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Let the Market Meet our Housing Needs

Peter D. Salins

Good evening. It is indeed a great privilege to be here this evening as one of the speakers in the Catherine Bauer Wurster Lecture Series. I am here in the interests of ideological balance. Or, to put it more simply, I'm the bad guy. It has fallen to me to be the defender of the hated Reagan-Bush do-nothing policies which, according to Peter Dreier, drove American housing markets into the ground. To be called upon to defend the market at Berkeley is about as comfortable a position as defending socialism before the U.S. Chamber of Commerce. But what the heck: if I have survived doing this kind of thing for twenty-odd years in New York, I certainly can do it once again here in Berkeley. After all these years, I still love preaching to the unconverted.

Housing and Markets

Let me begin by trying to narrow the gap between Peter Dreier and myself—at least a little. I will acknowledge that we really don't have *pure* housing markets. And I think Peter will acknowledge that we can't do anything about housing *without* markets.

Beyond this point of agreement, we really do have some substantial differences. At one extreme—the extreme I am against—there really is a profound hostility towards private markets in general, and private housing markets in particular. Those at this extreme hold it as an article of faith that the private sector is fundamentally incapable of serving the housing needs of a large chunk of the population; that housing should not be treated as a consumer good at all, but rather as a social good or public utility; and that government actions are always needed to promote equity in housing quality and communal social relations in housing environments. This was very much the attitude espoused by Catherine Bauer Wurster. (Indeed, if she is aware of my being here tonight, she is almost certainly spinning in her grave.) It's also the prevailing belief system of most of my colleagues and friends in New York.

The opposite attitude, the opposite model, the opposite belief system—the one that I'm here tonight to defend and articulate—holds that housing is indeed a consumer good. And nowhere more so than in the United States. I further believe that the government sector cannot and should not supply consumer goods; that only the private sector can get consumer preferences right; that only in a private market can consumers get value for their (or even for someone else's) dollar; and that only in private markets can consumers get sufficient choice.

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A corollary to this belief system is that policy measures adopted in the name of equity which run counter to private markets should be viewed skeptically. Inevitably, somewhere between lofty policy goals and the implementation of these goals is the messy world of politics. And politics invariably subverts even the best of equitable intentions. Whether we are talking about rent regulation, affordable housing initiatives, or plain old low-income housing subsidies, many of the greatest beneficiaries of housing policies are those who are least deserving. And many of the people that pay for these programs and policies are, if not poor, at least little more than middle-income.

A few minutes ago, Marc Weiss wanted to take credit for the wonderful improvement in U.S. housing conditions that has occurred since the end of the Second World War. In the name of the private market, I too would like to take credit for that improvement. I think it's simply amazing that in a few decades, we have built more than 50 million spacious, comfortable, modern and *largely unsubsidized* housing units. The private market, operating more or less without government subsidies, is what has really made the difference in housing quality in this country during the last half-century.

But I did not come here tonight to make an abstract case for the private housing market, nor to bash those who oppose the market. Housing conditions are far from optimal. There is still much that remains to be done. Even by the crass and messy standards of our consumerist society, there is a role for appropriate government housing initiatives.

Let me suggest that many of the housing problems that we all complain about are the result of not too many, but too few market initiatives. For the housing policy initiatives of the future—let's even use the grandiose phrase, the housing policy initiatives of the 21st century—to work, that is, to do more good than the well-intentioned but marginal efforts of the past, we need to be clear about the housing problems we face. In looking at our nation's housing problem's we three might find some common ground.

Rethinking Housing Needs

The people least well served by today's housing markets are not middle-income Yuppie first-time home buyers. They are not even female heads-of-households. Many of today's housing pariahs are not members of family households at all. They are singles: young singles, old singles, male and female singles, low-income singles, and singles who are physically and mentally disabled. Singles, as a group, are the poorest Americans, poorer even than those who are female heads of families. Their income on average is less than 50 percent of the U.S. household median. The homeless are merely the most abject segment of this population.

The lowest-income members of this population do not really need apartments, subsidized or otherwise. They cannot maintain apartments. They need rooms, rooms in hotels, in rooming houses, in other people's homes, in congregate care facilities, and in group homes. The U.S. is today awash in spare rooms. Yet, ironically, the private housing market is neither encouraged, nor in many locations even permitted, to offer individual rooms for rent. If individual rooms were available, many of the singles who today are priced out of the housing market would be able to afford adequate housing.

My second point concerns racial discrimination. Racial discrimination, even more than poverty, is the most serious housing problem faced by African-Americans and other minorities. Discrimination manifests itself in the form of obstacles to the purchase of housing and the securing of mortgages. Discrimination limits the choice of dwellings in neighborhoods, especially suburban ones. The correct response to discrimination should not be to engineer integration, or to fund a dual housing market. The best response to racial discrimination is to attack the problem head-on by vigorously enforcing anti-discrimination laws, and pursuing those who discriminate.

My third point: What concerns Americans of all races and classes, far more than substandard dwellings, are unsatisfactory housing environments. Dwelling quality has improved enormously over the last 50 years, thanks mostly to the vigorous activities of the private housing market. At the same time, however, *neighborhood quality* has declined. Low- and moderate-income minority families are trapped in deteriorating and unsafe inner-city neighborhoods. Middle-income city dwellers feel threatened by the growing squalor surrounding them. Even middle- and high-income suburbanites are dispirited by the vapid and chaos of the larger suburban environment.

My fourth and final point: as a nation, our single biggest housing challenge is to sustain the existing viable stock of housing: not to build new housing or new neighborhoods, but to maintain and perhaps even upgrade our existing housing and neighborhoods. And the key factor in sustaining dwellings is not money but the efforts and behavior of its occupants.

Rethinking Housing Programs

We three may agree on some of these problems, but where I think we most radically disagree is in the area of policy solutions. Let me offer three sets of dos and don'ts to guide the 21st century housing policies of the Clinton administration, the Gore administration, and whoever comes afterwards.

First of all, don't even think about production subsidies. They are expensive, they are inefficient, and most of all they are beside the point. Cyclical market fluctuations swamp the meager impacts of pro-

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duction subsidies. During the last two boom and bust cycles, mortgage interest rates and housing prices have had a much bigger impact on housing production than even the most ambitious set of subsidies would have had. Moreover, the regulations tied to production subsidies typically raise production costs by more than the subsidies themselves reduce them.

Two: Do think about consumer subsidies. Yes, vouchers. Make sure, however, that they are distributed under some meaningful concept of horizontal equity—that is, to the households that have the highest willingness to pay for improved housing but the least ability to pay. And make sure that they are spent only for dwellings of reasonable cost. In other words, make them efficient. An efficient housing voucher program would stretch our existing housing program dollars further, and improve the welfare of voucher recipients.

Third, make sure that they can be used anywhere in a metropolitan area, and perhaps even anywhere in the United States. The best way of doing this, of implementing a fair system of consumer subsidies, is through the tax system. Peter has pointed out that the tax system is already being used to provide consumer housing subsidies and that they are disproportionately going to the wrong people—those with the highest incomes who are able to afford the most expensive homes. Let's reform the tax system to make sure that embedded housing subsidies go to the right people.

Government as Market-Enabler

Beyond improving the tax system, is there a role for government in housing policy? Peter and Marc might be surprised to hear this, but yes, I think there is. Government is good at doing some things, often big things. Government is really our most effective mechanism for building municipal infrastructure and for providing the services to sustain it. Increasingly, however, the role of planning and building suburban infrastructure is being delegated to private housing developers whose uncoordinated efforts have created much of the development chaos that is typical of suburban areas. Developers build infrastructure solely for the benefit of their developments' occupants. Municipalities can build infrastructure that benefits an entire area. Unfortunately, many urban municipalities can no longer afford to maintain the infrastructure they already have.

Here is a case where public money might be well spent: where governments—local government aided by state and federal funds—can do what they're suppose to do. And what the private sector is not supposed to do: build and maintain residential infrastructure, especially parks and recreational facilities.

Yet by far—and this is the punch line for tonight—the most important contribution that government can make to housing policy is to

take away impediments to a truly consumer-responsive housing market. What we need is more variation in housing quality—not the de facto variation created by deterioration and neglect, but intended variation in size, dwelling type, and location that consumers really want. The major factors fettering greater housing choices are the development and occupancy regulations that pervade housing markets, especially suburban housing markets. Excessive regulation is the reason the poor cannot find modest-but-decent dwellings they can afford, and the reason why the growing army of American singles cannot find decent rooms or small apartments in suitable environments. The lack of choice engendered by excessive regulation is the reason that racial discrimination succeeds in trapping minorities in central cities. It is also the reason why the neo-traditional town planning rhetoric and concepts of someone like Andres Duany look so attractive. Sterile and alienating subdivision and zoning codes must go, or be significantly modified. So too should cost-raising, new-age California style growth controls.

The sterile and segregated housing environments that no one here likes are not the products of the private housing market. They are the products of stringent government regulation; of a particular form of anti-market activity entirely different from the market-substituting activities that Peter was talking about. An unfettered local housing market would give us much greater diversity in housing types and sizes, would juxtapose diverse dwelling types, would foster more convenient mixes of commercial and residential development, and would give us greater densities within existing communities and greater compactness within metropolitan areas. Both Andres Duany and Tony Downs, from radically different perspectives, make this same point: Our planned suburban environments, with their rigid segregation of land uses and their biases toward low densities, are not consumer-driven; they are regulation-driven. In fact, all of the vibrant urban and suburban communities that we cherish—from the hills of San Francisco to the pleasant railroad suburbs of New York—are the product of a pre-regulatory era of urban development. If we deregulate local housing markets and thereby allow them to respond to the full diversity of consumer demands—including new development, redevelopment, and the retrofitting of existing development—many of the housing problems faced by Americans, especially racial discrimination, could be significantly ameliorated, without substantial increases in public subsidies.

Now, how is this to be done? Before anything can be done the planning and housing community must be convinced that the market is an ally rather than an enemy of housing reform. I would hope that our friends in the White House will get this message. It's a message that is gradually being made not just by me, but by many others. It's a message that is gradually penetrating the consciousness of our states, and it's the states that really hold the keys to reforming local housing

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policies. My role here tonight is not to set out a programmatic blueprint for local regulatory reform. At this point, I'm just trying to raise the consciousness of the planning community.

So, let me leave you with what I see are the choices confronting American housing policy. We can continue the counter-market housing reform policies of the last twenty years—the very policies that Peter and Marc embrace. With great expenditures of rhetoric, paperwork, effort, and funds, these reforms have been engaged in the futile task of trying to offset in tiny ways the housing harms and inequities created by much larger misguided public efforts. On the other hand, instead of continuing to pursue this Sisyphean approach of rolling a few housing amelioration stones uphill, I suggest that we can work to keep the avalanche of market-distorting government regulations from tumbling down the mountain in the first place.