1 The Causes of the Housing Problem

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The housing problem in the United States, as outlined in the Editors' Introduction, has several distinct aspects: availability, affordability, quality, security, and inequality. The treatment of housing as a commodity and its subservience to the maintenance of profitability are seen as the root causes of the nation's housing problems, in conjunction with vast inequalities of income and wealth and the roles of racism and sexism in perpetuating these inequalities. Far from limiting or constraining the commodification of housing, government, both historically and in the present, has actively assisted in the process of capital accumulation by the private sector and has provided whatever was deemed necessary to maintain the social peace in the face of vast inequality. Now, with declining economic growth and cyclical inflation, increasing foreign competition, and Third World resistance to U.S. domination, housing problems are increasing, and the ability of both the private sector and government to contain the conflicts around housing issues is sharply reduced.

The Commodity Treatment of Housing

Why is the housing problem so bad, and why is it getting worse? There are many contributing factors, but the principal reason is that housing in our society is produced, financed, owned, operated, and sold in ways designed to serve the interests of private capital. Housing—a necessity of life—is treated not as a social good but as a source of private profit, as a commodity [*for a discussion of the meaning and limitations of this term, see our Chapter 28*]. Government policies affecting housing, which supposedly serve the common good, systematically operate to reinforce the profitability of the housing sector and of the business community as a whole [*see Chapter 14 by Peter Marcuse*]. Such improvement in housing as has occurred historically

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has come about only when it has served the interests of private capital, or when pressures from below (both political and economic) have forced it to occur.

The Private Housing Sector and Private Profit

In the most immediate sense, the supply, cost, quality, location, and use patterns of housing in our society reflect the market activities of the private housing sector, which is itself comprised of multiple interests. These include real estate developers, builders, materials producers, mortgage lenders and other providers of housing credit, investors, speculators, landlords, and homeowners. [*See Chapter 4 by Ann Meyerson, Chapter 5 by Joe R. Feagin, Chapter 6 by Barry Checkoway, and Chapter 7 by Tom Schlesinger and Mark Erlich.*] While each of these "actors" makes money from housing in a different way, they share a common interest in housing as a profitable commodity. (Homeowners, of course, have a contradictory relationship to their housing as both shelter and investment, a matter of significance for this analysis.)

For housing consumers, the consequences are manifold. First, the high and rising cost of housing in the marketplace reflects, in part, profits made during the initial production or development stage. Land and construction loan interest (including profits to speculators and private lenders) are by far the most rapidly rising elements of housing production costs (President's Commission on Housing, 1982, 181). Further, most materials used in the construction of housing are produced by giant corporations with few incentives for cost control.

Once a house or apartment building is completed, its cost to the consumer also reflects the speculative gain generally made by each successive owner who trades it for profit in the marketplace (housing is perhaps the only common commodity whose market value increases with age). And since virtually every real estate purchase is financed with borrowed funds, added to that is the cost of mortgage interest, which has skyrocketed in recent years. For tenants and homeowners alike, mortgage payments—reflecting both the market price of housing and the interest on the permanent loan—constitute the single largest element of monthly housing costs (40–65 percent). Other significant cost elements are the property tax—a regressive tax on real estate as a form of private wealth—and utilities, with their substantial profit component.

The quest for profits also limits the production of housing because the privately controlled resources required for its production are allocated to housing only when it is profitable for developers, land speculators, materials producers, and mortgage lenders to do so. For example, at the peak of economic booms when business is expanding, commercial banks traditionally cut back on housing loans in favor of more profitable, short-term lending to government and corporate borrowers. And savings and loans, which traditionally make their funds available to housing, have less money to lend because their depositors seek more profitable investment outlets elsewhere. Similarly, scarce urban land is available for housing only when housing is its "highest and best" (most profitable) use; and even basic construction materials are diverted from the housing sector when they can be sold more profitably elsewhere. The result is an extremely cyclical pattern of housing construction, which has significantly inhibited the productive capacity of the housing industry (President's Commission on Housing, 1982, xxi, 182; Solomon, 1981, 200).

In addition, because housing is adequately maintained only when it yields a profit, real estate owners and lenders "disinvest" from poor or "high-risk" neighborhoods through undermaintenance, tax delinquency, arson, abandonment, and redlining, accompanied by the withdrawal of public services (Marcuse, 1979a, 1981a). At the same time, housing capital and credit are reinvested in the speculative purchase and refinancing of existing buildings in profitable "upscale" neighborhoods, without adding to the housing stock or improving its quality. Finally, discriminatory practices persist in the housing market, in part because they benefit certain segments of the housing industry. For example, blockbusting tactics enable real estate speculators to buy cheap and sell dear, while mortgage lenders can convert their old loans to higher-yield investments in both the newly segregated black and resegregated white neighborhoods (U.S. Commission on Civil Rights, 1975).

The Housing Sector and Capital as a Whole

At the same time, the private housing sector operates within the broader context of an economic, social, and political system that serves the interests of private capital (business) more generally (Offe, 1975). The way in which the organization of production and the relationship between different economic and social groups interacts with the commodity nature of housing and is in turn reinforced by the private housing system is basic to understanding—and addressing—the root causes of our housing problems.

For example, as noted above, the cyclical nature of economic activity in our profit-oriented system shapes the flow of capital and credit to the housing sector and structures opportunities for profit in housing development, finance, and ownership. Thus, while housing is crowded out on the upswing of the business cycle, it has traditionally led the way out of recession as business demand slackens. In turn, this countercyclical pattern of housing activity has played an important role in stabilizing the economy, and in restoring conditions for more profitable business growth (Solomon, 1981). In recent years, however, fluctuations in both the housing and business cycles have tended to be more extreme and mutually reinforcing. This has led to some prolonged periods of "stagflation," which has significantly intensified the housing crisis and the problems of the economy as a whole.

At the same time, the unequal distribution of income and wealth created by our profit-motivated production system leaves many people with jobs and incomes that are inadequate to meet the rising cost of housing, while

others are quite well off. The movement of business capital in recent years from manufacturing to the more profitable service sector (and from Frostbelt to Sunbelt) has exacerbated these disparities, through the transformation of both the labor market and the housing market. Thus, in some cities, plants shut down, blue-collar workers lose jobs, real estate owners and lenders disinvest, and the housing market collapses. In others, well-paid technicians, managers, and professionals attracted by revitalized service industries compete with low-paid workers for scarce housing, creating profitable opportunities for real estate speculation and gentrification. The net result is a loss of affordable housing at both ends, while communities and cities are transformed to meet the changing requirements of profit-oriented production.

Similarly, racism and sexism in the society as a whole help to structure patterns of housing use that serve the interests of capital at the expense of disadvantaged groups. Racial discrimination in employment makes housing less available to and affordable by minorities, while discriminatory housing practices foster the creation of segregated, disenfranchised communities that either become ripe targets for profitable business redevelopment or are abandoned by the public as well as by the private sector. Housing options for female-headed households are similarly restricted by women's inferior employment status. At the same time, housing design and development patterns isolate and tie women to the home and increase profit opportunities, not just for the real estate industry, but also for the producers of a vast array of household consumption goods. Finally, the social and economic inequalities perpetuated by the housing market reinforce stratification within the labor market, which supports the profitability of business and the tractability of labor in general.

The Role of Government

While government policies have led to some improvements in housing, they have not solved the housing problem. Indeed, in some respects they have operated to intensify the housing problem, especially for low-income and minority groups. In any case, government actions affecting housing have not stemmed primarily from a benevolent desire to assist the ill-housed, but have tended to serve two major functions.[1]

ACCUMULATION. Enhancing opportunities for private profit, both within the housing sector and, more important, for the business community as a whole. This includes actions taken to assure that the minimal housing requirements of the workforce are met in a manner consistent with the needs of profit-oriented production. It also includes housing-related measures geared to promoting more profitable economic growth—for example, by stimulating housing production to restart the economy in a recession, or by choking off housing credit to curb inflation.

LEGITIMATION. Preserving "social peace" against the threat of disruption (real or perceived) from disaffected social groups, through measures that stabilize and reinforce the existing social and economic order. These include housing concessions granted in order to integrate subordinate groups within the dominant system, as well as the use of housing for purposes of repression, oppression, and exploitation.

Particular housing policies may serve both of these functions, and will reflect the political, economic, and social situation (and balance of forces) at a given time. Neither the business community nor the government acts monolithically in relation to housing; even within the housing sector, different interests may have conflicting needs for government support (e.g., mortgage lenders want to raise interest rates, developers want to lower them). Moreover, the requirements of the housing industry may be incompatible with those of business or of the economy as a whole at certain times, as during inflationary periods when continued housing expansion cannot be supported. In general, the government acts to mediate or manage these conflicts—as well as those resulting from the political pressures exerted by organized housing consumers—in ways that best support the accumulation and legitimation needs of the system as a whole.

These patterns are illustrated by the history of federal efforts to promote homeownership in the postwar period. [*See related discussion in Chapter 3 by Michael E. Stone and Chapter 14 by Peter Marcuse.*] After World War II, the pent-up need for housing, coupled with war-induced prosperity and the increased productive capacity of the economy, stimulated a huge housing construction boom. With expanded federal mortgage insurance and tax incentives for homeownership, the suburban single-family tract house became the vehicle for this explosive growth, supported by the development of federally assisted infrastructure and highways.

While the postwar homeownership boom helped many Americans to improve their living standards, it also provided vast new outlets for profitable investment by real estate developers, mortgage lenders, and other segments of the housing industry. The creation of new demand not just for housing but for a wide variety of household consumption goods was profitable for business as a whole. And with long-term mortgages (and other forms of household credit), consumer buying power could be expanded without creating new pressures on business for higher wages.

At the same time, federal promotion of homeownership gave working families an economic and social "stake in the system," at the price of reduced mobility (and hence more limited bargaining power with employers). It provided housing consumers with the illusion of control but the reality of burdensome long-term debt. And it channeled their legitimate shelter needs into concerns with investment risk and profitability. Federal homeownership policies also fostered racial exclusion, reinforced the oppression of women, and increased the housing problems of the poor by eroding the central-city tax base.

In recent years, the growing problems of the economy and of the housing industry have significantly altered the functions of homeownership. Unprecedented inflation (fueled in part by the tremendous increase in residential mortgage debt) and the lack of new housing construction have driven up the value of existing homes and encouraged the use of homeownership as an investment vehicle, especially by those in upper-income tax brackets. Today, the same tax incentives that fostered the growth of the suburbs are stimulating housing speculation and displacement of the poor from the inner city, as affluent condo converters bid up the price of scarce housing resources (Goetze, 1981; *Boston Globe*, June 20, 1982).

While buying a home has now become a privilege reserved for the wealthy, the supposed benefits of homeownership for many others are gradually being undermined. With today's variable-rate mortgages and rising property-tax bills, few moderate-income homeowners can count on stability of costs or liquidity for their investments. And a growing number who live a paycheck or two ahead of the bank risk the loss of their equities—as well as their homes—to foreclosure. . . .

Public housing—the only government program that has over the long run directly addressed the housing needs of the poor—was originally designed for other purposes. The earliest government-sponsored projects were built to ease housing shortages for munitions and defense workers during World War I, thereby aiding the U.S. war production effort. The National Housing Act of 1937 was primarily a public works program, intended to stimulate the depressed economy and to stem the tide of social unrest by providing jobs for temporarily unemployed city workers. After World War II, more public housing was built to appease the discontent of returning veterans. Locally, public housing often provided a vehicle through which politicians could dispense patronage.

In the 1950s, as government slum clearance uprooted the poor from central cities and the upwardly mobile left the projects for the suburbs, public housing was increasingly occupied by lower-income households and in many large cities by minorities. Political pressures generated by the ghetto rebellions and by the civil rights and welfare rights movements of the 1960s led to significant reforms, including rent reductions, liberalized admission criteria, and protection against arbitrary eviction. Ultimately, many large projects became the "housing of last resort" for those left behind by the restructured economy (primarily elderly and female-headed households on fixed incomes).

Today, public housing suffers from official neglect, chronic underfunding and undermaintenance, and often inefficient and bureaucratic management. It has become an oppressive device for stigmatizing the poor, for maintaining racial and class divisions, and for discrediting the concept of public enterprise in our society. Together with the other lower-income housing production programs of the 1960s and 1970s—which provided lucrative tax shelter benefits and direct subsidies to the private housing and mortgage lending industries—public housing has met only a fraction of the existing need. [*For further discussion of the public housing program, see Chapter 20 by Rachel G. Bratt.*] And as the programs for providing lower-income housing have become increasingly dependent on the system of private housing development, finance, and ownership, their costs have risen dramatically. As of 1982, the direct subsidy cost for a new unit of Section 8 housing was $4,000–5,500 per year (U.S. HUD, 1982b).

As for neighborhood policies, the federal role is well known. Urban renewal enhanced opportunities for profit in the development of prime inner-city real estate while fostering business and institutional expansion. In the process, at least 1 million lower-income and minority households were uprooted and their communities destroyed (Gans, 1982, 385–86).

In the 1960s, with the growing threat of social disorder in the cities, outright "slum clearance" efforts were replaced with more muted attempts at housing rehabilitation and ultimately with the neighborhood-oriented Model Cities and Community Action programs of the Great Society. Then in the mid-1970s, as the problems of the economy worsened and the protest of the poor seemed to weaken, Community Development Block Grants provided the vehicle through which funds for neighborhood programs could be drastically cut, in exchange for increased local political control over resource allocation. Currently, block grants provide little more than a limited form of revenue sharing to offset the impact of local "fiscal crisis" cutbacks, and an arena in which local neighborhood groups are pitted against one another in the battle for diminishing resources.

Finally, the overall pattern of federal housing and neighborhood subsidies in the postwar period has been highly regressive, reinforcing the unequal distribution of income and wealth. Direct federal budget outlays for housing and community development, currently totaling about $11 billion, have barely kept up with inflation. But housing-related tax expenditures (revenues lost through homeowner and investor tax deductions) have more than doubled since 1979 and are now $40 billion (Dolbeare, 1985). Not included in this total is the loss of billions from accelerated depreciation of commercial and residential real estate, now the standard method for writing off the value of rental property (U.S. Office of Management and Budget, 1982, 7). These hidden subsidies primarily benefit those in the top 10 percent of the income distribution. [*For a more detailed discussion of tax expenditures for housing, see Chapter 15 by Cushing Dolbeare.*]

Today, federal policies affecting housing and neighborhoods are part of an explicit government strategy to bolster corporate profits. . . . The overall approach is one of income redistribution directly to business through tax cuts, deregulation, and other measures, combined with reduced social spending to offset the tax cuts and continued credit restrictions to curb inflation.

In support of this effort, all federal assistance for housing production and even federally supported housing credit activities will be drastically curtailed or eliminated. Limited demand-side subsidies are replacing existing production-oriented subsidies for assisted housing, assuring that the publicly aided stock will shrink as units are lost through deterioration, demolition, and private resale. Housing vouchers as currently proposed may aid private landlords but are unlikely to increase the housing supply or add to its

quality. [*For further discussion of the administration's housing policies, see Chapter 21 by Chester Hartman.*] At the same time, continued credit stringency and reduced federal involvement in housing finance will diminish housing's share of resources in the economy as a whole. [*See Chapter 4 by Ann Meyerson.*]

These measures, coupled with the impact of income-maintenance cutbacks on consumer purchasing power, are guaranteed to make the housing crisis even worse, especially for the poor and increasingly for middle-income households also. But while it is tempting to view the current situation as a regressive departure from the mainstream of postwar housing policy, our analysis suggests that the basic accumulation and legitimation functions served by government have not changed. Rather, the underlying balance of economic, social, and political forces has shifted as the limits of postwar prosperity have been reached.

As long as the expanding economy provided room to increase living standards and sustain business growth at the same time, improvement in housing was possible. But today, as major U.S. corporations are increasingly threatened by foreign competition, Third World resistance to U.S. exploitation, and . . . inflation, business wants a larger share of the shrinking economic pie. Housing can be easily targeted for attack—precisely because of the wasteful way it has been produced, financed, and owned in our society.

Indeed, some segments of the housing industry will suffer as public and private resources are reallocated to bolster the profitability of more powerful corporate interests. Others such as developers and investors who can shift their resources into downtown office, commercial, and retail construction or the luxury rehabilitation and conversion of well-located inner-city housing (aided by substantial tax incentives)—will continue to prosper. But housing consumers especially lower-income and minority households will pay the real price, in the form of reduced housing options, less stability, and higher costs. Moreover, the fundamental problems of the U.S. economy and the squeeze on corporate profits that are the root of today's housing crisis are likely to continue well beyond the Reagan administration. What is at stake politically is how the economy (including the housing sector) will be restructured in the long run to respond to these conditions, and in whose interest the restructuring will occur.

Note

1. The terms adopted in the text stem from an extensive literature (and debate) about the role of the state, which has been very fruitful in many areas. For a more detailed discussion of their application, see Marcuse, 1980a. [*See also Chapter 14 by Peter Marcuse.*]