Housing capital

In an article devoted to house-price bubbles, the Financial Times Magazine come back to the results of Thomas Piketty's *Capital au XXIe siècle*, and to it's critic by Odran Bonnet, Pierre-Henri Bono, Guillaume Chappelle and Etienne Wasmer in the LIEPP Working Paper n°25: *Le capital logement contribue-t-il aux inégalités ?*. Find an English version of the Working Paper here.

Extract from the Financial Times Magazine article:

"House prices have even driven the most famous economic finding of recent years: Thomas Piketty’s conclusion (in joint work with Gabriel Zucman) that “capital is back” in developed economies. Piketty and Zucman have found that relative to income, the total value of capital such as farmland, factories, office buildings and housing is returning to the dizzy levels of the late 19th century.

But as Piketty and Zucman point out, this trend is almost entirely thanks to a boom in the price of houses. Much depends, then, on whether the boom in house prices is a sentiment-driven bubble or reflects some real shift in value. One way to shed light on this question is to ask whether rents in developed countries have boomed in the same way as prices. They haven’t: research by Etienne Wasmer and three of his colleagues at Sciences Po shows that if we measure the value of houses using rents, there’s no boom in the capital stock.

The housing market then, is prone to bubbles and bouts of greed and denial, is shaped by financial rules of thumb that no longer apply, and sucks the life out of the economy. It even muddies the waters of the great economic debate of our time, about the economic significance of capital.

One final question, then: is it all a bubble? That is too deep a question for me but there is an intriguing new study by three German economists, Katharina Knoll, Moritz Schularick and Thomas Steger. They have constructed house-price indices over 14 developed economies since 1870. The pattern is striking: about 50 years ago, real prices started to climb inexorably and at an increasing rate. If this is a bubble, it’s been inflating for two generations."

This Working Paper was yet mentionned on the New York Times website in April 2014.

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