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## Real Estate

# Brookings Economist Blasts First-Time Homebuyers Credit

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Published: Sept. 28, 2009

In an article and video published on the home page of the Brookings Institution, the co-director of the prestigious think tank's economic studies program says extending or expanding the first-time homebuyer [tax credit](#) will cost far more than the \$15 billion of the current credit, likely in excess of an additional \$30 billion.

Economist Ted Gayer argues the tax credit is poorly targeted, since approximately 1.9 million buyers are expected to receive the credit, but more than 85 percent of these would have bought a home without the credit. This suggests a price tax of about \$15 billion - which is twice what Congress intended - for approximately 350,000 additional home sales. "At \$43,000 per new home sale, this is a very expensive subsidy," he said.

A study by Zillow released September 24 found an almost identical number. Zillow found that the credit would be a "significant influence" on the decisions of 334,000 buyers' decisions to buy, out of a total 1.86 million first-time homebuyers who will qualify for the credit. The cost to the government in lost tax revenues will be \$14.86 billion, or \$44,491 per transaction.

Gayer also said that most of the new home sales will just result in moving renters to owners, and will not absorb the excess supply of houses. The core of our weak housing market is that the housing bubble led to too many homes being built, and the recession has led to a decline in household formation. By moving renters into owners, the tax credit does not address either of these causes," he said.

"Finally, there are two larger points we should not lose sight of. First, tax expenditures are not a free lunch. The billions of dollars spent on the tax credit will ultimately have to be paid back through higher, economically distorting, taxes. And while a tax credit is unlikely to be the straw that breaks the camel's back, our growing debt burden is something to fear. Second, government policies to promote homeownership (or, more accurately, home-borrowership) were partial contributors to our housing and credit market problems. Ultimately, we need to decrease the government's housing incentives, including the mortgage finance subsidies, the [mortgage interest deduction](#), and the favorable capital gains treatment for housing. A good place to start this weaning would be by not extending or expanding the home-buyer tax credit," Gayer wrote.

Gayer is one of several economists who have spoken out in recent weeks against extending the credit. Others include Dean Baker, co-director of the Center for Economic and Policy Research, Mark Calabria of the CATO Institute, and Timothy Duy, director of the Oregon Economic Forum. Mark Zandi, [chief economist](#) of Moody's Economy.com, is an advocate of



Mark Zandi, chief economist and co-founder of Moody's Economy.com speaks to the media after a meeting between House leadership and economists on Capitol Hill in Washington on March 10, 2009. (UPI Photo/Roger L. Wollenberg) | [Enlarge](#)

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