A dicussion of Low Homeownership in Germany - A Quantitative Exploration (Kass, Kocharkov, Preugschat, Siassi)

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Mannheim Workshop in Quantitative Macroeconomics

Paper in a nutshell

Germany has a particularly low homeownership rate.

- Germany: 44%, US: 67%, UK: 71%, Spain: 83%.

Research question: how do government policies influence homeownership in Germany?

Research method: a quantitative lifecycle model

- idiosyncratic income risk and state uncontingent bonds,
- endogenous house purchases financed by mortgage.

Findings:

1. Contributions of policies to homeownership
    - No transfer tax: + 11 pp.
    - Tax deductibility of mortgage interest: + 7 pp.
    - No social housing: + 4 pp.
    - Combined: + 20 pp.
2. Eliminating each of the above policies is bad for social welfare.
   Social welfare gains if housing policies target more accurately the poor.

My comments

1. Bequests and matching the wealth distribution
2. How much general equilibrium?
3. Welfare during transition
4. Transfer tax vs income tax vs property tax

Bequests and matching the wealth distribution

Bequests in the model:

- only accidental (no bequest motive),
- converted to financial assets
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- data: 167,000.

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Kaas, Kocharkov and Preugschat (2018) show in the data that

- 47% of German households inherit a house.
- Inheriting a house almost always leads to homeowning rather than renting.

Suggests that some Germans live in inherited houses, which is very plausible.

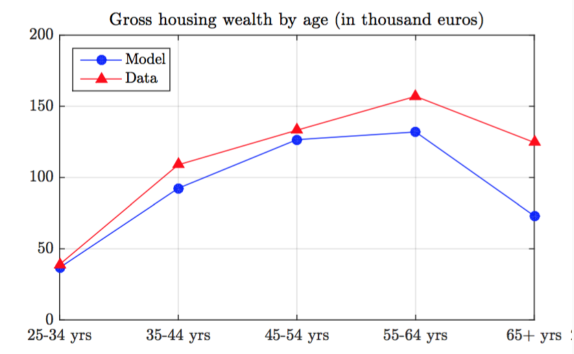
The model does not allow that by *forcing* agents to sell the inherited house.

- Receiving a house or its monetary value is not equivalent due to transaction costs and transfer taxes.

What if instead households could retain inherited houses?

Since inheriting a house avoids transaction costs, some household would for sure retain it.

Gross housing wealth should go up.



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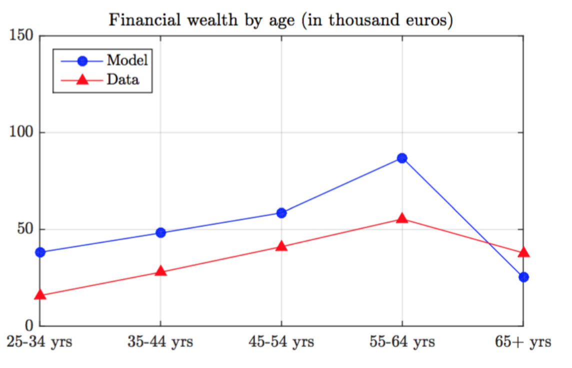
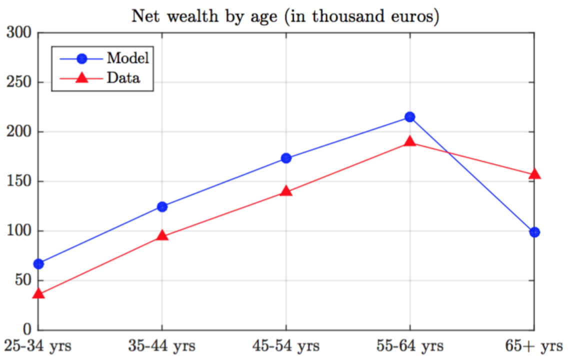


What if instead households could retain inherited houses?

Households accumulate financial assets to purchase house and to self-insure.

Inheriting a house reduces demand for financial assets on both margins, which should reduce total net wealth.



How much general equilibrium?

The interest rate and the wage level are kept constant across different policy scenarios.

Housing policies influence demand for financial assets and may have impact on these prices.

It would be useful to account for welfare impact of these changes in welfare comparisons.

Welfare during transition: intuition

Welfare gains from policy reforms calculated by comparing steady states.

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It implies that prices will be even higher during transition:

$$p_{\text{old steady state}} < p_{\text{new steady state}} < p_{\text{transition}}.$$

(and *vice versa* if the new steady state has a lower price)

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- If renters suffer in the long run, they will suffer even more in the short run (no transfer taxes, interest deductibility).
- If renters benefit in the long run, they will benefit even more in the short run (abolishing social housing).

Transfer tax

Real estate transfer tax - a tax paid whenever the house is purchased.

The transfer tax seems inefficient for reasons outside of the model: restricts geographical mobility.

The transfer tax seems inefficient also within the model: equivalent to higher downpayment (more severe financial frictions).

Transfer tax

Simplified model: a young household chooses next period house h', savings a' and consumption c subject to the budget constraint

$$c + a' = y - ph' - \tilde{t}^b ph'$$

and the mortgage borrowing constraint

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We can express the household problem as an equivalent problem without taxes with $\tilde{a}' \equiv a' + \tilde{t}^b ph'$:

$$c + \tilde{a}' = y - ph'$$

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A transfer tax is equivalent to **a higher downpayment when buying a house** and a higher interest rate next period.

Income tax instead of a transfer tax?

If the transfer tax is inefficient, why does removing it hurt welfare?

The income tax, used to fill the deficit, is even more costly.

Surprising, since income tax is non-distortionary - labor income is exogenous.

- With elastic labor supply, the income tax would be even more costly.

It must be the case that the income tax revenue is collected from people that do not benefit from the reduction of the transfer tax.

- Implicit redistribution from renters to owners.

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When ϕ is positive, **decreasing λ makes the tax system more regressive**.

Why not vary progressivity parameter ϕ as well/instead?

Increasing progressivity may work well also with elastic labor supply: Ferriere and Navarro (2017).

A property tax instead of a transfer tax?

Simplified model: household with current house h chooses next period house h', savings a' and consumption c subject to the budget constraint

$$c + a' = y + (1 + r)a - ph' + ph - t^p ph \tag{1}$$

and the mortgage borrowing constraint

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A property tax equivalent to **a higher downpayment when owning a house** which is reduced when buying a larger house, and a higher interest rate on debt.

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Upside:

- A property tax do not restrict borrowing when buying a first house.
- Tax liability is smoothed across periods ($t^p << \tilde{t}^b$).
- No hidden redistribution between owners and renters.

Downside: requires frequent evaluation of property value.

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Also used in Germany, but with much lower rate: $\approx$ 0.25%.

An idea for a policy experiment: reduce transfer taxes and increase property taxes.