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Why the Housing Bubble Was Local, Not National

Today's idea: What caused the housing meltdown? The Fed? Loans to unqualified buyers? An economist says look not to national policy but local regulation: "restrictive growth management was a necessary condition for the housing bubble."

Economy | In a new study for the Cato Institute, Randal O'Toole, a free-market economist, finds himself in presumably rare agreement with the Nobel economist and liberal Times columnist Paul Krugman.

Jim Wilson/The New York Times California: hard-hit by the housing bubble.

In a 2005 column, Krugman wrote that heavily regulated areas of the country — he called these the "Zoned Zone" — were "prone to housing bubbles" because "a combination of high population density and land-use restrictions — hence 'zoned' — makes it hard to build new houses."

And indeed, O'Toole finds, Krugman's early diagnosis of the bubble has been borne out: In heavily regulated places like California and Florida, scarcity inflated housing prices, which have since tanked, while prices in less regulated Texas and Georgia "haven't significantly declined."

A fascinating thing: The conservative scholar Thomas Sowell advances much the same thesis in his new book, "The Housing Boom and Bust." [Cato, National Review, New York Times]

More Recommended Reading:

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- The Dangerous Convulsions of Yemen – *Brian O'Neill, Daily Star*
- "Socialist" Ortega Is Nicaragua's Newest Tycoon – *Tim Rogers, Christian Science Monitor*
- "How Moody's Sold Its Ratings, and Sold Out Investors" – *Kevin Hall, McClatchy*
- Confessions of a Congressional Gay Spouse – *Marlon Reis, CNN*
- The Making of a Flyover American – *Sophia Dembling, Flyover America*
- A Brief History of Chinese Food in America – *New Yorker Book Bench*