

Immigration and Housing: The Meaning of Hsieh-Moretti

Now that we correctly understand Hsieh-Moretti's results, let's put them in context.

1. Immigration researchers have focused heavily on the economic effects of full deregulation of immigration. Hsieh-Moretti (henceforth HM), in contrast, focus on the economic effects of *moderate* housing deregulation. Their chief hypothetical is not, "What would happen if there were zero housing regulation?" but "What would happen if the Bay Area and NYC only had as much housing regulation as the rest of the U.S.?"

2. Immigration researchers find truly enormous economic benefits of full deregulation; roughly speaking, open borders would double Gross World Product. HM's results aren't quite as dramatic, but in absolute terms they still boggle the mind. Their conservative estimate is that moderate housing deregulation would increase US GDP by 14%. Their corresponding optimistic estimate is +36%.

3. In both cases, we're talking trillions of dollars of *annual* gain, implying an astronomical present value.

4. How can the gains be so big? Because (a) the regulations have a large effect per person, and (b) affect large numbers of people. Big times big equals enormous.

5. What's the mechanism that yields these gains? The answer in both cases is the same: Moving workers to places with higher productivity. Deregulating immigration lets workers in low-productivity countries move to high-productivity countries. Deregulating housing encourages workers in low-productivity *regions* to move to high-productivity *regions*.

6. In both cases, focusing solely on the direct victims of regulations is misleading. The direct victims of immigration restriction are would-be migrants deterred by the First World's immigration restrictions. But the whole world loses the benefit of the extra stuff they would have created if they moved. Similarly, the direct victims of housing regulation are would-be internal migrants deterred by rich regions' housing restrictions. But the whole country (indeed, the whole world) loses the benefit of the extra stuff they would have created if they moved.

7. How can such enormous gains be so overlooked? For immigration, I'm convinced the main answer is anti-foreign bias, but that's barely relevant for housing deregulation.

8. So what's the right story? I'm still weighing a few competing explanations.

(a) Housing regulation increased very gradually from the 1960s on, and its direct victims tend to be young. So the obvious victims barely know what they're missing – and therefore

rarely raise their voices in protest to alert the rest of society.

(b) The main victims of housing regulation are not people who pay high prices for real estate, but people who stay in low-productivity regions because the cost of housing in high-productivity regions is too high. Since the latter victims are barely visible, it's hard to feel much pity for them. Indeed, since the losers rarely see the houses and jobs they could have had, they don't even feel much *self-pity*.

(c) The main victims of *deregulation*, in contrast, are ultra-visible and ultra-relatable. New construction leads to lower real estate prices and at least temporary inconvenience for long-term residents. Remember *Up*?

(d) Pessimistic bias leads people to obsess over the downsides of deregulation, while ignoring enormous upsides – even for existing owners.

(e) Given populist resentment of markets and business, real estate developers inspire severe antipathy. They're ideal instantiations of the hated "fatcat" archetype.

(f) Housing regulation is really boring for most people.

9. If the whole U.S. housing market were as regulated as the Bay Area, the benefits of liberalizing immigration would be modest. What's the point of telling people "You're free to come work here" if they can barely afford to rent a shack? Fortunately, housing regulation varies widely by city and state. So even though most migrants can't afford to move to the *most* productive regions of the U.S., they can totally afford to migrate to the rest of the country. And the less-productive regions of the U.S. are still vastly more productive than almost anywhere in the Third World.

10. I've long urged libertarians to put immigration deregulation at the top of the pro-liberty agenda. Now I'm going to urge them to make housing deregulation their #2 priority. And to be the change I want to see in the world, I am now writing a second graphic novel on this topic. Working title: *Build, Baby, Build: The Science and Ethics of Housing*. Stay tuned for updates!