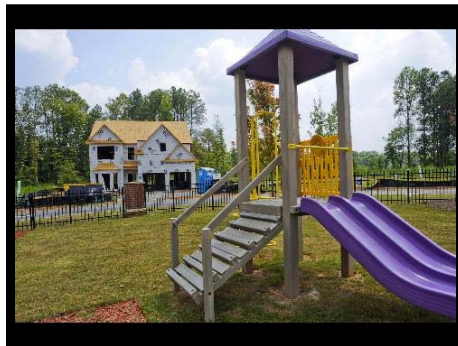




America's Obsession With Housing Hobbles Growth: Amity Shlaes

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Commentary by Amity Shlaes



Aug. 20 (Bloomberg) -- Everything will be all right if we just fix the housing problem. That was the hope investors clung to as they watched Fannie Mae and Freddie Mac crumble this week.

The presidential campaigns reflect a similar faith in housing's curative power. Senator [John McCain](#) recently suggested that not merely mortgage-loan defaults but also anxiety about those mortgages was our worst problem: ``Americans are uncertain about this crisis."

``Three-Bedroom Ranch," a [Barack Obama](#) campaign [commercial](#), suggests that America needs a ``plan to build" for the middle-class rather than subsidize corporate interests. The candidates seem to believe that

recovery is something with French doors and a new roof.

But what if houses aren't a haven but a prison? What if even a booming real estate market itself is a problem? That's the theory of a winning Phelps -- not [Michael Phelps](#), the Olympic swimmer, but Nobel Prize economics laureate [Edmund Phelps](#) of Columbia University. Phelps deplores the collective energy Americans spend on family housing.

``It used to be said that the business of America was business," Phelps says. ``Now the business of America is homeownership." To grow optimally, he says, America needs to get beyond its house passion.

Like an apartment building, the Phelps argument works on multiple levels. The first is obvious. The federal government allocates too many resources to housing. Back in 2005, when the troubles of [Fannie Mae](#) and [Freddie Mac](#) weren't yet commanding the front page so regularly, the government was already spending about \$41 billion to subsidize housing directly.

Indirect Support

More than triple that amount, or \$147 billion, was foregone on indirect tax subsidies to homeowners. That chunk of change might have been used for any number of government projects that would appeal to everyone from [Laura Bush](#) to [Dennis Kucinich](#): pounding percentages into fifth-graders' heads, lowering the capital-gains tax, declaring summer gas holidays -- you name it. There's a certain laziness to the national campaign for homeownership, and it has cost the country a lot.

The real estate obsession is also a private-sector problem. The most important component of U.S. growth is [productivity](#). To put it in schoolbook terms, if Americans find new ways to make more widgets in less time, that translates into higher wages.

Such productivity gains do occur in housing. But larger gains are usually to be had elsewhere: Silicon Valley, for example. Yet those tax incentives suck private funds into the less-efficient housing industry.

Cult of Housing

Our economic forecasters perpetuate the housing cult by emphasizing real estate data. Yesterday's report of lower housing starts might not even be bad news, yet to listen to the commentators, it was a signal of apocalypse.

Phelps points to a final subtle challenge to the American economy -- the psychic weight we put on houses. Houses comfort, but they also stupefy. After Sept. 11, many citizens discarded travel plans and retreated into their homes for comfort. The Bush administration's talk of the ``homeland'' also suggests a premium on security, not risk.

Hurricane Katrina exacerbated the national homebody tendency -- at the end of the summer of 2006, around the anniversary of the New Orleans disaster, [Home Depot Inc.](#) even began marketing a storm-safe room from [DuPont Co.](#)

Housebound, Americans are becoming ``less nimble," Phelps says. Unsold homes prevent families from moving. The deeper challenge is that they are so attached to their houses that they don't even want to move when they can sell. This stuck-in-the-mud attitude too closely resembles that of Europeans.

Economic Gridlock

Phelps's anti-house argument calls to mind the analysis of one of his Columbia colleagues, [Michael Heller](#). Heller's new book, ``The Gridlock Economy," posits that that ``too much ownership wrecks" the economy.

The air traffic controllers' association says most flight delays would be reduced if we built just 50 miles of new runways. O'Hare Airport in Chicago desperately needs reconfiguration. Yet, as Heller notes, homeowner associations in suburbs such as Elk Grove Village and Bensenville have managed to prevent such work, just as homeowners in Queens have stalled expansion of LaGuardia Airport in New York.

But Phelps's argument is more profound. It is not anti-property. It is pro-property -- just ``pro" all kinds of property, not merely bricks and mortar. His architecture of reform starts with abolishing the massive housing subsidy, including that sacred home mortgage-interest deduction.

Shifting Subsidies

Phelps also would subsidize innovation instead of agriculture, including innovation by those corporations that the candidates regard as suspect. ``Corporate governance," Phelps writes in an e-mail, ``surely requires a major rehaul" so that more often ``a few talented investors can command decisive stakes at the big companies."

Concerned about inflation, investors may want to add a demand to Phelps's list: Tighter money so that citizens aren't forced into homes as an inflation hedge.

Phelps would also establish a Contribution Medal from Washington modeled after the Medal of Freedom, rewarding citizens for generating or funding an idea that has proven itself in the commercial world. He suggests classes in high schools that expose teenagers to [Miguel Cervantes](#), whose Don Quixote hero traveled rather than moldered, or philosophers from Aristotle to Henri Bergson.

Philosophy as antidote to subprime foreclosure is a different angle than the usual discourse about housing, but one that reveals the limits of our political imagination. That imagination is worth stretching, for while America's economic salvation does lie somewhere, that place is probably not a house.

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Last Updated: August 20, 2008 00:01 EDT

