

An Important New Book By Kevin Erdmann On Housing and Macroeconomic Policy

Blogger Kevin Erdmann has issued a rarity: an important book that should re-shape the macroeconomic and monetary-policy debates and policies. The book is—

“Shut Out: How a Housing Shortage Caused the Great Recession and Crippled Our Economy” published by Rowman & Littlefield.

In a nutshell, Erdmann argues that the West Coast of the US, New York City and Boston have become powerful generators of jobs, but those same regions have suffocated new housing production through endless regulation, NIMBYism, crony-development schemes, and property zoning. The predictable result is an explosion of housing prices and rents.

It was this choking off of the supply side, and a long economic recovery, that primarily caused national housing prices to rise to an apex in 2008, and not “easy money.”

However, the US Federal Reserve in 2006-8 feared the rising house prices, along with other concerns including higher oil prices, and began to cinch up on money supply. That was bad enough and caused the Great Recession.

But thereafter federal regulators moved to raise the bar on who could get a home mortgage—meaning cutting off the lower income brackets from home ownership.

Though Erdmann never bluntly says it, the federal government went to class warfare to solve a phantom problem—that of lower-middle-class homebuyers defaulting on mortgages, those being the same people who somehow shot national house prices to the moon. The facts on the ground do not support the federal policies, as Erdmann documents.

Conclusion

Thanks to Erdmann’s book, no discussion of inflation, “labor shortages” or monetary policy in the US is complete anymore without an understanding and inclusion of the nation’s restricted housing supply. As Erdmann regularly documents in his blog, the core CPI

sans housing rate is around 1%.

Ironically, reducing net new housing production—the present *de facto* federal policy—only worsens housing shortages going forward.

Unfortunately, American macroeconomists have badly framed policy discussions, and for decades. True, housing shortages are caused by local regulations. But such regulations are so ubiquitous, and the effects are national in scope—and the wrong policy choices can lead to Great Recessions.

Moreover, the macroeconomic losses from suffocated housing production dwarf those of Trump's trade tariffs, yet get little coverage in the popular press or in even elevated economic circles. US macroeconomists should be obsessed with boosting housing production.

There is much more in Erdmann's book than this scant review accommodates, and every economic policy-maker or policy-junkie should read it.
