



**Ideas Changing the World**

## *Questioning Homeownership as a Public Policy Goal*

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It is not a stretch to say that the bust to owner-occupied housing in the United States led to a sizeable contraction of global economic output, says Morris A. Davis, an associate professor at the University of Wisconsin --Madison, School of Business.

The terrible consequences that this sector of the economy has wrought on the nation are cause for further investigation. Specifically, are those government policies that sought to boost homeownership in the United States truly worth the cost?

The federal government attempts to make more Americans into homeowners through two separate policy initiatives:

- First, the cost of mortgage interest is deductible from household income for taxpayers who itemize allowable expenses.
- Second, the federal government acts to reduce the cost of mortgage interest by explicitly insuring the principal on mortgages purchased by the Federal Housing Authority and by guaranteeing the debt of Fannie Mae and Freddie Mac.

An examination of homeownership rates in the United States explains, however, that these policy goals are both ineffective and overly expensive.

- Between 1900 and 1940, the U.S. homeownership rate was stable at about 45 percent.
- Between 1940 and 1970, the homeownership rate increased by 20 percent to about 65 percent.
- In comparison, since 1970 the homeownership rate has increased by only 2 percentage points, and this is during a time of extraordinary efforts to boost ownership rates.

These ineffective measures came at an enormous cost to American taxpayers.

- The Congressional Budget Office recently estimated that the total cost of Fannie Mae and Freddie Mac to current and future taxpayers is \$317 billion.
- Some economists argue that the Federal Housing Administration will lose another \$50 billion or more in the upcoming years.
- In addition, economists estimate that federal tax revenues would be roughly \$60 billion higher each year if the mortgage interest deduction were eliminated from the tax code.
- Assuming a 3 percent discount rate on these lost tax revenues, the net present value of the \$60 billion in annual tax losses is \$2 trillion.
- When added together, the net present value of the cost of housing policy designed to promote homeownership is likely on the order of \$2.5 trillion.

Source: Morris A. Davis, "Questioning Homeownership as a Public Policy Goal," Cato Institute, No. 696, May 15, 2012.

For text:

<http://www.cato.org/pubs/pas/PA696.pdf>

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