

Discussion of
“Mobility and Housing: Cash-Based Resettlement in China’s
Shantytown Renovation”

by Z. He, Z. Liu, Y. Su, and K. Zou

Kinda Hachem
FRBNY and UVA Darden

8th Annual Macroprudential Conference
June 26 – 27, 2024

Disclaimer: The views expressed in this discussion are those of the author and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System.

Summary

- To renovate shantytowns, must relocate residents, either via voucher or cash resettlement (voucher controls where they go; cash gives flexibility)
- China switched to cash in 2015 when cities had high inventories
- Cities more exposed to migration (by cash resettlers) experienced bigger drops in inventories, bigger increases in house prices even relative to rents, and recently more foreclosures
 - These cities also had higher initial house price growth, so the cash resettlement policy made the distribution of house price growth more dispersed
- Model:
 - Households choose (desired) migration given house prices; housing market clearing pins down house prices given household demands
 - In the background is that households are constrained in their ability to move and cash resettlement lessens that friction
- In aggregate, effect of cash resettlement policy on house prices is small; the effects are cross-sectional

Comments

- Overall, plausible story
- Why the switch from voucher to cash resettlement in 2015? If to prop up local house prices, why not do so directly (e.g., use CDB loans to buy the vacant homes then allocate vouchers for those homes)?
- More on normative side:
 - What is the social welfare function? What is the optimal allocation of vouchers?
 - Would be instructive to compare the more market-based cash resettlement to optimal vouchers. Externality? Unintended consequence?
 - Paper hints at tradeoff between dispersion of house prices and efficiency of labor allocation (voucher decreases former; cash resettlement increases latter)
 - Hard to think about efficiency of labor allocation without endogenous real wage
 - Why is less dispersion in house prices good? Cities will differ in amenity value.

Comments

- Modeling choices:
 - Households optimize as if they can move to their desired city, but only some fraction of them are ultimately able to move
 - What happens to households that cannot move? Do they consume their wages or carry cash over to next period?
 - Instead of modeling cash resettlement as increasing the fraction able to move, why not model as relaxing the budget constraint?
 - Unmodeled credit is very generous; households can borrow against lifetime discounted wages, so why would foreclosure arise if budget constraint is satisfied?
 - No rental market in model to explore price-to-rent ratios
 - Correlation between model-predicted and observed house price growth is only 0.17
- Some conceptual links to gentrification (e.g., Guerrieri et al (2013), Couture et al (2023)); differences beyond money per capita migrating in?