

The Price of Entry: Sound Money, Monetary Policy, Housing, and Family Formation

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ABSTRACT: Monetary easing is commonly seen as “helping families” through lower interest rates and by increasing access to homeownership. In this essay, Antón Chamberlin, PhD, states that monetary policy does not impact households uniformly, raising wealth and reducing costs for incumbents while raising costs and pricing new entrants out of the market. These uneven effects extend past housing and into family formation.

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I. Introduction: One House, Two Meanings

Lowering interest rates is often described as a policy to “help families” with the intention of reducing mortgage rates and facilitating homeownership. Families who were kept out of the housing market due to the higher rates find themselves able to afford a loan once interest rates start falling. As with other government policies, however, the aggregate measures mask an underlying bifurcation between current and prospective homeowners.

Monetary policy does not affect families in a uniform manner. Monetary easing, while reducing mortgages and increasing wealth for homeowners, ultimately results in higher acquisition costs for prospective buyers who cannot immediately take advantage of the reduction. Once the expansion is met with contractionary policy, lower-income and first-time buyers are disproportionately excluded from the housing market as current owners are protected by recently acquired equity gains and previously contracted fixed-rate mortgages. The result, then, is not only a change in the average cost of housing but of the distribution of housing and opportunities to form and expand a family.

The argument is *not* that monetary policy is the sole determinant of housing unaffordability or declining housing formation, but that monetary conditions alter housing prices, borrowing costs, and market access unevenly, causing a redistribution of wealth similar to the effects explained by Cantillon. Such a situation is mediated by sound monetary policy, where such interventions are not possible.

This article proceeds as follows: Section II explains the need to disaggregate “the family.” Section III establishes the connection between monetary policy and the housing market, while Section IV begins the disaggregation of households

in this context. The different experiences of credit expansion and tightening are discussed in Sections V and VI, with Section VII extending the disparity to family formation. Section VIII considers the preferability of a sound money regime, where purchasing power is stable and the currency’s value is resistant to inflation and political manipulation due to its tie to some commodity, for the amelioration of this housing inequality, and Section IX concludes.

II. The Representative Family Does Not Exist

There are a myriad of aggregate measurements used for economic analysis, such as inflation rates, average mortgage rates, house-price indices, and measures of household debt. Whatever economic value they may contain, however, they obscure substantial differences between actual households in the economy.

One household might own a home, own financial assets, and hold a fixed-rate debt, while another might rent, have all its savings in cash, and not even qualify for a mortgage. A rise in housing prices, whether the result of monetary policy or not, will have competing effects for these two households. The first may see an increase in net worth, while the second sees its savings become even *less* sufficient for a down payment.

Through income and cash-flow channels, monetary policy can affect households through an income effect. By influencing employment status, wages, interest rates, and debt repayment, the level of income available for costs like housing and childcare affects the barriers to establishing and expanding a family. It also causes changes to balance sheets as homes and assets are revalued, along with the real burden of outstanding nominal debts. All of these impact net worth, perceived financial security, and borrowing capacity, along with the ability to make a down payment or finance a home for a larger family.

Given the diversity in household situations, there is also diversity in the experience of monetary policy as it pertains to housing. Fixed-rate owners, adjustable-rate borrowers, renters, and new mortgage applicants fundamentally interact with the same rate adjustment differently.

This difference in experience of the same monetary policy can be illustrated with the framework of Cantillon effects. As Jeff Degner (2023) shows, in the tradition of Richard Cantillon, newly created money must enter the economy through particular channels at particular moments, *not* through a simultaneous increase in income and price. Because of this, there are those who receive the new money before it has made its way through the economy, altering prices. The first recipients experience an increase in real income before prices start to rise as a result of the expansion, while those who have not yet received the new money experience a decrease in real income as prices rise. The result of both of these occurring is a redistributive effect from those who cannot yet take advantage of the new money to those who can.

For the housing market, the intervening financial institutions transmit this new money into the economy, and this distribution is neither direct nor uniform. Once central-bank policy affects banking conditions, like interest rates and future expectations, banks and other mortgage lenders translate these new conditions into loan availability, refinancing opportunities, and mortgage terms. Monetary easing, from the perspective of households, is only encountered *after* it has passed through the financial institutions that will choose applicants based on income, employment, collateral, savings, credit history, and existing debt.

Timing can, therefore, heavily influence how a household experiences the same monetary expansion. Those able to obtain a mortgage or refinancing arrangement early may receive lower costs before the full consequences of the expansion are incorporated into prices and interest rates. If the same lower rates also lead to greater housing demand, the current owners may also receive gains through appreciation. Those whose wages, savings, and credit eligibility, however, adjust more slowly to the expansion may fail

to see the same benefits due to the rising acquisition costs as the market adjusts to the new money. A subsequent tightening may not provide sufficient relief either, as the rising mortgage rates may not offset falling prices once demand subsides.

The mere presence of lower rates is not sufficient for borrowing, refinancing, and purchasing of assets. One's income, employment stability, possession (or lack) of savings and collateral, credit score, and outstanding debt may impede any such activity. The relevant unit of analysis cannot be, then, "the family" in the aggregate but households distinguished by criteria like ownership, debt, income, savings, credit access, and timing within a Cantillon event.

III. How Monetary Policy Enters the Housing Market

Expansionary monetary policy tends to lower both short-term and long-term interest rates, including mortgage rates, which would lower the expected monthly payment for the house. Central banks have stronger influence on short-term rates, with long-term rates also heavily influenced by expected future policy, inflation expectations, and market conditions. Policy decisions are endogenous to the general state of the economy, often in response to inflation, employment, and other economic developments, and all of these have their own independent effects on housing and family decisions. Nevertheless, both rates often respond to changes in policy, and these changes propagate through the economy, like the housing sector.

Downward pressure on rates and expected future financing costs lowers mortgage rates, often met with smaller monthly payments. Smaller payments mean buyers can bid more for the same property or qualify for larger loans. This almost surely will increase the demand for housing. Prices respond accordingly, as the increased demand begins to bid prices and rates back up. Assuming these do not move simultaneously in tandem, lower relative rates might be met with rising principal costs, leading individuals to borrow more. If the supply of housing responds

slowly, some of the financing benefits become capitalized into higher prices. Thus, the benefit to prospective buyers depends upon how much the lower rate offsets the higher selling price. Current owners, though, will receive the price appreciation of their homes without having to repurchase it at the new price.

Granted, monetary policy is not a complete explanation of housing prices. Various market and non-market phenomena will affect the economy's ability to meet this rising demand with rising supply. Few impediments to construction will facilitate more housing, while zoning regulations, geography, permit requirements, and other constraints will limit supply. The remaining demand, then, is destined to raise the price of existing homes.

Research from Gorea, et al. (2024) shows that changes in mortgage rate expectations are transmitted rapidly into housing prices. Using US data from 2001 through 2009, the article found that when an unexpected episode of monetary contraction raises the average thirty-year mortgage rate by 0.25 percent, housing list prices decrease by roughly one percent within two weeks. Much of this passes through to sale prices and persists for at least a year. It is due less to the unexpected nature of the change and more to changes in expected future rates.

This indicates that housing prices are affected by monetary policy, and quickly so. This downward pressure, though, does not automatically mean that affordability improves. A prospective buyer who has not yet experienced a wage increase in this situation simultaneously faces lower relative prices, yes, but *rising* financing options, a higher monthly payment, and possibly the need for a higher down payment or more collateral as competition among prospective buyers for homes increases. Nevertheless, there is a clear connection between credit manipulation, mortgage rates, and housing prices. If expected mortgage rates are capitalized rapidly into prices, then financing conditions and acquisition costs cannot be separated.

Housing functions as a consumption good *and* an asset for many. It provides the context for

everyday life and provides shelter, stability, and a locale to enter. It also stands as equity, collateral, a possibly appreciating piece of property, and a store of household wealth.

Higher prices, then, tend to codify existing owners and renters, with appreciation increasing the wealth of current owners, raising the cost of entry for prospective buyers. This creates an asset-entry divide, where the gains for established households mean increased acquisition costs for those trying to enter the market. This divide affects family behavior.

IV. One House Price, Two Family Effects

As with any other economic phenomenon, the effects are not evenly distributed across groups. Rising house prices, accordingly, do not have the same economic significance for households that already own homes and those who do not. For present homeowners, home appreciation can increase net worth, home equity, collateral value, as well as perceived financial stability. On the other hand, renters and prospective buyers experience the same appreciation as increases in down payments, mortgage principals, and the amount of time necessary to save in order to enter the housing market at all.

We see this illustrated in the literature. Dettling and Kearney (2014) found that these opposing economic situations are tied to opposing fertility responses when housing prices increase. An increase in housing prices can produce two effects potentially at odds with each other. For non-owners and those seeking a larger house, higher prices reduce the feasibility of market participation. With household size often a major consideration for children, this serves as an increased barrier. Existing homeowners, on the other hand, see an increase in equity. The financial benefits of this — such as increased wealth, greater collateral, increased financial confidence — may lead to *increased* fertility for *these* households.

Dettling and Kearney dove into this situation using data from the 1997-2006 housing expansion. By relating price changes within metropolitan areas

to fertility rates for demographic groups, they were able to parse out whether the response differed according to each group's baseline homeownership rate. A negative price effect was distinguished from an offsetting home-equity effect by the increasingly positive response from groups with higher ownership rates.

The main findings were threefold, across demographic groups and not limited to just first births. They estimated that a \$10,000 house-price increase is associated with (1) a 5 percent *increase* in fertility among current homeowners, (2) a 2.4 percent *decrease* among nonowners, and (3) a 0.8 percent net increase at the average US homeownership rate. This suggests that one of the results of housing appreciation is redistribution of economic opportunities as they pertain to family growth, as opposed to simply helping or harming “families” as a monolith. Neither are owners entirely unaffected negatively. Should current owners seek a replacement or secondary home, these purchases would also be more expensive. Those who stay put would see a clearer wealth effect. The positive homeowner estimate is also a *net average* effect.

This does not, of course, establish that housing prices *determine* family size, changes in marriage, or the broader decline in American fertility, at least not exhaustively. Nevertheless, it does establish that changes in the housing market affect family decisions, and this effect is bifurcated by *at least* those who currently own and those who do not, making ownership status essential for understanding monetary policy's effects on the household.

V. Cheap Credit Is Not Equal Credit

There are benefits to some when interest rates are lowered, and this holds true for certain families through reducing mortgage payments, expanding refinancing opportunities, and making the original principal easier to service. These benefits are not evenly distributed due to differences in income, collateral, credit history, savings, and existing debt obligations, to name a few. Borrowing before a substantial episode of housing appreciation might

result in favorable financing and future equity gains, but those who find themselves entering the housing market after such an episode may need a much larger loan, even if interest rates remain lower.

Cumming and Dettling (2024) found that rate cuts induced by a central bank increased births among existing homeowners whose mortgages were adjustable, allowing monthly payments to fall in response to the policy change. The primary mechanism works as follows: Once policy rates fall, eligible mortgages reset, reducing required monthly payments. This leads to an increase in discretionary income, which is then met with either having children sooner or having an additional child. There is a bifurcation here between those eligible and ineligible for a rate adjustment, where the former received a benefit from large rate reductions while the latter did not. They found that a one-percentage-point decline in the policy rate from the Bank of England increased birth rates by about 3 percent among those households who were eligible for a mortgage-rate adjustment. While the institutional differences between the US and the UK, such as the prevalence of fixed-rate mortgages, limit the transferability of the magnitude, the underlying mechanism remains the same: credit expansion affects household decisions via mortgage channels when lower rates affect monthly payments. The research now extends from an owner-nonowner distinction made by Dettling and Kearney to monetary policy, through its effects on mortgage payments, influencing birth rates in Cumming and Dettling. This shows a positive relationship between monetary easing and family expansion, but primarily for those who already possess mortgages, and adjustable ones at that.

This does not mean that renters, prospective buyers, or fixed-rate borrowers experience the same benefits from monetary easing. Those wishing to enter the housing market may be presented with a lowered mortgage rate, but effective access depends upon the entire financial package, including the purchase price, required down payment, collateral, and household income. Some of the lower rate might be capitalized into the higher price. The lower rate, then, may be a marginal improvement for the seekers' net position — or at worst, a net deterioration.

Contractionary monetary policy creates an even greater distinction between current and prospective owners. The established households may be able to retain their previous rates, while those on the outside looking in have no option but to enter at the more expensive financing rates.

VI. Tightening Does Not Reset the Market

There are many effects of tightening, including weakening housing demand, and falling prices, which may give the appearance of a reversal of the affordability problems caused by the earlier expansion.

With housing, however, a fall in sale price does not necessarily mean the house is more affordable once the higher mortgage rate is taken into consideration. The principal may be smaller, but the higher monthly payment still may be prohibitive. Those looking to buy must finance their homes at the current market rate, while the incumbents might remain protected by their fixed lower rates.

Daniel Ringo (2023) found socioeconomic disparities in this regard, showing that increased mortgage rates caused by policy rate hikes disproportionately decreased low- and moderate-income homebuying participation, most notably among first-time buyers. This is because the latter are more likely to face a binding budget constraint. When mortgage rates rise, a handful of things tend to happen. One, monthly payments increase, causing some borrowers to no longer be able to satisfy loan terms. This might be compensated with larger down payments, or cheaper houses, but these still require liquid savings or the availability of suitable cheaper housing. Without these resources, households are more likely to simply leave the market.

Ringo found a handful of results to support this. A one-percentage-point increase in mortgage rates, caused by monetary policy, reduced the low- to moderate-income share of homebuyers by approximately 7.5 percent, with the low-income share by itself falling 16 percent. These percentages increase when considering first-time buyers, with both

categories seeing a fifty percent increase in percentage point reduction, and low-income in isolation moving from a 1.1 percentage point reduction to a 3 percentage point fall. He also found no substantial increase in the average down payment, suggesting that households, when faced with an increased rate, were unable to produce enough savings to increase the down payment in the pursuit of preserving a lower monthly payment.

From this we can see, then, that monetary tightening does not simply reduce the number of transactions on the housing market, but instead changes the composition of the transactions, too. This means a change in which households possess the income, savings, and borrowing capacity necessary to stay in the housing market. First-time buyers in particular, unlike repeat buyers, do not tend to have the necessary equity, profit from previous sale, or existing low-rate mortgage to counter the higher financing costs.

There can also be an incentive for current homeowners to stay put, even if they would rather move, not wanting to give up their favorable mortgage and financial situation for a new home at a higher rate. The increased cost of moving results in this mortgage rate lock-in, reducing listings, even when the existing home no longer suits the owners' needs. Libersohn and Rothstein (2025) estimated a 16 percent reduction in mobility among mortgaged homeowners in 2022 and 2023 after rising rates. Meanwhile, Aladangady, Krimmel, and Scharlemann (2024) attributed 44 percent of the decline in mortgage-borrower mobility in 2021 and 2022 to the same phenomenon. They also found upward pressure on existing home listings due to this lock-in, though magnitudes varied.

Tightening after an expansion, then, will not fully reverse the price effects of the expansion. In fact, it cannot, since cycles are path dependent and asymmetric by nature. The expansion is asymmetrical with respect to its distributional effects, and so is the tightening. The same mechanism that slowly filters the expansion into the economy works the same way with the contraction. Moreover, the existing fixed-rate mortgages do not disappear when rates rise again, nor are the earlier equity gains to the current owners eliminated entirely. First-time buyers, on the

other hand, experience the full effects of the higher rates and the restricted supply from mortgage lock-in, even if prices start to decrease. The contraction *may* reverse the preceding house appreciation to the point of improving housing affordability, but this is not automatic. The overall burden of the price, rate, down payment, and monthly payment just remains the center of analysis. The same mismatch applies to an inflationary episode, where existing homeowners see a reduction in their real mortgage burden, while new borrowers typically will pursue or receive a loan at a rate already incorporating inflation expectations.

VII. From Housing Inequality to Family-Formation Inequality

The divide caused by these interventions does not only lie between homeowners and renters, but may influence which households can successfully enter the housing market, absorb the cost of children, and institute long-term family growth plans. The evidence strongly suggests that monetary policy, in either direction, substantially impacts mortgage rates, housing prices, household payments, and access to homeownership. Though not quite as strong, it also suggests an impact on fertility and marriage.

While it is true that marriage and parenthood do not *require* homeownership, it is certainly true that suitable and affordable housing can influence whether couples feel prepared and able to fully establish their household or expand their family. This is where the inequality in family formation occurs — when similar family aspirations are acted upon or unacted upon because of wealth, debt, savings, and access to credit. Even without ownership, the effects on the housing market as manifested in availability, cost, supply, and size most certainly affect household independence, the necessity of commuting, proximity to friends and family, and a myriad of considerations for childrearing. Without being strictly speaking essential, housing availability, size, location, and cost nevertheless impact the material reality present when considering family aspirations.

The reasoning is often threefold. One, higher housing costs clearly influence household

independence, whether in the realm of young adults leaving their parents, couples choosing their residence, or couples considering the costs of raising children. Two, while expensive housing does not prevent family formation *in toto*, it can alter the timing, location, financial structure, and perceived feasibility of both marriage and parenthood for the onlookers. Three, it can alter fertility decisions, as shown by Dettling and Kearney (2014) and by Cumming and Dettling (2024).

Further research finds an association between higher housing prices and lower marriage rates, which suggests that marriage itself, not just household formation or fertility, is also negatively affected. Bowmaker and Emerson (2014), considering county-wide marriage rates from 1970 through 1999, found that not only does higher housing per capita correlate with a lower marriage rate, but the greater the gap between the annual cost of owning versus renting as a proportion of per capita income in a county, the lower the marriage rate.

Wealthier households are able to better respond to fluctuating housing costs by means like offering higher down payments, acquiring family assistance, leveraging existing assets, and utilizing stronger credit, while poorer individuals meet the same situation with delay, heavier debts, or continuing to rent. Two couples with an equal desire for marriage or children will be presented with entirely different financial landscapes dependent upon whether they already own a home, have a low-rate mortgage, or have to enter the market at higher prices and rates. Thus, while monetary policy cannot eliminate the desire for marriage and children, it can introduce financial barriers that could prevent acting upon those desires.

It is apparent, then, that monetary policy can contribute to an increasing divide between the established and the prospective homeowners, where housing wealth, mortgage benefits, and entry costs are unevenly distributed — in fact, skewed in the direction of the incumbents— to the benefit of affluent households, who generally possess more room for adjustment, while the more constrained households are more likely to delay purchasing homes.

VIII. Sound Money and the Conditions of Family Life

All this is not to say that monetary policy ought to be used to engineer marriage rates, fertility, or household structure in any direction. The effects of any intervention are never contained to the desired sphere, as Frederic Bastiat taught in the nineteenth century with his booklet, *That Which Is Seen, and That Which Is Not Seen*. Even if it could be ascertained that the fertility or marriage target had been reached, unintended consequences could never be avoided — consequences that could very well negate the “gain” of the policy.

Even if a policy *could* produce desirable economic conditions, it is no replacement for cultural norms that value family life, nor personal virtues of fidelity and responsibility. Monetary efforts that successfully produce affordable family housing are moot if the populace places no value on family life. Affordable housing at whatever might be considered a “reasonable” rate is less valuable when met with a population incapable of saving or managing its finances responsibly.

The *monetary* question is whether households should be beholden to favorable timing within credit expansion, the good fortune of being an early recipient of the new money, beneficial asset appreciation, and later tightening in order to achieve economic independence regarding shelter. These complications unnecessarily interfere with the housing market, leading to the effects we have seen on the family and fertility.

Sound money can offer a more dependable situation where purchasing power is maintained (if not rising), savings are not eaten by inflation, and long term plans are not quite as reliant upon increasingly risky inflation hedging. Such a policy would be twofold, as explained by economist Ludwig von Mises (1971, pgs. 414-416):

“[T]he sound money principle has two aspects. It is affirmative in approving the market’s choice of a commonly used medium

of exchange. It is negative in obstructing the government’s propensity to meddle with the currency system...Sound money meant a metallic standard...The excellence of the gold standard is to be seen in the fact that it renders the determination of the monetary unit’s purchasing power independent of governments and political parties.”

In the current economy, the important element is not that the commodity-based money be a precious metal, but simply *some valued commodity* for its use outside of exchange, at least at the outset. Though history does seem to hint that the best fits are gold and silver. Whichever good is chosen by the market, it is imperative that it be independent of political influence.

A more stable monetary system would significantly reduce the redistribution effects discussed that benefit the incumbents at the expense of the rest. Already owning a house, holding fixed-rate debt, receiving credit early, and entering the market *after* prices have risen would become less of a requirement for new entrants. All of this would be coupled with greater economic stability *en bloc*, which would facilitate easier long-run calculations for households, even if other factors like zoning restrictions and construction shortages remain unaddressed.

IX. Conclusion: The Price of Entry

A single market price, like in the housing sector, has multiple economic meanings. For those who currently possess assets and mortgages, a period of monetary easing may increase their home equity or reduce their payments if they have an adjustable mortgage. Those outside the ownership market, however, must purchase after some of those benefits have already been capitalized into prices, and only after the lower rates and rising wages make housing affordable, at least ostensibly. Later tightening only raises the financial cost and the easing period comes to an end, and this period is not able to simply undo the economic redistribution of wealth that occurred during the expansion of credit.

The result, then, of this credit cycle for housing is entrenchment. Similarly to general

Cantillon effects, the new money moves through the housing sector in such a way that benefits the incumbents and early recipients at the expense of the prospective buyers. This leads to differing marriage and fertility decisions between the two types of families, though the average between the two might lead to the specious conclusion that “families” are doing better since the cycle began. To mitigate this problem, sound money, though not capable of creating strong families across the board on its own, can reduce the extent to which access to housing and family independence is incumbent upon favorable timing in a business cycle.

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