October 16, 2011

American Thinker

Why Herman Cain (and Almost Everyone Else) Missed the Housing Bubble

By Ed Braddy

Now that Herman Cain has become a top-tier presidential candidate for the Republican nomination, he is receiving a greater degree of scrutiny than ever before. And that includes efforts by the mainstream media to do what they do best to conservative candidates: prove somehow that said candidates are unfit to serve.

First it was MSNBC's Lawrence O'Donnell playing the role of the white liberal lecturing Herman Cain on what it means to be black. Now it's Chuck Todd wondering what did Cain know and when did he know it...about housing bubbles.

During an October 11 interview (minute 4:58) on MSNBC, Chuck Todd said to Cain:

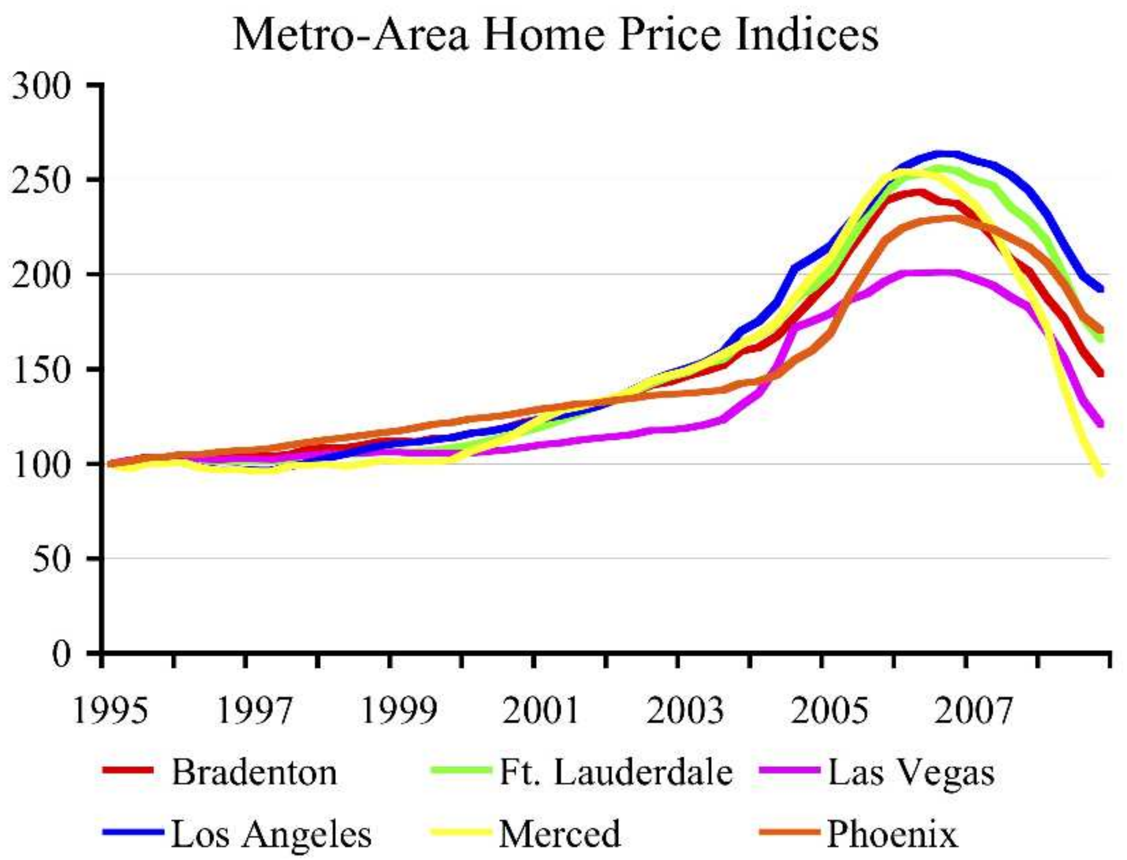
This is something you wrote in 2005, saying, arguing that there was no housing bubble. You wrote this in 2005, in Business and Media Institute, you said, "Coverage of the Bush economy reads like a collection of Democratic Party press releases, calling a strong economy everything from struggling to volatile or dicey. That kind of ignorance makes homeowners fear that their most expensive possession could turn worthless overnight. That won't happen."

Cain said he didn't know "just how bad Fannie Mae and Freddie Mac had distorted the housing market."

The implication is that Herman Cain is not fit to lead America into economic recovery because he didn't see the bubble before it burst. But if failing to recognize the housing bubble and its causes is a disqualifier, then virtually all presidential candidates would be ineligible, including President Obama.

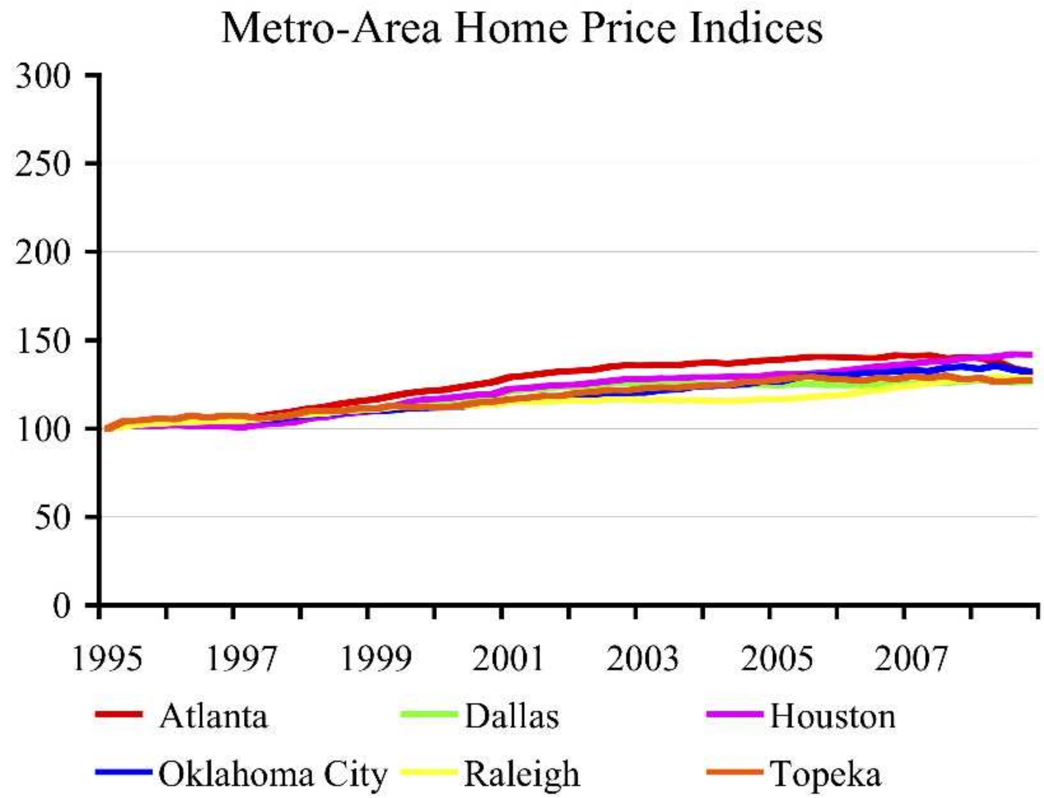
The housing bubble was real, as the figure below of select housing markets illustrates.

Figure 1. Prescriptive Housing Markets

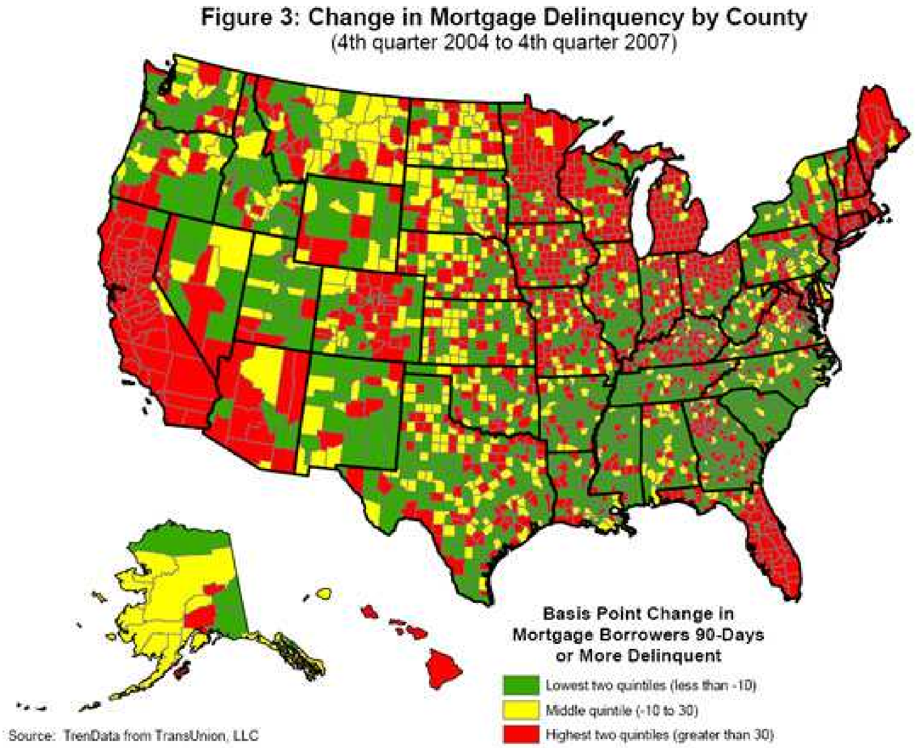


Chuck Todd finds it incredible that Herman Cain didn't see this, but it's hard to fault Cain for not noticing a housing bubble when the housing market in which he lived didn't have one. In fact, Atlanta was one of several major metropolitan areas where prices stayed within the range of inflation.

Figure 2. Responsive Housing Markets



The federal government's role in creating market distortions has been pretty well-explained, most recently by Peter J. Wallison in the *Wall Street Journal*. He summarizes the major legislation that virtually mandated risky lending practices *in every metropolitan area and in every state*. With such top-down control, the frequency of mortgage delinquencies should have been nearly even across the country. But that's not what happened.



As the figure above shows, severe mortgage delinquencies were concentrated in a handful of states and metropolitan regions. If federal policy was uniform, why the stark differences?

The answer is found in growth management regulations that are implemented at the local and state levels, resulting in what are either prescriptive or responsive housing markets. All communities have some degree of land use regulation. In places like Atlanta, Houston, and Kansas City, leaders work to minimize restrictions on growth in order to create a more responsive environment for business and housing.

By contrast, places like Portland, Seattle, and San Jose have added layers of land use regulations to their development codes in an effort to prescribe the outcomes desired by planners but not necessarily preferred by the general public. This not only imposes additional costs to build, but also creates artificial scarcity in land supply.

Sampling the regulatory environment in more than 300 U.S. cities, economists at the University of Alberta and Bowdoin College found that "supply constraints in the housing market amplified the boom-and-bust consequences of the subprime expansion in the mortgage market."

Randal O'Toole of the Cato Institute looked at 384 housing markets and found "strong correlations between growth management planning and housing bubbles." Additionally, O'Toole observes that the biggest housing bubbles were in Arizona, California, Florida, Maryland, Nevada, and Rhode Island, of which only Nevada -- severely restricted by the federal ownership of land -- does not enforce statewide growth management regulations. By contrast, in the 29 states that did not experience significant housing bubbles, only one -- Tennessee -- practices growth management.

The most common name for these planning laws is Smart Growth, but variations include New Urbanism, Sustainable Communities, and the more recent Livable Communities. Beneath the feel-good rhetoric of Smart Growth is a coercive set of policies aimed at pushing higher population densities into city centers while curbing suburban growth.

As Thomas Sowell observes, "[o]ur own more recent housing boom and bust began when local politicians in various places began severely restricting the building of houses, in the name of 'open space,' 'smart growth' or whatever other political slogans were in vogue." The wave of mortgage delinquencies and foreclosures that followed crippled banks and "magnified the nation's economic problems."

Because it created the housing bubble, Smart Growth was complicit in the near-collapse of the U.S. economy, but it's not high on the list of concerns for limited-government activists. Instead, a lot of attention is paid to an organization called ICLEI -- Local Governments for Sustainability and its promotion of the U.N.-sponsored Agenda 21. Although a worthwhile cause, getting local governments out of ICLEI will not stop the growth of coercive central planning.

To be sure, local politicians are not reading memos from the United Nations, but they are getting policy ideas from associations like the ICMA, American Planning Association, League of Cities, Conference of Mayors, and the Association of Counties, all of which heavily promote Smart Growth despite its broken promises.

The impact of growth management regulations is indirect, its costs are hidden, and the infringement on private property rights is incremental. Yet there is a growing body of literature that convincingly implicates excessive Smart Growth and its variants with a host of negative impacts.

Whether Herman Cain or any other Republican presidential candidate was fully aware of what caused the housing bubble, it's unlikely that any of them would use his or her administration to nationalize Smart Growth the way the current administration has done. But central planning is not just confined to Washington, D.C., so let's keep an eye on the state and local governments and their ambitious but misguided efforts to micromanage the way we live.

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