

# APPRECIATING HOUSING

## Asset Prices and Preferences Over the Affordable Care Act

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### Research Question

Do assets play a role in predicting individuals' attitudes towards social insurance provision? Under what conditions do assets - particularly housing - act as a private substitute for public insurance?

I examine preferences over the Patient Protection and Affordable Care Act (ACA). The legislation is intended to lower health care costs and make health insurance more widely available. The legislation also raised taxes on those above a certain income threshold.

Given that there was also a major housing crisis taking place during the debate and passage of the legislation, examining the housing market and the ACA offers a particularly salient context in which to study the relationship between assets and preferences for social insurance.

### Contribution

- Political scientists have thoroughly examined the relationship between labor income/skill-based assets and social insurance
- In the United States, primary residences accounted for 31.7 percent of total family assets in 2007; 29.5 percent in 2010 - housing is large part of individuals' wealth portfolios
- Introduces wealth assets to the study of attitudes towards social protection

### Theory

I predict that an individual with appreciating asset holdings will prefer less social insurance because private assets - such as housing - can be used as a form of private insurance.

This can work through two channels:

- (1) **Wealth Effect:** Assets appreciating → feel wealthier → need less social insurance → decreased preference for social insurance
- (2) **Tax Effect:** Assets appreciating → contribute more in taxes → prefer less taxation → decreased preference for social insurance

Same basic theory as Ansell (2013, Working Paper), but this paper examines post-housing crisis period.

### Data

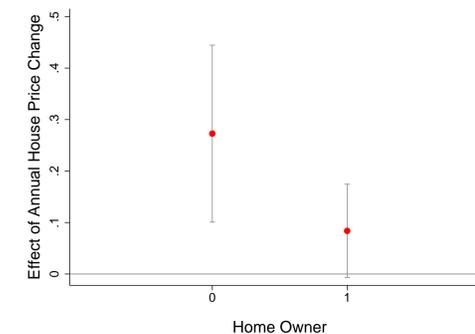
- Data are from 2009, 2010, and 2012
- Demographic and preference data from the Cooperative Congressional Election Survey (CCES) and house price data from Federal Housing Finance Agency (FHFA)

Preferences measured with survey question about the ACA from the CCES:

*Favor or Oppose the following statement: "Affordable Care Act of 2010. Requires all Americans to obtain health insurance. Allows people to keep current provider. Sets up health insurance option for those without coverage. Increases taxes on those making more than \$280,000 a year."*

### Results

Marginal Effect of Annual House Price Changes Conditional on Home Ownership



- Renters and homeowners have different preferences over the ACA
- Renters positively associated with support for ACA, as expected - no housing assets, prefer more social insurance
- Homeowner results don't conform to hypothesis - why?

### Next Steps

**Why doesn't the simple substitution hypothesis hold for homeowners? Some possibilities include...**

- **Volatility of local housing market.** More volatile housing markets will demand higher levels of social insurance; areas that saw most HP increases after the crisis are actually volatile areas where we expect more demand for social protection anyway
- **Role of liquidity.** Pre-shock homes were much more liquid - and therefore more likely to be used as private insurance - than post-shock homes; individuals using their home as a private asset depends on the liquidity of the asset. This likely corresponds with volatility - houses in more volatile areas are probably also less liquid

**What else is mediating the relationship between housing and preferences for social protection?**

- **Externalities?** My neighbor's house prices create externalities; these externalities are incorporated into my utility function. E.g. foreclosures in my neighborhood will depress the value of my own home. Might therefore demand more social protection. Takes the substitution theory further
- **Socio-tropic preferences?** Local assets are seen as a local public good. If housing prices become depressed, I support more social protection to maintain this public good - independent of my individual utility function
- **Contact Hypothesis?** House price segregation and metropolitan sprawl determine the probability that I come into contact with someone with different preferences. Denser, less segregated areas likely to have a smaller distribution of preferences

**Other next steps?**

- **Examine alternative outcomes?** State level housing policies? Other social protection programs, i.e. Social Security? Politician behavior?
- **Better Data.** Where can I find more useful micro data for this project?