

Editor's Letter

Home Truths

WHEREVER I GO THESE DAYS, the conversation inevitably focuses on the rising cost of housing. The concerns span generations, locations, and income levels. Young people may be the most disillusioned as they see their ability to buy or rent diminished just as they plan to start families. The causes are complex and varied, but the stakes are unambiguous: shelter means stability, security, and a sense of belonging. It is an essential part of well-being and a recognized human right.

For society too, housing is a unique economic asset. Homeownership is the biggest source of both debt and wealth. That makes it central to understanding why economies endure boom-and-bust cycles.

In short, the housing sector plays a transformative role in shaping national economic outcomes. Yet housing is often missing in macroeconomic analysis. This issue of *Finance & Development* details how housing markets and the economy interact, the nature of recent challenges—including the property slump in China—and the potential solutions that can make real estate markets work for everyone.

At the root of the current affordability crisis: demand far exceeds supply, with adverse implications for economic mobility, productivity, and growth.

Using a new way of comparing housing affordability across countries, Deniz Igan shows that the pandemic and resurgent inflation set off the worst global housing affordability crisis in more than a decade. As homeownership becomes less affordable, the gap between haves and have-nots increases—heightening popular concern, as reflected in elections around the world this year.

Interest rates also play a big role. Lawrence Summers and coauthors analyze the sharply higher borrowing costs—especially for housing—that have fueled a disconnect between inflation statistics and consumer sentiment. Mehdi Benatiya Andaloussi and coauthors show how housing and mortgage markets are a key and complex component of monetary policy transmission. They conclude that a deep, country-specific understanding of these markets is important to help calibrate monetary policy.

Still, it is not just inflation, tight supply, or zoning laws that raise prices—dirty money is also part of the problem,



“Shelter means stability, security, and a sense of belonging.”

according to Chady El Khoury. High-end real estate often helps hide or launder illicit fortunes, further distorting housing markets and making homeownership a more distant dream for ordinary people.

No wonder so many say housing markets are broken.

Adequate and affordable housing is also a critical ingredient for healthy, vibrant cities, affecting where and how people live, work, and access services. Elizabeth Johnson explains how São Paulo combines federal and municipal programs to retrofit downtown buildings. Kecia Rust describes how technology can support housing in informal markets in Africa. And Igan suggests lowering regulatory barriers, like zoning laws and building codes; targeting support for low-income households; and incentivizing developers to provide affordable units.

All sectors—public, private, non-profit—must work together to ensure greater access to housing. A well-functioning housing sector is critical to the health of society, to every economy, and to financial stability. To get our house in order, we must fix what’s broken.

Elsewhere in this issue, Yuval Noah Harari describes how, for the first time, the stories that sustain human societies are being told by nonhuman intelligence; Bert Kroese argues that gross domestic product is an incomplete statistic that should be complemented by other measures, and economists Jiaxiong Yao and Robert Zymek trace Europe’s shift to electric vehicles amid intensifying global competition. **F&D**

Gita Bhatt, editor-in-chief