

Building housing — lots of it — will lay the foundation for a new future

A massive boom in new construction would create countless jobs and help finally end the legacy of racist housing policies.

Vox, by Matthew Yglesias, September 23, 2020, 7:15am EDT

Part of The Great Rebuild Issue of The Highlight, our home for ambitious stories that explain our world.

As America's generals were plotting the final moves of World War II, its economists had another concern: the potentially dire economic consequences of victory.

The war, of course, had been preceded by a severe and prolonged depression. And many thought its end would bring back mass unemployment; after all, the demobilization of soldiers in the wake of World War I created a severe recession. In 1939, Alvin Hansen, a leading American Keynesian economist, published a famous analysis suggesting that with the frontier closed, the United States was now due to become a country with slow population growth and structurally deficient demand for investment. In other words: It was destined to be a country mired in frequent recessions.

The war had solved the problem, providing employment for millions both as soldiers and as workers in war production industries. But after the war, what would they all do?

America found its answer in what historian Kenneth Jackson memorably dubbed “the crabgrass frontier” — suburbs opened by the automobile and the construction of the Interstate Highway System — which became the engine for a new era of growth. The ability to construct vast tracts of new, larger homes — homes that ex-soldiers could purchase thanks to subsidized loans via the GI Bill of Rights — became the source of investment demand that Hansen feared America would lack.

The new homes would have to be filled with durable goods, including appliances, furniture, and cars, that factories no longer busy serving as the arsenal of democracy could churn out. Along the way, the debt-financed purchase of homes became an engine of wealth accumulation that America's growing families could pass on to their children.

This story has become well known lately for its role in widening the racial wealth gap. Black neighborhoods and mortgage applicants were largely excluded from federal largesse even as the civil rights movement was winning victories in the courts and, eventually, in Congress.

An equivalent policy approach today must be racially inclusive and more mindful of environmental sustainability, but house-building as the cornerstone of rebuilding the economy remains a solid idea. The United States is currently both underhoused and underemployed but possessed of plenty of capacity to build more. A combination of rental assistance for consumers, capital funding for affordable housing, and regulatory relief for builders of all kinds could unleash a massive boom in new construction, creating countless blue-collar jobs and laying the foundation for a new era of inclusive prosperity.

It only needs to direct money to those in need and provide regulatory relief to those inclined to build.

Before there was Covid-19, there was the Great Recession. And before that, the great housing price bubble of the mid-aughts.

Despite the enormous price increases in some metro areas during the bubble, the number of houses built then was modest — extremely modest compared to the scale of the housing slump that followed. The perception of a George W. Bush-era house-building boom is largely an illusion, wrote Mercatus Center researchers Kevin Erdmann and Scott Sumner, “based on the fact that construction of new single-family homes did reach record levels in 2005–2006.” But it did not result in a sky-high quantity of total housing. Instead, they wrote, the single-family boom was a “shift of market share out of manufactured and multi-unit homes.”

So after more than a decade of post-boom slump, the United States is significantly short of houses. Even before the pandemic — i.e., during a time of economic growth — the number of young adults living with their parents was rising, according to the Pew Research Center, while the Urban Institute found an increase in the share of Americans with crowded housing arrangements. This overcrowding was a policy failure on its own terms, but also proved to be tinder for the spread of the virus.

Unlike in the 1940s, we don’t really need to do much now to get people subsidized loans. Mortgage interest rates are at record lows, so families with the means to make a down payment can easily buy. But then there’s everyone else.

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“We certainly need a renters’ policy in America right now,” says Darrick Hamilton, the executive director of the Kirwan Institute for the Study of Race and Ethnicity at Ohio State, who’ll soon be rejoining the economics faculty at the New School in New York. Policies that focus on cheap credit, such as what the Federal Reserve has delivered, or the Trump administration’s emphasis on tax cuts, can help boost a severely depressed economy. But Hamilton cautions that they also exacerbate gaps between people who already have the money necessary to take advantage and “the existing residents who aren’t positioned to benefit from those incentives.”

Democratic presidential candidate Joe Biden has already proposed fully funding the Section 8 housing voucher program. The program helps millions of low-income families by putting housing assistance directly in their hands — and creates a huge new market opportunity in building homes for them to rent. But pre-pandemic, Section 8 excluded about 75 percent of eligible households, and it will only exclude more as joblessness grows. Mary Cunningham, the vice president for metropolitan housing and communities policy at Urban Institute, says making it universal “will go a long way in making sure every American has a home.”

While Biden has endorsed the idea, he has not really foregrounded it in his campaign rhetoric, nor has he indicated that he sees it as part of an economic recovery program. But it’s extremely well targeted as economic stimulus to give money to families who are sure to spend it. If paired with smart regulatory ideas, it could unleash a real boom in house-building that creates jobs and lays the foundation for future prosperity.

A big difference between the housing problems of today and those of two generations ago is where the demand is. Sprawling construction of new homes continues to take place on the crabgrass frontier, but in most cities of any size, that frontier is now located far from the most

convenient commuting routes. And in the geographically constrained cities of the Pacific Coast and the Northeast Corridor, and in cities like Denver and Miami, the frontier is essentially closed. A healthy dose of the future of construction has to be “infill” — new development in already developed neighborhoods. That happens today to an extent in low-income or formerly industrial neighborhoods, but it’s often blocked by local homeowners in the priciest areas where new building would be most desirable.

“Those that are better positioned politically, economically, and even racially are able to use state apparatus, including zoning laws, to enrich themselves at the expense of others,” Hamilton says.

Until relatively recently, the Trump administration agreed with this diagnosis, arguing that exclusionary zoning laws were hurting the economy and contributing to the rising homelessness problem of pre-Covid-19 America. Housing Secretary Ben Carson even tweeted in 2018 that “we must look at increasing the supply of affordable housing by reducing onerous zoning regulations.”

But more recently, Trump has been trying to counteract poor polling results among upscale whites by promising to uphold the “suburban lifestyle dream” by excluding apartments from upscale neighborhoods. The St. Louis couple made famous for waving guns at protesters, the McCloskeys, warned at the Republican National Convention that progressives have an agenda for “ending single-family home zoning,” which would “bring crime, lawlessness, and low-quality apartments into thriving suburban neighborhoods.”

There is nothing wrong with single-family homes. But a regulatory requirement that only single-family homes be built across vast swaths of land is a recipe for housing scarcity, and it explains why decent housing has slid out of reach for so many middle-class families in some American cities. Equipping the lowest-income residents with financial assistance will be a big boost to them, but no amount of cheap credit and vouchers can compensate for an objective shortfall of dwellings.

Most Democrats aren’t actually seeking to abolish single-family zoning. A visionary effort in California to force high-income and transit-proximate communities to accept apartment buildings died in the overwhelmingly Democratic state legislature last year on a vote that scrambled party allegiances and saw many Southern California liberals take the McCloskey family view.

But the city of Portland offers an alternate vision of reform.

Last summer, the Oregon state legislature took action to allow two-unit structures across almost the entire state and three-unit ones in its larger towns. This doesn’t “abolish the suburbs,” but it does ensure that a wider variety of house types are available in a wider range of communities.

And this summer, the city of Portland went even further, enacting what the Sightline Institute’s Michael Andersen calls “the best low-density zoning reform in the US.”

The details are a bit complicated, resulting from a coalition-building process that doesn’t lend itself to easy single-sentence description. But the urbanist and illustrator Alfred Twu produced a graphic for Sightline that shows the breadth and scope of changes, including an easier path to build accessory dwelling units, relaxed parking rules, legalization of four-unit “cottage clusters,” and a structure for building small, six-unit apartment buildings if half the units are provided at deeply subsidized rates to poor families.

This should allow nonprofit builders to create mixed-income buildings that generate enough rent from market-rate tenants to cover operating costs.

Madeline Kovacs, who helped organize the coalition that secured the historic reform, says it took a combination of determination and open-mindedness to build an alliance between skeptics of overweening regulation and advocates for low-income communities. The bill's contents are hard to summarize cleanly because it was a question of "getting those people around the table and hashing it out, over and over and over again." But ultimately it worked, and it mobilized enough citizen enthusiasm to match the notorious status quo bias of the community meeting process.

"We matched anti-housing testimony and even outstripped it by a couple of people," she said.

But just because you can build new types of housing doesn't mean you will. That's where money comes in.

The genius of policy that allows more market-rate construction — whether that's zoning for duplexes in the suburbs or taller apartments in central cities — is that the Federal Reserve has already acted to make the financing easy. If there's a project that pencils out as profitable, and the regulatory climate allows it to be completed in a reasonable time frame, loans are cheap these days. But more jurisdictions should pay attention to that time frame issue. With state and local tax bases hard-hit by the pandemic and study after study after study after study confirming that more market-rate house-building improves affordability, every jurisdiction should look at how it can ease off on anti-housing rules.

But there is more to life than the profit motive.

"There's practically nothing in the American political or economic system that doesn't run straight into housing," says Felicia Wong, the president and CEO of the progressive Roosevelt Institute. Whether you're talking about education, policing, transportation, climate, or access to jobs, the nature of the building environment is critical. Subsidizing low-income renters on the demand side can be extremely helpful. But constructing non-market housing to deliberately promote integration or expand access, as envisioned in Portland, should also be on the table.

"We would also argue at Roosevelt that the federal government has a role in providing more affordable housing," Wong says.

As Portland's example shows, funding non-market housing is not in tension with regulatory reform. Instead, if we want affordable housing to exist in any quantity outside of the most depressed areas, we need regulatory reforms to allow its construction.

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