. Despite being able to buy car or home insurance with a mouse click, some state governments require their approved plans for purchase or none at all. It's as if states dictated that you had to buy a Mercedes or no car at all. Economic paternalism takes its newest form with the campaign against short-term small loans, commonly known as "payday lending."

With payday lending, people in need of immediate money can borrow against their future paychecks, allowing emergency purchases or bill payments they could not otherwise make. The service comes at the cost of a significant fee--usually \$15 for every \$100 borrowed for two weeks. But the cost seems

reasonable when all your other options, such as bounced checks or skipped credit-card payments, are obviously more expensive and play havoc with your credit rating.

Anguished at the fact that payday lending isn't perfect, some people would outlaw the service entirely, or cap fees at such low levels that no lender will provide the service. Anyone who's familiar with the law of unintended consequences should be able to guess what happens next.

Researchers from the Federal Reserve Bank of New York went one step further and laid the data out: Payday lending bans simply push low-income borrowers into less pleasant options, including increased rates of bankruptcy. Net result: After a lending ban, the consumer has the same amount of debt but fewer ways to manage it.

Since leaving office I've written about public policy from a new perspective: outside looking in. I've come to realize that protecting freedom of choice in our everyday lives is essential to maintaining a healthy civil society.

Why do we think we are helping adult consumers by taking away their options? We don't take away cars because we don't like some people speeding. We allow state lotteries despite knowing some people are betting their grocery money. Everyone is exposed to economic risks of some kind. But we don't operate mindlessly in trying to smooth out every theoretical wrinkle in life.

The nature of freedom of choice is that some people will misuse their responsibility and hurt themselves in the process. We should do our best to educate them, but without diminishing choice for everyone else.