

November 13, 2005

Ideas & Trends

Buy a Home, and Drag Society Down

By [EDUARDO PORTER](#)

THE recent proposals by President Bush's panel on tax reform led to a debate on whether the mortgage interest deduction was unfair, providing a huge subsidy for the rich while doing little for low-income Americans. But that debate poses a more fundamental question: Is homeownership a social good?

It has long been an article of faith among policymakers that homeownership produces a big beneficial spillover to society at large. In the 1920's, Herbert Hoover said a family that owned a home had "a more wholesome, healthful and happy atmosphere in which to bring up children." [Franklin Delano Roosevelt](#) said that "a nation of homeowners is unconquerable."

The government's use of tax incentives to encourage homeownership has a cost, however. The mortgage interest deduction and other subsidies will cost the government roughly \$716 billion in lost taxes over the next five years, the president's tax panel said. And the subsidy distorts incentives to invest, pulling money into housing from other parts of the economy. So, are Americans getting value for their money?

"Theory suggests there are social benefits to homeownership, but we don't know whether they are large enough to justify the size of the subsidy," said Joseph Gyourko, professor of real estate and finance at the University of Pennsylvania's Wharton School. "My gut feeling is that we are oversubsidizing."

Arguments for the positive effects from a society of homeowners - what economists call positive externalities - stem mainly from the fact that homeowners have a bigger financial stake in their homes than renters do. This motivates them, so the theory goes, to take better care of their houses and communities. In short, it will make them better Americans.

The argument seems to be supported by compelling evidence. In a 1998 study, Edward Glaeser, an economics professor at Harvard, and Denise DiPasquale, then a social scientist at the University of Chicago who now heads the housing research firm City Research, analyzed data from the General Social Survey, a big national study carried out annually since 1972, and concluded that homeownership did relate to heightened civic activity.

For instance, they found that 77 percent of homeowners said they had at some point voted in local elections, while only 52 percent of renters said they had. About 20 percent of renters knew the name of their representative on the school board; 38 percent of homeowners did. Homeowners went to church more, and invested more in the upkeep of their homes.

But as alluring as the data may be, economists and social scientists haven't been able to determine whether homeownership is actually generating all the positive statistics or whether, instead, it's just that people who vote more are more likely to buy homes.

Owning a home relates to a bunch of other things, too, and it doesn't necessarily mean that homeownership causes or encourages them. For instance, according to the 1998 study, homeowners are older, richer, more likely to vote Republican, and more than half of them own guns, while only a quarter of renters do.

"There's a pervasive problem in trying to sort out whether there is something intrinsic about homeownership that causes these externalities or whether the people that become homeowners are the kind of people that generate these externalities," said James Poterba, an economics professor at the Massachusetts Institute of Technology.

A study in 1996 by two economists, Richard K. Green at the University of Wisconsin and Michelle J. White at the University of Michigan, found that children of homeowners had a better chance of finishing high school than the children of renters, especially among low-income populations. And the daughters of homeowners were less likely to become pregnant before turning 18. But social scientists are hard-pressed to explain why homeownership would have this effect.

Beyond the difficulty of proving that owning a home generates positive social spillover, homeownership may also affect society in negative ways.

Homeownership limits mobility. According to census data, 31 percent of renters moved in 2003, compared with about 7 percent of homeowners. While this stability can be good for a community, the reduced mobility can become a problem in the face of a local economic downturn.

And homeowners may influence social policy to benefit themselves, at the expense of others. In a study of voters in California in 2000, Mr. Glaeser found that homeowners were more likely to restrict new home-building, voting for tough zoning rules and land-use controls.

"Homeowners have spearheaded the movement to limit new housing supply that has artificially inflated housing throughout the U.S.," Mr. Glaeser wrote. "This is the downside to having individuals who have incentives to keep price up."

The tax incentives might even be hurting America's inner cities, increasing the segregation of rich and poor.

Mr. Gyourko and Richard Voith, a former economist at the Federal Reserve Bank of Philadelphia who is now a partner in Econsult, a consulting firm, have argued that the mortgage interest deduction encourages richer families to buy bigger places in the suburbs and leave the more cramped cities to the poor.

"It reinforces the ability of people to segregate out between higher and lower income," Mr. Voith said. "Whether this outweighs the benefits of homeownership is an open question."

Regardless of the debate, little change is likely. President Bush's tax panel proposed only modest changes in housing subsidies: capping the amount of eligible interest and replacing the deduction with a tax credit worth 15 percent of a homeowner's mortgage interest. This plan, the panel said, would be more equitable. But, whatever its merit, the proposal has little chance of becoming law. Trimming the tax deduction would most likely reduce the value of houses of much of the middle and upper classes.

Those homeowners are unlikely to appreciate that. Indeed, they are likely to put all the political clout associated with homeownership in the service of protecting the value of their homes.

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