Housing and Macroeconomics:
Evidence from Property Tax Shocks

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This draft: February 2016
First draft: July 2012

Abstract

We use variations in property taxes in a panel of more than 20 countries, and over 40 years, to investigate one source of joint determination between house prices and output, employment, consumer spending, investment and the trade balance. We use a narrative approach to identify changes in property taxes that are automatic or politically motivated, and thus exogenous to the business cycle. We also use the easiness with which property tax increases can be passed on to renters depending on landlord-tenants regulations across countries as a source of overidentification. In preliminary results, we find large non-ricardian effects. Property tax increases are highly contractionary and the economic effect is large, with a multiplier strictly higher than one. Regressions of housing on macroeconomic aggregates, plagued by the omission of the joint effect of property taxes, would suggest a marginal propensity to consume out of housing wealth of about 9 cents, and a marginal propensity to invest out of housing collateral of 6 cents. These results are in line with various micro or macroeconomic studies. We try to discuss these results through the lens of macroeconomic theory.

Keywords: House Prices, Consumer Spending, Investment

JEL classification: F32, F36, F40

*We thank Markus Brunnermeier, Nicolas Coeurdacier, Arnaud Costinot, Emmanuel Farhi, Pierre-Olivier Gourinchas, Jean Imbs, Philippe Martin, Thierry Mayer, Marc Melitz, Atif Mian, Kenneth Rogoff, José Scheinkman, Hyun Song Shin, David Sraer, Cédric Tille, and seminar participants at CEPII, Sciences Po, Harvard University, MIT, Princeton University. François Geerolf thanks Harvard University and the Massachusetts Institute of Technology, where part of this research was carried out, for their hospitality. All errors are our own.
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