Twitter Thread by Noahtogolpe ■

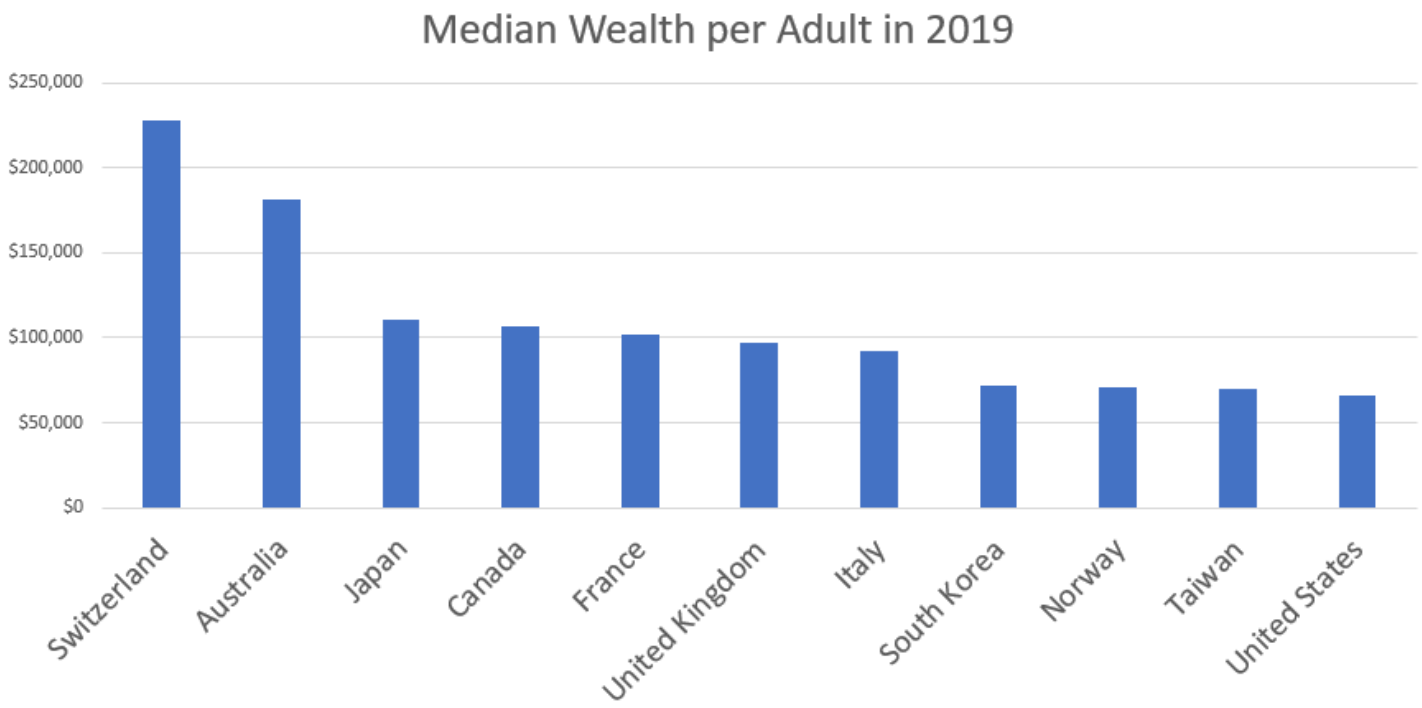
Noahtogolpe ■
@Noahpinion

1/OK, let's take a little break from Coup Twitter, and think about an economic issue:

How can we build up the wealth of the middle class?

2/The typical American has surprisingly little wealth compared to the typical resident of many other developed countries.

This is a fact that is not widely known or appreciated.



3/Now, some people argue that stuff like Social Security or social insurance programs should be included in wealth. But I chose to focus on private wealth because I think having assets you can sell whenever you want is important to people.

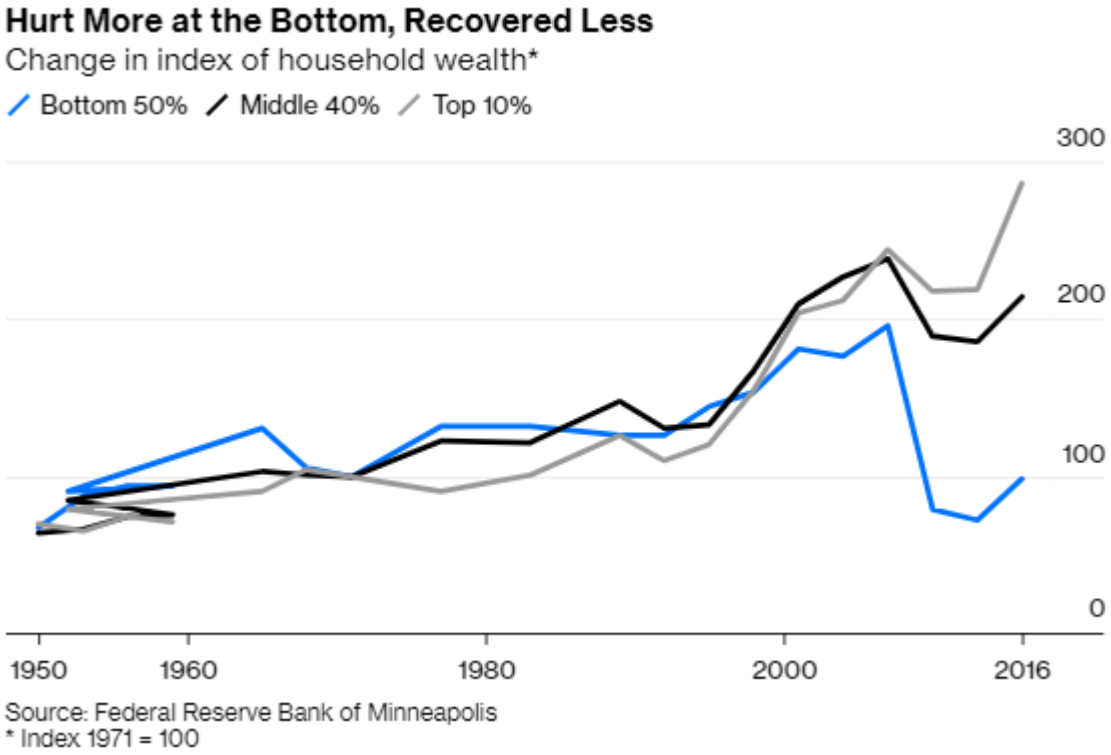
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> Yes, these numbers don't include things like Social Security, just privately held wealth. They're not an attempt to capitalize every possible future income stream.

— Noahtogolpe \U0001f407 (@Noahpinion) January 10, 2021

4/For many decades after World War 2, middle-class wealth in America was on a smooth upward trajectory.

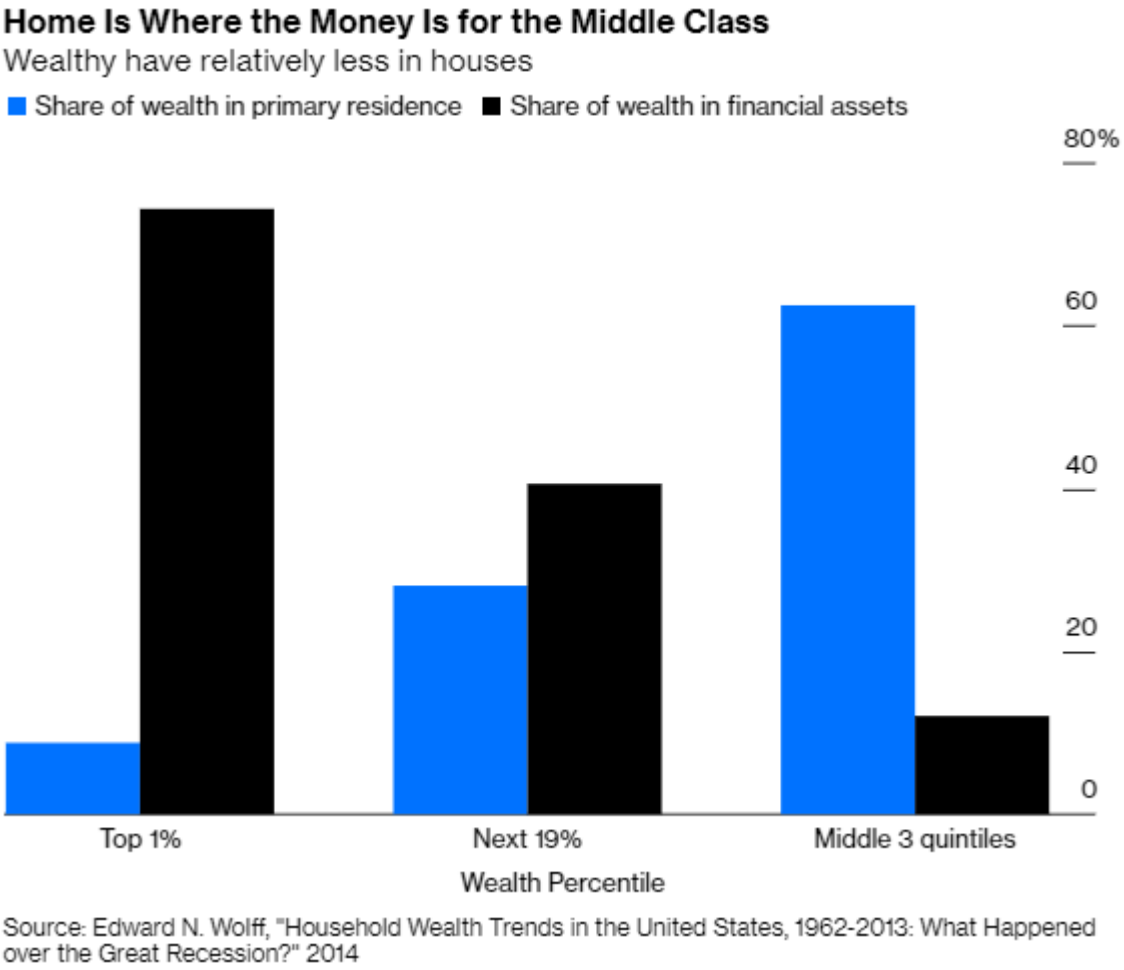
Then the housing crash came, and all that changed. Suddenly the rich were still doing well but everyone else was seeing the end of their American Dream.



5/Why the divergence?

Because the American middle class has its wealth in houses -- specifically, in the houses they live in.

It's the rich who own stocks.



6/OK so how do we fix this? How do we get middle-class wealth *back*?

Well, the option we've apparently chosen so far is just to tell people "Suck it up. Start at the bottom, and save it all back."

Seems a bit inadequate, no?

1) "Suck it up and save it back"

The most obvious way to get middle-class people more wealth is for them to just save more of their income . This is, in effect, what we have told people to do since housing crashed. And it's how Japanese people got all that wealth (though they don't save much these days).

But saving back the American Dream is going to be a long and arduous process. The years between 2013 and 2019 were good years, and incomes grew, and savings rates were OK. But as COVID shows, there will always be another recession, and even with good monetary and fiscal policy to ensure full employment (hah!) it would take a long time to rebuild what was lost in 2007-8. Meanwhile the rich sailed through the crisis with their stock portfolios intact, and companies scooped up much of the distressed housing that regular people had to sell off in the crisis. "Save it back" is a bit of a tough sell, policy-wise.

7/Now, we can give people more income -- for example, with UBI -- to help them save faster. I'm certainly not averse to that. But it's going to take a while, and it's politically tough, and it depends on people saving what we give them...

2) Give people more income to save

An obvious alternative is to simply tax the rich (perhaps with a wealth tax) and give that money to everyone else (perhaps with a UBI). But wealth taxes have failed to raise much revenue in the European countries that have tried them; rich people are pretty good at avoiding them. And UBI is a tough sell politically. Furthermore, this approach also requires people to build wealth out of savings.

This isn't a *bad* idea, but it's a logistically and politically difficult one, that won't necessarily restore the feeling of the American Dream.

8/We can also have the government save money on people's behalf, with a Social Wealth Fund. But while it's a cool idea, I don't think it would feel like "real wealth" to lots of people, any more than Social Security does. It's more like UBI, really.

3) Social wealth funds

This idea would basically have the government do people's savings for them. The advantage of this is that it doesn't rely on people to save their own money. The disadvantage is that it does this by basically locking up people's wealth and doling it out to them as income. Wealth that people can't sell off might be "better" for them in a sort of paternalistic sense, but it probably doesn't feel quite like wealth that you fully control. So while this is a cool idea and worth a try, I'm not sure it will be as satisfying as the kind of wealth middle-class people had before the financial crisis

9/So that basically leaves: Housing. The way the American middle class traditionally gets its wealth.

Can we still use housing to generate broad middle-class wealth? Should we?

10/Well, the answer to the question of "can we" is "yes". The returns on housing are typically very good, when you include rental yield.

As long as people and companies keep moving to cities, the value of urban location (i.e. land) will appreciate.



11/But SHOULD we distribute that wealth via home values?

Doing so presents some obvious problems. It invites NIMBYism -- homeowners leveraging local government to push up the prices of their homes, even at the expense of the economy.

> Owner-occupied housing as a financial asset leaves much to be desired. For one thing, it can easily turn into a zero-sum game between the generations — for old people to make a return on their housing, they have to sell it off to younger people at a big markup. That's not actually a Ponzi scheme — since the economy keeps growing and agglomeration/clustering keeps making land more desirable, you actually *can* have each generation build wealth this way. The problem is, the older generation has an incentive to use their political power to limit the supply of housing in order to jack up the price of their own homes *even more* than the natural growth of cities would imply. And this forces young people to either rent forever, or allow the olds to extract more of their wealth.
>
> Meanwhile, the restrictions on housing supply hurt the economy, because they make it harder for people to live and work in the most productive cities. This is the well-known NIMBY dynamic that is choking the San Francisco Bay Area to death. Japan, where houses depreciate over time because the government periodically knocks them down to build new stuff, happens to be one of the very few countries whose big cities have actually built enough housing to keep rents from rising in recent decades.

12/Owner-occupied housing is also an illiquid asset that's hard to diversify.

> Another downside of housing is that it's un-diversified. If your city has a local downturn (like when the auto industry fled Detroit), you can lose both your job AND your nest egg at the same time, which really sucks. Owner-occupied housing also isn't very liquid — it's tough to sell, and moving disrupts your life a lot.

13/But there are advantages to building wealth through homeownership as well.

For one thing, most people SUCK at stock investing, but most people kinda-sorta understand homeownership.

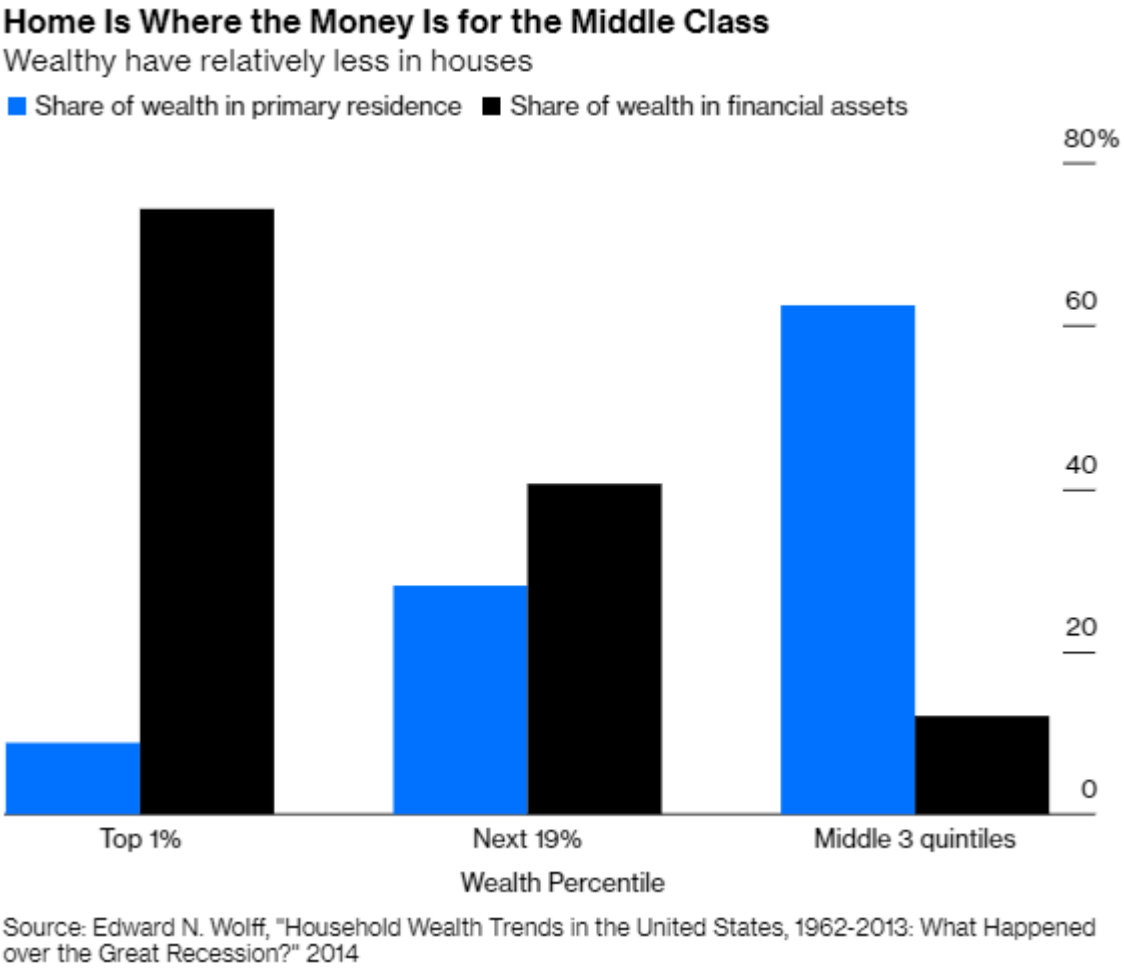
But there are advantages to housing as a financial asset. First of all, normal people can probably understand housing markets a lot better than they understand stock markets. Basically, normal people do a crappy job of picking stocks and timing the market. So they end up either losing money trying to invest for themselves, or paying exorbitant fees to money managers or 401(k) plan managers or a host of other middlemen that end up siphoning away much of their life's savings. But most people don't try to flip their own house like they would flip a stock. And because they actually *live in* their house, they tend to try to buy a house with good intrinsic long-term value, rather than gambling on what seems like a hot commodity.

14/Also, having a mortgage nudges people to save more each month, nudges them to invest in a riskier but higher-return asset class, and allows them to take on leverage -- all of which have their downsides, but which allow middle-class wealth to keep pace with the rich.

Second, owning a home nudges people to save more money than they otherwise would have. One thing we know from behavioral economics is that savings rates are HIGHLY susceptible to nudges. A monthly mortgage payment feels like paying rent, but in fact you're saving money! So having a mortgage takes some of the spending that would otherwise go to consumption (via rent), and redirects it toward savings. (It also nudges middle-class people into an asset class with higher risk and higher expected return, which can be bad in cases like 2007-8, but also allows them to keep up with the rich in the long term.)

15/Finally, it's just...what the American middle class is used to.

It's hard to completely revamp our wealth-building system. We may simply be locked in.



16/But then the next question is: How can we change our housing system so that every generation can build wealth, instead of one generation (cough, Boomers, cough) getting all the wealth and then pulling up the ladder behind them?

17/Well, there's the YIMBY answer: Just make cities allow more private housing development, and more housing wealth will be created, and increased supply will push prices down, allowing young people to buy in.

> Unless cities become much less attractive places to live and work (perhaps due to the rise of truly remote work?), the value of urban land will continue to grow. If all we do is allow the private sector to build lots of housing whenever and wherever it wants, that means each generation will get some piece of that growth. So that's one order of business — make it easy to build new housing. The YIMBY solution.

18/A second idea is down-payment assistance -- having the federal government give first-time homebuyers and low-income homebuyers some money to help them buy a home.

> But there are better ways to get that wealth into young people's hands sooner, and make the distribution more equal. A simple one would be down-payment assistance. Both Elizabeth Warren and incoming Vice President Kamala Harris have proposed such a program specifically for Black people excluded by redlining, as a way of closing the racial wealth gap. But you could also do it for low-income people in general, or for young first-time homebuyers (probably with some fade-out for high earners).

19/The problem is, you have to do both YIMBYism AND down-payment assistance at the same time, so you don't just end up pumping up prices and handing taxpayer money to existing homeowners.

That's a tricky trick to pull off!

> The thing is, unless you do the YIMBY solution in a whole lot of places, a down-payment assistance program is going to pump up the prices of existing housing (at taxpayer expense, no less). With inelastic supply, an increase in demand just raises price, as we saw when cheap subsidized student loans pumped up college tuition. That's not really good for anyone, since it basically means you're taxing productive labor and capital to hand money to existing (old) homeowners. And since YIMBY stuff tends to happen at the state and local level whereas down-payment assistance would be a federal program, it will be very hard for the federal government to make sure that everywhere is building enough new supply so that the down-payment assistance enriches the people it's supposed to enrich. (Maybe you could make down-payment assistance conditional on whether a city or state builds sufficient quantities of housing. It's worth thinking about.)
>
> In fact, America successfully pulled off a version of the YIMBY-plus-down-payment-assistance thing, back when we built the suburbs and gave veterans money to buy the newly built homes via the G.I. Bill. But the political barriers facing housing construction now are much more formidable than back then.

20/So I had another idea -- a Modified Singapore System, in which the government actually builds new housing and then sells it at discounted rates to first-time and low-income homebuyers.

https://t.co/2GwiFm7rib

21/This idea has plenty of challenges, of course. And some drawbacks too. But if we want to get wealth into the hands of the American masses fast, and if we're going to do it through housing, this is an idea worth considering.

(end)

https://t.co/Ask8xPgBrg

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https://t.co/FGppA1M8W6

Anyway, now back to your regularly scheduled coup attempt fallout...