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The New Housing-Cost Problem

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The new housing-cost problem

BERNARD J. FRIEDEN

THE huge postwar generation that nearly overwhelmed the country's institutions of higher learning in the 1960's has now begun to make its numbers felt in the growing scramble for new housing. As the children of the 1940's and 1950's begin to raise families of their own, they are leaving behind the singles' apartments built just a few years ago to search the suburbs for single-family homes. Their numbers are so large —households headed by those between the ages of 25 and 34 increased by 3.3 million between 1970 and 1975—that the situation is reminiscent of the late 1940's. At that time, returning veterans, plus young couples who had been unable to afford a place of their own during the Depression and then to find one during the wartime shortages, were clamoring for homes. Within a few years, the Levittowns and other suburban developments met most of the need, set new records for single-family homebuilding that still stand, and put in place the middle-class suburbia that shaped American life from the 1950's to the 1970's.

Today the situation is different. The Levitt house sold for just under $8,000. Veterans using the G.I. Bill could pay nothing down and $56 a month on the mortgage. Today's young families find typical new homes selling for about $50,000, requiring a down payment big enough to buy the 1948 Levitt house outright, monthly mortgage payments close to $300, and operating costs swollen by escalating fuel prices, high property taxes, and expensive maintenance and repairs. True, incomes are also much higher than they were in the 1940's—median family income was $3,031 in 1947—and the typical new home is much larger and better equipped than its postwar counterpart. But for the average family the strain is a serious one, even if rising expectations helped create it. Moreover, the suburbs have become increasingly hostile to growth. Homebuilders trying to meet today's demand face elaborate new growth controls, utility restrictions, special permit requirements, environmental reviews, and development charges—all of which add to the cost of production.

So far only the leading edge of the postwar generation has been pushing its way into the single-family-home market. The 30-year-olds who are now buying houses were born in 1947. Yet the very high birth rates after World War II continued through the early 1960's. Much more is still to come: Between 1975 and 1985, households headed by people between the ages of 25 and 44 will grow by 8.8 million, according to a forecast by John Pitkin of the M.I.T.-Harvard Joint Center for Urban Studies.[1] (The *lowest* projection of the Census Bureau shows an increase of 9.3 million households in this group.)

Already, however, the housing problems of young, middle-income families are attracting national attention and prompting legislative remedies. Public discussion of housing policy has taken a new turn. In the 1960's, under the influence of the civil-rights movement and the rediscovery of poverty, reformers defined the problem as how to get the housing industry to do for the poor and minorities what it was already doing very well for the majority.

Now the center of attention is the young family, not poor and not rich, having a hard time finding the money to live in today's single-family suburban homes. Instead of racial or income group inequity, the issue is now intergenerational inequity. From the late 1940's through the 1960's, a new suburban home was within the reach of most middle-income families. Since the late 1960's, sales prices for both new and existing suburban homes have gone up faster than incomes, and operating costs have gone up faster still. As a result, the young family trying to buy its first home faces

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[1] For sources of data and other analyses related to this article, see Bernard J. Frieden, Arthur P. Solomon, David L. Birch, and John Pitkin, *The Nation's Housing: 1975 to 1985* (Cambridge, M.I.T.-Harvard Joint Center for Urban Studies, 1977).

high prices and few choices. The pathway to a suburban home —with its opportunity for social mobility, status satisfaction, access to good public schools, and financial benefits of homeownership— demands greater sacrifices from young families today than it did in the recent past. Public officials are taking notice because the housing system now seems to be delivering less than anticipated, not only to the poor but to the large (and voting) middle class as well.

Cost increases and declining purchasing power do not tell the whole story, however. Despite the high price of new housing, in 1976 single-family-home construction came close to the records set in the 1950's: Clearly, a large number of people are still able to buy new homes. As recently as 1973, when *The Public Interest* last looked at housing costs, B. Bruce-Briggs concluded: "American housing is *not* getting more expensive, except for the minority whose income is not keeping pace with national gains." A look at the evidence is in order, both to test whether the newly identified problems of young homebuyers are serious, and also to find out how consumers and producers are coping with price changes. Also, the troublesome record of government housing programs in the past decade argues strongly for a careful look at the housing economy before we take the next public plunge.

The cost increase

The rising cost of housing is real, but it is important to specify that the type of house is the single-family home for sale, and the time period is from the late 1960's to the present. For more than 20 years after the end of World War II, steady increases in real income brought the cost of homeownership within reach of more and more families. But since 1970, families with near-average incomes have lost purchasing power for single-family homes. The increasing strain, then, is recent—too recent to show up in the data available to Bruce-Briggs in 1973. The average family is not worse off than the average family 20 years ago, but it is worse off than the average family of the late 1960's. And the new trend has not yet affected rent levels as much as homeowner costs. So the problem is by no means a crisis; but in a country where homeownership is the middle-class norm, where consumers have high expectations for their living standards, and where increases in real income have been the typical experience for a long time, the problem is serious enough.

Between 1970 and 1976, the median sale price for new homes increased by 89 percent, from $23,400 to $44,200. For existing homes that were sold, median prices went up 65 percent, from $23,030 to $38,100. During the same period, median family income went up 47 percent, from $9,867 to an estimated $14,500, and the consumer price index went up by 46 percent. The biggest increases of all were in monthly ownership costs for single-family homes, including mortgage payments, fuel and utility costs, property taxes, and maintenance outlays. For the median-priced new home, monthly costs rose more than twice as fast as incomes—up by 102 percent, from $218 to $441. For the median-priced existing home that was sold, monthly costs went up one-and-one-half times as fast as incomes, by 73 percent.

Another way to gauge the loss of purchasing power is to calculate what percentage of families in the country were able to afford the ownership cost of a median-priced home each year. For this calculation, I have followed the conventional assumption that a family can afford to spend up to 25 percent of its gross income for housing. By this standard, about 45 percent of all families in the country were able to afford the ownership cost of either a new or existing median-priced home in 1970. By 1976, that proportion was down to 27 percent of families able to afford the monthly cost of a median-priced new home, and to 36 percent able to afford the monthly cost of a median-priced existing home.

Figures based on median prices might be misleading if the lower half of the price distribution included a large proportion of homes selling far below the median level. This is not the case, however. Except for mobile homes, new houses selling for less than $20,000 have almost disappeared. Families with near-average incomes would be able to afford houses in the $20,000-$30,000 price bracket, but these too are available only in small and declining numbers. By 1976, only 12 percent of all new homes sold for less than $30,000.

Prices for existing homes are not lagging far behind. By November 1976, only 10 percent of existing homes sold for less than $20,000, and 20 percent sold for $20,000 to $30,000. The supply of single-family homes that the average family can afford (priced at roughly twice the median income) is small and growing smaller. Price and income data show that homeownership puts much greater strain on the budget of the middle-income family today than it did only seven years ago.

Surveys of buyers of new houses in 1965-66 and then in 1975-76 show that middle-income families are withdrawing from the market. In 1965-66, families earning between $5,000 and $10,000 (median family income in 1965 was $6,956) dominated the market for new homes. This group represented 43 percent of the nation's families, but bought 53 percent of the new homes. Even the lowest third, earning less than $5,000, bought 17 percent of the new homes; while the top quarter, earning $10,000 or more, bought 31 percent of the new homes.

Ten years later, in 1975-76, homebuilding was mainly for the well-to-do. The middle-income group, earning between $10,000 and $20,000 (the 1975 median family income was $13,719), were 41 percent of all families, but they bought only 38 percent of the new housing. Those with incomes below this level were now out of the market; they were a third of all families, but they bought only 4 percent of new homes. Families earning $20,000 and more—the top fourth of the nation—now dominated the market, buying 58 percent of the newly built homes.

Homebuilding fluctuates from year to year, and there is no way to be sure that 1965-66 and 1975-76 are entirely representative of the old and the new housing economies. Still, the change in the composition of homebuyers seems substantial. Whether measured by price trends relative to income, by the proportion of families able to afford the median-priced home, or by surveys of who actually bought new houses, the market for single-family homes has changed since 1970, to the disadvantage of the average family.

How consumers cope

People who value homeownership still have several options open to them, despite rising costs. A look at the strategies consumers are using suggests that many are finding ways to cope with the situation for the present, but that their solutions may not keep working for the next wave of young families facing higher prices.

1. *Trading up.* Most families buying new homes are trading up from another home they already own. The family that has owned its home for a few years can benefit from recent inflation by selling at a profit. (Alan Greenspan was correct in his claim that inflation has at least one advantage: It enables people to live in a more expensive neighborhood without having to move.) So the prior owner has a valuable resource that helps him buy a new home, while the first-time buyer faces a high price with no compensating trade-in value. In 1975-76, even though most families who bought new homes were young (median age of household heads was only

33), those buying for the first time were only 35 percent of all buyers. With the increasing difficulty of buying a first home, however, fewer young families are likely to be able to use the trading-up option in the future.

2. *Pooling incomes.* Women's liberation came along just in time to help families cope with inflation. Many families have propelled themselves into high-income brackets by combining two incomes. In 1975-76, more than half the homebuyers with incomes above $20,000 had both husbands and wives working. Overall, 43 percent of the new homebuyers pooled incomes from husbands and wives —a figure corresponding closely to the proportion of all married women who are in the labor force. Among first-time homebuyers, however, a higher proportion—59 percent—were pooling incomes. Whether this strategy will continue to work depends mainly on whether the economy keeps generating jobs for women who want to work, and perhaps also whether day care will be available at reasonable cost for working wives with preschool children.

3. *Stretching resources.* Families with incomes of $20,000 or more can afford the cost of homeownership without special strain. Households of average income that buy new houses, however, are spreading their resources thin to cover the cost. More than half the families of near-average income ($10,000-$14,999) who bought new houses in 1975-76 paid between $30,000 and $40,000, or well above twice their earnings. At average monthly costs for houses of this price level, a family earning $14,000 would have to spend one third of its gross income for housing. This is a heavy burden by most standards, but it may make good economic sense for young families who expect to have higher earnings in the future, and who base their purchase decisions on calculations of long-term income. If they buy now, they may benefit from price appreciation of their own homes, while if they wait they may find prices even higher in the future. The continued effectiveness of this strategy depends on the future of the economy, and whether it generates gains in real income that will keep justifying optimism for the future.

4. *Improving existing houses.* Another possible strategy for first-time homebuyers of average income is to find older houses in need of repair and to renovate them. Data on expenditures for home improvements in single-family houses, after corrections for inflation and for growth of the housing stock, show no significant increase overall. One type of home improvement has been growing steadily, however: do-it-yourself work in which the homeowner buys materials and supplies the labor himself. In real dollars, homeowners

increased their spending on do-it-yourself projects by 21 percent from 1970 to 1975.

Another option for middle-income families would be to compromise their standards and buy homes that are smaller and less fully equipped than typical new homes of the past few years. Far from compromising, however, consumers have been buying houses of higher quality each year. In comparison with houses built in 1970, those sold today have more space, larger lots, more bathrooms, and bigger garages; a higher proportion have central air-conditioning, fireplaces, and built-in dishwashers.

Simpler and cheaper houses have been available, though, for those who wanted them. As prices began to escalate, builders in many parts of the country tried to cut costs by producing smaller houses with less elaborate equipment. Demand for these "back-to-basics" houses proved to be very weak: They sold no faster than more expensive homes and in many cases not even as fast. (One Massachusetts builder who sold houses with two rooms unfinished found that his customers promptly hired contractors to finish them.) With higher profits as well as higher business prestige to be earned from more luxurious homes, builders took the pulse of the market and began to add quality once more.

Even for houses of constant quality, median sales prices have been climbing noticeably faster than consumer income: Between 1970 and 1976, prices were up 63 percent for roughly comparable homes while median family income was up 47 percent. Quality improvements then accounted for an additional 26-percent price increase, compounding the underlying inflation.

An unstable market?

Taken together, the strategies consumers have found are now generating a considerable demand for new single-family homes, but the current demand rests on a weak base. Families in the top 25-percent income bracket are buying most of the homes. They want high quality and are able to pay for it. Many are not in high-paying occupations but made their way into the $20,000-and-above income level by pooling the earnings of a husband and a wife.

Some middle-income families have also been able to buy new homes by stretching their resources thin to cover high monthly payments or by trading up from a house they were fortunate enough to have bought a few years earlier, when prices were lower.

The group of young families now looking for homes is so large that even if most are priced out of the market, the total of those able to afford new homes is enough to keep the homebuilding industry very busy indeed. Single-family-housing starts reached 1.16 million in 1976—a near-record level, approaching the boom years of the 1950's—and they have continued very high into 1977. But in this case, what is good for the industry may not be good enough for the country. If new homebuilding reached a broad market, as it did in the 1960's, we would have a record-setting construction boom. Instead it is reaching only a narrow segment of an exceptionally large age-group.

Whether the consumer strategies that are working now will continue to work is problematical. If homeownership costs continue to outpace income increases, fewer young families will manage to buy the first home that they can later use as a basis for trading up. Another downturn in the economy could wipe out jobs for secondary wage earners—thus blocking the "pooled-income" solution—and possibly frustrate the expectations that heavily mortgaged families have of higher future incomes. Further, the fact that many homebuyers have mortgaged themselves to double incomes or to anticipated higher earnings means that current consumer tactics have created a large group of marginal homeowners. Another recession would be a very serious threat to the tenure of this group, to whatever equity they have built up in their homes, and to the social status that goes along with homeownership.

Other options

If today's strategies do not keep working, others may take their place. More families may decide to rent instead of buy, and more may decide to sacrifice some quality and buy a "basic" home. Buying a mobile home, renting out part of a single-family home, or renovating an old house are also possibilities.

Although *some* families will undoubtedly follow each of these courses of action and thereby reduce the pressure for costly new construction, the choices of most young families will still require a high level of homebuilding.

The American love affair with homeownership is rooted in attitudes and commitments that make it difficult to find substitutes for new suburban homebuilding. Recent surveys and polls show that the ideal of a free-standing single-family home away from the city continues to maintain its dominance. A 1974 Gallup Poll found an overwhelming majority of people wanting to live in the suburbs or in a small town, rather than in a city. Only 13 percent preferred city living, compared with 22 percent in a similar 1966 survey. Three out of four people said they wanted to see future housing take the form of single-family homes spread through open areas, and two out of three considered a sizable piece of land, up to one acre, as an important criterion for selecting a new home.

With these attitudes as a starting point, what are the prospects that Americans will rediscover the pleasures of city life, and in so doing take care of their housing needs without creating additional demand for new construction? Big-city mayors and some critics of suburbia have been calling for a middle-class return to the city ever since the 1950's, and some continue to predict it. For the first time in the postwar period, housing economics is working in favor of this return. The high cost of suburban homes, both new and existing, makes the price of older in-city housing a bargain by comparison. Some young families will decide to live in cities, perhaps trading off the cost of private schools against savings on home purchases. And some cities will attract enough middle-income families to bring new cheer to mayors and critics of suburbia.

But another feature of American life—migration—will greatly restrict the extent to which existing houses in the older cities can substitute for new construction. The population is dispersing out of the large cities, leaving behind their stock of existing houses that might be suitable for renovation, and moving rapidly into newer urban areas in the South and West, and into small cities and towns in the Northeast and North Central regions. Not only the central cities but entire metropolitan areas are losing population. Between 1970 and 1974, 10 of the 25 largest metropolitan areas in the country had population losses, including New York, Chicago, Philadelphia, Detroit, Cleveland, Seattle, and even Los Angeles-Long Beach. Between 1975 and 1985, the South will attract more population growth than all other regions combined, according to a migration model developed by David Birch of M.I.T. And metropolitan areas of one million or more in the Northeast and North Central regions will grow by only 5.7 percent, while small communities outside metropolitan areas in those same regions will grow by 16.4 percent, according to the same forecast.

These large streams of migration weaken the prospect for revival of older, in-city neighborhoods in the areas people are leaving; and the places to which people are migrating are too new and in many cases too small to have much of a supply of older housing that could accommodate newcomers. Many people place a high value on the freedom to move, whether in search of economic opportunity, a change of environment, or more congenial social surroundings. A footloose population, however, requires a high volume of new construction to take care of its housing needs.

As an alternative to homeownership, rental housing similarly has only limited potential. Rent levels have lagged behind homeownership costs mainly because an unprecedented boom in apartment construction in the early 1970's created a temporary oversupply. Owners of rental property have had to face the same increases in operating costs as homeowners: higher fuel bills, property taxes, maintenance and repair expenses, and financing charges. High vacancy rates have so far prevented them from fully passing these costs along to their tenants. As existing apartments fill up, however, rents will almost certainly begin catching up with homeowner costs.

Still, more young families may decide to rent, especially in view of the trend toward fewer children per family. Further, the federal income-tax advantages of homeownership are decreasing. The largest of all federal housing subsidies have been the homeowner income-tax deductions for mortgage-interest and property-tax payments; in 1975, they amounted to $7.4 billion. As a result of recent changes in the tax laws, fewer taxpayers have been itemizing their deductions, and therefore fewer are claiming the homeowner tax advantages. The proportion itemizing their deductions was down from 58 percent in 1969 to 31 percent in 1975. According to a recent study by George Peterson of the Urban Institute, it could be as low as 20 percent by 1978. Reduction of the tax benefits should encourage some families to rent who might otherwise buy homes. Once the present surplus of rental units is absorbed, however, a switch toward renting would not reduce the need for new construction, but would merely shift some demand from single-family homes to apartments.

Similarly, young families who cannot afford to buy new single-family homes may decide to buy mobile homes instead. Manufacturers have made steady improvements in the quality of mobile homes, yet their price remains well below the cost of a new house. An increase in the mobile-home share of the market is likely, but again there are reasons to question how great the increase will be. First, during inflationary times, houses tend to appreciate in value, while recent experience is that mobile homes depreciate fairly rapidly. Second, many localities either exclude mobile homes altogether or else drastically restrict their number and location.

The change in consumer behavior that could have the greatest impact would be a willingness to accept some reduction in the quality of a new home. Why middle-income families have been reluctant to buy "basic" homes is something of a puzzle. Perhaps, as Detroit's experience with compact cars suggests, a great many people want certain products to be luxurious even if they must make great sacrifices to buy them. Still, as it becomes evident that new home prices are going to stay high (if not go higher), many families who want a suburban home may reconsider what quality they need. In particular, with late childbirth and few children now the norm, families may decide that they can get by with fewer rooms than the large homes built in the early 1970's provided. If so, they should be able to buy newly built homes with fewer than seven rooms at a price saving, or they can buy a large home and rent out part of it.

Also, after homebuilders have sold most of what they can sell to the top fourth of the population, they will surely try to return to basics once more. Increased attention to the design and furnishing of smaller homes may make them more attractive to the consumer.

What role for government?

One other step by consumers is predictable: a turn to government for help. Renters have already done so, reviving rent control in many communities during the past few years. Potential homeowners are a large and influential group in the population. Members of Congress have already taken note of their problems and have begun to draft legislation.

Federal action is likely for other reasons, as well. The construction industry is too important a sector of the economy to ignore if its current recovery begins to falter, and spokesmen for builders, labor, and mortgage lenders are not without influence. Further, if there is underproduction for the middle class, the poor will also feel the effects. Middle-income housing demand has been the driving force behind the steady expansion and improvement of American housing for all income groups since World War II. Without a volume of homebuilding large enough to take care of population growth and mobility and to produce a surplus beyond that, the poor would face limited choices and tough competition. Interest groups concerned with the well-being of the poor therefore also have a stake in measures to encourage homebuilding.

What is an appropriate role for government? I believe the first item on the federal housing agenda at this point should be to try to contain future increases in housing costs. If the government were to decide instead to start a general subsidy program for home-buyers, it would have to be huge to cover the large number of eligible middle-income families. New subsidies for middle-income families should have lower priority than finding ways to help the poor, who suffer more severe deprivation because of high housing costs and who currently have no large-scale housing assistance available to them. And new homeowner subsidies may also be unnecessary. If future cost increases can be kept in line while real income begins to grow once more, most middle-income families should be able to make reasonable adjustments on their own.

There is still another compelling reason why government should turn its attention to bringing costs under control: Government action has contributed directly to the recent cost inflation.

Sources of the cost increase

Most of the many cost components of producing a new home have been rising faster than incomes since 1970. No single factor explains why inflation has been more severe in homebuilding than in other economic activities. The main cost categories in the production of a single-family house are building materials and construction labor, which together account for about half of total costs; land purchase and development, about 20 percent; financing, about 10 percent; and overhead and profit, about 12 percent.

Residential construction costs in general have gone up 62 percent since 1970, with materials costs accounting for much more of this increase than labor costs. A construction-cost breakdown for single-family houses shows lumber costs up by 50 percent and carpentry labor costs up by 30 percent from 1970 to 1974.

The fastest-rising costs have not been for construction, but for land purchase and development and for financing, according to a study by the National Association of Home Builders. Between 1970 and 1974, land cost rose by 62 percent and financing by 148 percent for a typical single-family house. The financing cost consists mainly of interest on the construction loan. Since short-term interest rates have come down considerably since 1974, this factor is now less important in explaining current cost levels.

These production costs influence the sales price of housing, but still other factors have pushed up homeownership costs for the consumer. Mortgage-interest rates fluctuate but have been much higher in the past few years than they were in the 1960's. Fuel and utilities, property taxes, and maintenance and repairs are all up sharply; these operating costs for single-family homes have been rising twice as fast as median incomes since 1970.

What can government do about these costs? Some important costs, such as energy, are beyond the reach of housing and related economic policies. But several other important ones—interest rates, materials prices, and land costs—are very much subject to government influence, which has recently had the effect of making cost increases more severe rather than less.

The Federal government enters the cost picture mainly as the destabilizer of housing and credit markets. At times when the economy is expanding rapidly and inflationary pressures appear, the Federal Reserve Board restricts the money supply, and short-term interest rates rise. Depositors then withdraw funds from mortgage-lending savings institutions to take advantage of higher rates of return from treasury notes and other short-term investments. Faced with an outflow of funds, the savings banks and savings and loan associations cut back their new loans, and builders in turn start fewer houses. High short-term interest rates further raise the cost of construction loans for whatever homes are built, while the restricted supply of mortgage funds leads to higher interest rates for those homeowners who are still able to buy.

The rationale behind this economic policy is that cutting back homebuilding will help relieve inflationary pressures on other sectors of the economy. From the point of view of federal policy, housing is the balance wheel that helps stabilize the rest of the economy. From the viewpoint of those who work in the housing industry, though, it is more like the roller coaster of the economy, alternately exhilarating and frightening. For the consumer, it is feast to famine every few years, and the feast is an expensive one.

Whatever the extremes of the housing cycle contribute to the rest of society comes at a high cost to the homebuyer. When housing starts go from a peak rate of 2.4 million annually in the first quarter of 1972, to a low of 990,000 per year in the second quarter of 1975, and then back to 1.8 million in early 1977, it means that the industry must operate well below its capacity much of the time. Underutilized plants and equipment, expenses of warehousing inventories during slack periods, high labor turnover, and start-up expenses all add to the cost of producing building materials. Construction workers count on being unemployed fairly often, and therefore demand high hourly wages to assure a reasonable income over the years. Furthermore, materials costs move up and down over the course of the housing cycle, with plywood typically 20 percent more expensive at the top than at the bottom of recent cycles. But most housing is built during the peak of the cycle, when all prices are highest. In short, the costs of instability in homebuilding are substantial, and the homebuyer pays for most of them.

In the long run, uncertainty over output levels discourages firms from investing in cost-reducing equipment or in developing production methods geared to a high volume. The yo-yo motion of housing starts requires firms to emphasize flexibility and risk-limitation more than efficiency of production.

The last time the federal government turned its attention to cutting the costs of homebuilding, it tried to bring new technology to this field without dealing with the underlying instability. President Johnson's Committee on Urban Housing (the Kaiser Committee) presented an attractive vision of a future high-technology housing industry that would use scientific research to search out innovations in materials, designs, and organizations. The obstacles it identified were mainly local building code restrictions that discouraged innovation, and the related fragmentation of housing markets.

Following the thinking of the Kaiser Committee, the Department of Housing and Urban Development mounted several programs to encourage the use of new technology in housing (Operation Breakthrough in the early 1970's was the best known), and further used its leverage to persuade many localities to modernize their building codes. The results were disappointing: The new construction technology offered few advantages and little cost-reduction in comparison with what conventional single-family homebuilders were already doing. The "stick-builder" was more efficient than the critics thought. Over the years, without special federal efforts, builders were making greater use of factory-built components and time-saving new products, and were steadily reducing the cost of on-site labor.

A more promising way to contain cost increases would be to stabilize production levels, or at least to reduce the extreme instability that now plagues the industry and its customers. An obvious first step would be to rethink current monetary policies to try to find anti-inflationary strategies less damaging to homebuilding than the present ones. If that should prove difficult, other steps are also possible. One would be to use low-income-housing-production programs to offset cyclical instability, by accelerating them when housing starts drop and cutting them back when private starts increase. The recent pattern has been exactly the opposite: Housing-subsidy programs set record volumes of 400,000 units a year from 1970 to

1972, precisely when private starts were also at record highs. In January 1973, President Nixon suspended all the major subsidy programs just as the housing slump was starting.

Another way of sheltering homebuilding from the consequences of high interest rates would be to offer cash subsidies (or tax credits) that homebuyers could use to reduce their down payments during slump periods. Kenneth Rosen of Princeton University has advanced this idea on several occasions, basing it in part on the successful experience he has studied in other countries. Both Canada and Norway have been troubled by extreme seasonal fluctuations in homebuilding with resulting high unemployment during the winter months. In both countries, a moderate incentive payment (on the order of $500) to any homebuyer who would have a house started for him in the winter was enough to turn the seasonal pattern around. These payments did not create new demand, but they changed the timing of demand. Changing the timing of demand should also be the purpose of countercyclical measures to help stabilize homebuilding. The social cost of such incentive payments would be very small, since they would reduce unemployment in the building trades and encourage the use of otherwise idle productive capacity.

Stabilizing homebuilding at the upper end of the cycle would be easier to manage. Federal mortgage-finance institutions, such as the Federal Home Loan Bank Board and the Federal National Mortgage Association, can take many steps to reduce mortgage lending when homebuilding reaches excessively high volumes.

Local government and land costs

Government policy has also contributed to the rapid growth of another cost component: land purchase and development. Since the late 1960's, suburbs have become increasingly resistant to growth and have found new and powerful ways to discourage it. Following the earlier reliance on zoning and subdivision regulations to limit new development, many communities have advanced to such potent techniques as restrictions on sewer and water connections, ceilings on the number of building permits to be issued, special coastal zone regulations, measures to block the sale of farmland for development, and complex environmental reviews that give opponents many channels for stopping homebuilding.

These growth controls are operating in many parts of the country. According to a survey by the Department of Housing and Urban Development, no fewer than 815 communities, spread through 35 states and 132 of the country's 272 metropolitan areas, have had sewer-connection moratoria since 1968. Most of the new controls reduce the supply of land available for homebuilding in the communities where they operate. Homebuilders have fewer sites available to them with utility services, and the owners of those sites where housing is still feasible are able to charge a premium for them.

Further, many growth controls raise the cost of site development as well as purchase. Some do it by imposing special "hook-up" or connection charges for the use of utility systems, streets, and schools, sometimes amounting to several thousand dollars per house. Special requirements for preservation of extensive open space, more demanding specifications for streets and utilities, and delays resulting from new regulatory processes also add to land development costs.

The declared purpose of most of these regulations is to improve the environmental quality of the community at large. Yet the community at large does not pay most of the costs: The new homebuyer pays the bill instead. If the environmental benefits are important, government should find a more equitable way to pay for them.

In many cases, however, the environmental benefits are not very evident. Many people who earlier opposed growth out of concern for its effect on the local tax base, or its possible lowering of the community's prestige, now do so in the name of environmentalism. The current generation of young families is arriving in the suburbs at a time when there is great hostility to homebuilding, sometimes for principled reasons and sometimes for purely selfish ones.

The restrictive policies that result are not federal but local. Still, federal agencies are involved and do have leverage. Federal grants for environmental-quality studies as well as for community development and planning help pay for the technical staff who devise and recommend growth controls. The Federal government could, as a minimum, perform an educational and leadership function. It could also go further. A few years ago, the Federal government had some success in prompting local governments to modernize their building codes. This time, it should aim at moving the suburbs toward methods of environmental protection that do not victimize the middle-income family looking for a home.

The issue is cost

Most recent federal housing initiatives have tried to help people who could not afford good housing at market prices by offering one or another type of subsidy on their behalf, but not by trying to reduce the cost of housing. (Similarly, Medicare and Medicaid were designed to help people pay their medical bills but not to address the size of those bills.) During inflationary times, however, some rethinking is in order, and there are precedents for federal action to contain housing costs. A federal effort to stabilize wage settlements in the building trades during the early 1970's, under John Dunlop's leadership, produced impressive results. And the ill-fated venture to bring new technology to the housing industry at least succeeded in directing attention to homebuilding costs as a legitimate public-policy issue.

In 1971, when the last wave of federal housing-subsidy programs was moving into high production while inflation was beginning to make its mark on housing prices, one federal report concluded: "Clearly, the public interest demands that the Federal government not stand impassively at the cash register and continue to pay out whatever is necessary to feed runaway inflation of housing costs." That conclusion applies today, when housing problems have begun spreading upward to affect middle-income America. Government should try to help solve the problem of rising costs, and the first step should be to replace those public policies that are now making the problem worse.