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Secondary Sources: Rent vs. Buy, Debt Thresholds, Gang of Six Plan

A roundup of economic news from around the Web.

–**Rent vs. Buy:** Both [Felix Salmon](#) and [e21](#) point to a paper by **Eli Beracha** and **Ken H. Johnson** on whether renting or buying is a better decision. “Home ownership is touted as the “American Dream”. It is credited with enhancing wealth, increasing civic pride, improving self-esteem, crime prevention, child development, and better educational outcomes, among other benefits. This paper does not dispute any of these claims. Instead, this study hypothesizes that crowding toward homeownership raises the price of homes above their fundamental value resulting in the purchase of a home becoming a conraindicative action. After setting the holding period to the average American’s tenure in a residence, renting (not buying) proves to be the superior investment strategy over most of the study period.” Separately, **Daniel Aaronson** and **Jonathan Davis** in a [Chicago Fed letter](#) find little evidence that a lack of mobility due to people unable to sell their houses has had a significant contribution to the unemployment rate.

–**Debt Thresholds:** **Robert Shiller** looks at how debt obligations are discussed. “Here in the U.S., it might seem like an image of our future, as public debt comes perilously close to 100% of annual GDP and continues to rise. But maybe this image is just a bit too vivid in our imaginations. Could it be that people think that a country becomes insolvent when its debt exceeds 100% of GDP? That would clearly be nonsense. After all, debt (which is measured in currency units) and GDP (which is measured in currency units per unit of time) yields a ratio in units of pure time. There is nothing special about using a year as that unit. A year is the time that it takes for the earth to orbit the sun, which, except for seasonal industries like agriculture, has no particular economic significance.”

–**Gang of Six Plan:** **Keith Hennessey** digs into the details of the Gang of Six plan to cut the deficit. “This is somewhat of a monster post. It is both longer and more detailed than I would like it to be, but I’m aiming it primarily at policy insiders who I think want that additional detail and analysis. Lay readers may find a few parts of it to be tough sledding. The mainstream press is giving you not enough detail. Here I’m erring on the other side... To their credit, the Gang of Six (G6) released three documents that provide significant descriptive detail and numbers. I will therefore begin by giving you what the Washington insiders already have: the Gang of Six’s documents, so you can see for yourself.”

Compiled by [Phil Izzo](#)

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