



The Daily Dish

Housing and the Recovery

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Eakinomics: Housing and the Recovery

In the midst and immediate aftermath of the financial crisis, national house prices, housing construction, and the economy as a whole were in a deep recession. However, there were two very different views of the path forward. One could be characterized as a “fix the housing market to fix the economy” perspective, which I originally shared. The basic line of reasoning was that the sharp drop in housing values had created a large number of negative-equity (or even negative-wealth) households that would depress consumer spending and diminish incentives for business capital expenditures as well. The “solution” would be a large-scale (taxpayer-financed) equity injection into the residential housing sector.

This line of reasoning ran into two problems. The first was that any large-scale, taxpayer-financed housing policy was politically toxic and could never be implemented. (Recall that the birth of the Tea Party movement stemmed from CNBC’s Rick Santelli’s [rant](#) about using taxpayer dollars in the housing market.) As a result, the only mortgage-market policies that were politically feasible, e.g. the [Home Affordable Refinance Program](#), were economically inconsequential.

The second problem was that the house-price boom and bust was a “sandy state” characteristic — Las Vegas, Miami, and so forth. The troubled housing markets in the Midwest (e.g., in [Cleveland](#)) were a tribute to the broken economies. There never was a house-price boom; so there was no bust. There was simply economic stagnation that caused mortgage distress. In these circumstances, the basic policy prescription was “fix the economy to fix the housing market,” which could be applied more broadly as well. Better growth in jobs, wages, incomes, and the like would support continued mortgage payments, rising demand for housing, and improved housing values. A different way to say it is that sectoral policies (e.g., targeted housing policy) should not be used to address macro problems. Macroeconomic problems should be addressed with economy-wide policies.

Nearly a decade later, the slow but steady recovery has delivered housing values that exceed the peaks (except in cases like Miami or Las Vegas, where they are only slightly lower). Construction has recovered and new home starts and sales are climbing at a steady pace. Having achieved this position, it would be wise to finish dismantling the aggressive policies targeted at housing (including reform of Fannie Mae, Freddie Mac, and the Federal Housing Administration) to avoid exactly the circumstances found in the depths of the Great Recession.