GOVERNMENT AND HOUSING

Developments in Seven Countries

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Economic Restructuring and the Changing Role of the State in U.S. Housing

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THE GREAT DEPRESSION triggered a series of institutional reforms that became the cornerstone of U.S. housing policy after World War II. Housing was crucial to the postwar expansion and had important social and political ramifications. For the first time, more households lived in suburbia than in central cities or rural areas, and owner occupancy was the most common housing tenure. But housing consumption was uneven, and the housing system systematically excluded some groups. Housing differences both reflected and cut across social cleavages rooted in class, race, and labor market position. Housing added another, largely spatial, prism through which social divisions were refracted (Florida & Feldman, 1988).

Starting in the mid-1960s, economic stagnation set in and major economic restructuring followed. This prompted a series of changes in the housing system. As housing began to play a less central economic role, it also became less central politically. These forces combined to set off another wave of institutional change, resulting in privatization of housing and less active federal participation in housing.

This chapter examines these changes. Its central theme is the decline of housing-induced mass consumption as a key component of the postwar political economy. The chapter begins with an overview of housing in the postwar political economy, followed by a discussion of housing's role in the crisis that began in the mid-1960s. The next section discusses the resulting transformation of housing. Major points are summarized with a general interpretation in the final section.

HOUSING IN THE POSTWAR POLITICAL ECONOMY

Postwar growth in the United States was driven by military spending and suburbanization (Davis, 1984; Florida & Feldman, 1988). In contrast to the social democratic paths charted by most Western European countries, the United States had a highly segmented system of labor relations and very little public redistribution. Instead of public social spending, privatized consumption made possible by high wages provided the main source of effective demand. Income levels were determined on an industry-by-industry basis through collective bargaining. In many industries unions accepted bargaining agreements tying wages to productivity gains, and this allowed workers' real incomes to rise without directly impinging on profits. Other groups, particularly minorities and women, found themselves outside the main current, too weak to alter their own situations and reap more of the benefits of postwar growth. The resulting variations in income and conditions of employment found expression in variegated consumption patterns that further sharpened social divisions.

Housing was central to this process. Through a complex variety of push and pull factors, large numbers of persons embraced suburban living. Suburbanization, and associated consumption patterns, replaced other forms of living with a commodity-intensive form without necessarily raising living standards. Mass suburbanization induced demand, thereby absorbing productivity gains generated by postwar production arrangements. This precluded any sharp reduction in working hours, even as productivity rose.

EFFECTIVE DEMAND

Federal policies implemented during the New Deal allowed housing to become a key element of privatized consumption. On one hand, these policies set the stage for massive suburbanization. Financial reforms made home ownership feasible for a large proportion of the population by defraying the costs of home purchase. As implemented, these reforms favored the detached, single-family, suburban house. Along with federal transportation policies, they accelerated metropolitan decentralization and stimulated demand for housing, automobiles, and related commodities. More than in any other country, these activities in the United States formed the basis for postwar growth. On the other hand, rather than encourage equality in housing, federal policies favored middle-income households and established distinct housing markets.

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Postwar housing therefore reflected labor market segmentation while adding spatial and social segmentation in housing as another dimension of social differentiation.

LABOR COSTS AND RESOURCES

Aglietta (1979) and others argue that low-cost postwar housing kept labor costs down. This is questionable. Federal policies made owner-occupied suburban housing cheaper than other housing, but this was not primarily due to lowered real costs. Despite widespread application of mass-production methods in housing (Checkoway, 1980), productivity growth in house construction lagged behind manufacturing (Sims, 1980). Moreover, productivity increases applied more or less equally to all housing, so suburban houses enjoyed little disproportionate benefit. The suburban home's comparative advantage was not due to lower production costs.

The automobile, aided by federal highway policies, had more impact on cost, because low-cost transportation made inexpensive suburban land accessible. Decentralization lowered the relative price of central-city land and caused a massive redistribution of value from central cities to suburbs. This redistribution was inherently limited. It may have lowered the cost of living by lowering the cost of land, but suburban dwellings used more land per unit, so changes in cost per dwelling were smaller than changes in land costs.

Much of suburban housing's advantage came from federal subsidies. Financed by regressive tax measures, the system as a whole redistributed income from lower-income to upper-income households (Dolbeare, 1986). The subsidies therefore *raised* costs of living for the working class as a whole while channeling individual workers' consumption into suburban home ownership.

Suburban housing required high levels of individual consumption and was therefore costly in terms of both human and natural resources. Low-density settlements made shared consumption impractical, so each family unit purchased its own consumer durables. The suburban house's furnace took the place of the apartment building's boiler, the private laundry room substituted for the neighborhood laundry, and private kitchens preempted more collective food-preparation arrangements. Durable goods, many of which sat idle most of the time, were consumed in much higher numbers per capita than in other, less suburbanized, industrial countries (Groelinger, 1977).

Suburban living was itself labor intensive and used an enormous amount of human resources. It assumed each household had a full-time (female) homemaker and made less costly domestic alternatives, such as shared child care, difficult (Hayden, 1981). Millions of women were tied up doing housework instead of other activities. Similarly, suburbia brought with it many chores, such as lawn mowing, that were absent from other forms of housing. Instead of being done at the most efficient scale by skilled work groups using modern equipment, this work, including essential home maintenance and repair, was often done by unskilled, do-it-yourself home owners working individually. In short, postwar housing policies made suburban housing low in cost for individual families, but extremely expensive to society as a whole.

SOCIAL SEGMENTATION

The postwar housing system delimited housing tenure, location, and mobility options in ways coinciding with class position. Housing institutions amplified labor market segmentation by establishing spatially separate housing submarkets based on income, job stability, and other criteria that also differentiated labor markets. Overt discrimination further reinforced gender and racial differences in both labor and housing markets. Consequently, suburbanization primarily involved those incorporated into the mainstream of the political economy, while lower-quality, multifamily, central-city housing "trickled down" to those who were not.

Housing added new social differences. It accelerated the demise of the extended family by making it difficult for the elderly, families with children, and unmarried individuals to live near each other. Housing also divided persons with similar standing in the labor market along racial and ethnic lines. As a result, separate housing submarkets served different subsets of the population, and housing added new lines of social cleavage to those of the labor market.

HOUSING'S CONTRIBUTION TO THE CRISIS

By the mid-1960s, signs of stress began to emerge. Inflation and unemployment soared while real earnings, productivity growth, and corporate profits plummeted. These changes were closely connected to social and technological limitations in postwar political economic arrangements. By the mid-1960s, most of the major refinements in assembly-line production methods had been accomplished, and further productivity increases became hard to achieve (Lipietz, 1986). Reforms in labor-management relations, unemployment insurance, and welfare had achieved social stability, but they also lessened the threat of job loss as an effective sanction in the hands of employers (Bowles, Gordon, & Weisskopf, 1984). The war in Southeast Asia tightened labor markets as well, further lowering the costs of job loss. Together, these forces caused productivity growth to stagnate. Committed to military intervention and faced with strong antiwar and social movements at home, Washington turned to debt financing rather than fan the flames of domestic discontent. Housing played an important role in the deepening crisis, and the housing system became increasingly problematic.

SATURATED MARKETS

By the late 1960s, the postwar U.S. city had been built, and the markets it had opened up were becoming saturated (Feldman & Florida, 1988). In the absence of wholly new models for consumption, expanded output could be absorbed only by incorporating peripheral sectors of the population, by public spending, by new markets, by systematic waste, or by demographic growth. Alignments in U.S. politics precluded the first two alternatives, and foreign competition precluded the third and fourth. Demographic growth was slowing, and the crisis slowed it further. As an alternative to expanding output, output was cut back and working hours reduced. If this had been done systematically, with no loss of disposable income, output could have been absorbed. Instead, hours were reduced through unemployment and the crisis deepened.

THE PRODUCTIVITY SLOWDOWN AND THE PROFIT SQUEEZE

The housing system lowered the costs of job loss and thereby contributed to the overall productivity slowdown. Mortgage lending and short-term credit facilitated consumption at the same time bankruptcy legislation made foreclosure and repossession difficult. These arrangements had been implemented to facilitate consumer purchases and stabilize effective demand, but they allowed workers to put off repayments and to suffer income losses without an immediate decline in living standards. Consumer durables were long lasting, and unemployed workers could readily delay such purchases. Consequently, unemployment's bite became less painful.

Consumer expenditures did not grow as fast as wages and stayed in specific sectors, particularly those tied to housing. Housing structured consumers' purchases around certain commodities for which per capita demand had stopped growing. Keynesianism, social programs implemented during the 1960s, and postwar political alliances made the state a focus for political contestation (O'Connor, 1973). As the cost of job loss declined, workers and community groups sought welfare, environmental, and safety legislation that constrained capital and thereby accelerated the crisis of profitability (Weisskopf, Bowles, & Gordon, 1983). Stagnating productivity growth, wage levels resistant to downward pressures, and growing state expenditures combined to squeeze profits. Unable to reduce wages or public expenditures significantly, corporations increased prices to restore profit levels. The end result was a cumulative cycle of inflation.

THE STATE AND THE URBAN CRISIS

Segmented housing and labor markets eventually gave rise to political and social unrest. Metropolitan political fragmentation, which had allowed inequality to grow without redistribution through local government, now allowed disenfranchised groups to become influential forces in central-city politics. The smooth functioning of metropolitan areas was threatened, and national attention shifted to the inner cities. Federal urban programs grew enormously. Initially attempting to bolster corporate profits and restore social stability by incorporating peripheral groups (Davis, 1986), urban policy began to emphasize redistribution over physical renewal.

Yet powerful forces confined state action largely to providing public services, promoting public employment, and guaranteeing formal legal equality. Dominant economic ideology deemed public intervention legitimate only for so-called public goods, market "imperfections," and macroeconomic countercyclical measures. Entrenched political interests, representing multinational corporations, small business, and organized labor, opposed nationalization, direct public intervention, or massive redistribution. Consequently, federal programs fought poverty through such circuitous measures as health care (Medicaid) and preschools (Project Head Start). Given the segregation and fiscal-political fragmentation of urban areas, redistribution took place largely within the working class, often pitting Blacks against Whites. Thanks to urbanization and civil rights legislation, Blacks' economic status did improve, but during the worsening economic conditions of the 1970s this took the form of a growing bifurcation of the Black population: Some Blacks were incorporated into the social mainstream, but the rest were trapped as an urban underclass (Wilson, 1987). Because of these limits, urban programs were too anemic to stimulate the economy sufficiently to counteract the productivity slowdown.

THE COSTS OF SPRAWL

The "high standard of living" that had been the triumph of the U.S. economy suddenly became its major problem. Many of the high living costs in the United States were attributable to its settlement pattern. Urbanization is a physical, social, political, institutional, and economic process that cannot be altered at will, and, for this reason, living costs are difficult to change. When faced with permanent job loss, workers cannot manage to make sufficient wage concessions and still survive physically. Energy and other components of the unusually high costs in the United States were inherent in its urban form. In this way the housing system put a bottom limit on wages, and the crisis therefore took a variety of other forms.

Firms found it cheaper to move to distant locations and build entirely new plants than to rehabilitate old ones. Capital mobility and plant relocations only exacerbated the crisis (Bluestone & Harrison, 1982). Capital flight broke the production-consumption circuit. It also destroyed entire communities, leading to a series of localized crises, the effects of which spread throughout the entire economy. At the same time, mobile capital created strong spurts of growth elsewhere. Localized, often transient, booms caused severe strains and led some localities to overinvest in schools, roads, and other infrastructure.

THE EFFECTS OF THE CRISIS ON HOUSING

While not the cause of the crisis, housing was interrelated with the crisis in several important ways. Low and uncertain profits in manufacturing made speculation in housing and real estate attractive. Coupled with the maturation of the baby-boom generation and a demographic shift to suburbs, smaller cities, and the Sunbelt, this led to feverish house price inflation in some markets while other markets stagnated. With households unable to afford the "American dream," new models for family living, such as dual-breadwinner families and shared quarters among unmarried adults, became increasingly common. These models ran afoul of other aspects of the postwar housing system and created new problems.

HOUSING FINANCE

As the crisis deepened, housing finance institutions experienced a growing tension. On the one hand, housing finance institutions were dedicated to home mortgage lending. On the other hand, the crisis made financial markets increasingly volatile. Enormous quantities of money were tied up in the housing sector. When funds became scarce in other capital markets, money could not readily get out of housing's separate financial market, and when funds were scarce in mortgage markets, capital from other sectors could not get in. Between 1965 and 1973, personal savings grew by 132%, from $30.3 billion to $70.3 billion, with deposits in savings accounts increasing from $28 billion to $64.2 billion. Over this same period, undistributed corporate profits declined by almost 17%, while corporate borrowing increased by 133%. Confined to housing, the overaccumulated funds leveraged a huge expansion of mortgage credit. Residential nonfarm mortgage debt shot up from $258 billion in 1965 to $550 billion in 1973, an increase of 113%. Only a small portion of this found its way into new construction: Between 1965 and 1973 the housing stock grew by approximately 22%. The rest went to refinance existing housing, leading to a dramatic rise in house prices.[1]

Severe and uneven fluctuations in house prices generated housing speculation and disinvestment side by side. Eventually this process undermined support for continuing to insulate the housing finance system from the rest of the economy, and bank deregulation followed. Since the housing finance system underpinned social and political organization, the crisis and reorganization of housing finance implied an overall restructuring of social patterns and political alignments.[2]

SPECULATION AND HOUSE PRICE INFLATION

Housing also suffered from mounting speculation. As profitability in manufacturing and commercial sectors declined, investors sought out other investment outlets. Being a necessity tied to a nonrenewable resource, housing (and, more generally, real estate) has always been a prime candidate for speculation in times of falling profits. The high amount of leveraging and limited risk afforded by federal housing policy made housing speculation especially attractive. Between 1971 and 1977, two successive peaks in the housing cycle, mortgage debt on one- to four-family houses rose by over 350%, from $27 billion to over $95 billion. At the same time, capital investment in new plant and equipment declined from a high of 4% of GNP in 1966-70 to 3.1% in 1971-75 and 2.9% in 1976-80.

Responding to weak demand for business loans, banks joined savings and loans in the mortgage market (Grebler & Mittelbach, 1979, p. 104). Speculators invested heavily in housing to achieve profitability and protection from inflation. The result was massive and uneven inflation in house prices. Between 1968 and 1977, house prices more than doubled nationally, although regional and metropolitan price increases varied considerably (Grebler & Mittelbach, 1979). These increases far outpaced the overall rate of inflation: The consumer price index (CPI) increased by 75% and the GNP deflator, which includes price changes in intermediate goods, increased by 72%. Since these latter rates include a housing component, the difference between housing and nonhousing inflation was even greater than these figures indicate.

Some suggest that increased government regulation was the major culprit (President's Commission on Housing, 1982; Sternlieb & Hughes, 1980), but a close look shows this to be untrue. Price increases for *existing* homes, which were not heavily subject to increased government regulation, exceeded those of *new* homes throughout the period (Grebler & Mittelbach, 1979). Dowall (1984) estimates that government regulation added no more than 34% to new housing costs, and this was far below overall price increases.

Rapidly growing communities were a natural for speculation, and accelerated uneven development contributed to the general inflation. As profits stagnated in manufacturing, high rates of return on real estate became irresistible to investors. This put pressure on financial markets and resulted in their dramatic restructuring. Financial institutions developed a variety of devices for channeling capital into real estate. Real estate investment trusts (REITs), for example, permitted investors to speculate in real estate and share tax advantages with only limited exposure to risk. Large industrial corporations established their own real estate divisions: While Chrysler speculated in Arizona shopping centers, its auto plants in Detroit languished for lack of capital.

Areas that bore the brunt of economic contraction—most notably the industrial Midwest—saw housing prices appreciate at very low nominal rates or, in some instances, actually decline. Decreasing real home values exacerbated the effects of economic restructuring as declining home equity overlaid declining real earnings, further adding to the decline in living standards. Other areas, such as New York City and California, saw dramatic increases in house prices. Thanks to postwar financial arrangements, home buyers could easily leverage a 20% down payment into a better than 60% return on investment. Anxious to realize these kinds of returns, current home owners began using their built-up equity to "trade up" and to speculate in housing. Sellers commonly offered second mortgages to complete sales, thereby increasing leverage ratios. Multiple mortgages and balloon payments became common for the first time since the 1920s. Housing was thus transformed from merely providing shelter to being a hedge against inflation and a source of speculative windfalls (Sternlieb & Hughes, 1980).

HOUSING AFFORDABILITY AND THE CRISIS IN THE BUILT ENVIRONMENT

Spatial organization within metropolitan areas became increasingly problematic for growing numbers of people. With married women increasingly active in the labor force, especially in clerical, professional, and service sector jobs that tended to be centrally located, suburban locations lost much of their appeal. Suburban housing also had serious drawbacks for dual-breadwinner households (Van Allsburg, 1986). More important, the added income of two breadwinners, coupled with federal legislation requiring mortgage lenders to end their practice of discounting women's earnings, gave dual-breadwinner households considerable purchasing power. In turn, housing inflation and declining real wages created a crisis of affordability. House prices rose so high that few single-breadwinner households could afford to become first-time buyers. A feedback process had been set in motion whereby housing costs and female labor force participation increased hand in hand (Myers, 1985), as the growth in dual-breadwinner households counteracted declining real individual incomes.

THE CHANGING ROLE OF THE STATE

As the crisis developed, federal housing policy went through a series of corresponding changes. During the late 1960s, government responded to social unrest with an upsurge in housing assistance. A separate cabinet-level department, the Department of Housing and Urban Development (HUD), was established in 1965, replacing the lower-level Housing and Home Finance Agency. The Housing and Urban Development Act of 1968 increased federal aid for public housing and established programs for interest rate subsidies for low-income home ownership (Section 235) and rent subsidies to stimulate construction of multifamily rental housing (Section 236). Between 1969 and 1970 the share of all housing starts subsidized by the federal government more than doubled, jumping from 12% to 25% (Lilley, 1980).

Approximately as many public housing units were constructed in the 6-year period between 1968 and 1973 as were constructed over the 19-year period between 1949 and 1967, and operating subsidies for public housing increased over a hundredfold from 1969 to 1982 (Bratt, 1986).

In the 1970s, the focus of federal policy shifted from redistribution to flexibility and efficiency. The Housing and Community Development Act of 1974 combined a host of older categorical grant programs into lump-sum block grants. Community development funds were allocated by formula and had relatively few conditions attached to their use. These funds could be used to upgrade housing through rehabilitation, new construction, neighborhood redevelopment, code enforcement, self-help, and so on. Under Section 8 of the bill, public assistance for low-income housing shifted further from new construction toward rent supplements for new, existing, or renovated units.

The 1980s witnessed another major reorientation. The Carter administration had been unsuccessful at abating the crisis, and the Reagan administration employed a "cold bath" strategy of attacking the social wage while maintaining effective demand with military spending (Bowles et al., 1984; Struyk, Mayer, & Tuccillo, 1983). The administration adopted an explicit goal of minimizing federal involvement in housing. Specific objectives included completely privatizing federally supported mortgage markets (e.g., GNMA), substituting housing vouchers for new construction, tightening eligibility requirements, eliminating programs, at least partially privatizing the existing stock of public housing, and, most important, drastically reducing federal spending on housing.[3] Budget authority for subsidized housing, which peaked at $31.5 billion in 1978, fell to $13.3 billion in 1982 and $9.5 billion in 1987 (U.S. Congress, 1987, p. 8). Between 1981 and 1987, total federal housing budget authority, including subsidies, mortgage credit, and deposit insurance, declined from $29.3 billion to $16.3 billion (Executive Office of the President, Office of Management and Budget, 1982, 1988). As of 1988, HUD's budget had been slashed by more than two-thirds its 1981 amount and had fallen from fourth to eighth among twelve federal departments (Nenno, 1987). Nonfederal sources of new low-income housing construction were virtually eliminated by changes to federal tax laws in 1986; tax incentives, the major attraction for private investors, for constructing new low-income housing through either direct investment or tax-exempt Industrial Development Bonds were virtually eliminated. By the late 1980s, the federal government had essentially abandoned its commitment to housing assistance. New construction for public and assisted housing was virtually eliminated, and redistribution through federal housing programs was minimal.

The combination of declining housing assistance and a shrinking social wage weakened low-income groups' ability to obtain adequate shelter. At the same time, house prices skyrocketed in selected areas, leading to calls for "affordable housing." With little likelihood of assistance from Washington, state and local governments stepped in. Many states, even some with stagnant housing markets (such as Ohio), instituted programs to assist home buyers. Banks and other financial institutions also took up the cause. But the most notable feature of this movement was its social base. New Deal housing institutions had made suburban home ownership widespread among moderate-income Whites in traditional families, and precisely this constituency became the focus of "affordable housing" efforts. The clientele for government housing programs during the 1960s and 1970s—minorities, the elderly, and the poor—have been notably absent from these initiatives.

By the end of the 1980s the effects of restructuring had begun to be felt. Freed from prior regulatory constraints, hundreds of federally insured savings and loans had made speculative investments that went sour. Faced with impending collapse of the entire postwar financial system, the federal government stepped in with a historic savings and loan "bailout" in 1989.

Even though the housing system no longer functioned well for most of the population, the social polarization it fostered for over a generation now makes concerted political action highly improbable. The most likely result is even greater bifurcation of housing markets, further exacerbating the divergence of mass production from mass consumption.

SUMMARY

In response to a structural crisis, the New Deal completely revamped the U.S. housing system. In the immediate postwar period, housing's new institutional structure helped create unprecedented growth as mass production and mass consumption grew in parallel. But housing eventually became a barrier to further growth and a significant contributor to the crisis. Once housing-oriented consumption patterns were institutionalized and incorporated into social reproduction, they became resilient to change and acted as a constraint. The costs associated with suburbanization constituted the lion's share of the cost of living, and they were difficult to alter because they were rooted in particular social institutions and a distinct spacial form. Although the postwar commodity bundle was no longer growing fast enough, neither was it about to shrink. When the boom ended in the late 1960s, the consumption-intensive spatial form became increasingly dysfunctional. Housing and urban form put a lower bound on wages irrespective of labor's strength or weakness, and capital could not readily lower wages below this level without jeopardizing labor's continued reproduction.

Our argument may be summarized in five basic points. First, the problems in housing and mortgage lending did not emerge in isolation but were closely tied to more general economic problems: declining productivity and profit, rising inflation, tight labor markets, and burgeoning social unrest.

Second, these problems fueled an inflationary wage-price spiral that was uneven across sectors and especially pronounced in housing. At the same time, declining real earnings put strict limits on the ability to purchase housing, creating a scissor effect of rising prices and declining demand. Some households responded by increasing the share of income devoted to housing, but this was problematic because it shifted purchases away from other forms of consumption. The only households that even remotely kept up with galloping house price inflation were the growing numbers with two breadwinners. This too proved problematic because postwar housing was particularly ill suited to dual-breadwinner households. The once parallel development of mass production and mass consumption began to diverge.

Third, housing became a significant contributor to worsening economic problems. The scissor effect made it difficult for workers to purchase homes and put strict limits on housing's role as an investment outlet. Housing's ability to lead an economic expansion, as during the 1950s, was curtailed.

Fourth, housing inhibited economic restructuring. The high-cost housing and urban system could not readily respond to falling profits and intense international competition. The postwar built environment put a floor on living costs that translated into one on wages, and corporations could not lower labor costs without jeopardizing their work forces.

Fifth, various groups responded with different individual strategies that had important social, political, and economic implications. The most important strategy was the dual-breadwinner household. While the dual-breadwinner household propped up aggregate demand, the postwar suburban life-style was ill suited to the needs of dual-breadwinner households. The classic nuclear family received too little income to cope with rising costs of living, and those living in traditional families were forced to cut back on their consumption. This contributed to economic instability while simultaneously making the nuclear family increasingly problematic. The crisis was therefore more profound and fundamental than a simple crisis of profitability. It was simultaneously a crisis of profitability, social relations, social institutions, a form of urbanization, and a way of life.

The current housing situation in the United States may prove to be a social powder keg. Affordable middle-income housing is becoming scarce, and the prospects for low-income households are grim. As it ages, the baby-boom generation can be expected to put even more pressure on housing markets. In some areas, inflation has turned home ownership into a game of musical chairs in which some realize windfall gains, at least on paper, while the inflationary bubble does not burst. In others, many families are trapped as they watch their entire life savings being depleted through house price deflation. Given the highly uneven pattern of restructuring, the predicament of simultaneous inflation and devaluation is likely to worsen.

NOTES

1. Numbers cited in this paragraph are computed from the U.S. Bureau of the Census (1979, Tables 732, 733, 850, 1370, and 1376).

2. This is a very abbreviated summary of financial deregulation and the reasons for it. See Florida (1986) and Feldman and Florida (1988) for elaboration.

3. See Hartman (1986) for a review of these proposals and their impacts.

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