FRIDAY, JUNE 16, 2023

Well, hello and welcome to another Dividend Cafe. Yes, another location for filming. I'm actually out at my desert house this weekend and getting ready to travel after Father's Day to a conference in Michigan that I speak at every year. So I'll be out there next week and then in New York for a bit, but in the meantime, have prepared a Dividend Cafe today that I am quite excited about. And once again, actually do believe it's a little different than what we often do. Much like last week's. That was a letter to a high school graduate. I want to thank everyone, by the way, for what was really overwhelmingly nice feedback. And I do hope that the entire message was received and taken in the way I intended. I hope it was useful, impactful, but it was certainly a kind of outside the normal Dividend Cafe.

And today's is a little bit of the same in that I don't think there's a lot of Dividend Cafes I've written over the years that are as directly and consciously meant to juxtapose a sort of cultural message with an economic one. Now, as a guy who holds to what I call a highly anthropological view of economics, what that means is that what I believe about the human person, about human nature, about social, human and interaction is sort of the core of what I believe about all economics. And that permeates all we've ever done at the bond sum group financially and in terms of macroeconomic outlook, investment particulars, asset application, application, all of that, that type of stuff has been rooted in a certain philosophically coherent view of economics that does seek to bring the human person to the core of what we're doing. And when you talk about the subject of housing, I'm really trying to do the same thing.

I think that a lot of people believe they can run certain supply demand numbers and various forms of metrics that will kind of indicate to them if one can get some home price appreciation or if it's a good time to buy or a good time to refinance or whatnot. And look, there's different measurements out there and different perspectives on these things. A lot of it is not really just me criticizing some of the things people think they can solve for, but criticizing even the questions themselves. Fundamentally at this point in time in 2023, do I think for a serious economic thinker that the most important subject related to housing in front of us is whether housing prices are going to go up in the next year or down in the next year? I do not. I think we're living through a time where there's a really core fundamental and yes, cultural question in front of us that it transcends much of the kind of minutia.

And yet I want to hold this out in contrast to what I believe was the housing problem of last decade or the decade before that led into the great financial crisis, fundamentally the period of the early two thousands. And in 2006 and 2007 that then of course spectacularly imploded in 2008 through the great financial crisis was a period of insanity largely rooted in very short term greed in a forfeiture of basic economic logic, the holding onto this ideal that housing prices could never go down, which is untrue, that they always in fact went up, which was not true. That down payments didn't matter, which was untrue, and that one could treat a house like a trading card and not have any economic damage come from that. And so the quality of the borrower, the quality of the buyer, all those things were sort of forfeited.

And there were a lot of reasons that went into it. And those things too. And I kind of wrote a book on this called Crisis of Responsibility. A lot of those things were not merely economic, they were cultural, but nevertheless harmonized with a broader economic narrative and certainly economic ramifications. I mean, that was kind of the whole point of that massive recessionary period we went through. I don't think we're living through something right now that is rhyming with let alone the same as that excessive financial leverage in the system, the very minimal amount of equity that was going into homes, the low quality of in the subprime borrowing aspect. I think that what's going on now is totally different. And yet I think that there is an equally cultural moment out of it. And primarily what I refer to is this broader and longer term and more embedded in the population pretty systemically. I mean, it's almost universal that elevated home prices are desired aim no matter what, no matter how unnatural it may be. And the reason I think that that is such a held onto narrative by even middle class people is that we have such a low savings rate as a country, we averaged well over 10% and for much of the time, closer to 15% for decades after World War II. And we've been living with sub 10% for over 40 years now. And at times two and 3% national savings rates where I think people have decided to substitute home equity, why save in a bank when my home just always goes up, I'm getting richer by the day and don't even have to save money to do it. And I could elaborate on that a lot. It's not good, but I don't want to go down too much of a rabbit hole here. But my point being, there is a reason that rich people and middle class people alike desire to see this kind of permanently escalating home price appreciation. Those that would prefer to see home price appreciation happen in a natural and organic context, but not as a result of policy intervention or artificial mechanisms are a minority. Now, look, I own multiple homes. I'm a big fan of owning a home. I believe in community.

I believe that when one has roots in a home, a place to raise a family, I think that there are all sorts of personal and even within civil society, I think the notion of being a part of your community, being in a bowling league, playing in the sports and recreation activities of your community, the kids going to school, the social activities, I think that there is, I have a very toque villian notion of community in American life that's different than this idea of the American dream just simply being, I have an asset and it is worth a lot of money and it's my home and I didn't have to save to do it. I just lived in a home long time and it goes up. I don't view it that way. I think that the American dream is far more rooted to the activities and the production of goods and services that we are a part of in our everyday lives.

I think that's what this notion of “Morning in America” is sort of romantically about that I can get behind. But the notion of just saying I own a home, I think is a very small part of a bigger puzzle, not the picture, the puzzle itself. And yet what is the problem that I'm describing right now in the 2020s that I think is different than what we were facing with kind of reckless short-termism, a low character that allowed people to lie on loan applications, to walk away from obligations. So we say something so nineties, this is kind of a little post 90s, but it was definitely pre-financial crisis problems, behavior and whatnot. Right now, I think the issue is that you can read it anywhere you want a left wing magazine, a right wing, a website in church, in more of a secular context. I don't know anyone who's disputing that.

We are at varying degrees of expression living in enhanced alienation, enhanced isolation, and not just from that period of the covid lockdowns, but people have less friends, less relationships, they're less bonded to their communities, to church, to synagogue people. There's a whole movement of people don't even want to go to their work anymore, want to only work from home. And I think that if you look at this as a sociological subject and disconnect it from the economic norm norms in housing, you're missing part of the point. Many people could afford to go out and do a sports activity, a vacation, a particular recreational activity spending things you do outside the home when they were spending, let's say 25, 30, 30 5% of their disposable income on a rent payment or a house payment. When people are all of a sudden spending 50 or 55 or 60%, they can afford to not leave their homes.
And there is no doubt in my mind that this is an ignored and yet crystal clear aspect of what is happening in much of American life right now is in affordability of housing leading to

ability to make a payment that is coming at a trade off from other activities, not just consumptive activities, but productive ones as well. And then I think you, by being more isolated, alienated, people do become less dateable, less marryable, less interested in these types of relationships and adult h household formation. And I refer to that in an economic sense. Nobody listens to Dividend Cafe for me to tell anyone when they're supposed to get married. That isn't my point. I guess I have opinions generally speaking, but that's not what I'm getting at here. I want you to hear me, right. What I'm saying is that it becomes an inevitability of delayed household formation when there is more social alienation and that is connected to the forced economic reality around home prices, rent prices, et cetera, that then rinses and repeats.

Because if you have less household formation, you're going to have less housing stock. There's less housing supply which pushes prices higher, which leads to yet still more of this kind of dynamic where one cannot afford to leave their home. And there's people on the left like Scott Galloway, people on the right at American Enterprise Institute talking about this. It's not partisan, it's not political, it's not ideological. This is pretty undeniable sociological fact that in the course of a cultural maloo that has gotten addicted to high housing prices, that one of the tradeoffs is that we have sacrificed some of our cultural vibrancy and that I think this is creating an economic problem with the way in which we function economically. It's contributing to downward pressure and growth, downward pressure in both production and consumption, so forth and so on. Ultimately a more robust cultural and engagement with civil society.

This sort of toque villian idea of engagement with culture. There is a ratio of what one can afford in a housing payment. Now, that's not for me to set. Okay. I have plenty of things in my life. I joke in the written Dividend Cafe that I think most of the stuff I end up buying for my kids is way overpriced. And every time I go to a Chinese restaurant, even real, a really nice one or a cheap one, I think it's way underpriced. That's just my own personal opinion. But I don't have any desire to interfere in price discovery. I think that markets and willing cooperation between buyers and sellers should form prices. So my point is not to just say, oh boy, can you believe how expensive housing is? If that were all I was focused on here, you would think I would like it because I do own multiple homes.

You would think I'd be loving the fact that there's all this home price appreciation. My point is that home price appreciation is not coming as a result of mutual cooperation buyers and sellers and peer subjective values. The normal organic chy and price discovery process I believe in has been substituted largely not entirely for artificial downward pressure on supply. And the Federal reserve intervention and the cost of capital supply and the cost of capital via the interest rate are the two biggest things that are setting house price policy and house price reality. Therefore, house price unaffordability in our country, it's undeniable. So I would prefer if house prices were going to go up organically apart from those interventions, then it is what it is. And maybe there really is a free society that wants to spend 50% of its disposable income on a house payment and have 10, 20, 20 5% less available for a fishing trip.

That's none of my business. But that's not what's happening. What's happening is these interventions in housing are pushing prices to a point of unaffordability. That is then creating trade-offs throughout the rest of society that are both cultural and economic. That's my point in today's Dividend Cafe, a different perspective, something to think about when we think about where we want housing prices to be and where they ought to go through a more natural ebb and flow. There are certain things that change over time and people can have different opinions about those cultural norms and social norms. The fact that people do get married later is one of those things because you don't need as much new single family residence housing stock when people are getting married at 38 instead of 25. And so there's, that's going to be sort of the part of what does just kind of change over time.

But what I'm referring to is a totally different phenomena at a higher level that I think hopefully I've expressed in a way you can understand the basic terminology. We somehow got addicted to a notion that there is universal goodness in home price appreciation outside of the confines of the natural order. And I disagree with that. And I think we didn't just somehow get addicted to it. It was a matter of ego and pride for a lot of people, but also a substitute for real organic savings and investing and savings equals investment. You can't invest dollars that aren't first saved and investment equals advancements in productivity and growth. So all of this is connected to the underlying theme that pretty much drives my economic worldview. We need more productive activities and kind of relying on this elevated, albeit artificially elevated house price level is in a lot of ways connected to declines in productivity, to declines in savings and investment that equal a solution to production growth and so forth. Food for thought out of the Dividend Cafe. Thanks for listening, watching. Please do read the Dividend Cafe and enjoy your weekend. The markets are closed Monday, so we'll be back in the DC Today on Tuesday. Thanks so much.
