

Deludedly Deeming Deregulation a Disaster

I posted this on Twitter two weeks ago.

Suppose housing deregulation drastically increased housing supply.

Housing prices fall 50%.

Living space per capita doubles.

What share of the U.S. population would nevertheless call housing deregulation a “disaster”?

— Bryan Caplan (@bryan_caplan) November 13, 2019

The results were much as expected. Housing deregulation could deliver *everything* its proponents promise. Housing deregulation could bring back a world where high school grads commonly buy shiny new homes in high-wage regions. And if my respondents are correct, this seemingly rosy scenario would *still* outrage a great swath of the population. Note, moreover, that if a third of Americans would decry deregulation as a “disaster,” then we can safely assume over half would at least deem it a “mistake.”

Most people would probably chalk the disaster rhetoric up to human selfishness, but don’t be hasty. Consider the myriad ways that homeowners could nevertheless selfishly benefit from deregulation:

1. Homeowners who own little or no equity could walk away from their small, expensive home in favor of a larger, cheaper home.
2. Homeowners who eventually planned to move to a larger, more expensive home could easily find that their losses on their *old* home are smaller than their savings on their *new* home. And they wouldn’t have to wait as many years to upgrade.
3. The grown children of settled homeowners could much more easily afford to live near their parents – and wouldn’t need so much help for a down payment.
4. Yes, higher local population means more congestion. Yet it also means better shopping, entertainment and employment opportunities. What’s the *net* value of all the good effects of more people bundled with all the bad effects of more people? The very fact that prices are much higher in densely-population areas strongly suggests that the net value is highly

positive. “New York would be great without all the people” is sadly naive, because without all the people, New York would no longer be great. Upshot: When prices fall in half, established homeowners get at least some offsetting gain in consumers’ surplus.

5. If you’re willing to move, improve, or subdivide, deregulation allows even established owners with lots of equity to readily profit. If you suddenly gain the right to legally subdivide your lot into *three* homesites, a 50% fall in the value of the home you own is a fair price to pay. The same goes if you can now build *up*. Replace your home with a 10-story apartment and pocket the difference. *Cha-ching.*

Do I seriously believe that many – perhaps most – existing homeowners will profit from deregulation? Earnestly, I do.

Doesn’t this mean that tens of millions of homeowners are simply confused? Indeed it does.

Isn’t that an absurd view? So it might seem – until you realize that much of the population rents, but only a tiny minority of the population sees housing regulation as a problem. Deeper research confirms that renters strongly oppose deregulation, too! Since tenants are plainly deluded on this, why is it so hard to believe that homeowners are deluded as well?

Personally, I own a lot of home equity, and hope never to move. If housing prices fell 50%, it would directly cost me hundreds of thousands of dollars. Yet even from a totally selfish point of view, I still say deregulation would be awesome.

Why? *Because I want my kids to be able to afford to live in my neighborhood when they grow up.*

Don’t you?