

Las Vegas Sun

Help may bring another bubble

Economists say extending tax credit for first-time homebuyers is bad policy

By [J. Patrick Coolican](#) ([contact](#))

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No doubt, a big tax break for first-time homebuyers is good politics.

The \$8,000 tax credit, enacted this year when Congress passed the \$800 billion stimulus program, helps families looking to buy a house for the first time, as well as real estate agents and developers, who are ailing in the face of the worst housing market since the Depression.

Nevada more than just about any other state could use help for its beleaguered construction industry; unemployment in construction in Clark County has climbed into the high 20s and could reach 50 percent this year, according to labor union officials.

So it's not surprising that Nevada's congressional delegation has signed on to a plan to extend the credit and even make it more generous.

"It's working," says Rep. Dina Titus, the 3rd District Democrat. "You can see the positive impact of it. It really is stimulating the economy, helping Realtors and developers and homebuilders and individual homebuyers."

Although the politics are a surefire winner, especially here in Nevada, some economists across the political spectrum question whether the tax credit is good policy.

"It's terrible policy," says Mark Calabria of the libertarian [Cato Institute](#).

"It's awful policy," says Andrew Jakabovics, associate director for housing and economics at the liberal [Center for American Progress](#). "It's incredibly expensive. It's not well targeted."



Chris Morris

Home sales have risen dramatically in the past year, but most economists don't attribute the increase to the tax credit. [August single-family-home sales](#) in Southern Nevada, for instance, hit 3,229, up more than 25 percent from a year earlier.

But economists attribute most of the rising sales to the plunge in prices, not the tax credit. The median sale price of single-family homes was off more than 35 percent from a year earlier.

"A heck of a lot of people would have bought the house anyway," says Ted Gayer, an economist at the [Brookings Institution](#).

According to [an estimate by the National Association of Realtors](#), of the 2 million new homebuyers since the credit was instituted, 350,000 say they would not have bought a house without the tax break.

"We paid \$8,000 to at least 1.5 million people to do something they were going to do anyway," Jakabovics says.

The tax break, due to expire at the end of November, is on track to cost \$15 billion, twice what Congress had planned. In other words, it will cost \$43,000 for every new homebuyer who would not have bought a house without the tax break.

Gayer also questions whether moving people from renting to owning is really all that useful:

"Sure, the people in my rental house buy the empty house next door. Then the house next door is no longer vacant, but my rental property is."

Economists derisively call this rush to get people to buy homes "reinflating the bubble."

Government policy for decades has favored owning over renting because policymakers always believed homeownership created stable neighborhoods and offered a safe investment for the middle class.

Plus, as Calabria notes, "we give homeowners massive subsidies because they vote more often." For Calabria, the policy amounts to taking money from the pockets of renters and stuffing it into the pockets of owners, and to robbing young Americans because it is adding to the national debt, which will have to be repaid eventually.

The housing bust has called the long-standing policy of favoring homeownership into question, as millions of Americans owe more on their homes than they are worth, leaving owners trapped and unable to move to another city to find a better job.

Economists say even with brisk sales of late, encouraged in part by the tax credit, the real problem — excess supply of housing stock — remains.

Economists say the glut of housing can be mitigated only by creating more households, and, thus, demand for housing.

A [survey by respected pollster Peter Hart](#) for the AFL-CIO found that one in three workers younger than 35 lives with his parents. With young workers living with Mom, apartment vacancies hit a 22-year high nationally during the second quarter and climbed to 9.5 percent in the Las Vegas Valley, according to Applied Analysis, an economics research firm.

The tax credit is one, albeit very expensive, way to create more households, but rental vouchers to get people out of their parents' basements should also be considered, economists say.

Economists also question whether more money could be used to lower monthly mortgage payments.

Finally, they say the Federal Reserve should keep interest rates low, which would guarantee affordability for the life of a loan.

Walter Molony, a spokesman for the National Association of Realtors, counters that without the credit, sales would have been 6 percent lower, which would have pushed prices down further and encouraged more people to walk away from their homes.

With so many new foreclosures every month, buyers are needed to soak up the new inventory, he says.

Finally, Molony says, with every home purchase, there's an additional \$63,000 pumped into the economy, as buyers tend to make purchases after the sale, on big-ticket items such as carpet and appliances.

Andres Carbacho-Burgos, an economist for Moody's Economy.com, said that the tax credit might have had some effect in boosting demand.

Economy.com expects home prices in Nevada to decline for three more quarters.

Indeed, some economists think the situation is so dire that the shock therapy of the tax credit, even if expensive and inefficient, is worth it. Elliott Parker, an economist at the University of Nevada, Reno, calls the tax credit a "blunt instrument" but said anything that encourages confidence and convinces potential buyers that we've hit bottom can be defended as sound policy.

Housing and construction have historically led the U.S. out of recession in every single one since 1960, and some economists worry that until that sector returns, the recovery will be tepid at best.

Whatever the arguments, an extension of the tax credit is gathering momentum. The entire Nevada delegation supports it, for instance.

And as with the wildly successful — and expensive — "cash-for-clunkers" program, the visible increase in home sales will likely encourage Congress to extend the break, especially as unemployment and foreclosures keep rising.

As Sen. John Ensign said last week on the Senate floor in support of the measure, "Clark County, where Las Vegas is, has over a 13 percent unemployment rate. I don't think folks living there think the recession is over."

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