Overview

Recently, it has been acknowledged the key role of housing market in the proper functioning of the labour market. Labour market rigidities, in fact, may also arise from housing markets externalities or frictions. Hence, the housing market analysis cannot be neglected if a priority goal is the improvement of labour market efficiency and the reduction of unemployment.

The close link between the housing and labour markets: The Oswald puzzle

An intriguing hypothesis suggested by Oswald – to explain the high and persistent unemployment in the industrialized nations – is that the increase in homeownership is a major reason for the (future) rise in unemployment. The key mechanism underlying this positive relationship is the negative effect of moving costs on job mobility. Since homeowners have higher costs of moving than renters, they tend to be less willing to accept jobs outside their local labour market. Eventually, this hampers job mobility and may lead to higher unemployment. However, the macroeconomic evidence on the positive association between homeownership and unemployment is not supported by empirical study at the micro level (the so-called Oswald puzzle). At the country level, in fact, there is a clear empirical evidence of a positive relationship between homeownership and unemployment. Instead, at the individual level, a large body of empirical studies suggests that homeownership limits the probability of becoming unemployed and increases the probability of finding a job once unemployed (van Ewijk and van Leuvensteijn, 2009).

In short, renters seem to have less favourable labour market outcomes and homeowners seem to move less frequently. This clear divide, however, largely reflects the different characteristics of workers. For example, homeowners with mortgage payments may have a stronger incentive for higher search intensity or be willing to accept lower wages than renters, so that their unemployment duration is shorter. The opposite may be true for the outright homeowners. Furthermore, homeowners tend to be more educated. This could both increase and reduce the probability of finding a job (high-skilled workers are usually more choosy). Eventually, therefore, the net effect of homeownership on aggregate unemployment could be small (Head and Lloyd-Ellis, 2012).

New empirical evidences

Recent works by Blanchflower and Oswald (2013) and Laamanen (2013) enrich the debate. Using micro data on United States, Blanchflower and Oswald (2013) find that higher homeownership is associated with: (i) lower levels of labour mobility, (ii) longer commuting times, and (iii) fewer new businesses. It follows that an increase in the homeownership rate leads to a large rise in unemployment rate in the future, namely the negative effect occurs with delay, thus explaining why this topic has attracted little notice from scholars. Contrary to the criticism received, therefore, their study does not claim that homeowners are more likely to become unemployed than renters, nor the paper is built solely on the idea that homeowners are less mobile than renters. The results are

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1 The willingness of a homeowner to accept a job outside the local labour market depends on several key variables (offered wage, current employment status, rents, house price, etc.). In particular, a key role is played by the speed with which s/he can sell the own home (Head and Lloyd-Ellis, 2012).

2 Homeownership increases with income, and people with higher income have more human capital.

3 Lower levels of labour mobility and longer commuting times could imply that homeowners more often accept a job on the local labour market, whereas the reverse is true outside the local labour market.

4 The dependent variable of the model is the unemployment rate. The independent variable of interest is the homeownership rate. The size of the coefficient on lagged homeownership rate (always statistically significant) becomes stronger as one goes backwards in time.
instead consistent with the view that the housing market can generate important negative externalities upon the labour market. Similar conclusions are reached by Laamanen (2013) for the country of Finland. This work estimates probit models by combining an individual-level dataset with region-level information on homeownership in order to allow to the homeownership rate to produce external effects (namely, labour market outcomes of individuals are affected by the homeownership rate in their region). Also, it exploits a rental housing market deregulation reform to create an exogenous variation in the regional homeownership rate, thus avoiding the endogeneity problem. The results suggest that homeownership is positively associated with unemployment (positive sign of the variable ‘regional homeownership’), while owner-occupiers are less likely to be unemployed than other individuals (negative sign of the characteristic ‘owner-occupier’). This implies that significant (negative) externalities are at work at the aggregate level. These externalities may be due to consumption reductions and increased local job competition, especially when the home purchases are financed by debt.

The need for studying the interactions between the housing and labour markets

Basically, these papers give an important empirical contribution and discuss some theoretical explanations, but the detailed nature of any housing-labour interplay remains little understood. According to Blanchflower and Oswald (2013): “economists currently lack a full understanding of the interplay between the housing and labor markets. We believe these issues merit the profession’s attention”. Likewise, Laamanen (2013) claims: “More theoretical and empirical research is needed to better understand the mechanisms at work”. In this sense, a theoretical background could be very useful. In fact, a theoretical underpinning of Oswald’s thesis has received a lot of attention only recently.

In a nutshell, a deeper analysis of the close relationship between the housing and labour market is required. There are important and neglected aggregate effects associated with the housing market externalities and inefficiencies (homeownership is not the only source of rigidity in the housing market). These spillover effects should be sought in the interaction between the labour and housing markets, thus requiring a simultaneous modeling of housing tenure choice and labour market behavior. Indeed, in most works in this field both the housing tenure choice and the house prices are taken as given (Head and Lloyd-Ellis, 2012).

From a theoretical point of view, a useful model should reconcile theory with empirical findings, such as higher exit rates from unemployment among homeowners. Furthermore, for a complete analysis of the relationship between housing status and unemployment, one should also consider the effect on the inflow into unemployment. Indeed, most of the previous studies focuses on (the effect on) the outflow out of unemployment (van Ewijk and van Leuvensteijn, 2009). Since the housing market is a matching market and the ultimate goal is the study of the effect of housing market frictions on unemployment rate, the search and matching framework is a natural starting point to provide a theoretical foundation to the interplay between the housing and labour markets. It needs, therefore, to build a framework with trading frictions in both the housing and labour markets. In this sense, there is a growing and recent literature.

From a policy point of view, two important extensions involve welfare and social capital. Indeed, in certain circumstances restrictions on labor mobility may be welfare-enhancing, since mobility may have negative consequences on social capital (a crucial wellness factor). Homeownership, instead, can encourage the long-term reciprocal relationships. Nevertheless, larger government subsidies to homeownership could damage the aggregate employment, and thus it would be preferable to

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5 Commuting and social housing are the other two – less explored – main sources of housing market rigidities.
6 Rupert and Wasmer (2012), for example, shows that by introducing high commuting costs, the standard macroeconomic model of the labour market (the Mortensen-Pissarides model) is able to explain the differences in geographical job mobility.
improve the conditions of commuters. Therefore, empirical works that shed light on these effects are needed.

The aim of this special issue is to gather new contributions on these topics. Precisely, the special issue publishes original papers including but not limited to:

- Homeownership, job mobility and unemployment
- Labour market behaviour and housing tenure choice interactions
- Social housing, commuting costs and job mobility
- Homeownership with mortgage, outright homeownership and search intensity
- Housing and mortgage markets
- Homeownership, house prices and wages
- Homeownership, welfare and government subsidies
- Homeownership, job mobility and social capital

We are also interested in: i) short papers with specific ideas and theoretical background; ii) data and preliminary empirical results; ii) comments and critiques to previous works on the issue. Exciting ideas of young scholars are also welcome.

Main references


