**A Different View of Housing Policy in America**

**As American As Apple Pie**

The American Dream. White picket fences. Apple pie. These phrases and images are synonymous with middle-class life in America and closely associated with homeownership. This has become a truism in American parlance, but what if I told you that the government’s decades-long housing policy bias is, in fact, detrimental to the well-being of the nation and a significant policy error?

There are, of course, many good reasons for individuals or families to own their homes: a sense of permanence, financial stability, wealth creation, and civic engagement come to mind. It is no doubt a worthy goal. The issue arises from federal tunnel vision in favor of owner-occupation as an end to itself and the significant resources it devotes to that purpose, combined with layers of pernicious state and local policies which unduly favor homeowners and restrict growth.

**Federal Policy**

As outlined above, housing policy in the United States is heavily tilted in favor of homeownership over renting in a variety of ways.

One example is federal tax policy such as the [mortgage interest deduction](http://eprints.lse.ac.uk/49843/1/Hilber_Mortgage_interest_deduction_2013.pdf), which allows holders of real estate to deduct the annual mortgage interest payments from their taxable income and thus lower their tax bills. Another is the capital gains exclusion, which similarly excludes a significant portion of any capital gain tax from the sale of a home. Both serve as a major financial incentive to own housing rather than rent it. Only a handful of advanced nations have similar provisions.

Washington also provides more inconspicuous carrots through the government-sponsored enterprises (GSEs) Fannie Mae, Freddie Mac and Ginnie Mae, created during the New Deal to explicitly incentivize ownership by expanding the availability and reducing the cost of credit. They continue to operate today with a similar model and enjoy implicit or explicit government guarantees which allow them to provide prospective homebuyers with a material subsidy in the form of the now-ubiquitous and artificially low-interest 30-year agency mortgage.

Additionally, America subsidizes suburban homeownership through the enormously expensive federal highway program. In fact, the country became majority-homeowning only after WWII and the construction of the Interstate highway program. This led to urban sprawl, which is an economically inefficient use of space that makes public transit unworkable, creates gridlock, encourages pollution and carbon emissions, discourages growth and has historically been a source of exclusionary housing policies and attitudes.

Altogether, this amounts to what *The Economist* calls “[the West’s biggest economic-policy mistake](https://www.economist.com/leaders/2020/01/16/home-ownership-is-the-wests-biggest-economic-policy-mistake)” and blames it for “undermining growth, fairness and public faith and capitalism”. Interference with free markets often has unintended consequences, which in this case are explored below.

**NIMBYism**

We often hear in the news about the severe housing shortage the US is experiencing. Some estimates put the deficit at around 3.8 million homes nationally, and it stands to get worse, with per capita housing production being half of what it was in the 1960s. Demand is as high as ever, so why the gap? The pessimists will point to a chronic shortage of workers and the increasing scarcity of suitable land. These matter significantly. Thankfully, correcting the housing supply issue is not entirely out of our hands because the myriad restrictions on development in cities around the country are also a key obstacle. Overly restrictive zoning laws and excessive regulations such as labor requirements, environmental standards, and endless bureaucratic red tape slow housing development to a crawl.

If you add fervent community opposition to apartment construction (from the patrician and the downtrodden alike), supplying housing begins to seem like an impossible task. Many of these groups have one thing in common: they are homeowners, particularly of the older and wealthier variety, who will do everything in their power—which is considerable—to prevent development around them. Political influence, direct lawsuits (under a variety of creative pretexts such as traffic congestion, view preservation, and environmental damage), and [protesting transit investments](https://la.curbed.com/2019/7/29/8932166/beverly-hills-purple-line-lawsuits-cost) are all fair game. They often pay lip service to affordable housing and equity but are most concerned with their property values, in which a majority of their personal wealth is usually tied up, and also want to keep the “character” of their communities intact. This frequently happens in the most desirable neighborhoods, which are typically in central locations near job centers that can provide the most upwards mobility.

The phenomena explained above are collectively known as the Not In My Back Yard movement, better known as NIMBYism, which is at best misguided and at worst something [much more sinister](https://www.vox.com/the-goods/22597947/homeowner-nimby-affordable-housing-local). In practice, it creates an artificial market distortion and a significant restriction on supply when demand continues to skyrocket. Naturally, as supply decreases, so does affordability. Thus, entrenched homeownership is essentially anti-growth and directly detrimental to the health of our economy. *The Economist* estimates that if just three big cities—New York, San Francisco and San Jose—relaxed planning rules, US GDP could be 4% higher.

Homes are going on the market with declining frequency, while the ones that do sell at exorbitant amounts that price all but the wealthiest out of many markets. It is no wonder then that Baby Boomers in 1990 with a median age of 35 owned 33% of real estate, while a similar Millennial cohort owns only 4% today. All this leads to a toxic political and social situation that puts housing out of reach for many, breeds homelessness and creates stark wealth gaps along generational and class lines. It should be no surprise that younger generations in America are beginning to [lose faith in a capitalism](https://www.theguardian.com/politics/2021/sep/20/eat-the-rich-why-millennials-and-generation-z-have-turned-their-backs-on-capitalism) which isn’t able to meet their needs and instead are looking for answers within socialism or suboptimal ideologies.

**Financial Risk**

The other main downside of tilted housing policy considers the fact that housing is among other things a financial asset, and artificially inflating asset prices has led to bubbles and subsequent downturns throughout history.

Homeowners themselves bear significant risk from homeownership, which, like any other investment, is risky. As mentioned earlier, it can create wealth but also significant downside exposure, especially considering the majority of household wealth is tied up in this single asset. In past crises where home prices have declined, many borrowers saw themselves facing foreclosure and had their wealth wiped out. Additionally, homeownership can have higher costs than renting, especially at less favorable interest rates like the ones we have now.

Risk is very significant for broader markets also. Across the world, housing is the largest asset class, collectively worth over $200 trillion, which is 3x the value of all public equities. The Great Financial Crisis (GFC) of 2007-2009 is a stark reminder of the risks involved. Before 2008, government bias towards owner occupation, especially for less qualified borrowers, resulted in the [GSEs being pressured](https://www.brookings.edu/wp-content/uploads/2016/06/11_origins_crisis_baily_litan.pdf) to meet congressional affordable housing goals which led to excessively loose credit standards and the proliferation of non-conforming/subprime loans, which accounted for nearly 48% of all loans originated in 2006. This unsustainable situation created a housing market that became detached from the underlying fundamentals. It spectacularly crashed and brought the regular economy down with it, in what later came to be known as the GFC. Hindsight shows that this housing bubble was made possible by a boom in borrowing sustained by artificially low interest rates and easy credit standards, both of which stemmed from the government’s misguided homeownership policy goals. Essentially, implicit government guarantee, created to promote homeownership, led market participants to take on excessive risk.

**A Better Path**

It need not be this way. Cities such as Tokyo offer a glimpse to a better path. Authorities there don’t have a homeownership fixation and so housing supply there has been plentiful. There is no property shortage and homelessness has diminished by 80% in the past 20 years. Likewise in Germany, where renters make up around 50% of the population and NIMBY resistance is muted, house prices are no higher than they were in 1980, in real terms.

Few would argue that owner-occupation needs to be discouraged but it also shouldn’t be an end goal of public policy. Instead, authorities in America would do well to encourage stability and financial success for both renters and homeowners alike.

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