

Home Ownership Is Good

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» *Everybody should have their own home. Bad idea. High home ownership is linked to high unemployment.*

“The dream of a property-owning democracy is alive, and we will help you fulfil it,” Mr David Cameron, former Prime Minister of the UK, speech given in August 2015

It is widely believed that a sign of national success is that a large number of citizens own their own homes (i.e. are ‘owner occupiers’). This view is wrong.

Home ownership impairs the vitality of the labor market and, in the jargon of Milton Friedman, slowly grinds out greater rates of joblessness. The tax breaks given to home ownership in most western nations (Switzerland is one of the few exceptions) are also hugely expensive for tax payers and divert resources away from genuinely entrepreneurial activities. Thus, despite what presidents and prime ministers think, the world would be a better place if nearly everyone rented their homes.

The home ownership elasticity of unemployment appears, according to existing research, to be close to unity. High levels of home ownership do not destroy jobs in the current year; they tend to do so years later (as I showed in a 2013 NBER Working Paper with David G. Blanchflower). Unless these long

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linkages are understood, the deleterious consequences of high levels of home ownership cannot be appreciated.

What mechanisms are at work? The most compelling evidence comes from the United States. High home ownership in a given US state is associated with:

- (1) Lower labor mobility
- (2) Longer commutes
- (3) Fewer new firms and establishments (through the power of zoning laws supported by home owners)

It should be emphasized that this is after statistical controls for a wide range of possible confounding factors. Consistent results have emerged from a European study by Laamanen from the University of Tampere (2013).

Home owners are not more unemployed than renters, and that is the wrong way to think about the problem. Instead, the housing market generates important negative externalities for the labor market. High home ownership is a major reason for the high unemployment rates of the European nations in the post-war era. Home ownership is bad not good.