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Commentary by Ellen Gould

Conservatives still pushing mortgage deregulation?

Listening to Stephen Harper and you might think Canada plays to our national stereotype when it comes to the world of finance—we might be boring but at least we don't stand for the risky policies adopted by our American cousins.

In response to a pessimistic Merrill Lynch report on Canada's housing market, for example, Harper said 'We don't have the same situation here with the mortgages as was the case in the US with the subprime mortgages there. So, therefore, I think that our market is in a much stronger position.'

However, Harper's government is responsible for having pushed the envelope on deregulation both domestically and internationally, despite cautionary events in the US clearly indicating what could go wrong.

Promoting Mortgage 'Innovation'

In his first budget as Harper's finance minister, Jim Flaherty invited 'new players'—that is, US financial corporations—into Canada's mortgage insurance market and doubled the amount of government money available to back up private insurers from $100 billion to $200 billion. Flaherty's 2006 budget states that 'These changes will result in greater choice and innovation in the market for mortgage insurance, benefiting consumers and promoting home ownership.'

New York Times columnist Paul Krugman has observed that 'financial innovation' are two words that should henceforth strike terror into the hearts of investors. With the entrance of new private mortgage insurers into Canada after the Flaherty budget, Canada saw a dramatic weakening in the standards for mortgage insurance. This enabled Canadians to get into homes they otherwise couldn't have—and in many cases shouldn't have. It also kept house prices rising. In fact, Canadian median house prices peaked this year at levels higher than median prices at the top of the market in the US.

In November 2006, Canada Mortgage and Housing Corporation responded to the competition from private insurers by starting to insure no-down-payment, interest only, and 40-year amortization mortgages. A CMHC spokesperson was quoted in the *National Post* as saying: 'We're the third guys coming up to the plate with these products. AIG has done it, GE has done it. We're just doing something that's in the marketplace.'

Competition from US-based mortgage insurers meant risky products rapidly took over the Canadian mortgage sector. Forty percent of new mortgages approved in 2007 were amortized over 40 years, and in overheated markets like Alberta's, the percentage was even higher. By 2007, there was clear evidence from the US on the hazards of loose mortgage standards, but the Harper government did not step in to tighten regulations here.

Better Ways To Get People Into Housing

If the Tories had really wanted to make houses more affordable for low income Canadians, one thing they could have done was to reinstate CMHC's social housing programs. Innovative mortgage products do not do cash-strapped families any favours. Rather than being considered a break for low income people, mortgages with lengthy amortizations should be regarded as an extremely expensive way to buy a home. An analysis in the *Toronto Star* pointed out: 'A 40-year mortgage [on a $350,000 home] will save you $73 a week on payments but cost an extra $254,000 in interest than if you had opted for 25 years. It's a trade-off that works way better for the bank than your personal finances.'

As the Canadian economy turns sour, what will be the cost of Canada's experiment with mortgage innovation? In what may turn out to be a too-little, too-late intervention, this summer Flaherty limited CMHC to ensuring mortgages of homebuyers who can make at least a 5% down payment and who amortize their mortgages over a maximum of 35 years. The new restrictions only took effect as of October 15—essentially closing the barn door after the horse had bolted.

Selling Financial Liberalization To The World

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On the international stage, Canada is a major proponent of financial liberalization.

At the WTO, Canada heads a group of delegations pressing developing countries to open their economies to the supposedly superior services of foreign financial institutions. The world's major financial conglomerates are claimed to have sophisticated risk management capabilities that can stabilize economies. You might think these days such a claim would not pass the laugh test, but that did not stop financial liberalization from being pushed at the WTO ministerial meeting held in July 2008.

The enormity of what's at stake in the WTO financial sector negotiations is revealed in a February 2006 bargaining request sent from Canada's Department of Finance to developing countries. Canada asked that foreign financial institutions be guaranteed rights to 'establish new and acquire existing companies' in all financial sectors. This would mean among other things that countries would have to allow 100% foreign ownership of their banks and insurance companies.

Canada has also asked that companies be given WTO enforceable rights to trade in derivatives, which has been described as a high-octane form of financial speculation similar to gambling. Warren Buffett famously called derivatives 'financial weapons of mass destruction,' destruction that is now being witnessed on a daily basis on the world's stock exchanges.

While successive Canadian governments have been strong advocates of financial liberalization, the unfolding financial crisis might have suggested that it was time to show a little caution and back off these WTO negotiating demands. Yet a WTO submission from Canada, dated December 5, 2007, berates other WTO members for their lack of 'ambition' in the financial services negotiatins. On behalf of the co-sponsors of the submission, Canada claimed: 'further liberalization of financial services will help promote economic growth and improved standards of living for all WTO Members...'

It makes one wonder. Just how bad would things have to get before the Harper government realizes further liberalizing the world's financial markets is not such a great idea? ✐

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