

# Must Homeowners Lose Wealth When House Prices Fall?

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Dear Editors:

One of the problems with the bursting of a housing bubble that Dean Baker foresaw was that there would be a reduction in national wealth, and a resulting reduction in consumption (and presumably some risk of recession). But housing is special. It is a consumption good as well as a form of wealth. Thus, if its price falls, the price of consumption falls. In the end, does real wealth decline at all?

A second consideration is that part of the housing is in effect owned by the mortgage banks, while all the consumption is done by households. If housing prices fall, could it the real wealth of households actually rises, because they get the entire

value of cheaper consumption? If banks are owned by people with a lower marginal propensity to consume, then we would get more consumption in the end, not less.

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## REFERENCES AND FURTHER READING

**Baker**, Dean (2006) "The Menace of an Unchecked Housing Bubble", *The Economists' Voice*: Vol. 3: No. 4, Article 1, available at <http://www.bepress.com/ev/vol3/iss4/art1>