Testimony on Housing

by

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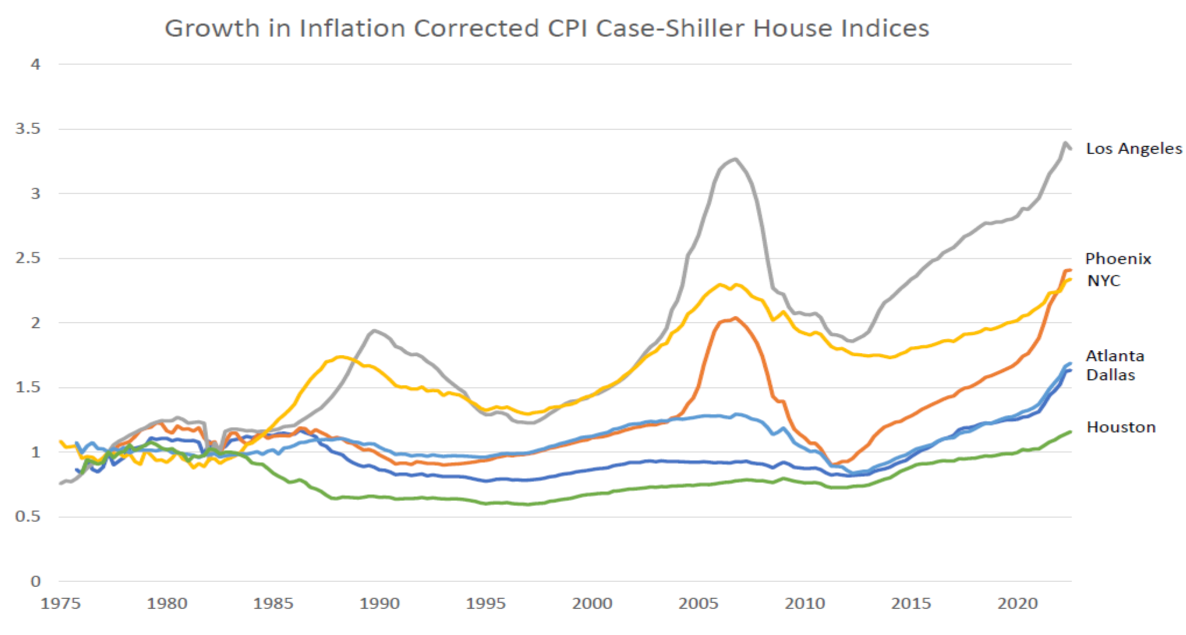
Thank you, Chairman Scott and ranking member Warren. Thank you, committee members. I am grateful and honored to have the opportunity to speak to you today.

I am an economist who has spent much of the last quarter-century studying what has gone wrong with America's housing markets.

Initially, I worried mainly about the high costs and limited housing supply in coastal America, because I watched as the inflation-adjusted cost of housing in greater Boston tripled between 1980 and 2006.

But until the past decade, the cost of housing in cities like Atlanta, Dallas and Houston remained affordable – largely because these sunbelt cities built a lot of homes.

Exhibit 1: The Growth in Housing Prices



Source: Federal Reserve data, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, Index 1 = 4/1/77, Quarterly, Not seasonally adjusted

That has changed. Between the end of 2009 and the end of 2024, the real price of housing doubled in Phoenix and rose by 55 percent in Atlanta. According to the National Association of Realtors, the median new home price in now $635,000 in Miami, $476,000 in Phoenix and $450,000 in Charleston, South Carolina.

How do I know that this is about housing supply rather than housing demand?

The critical fact about America's current housing crisis is that it is driven by a lack of supply of new homes. We live in a land of plenty and yet we have manufactured a shortage of basic living space.

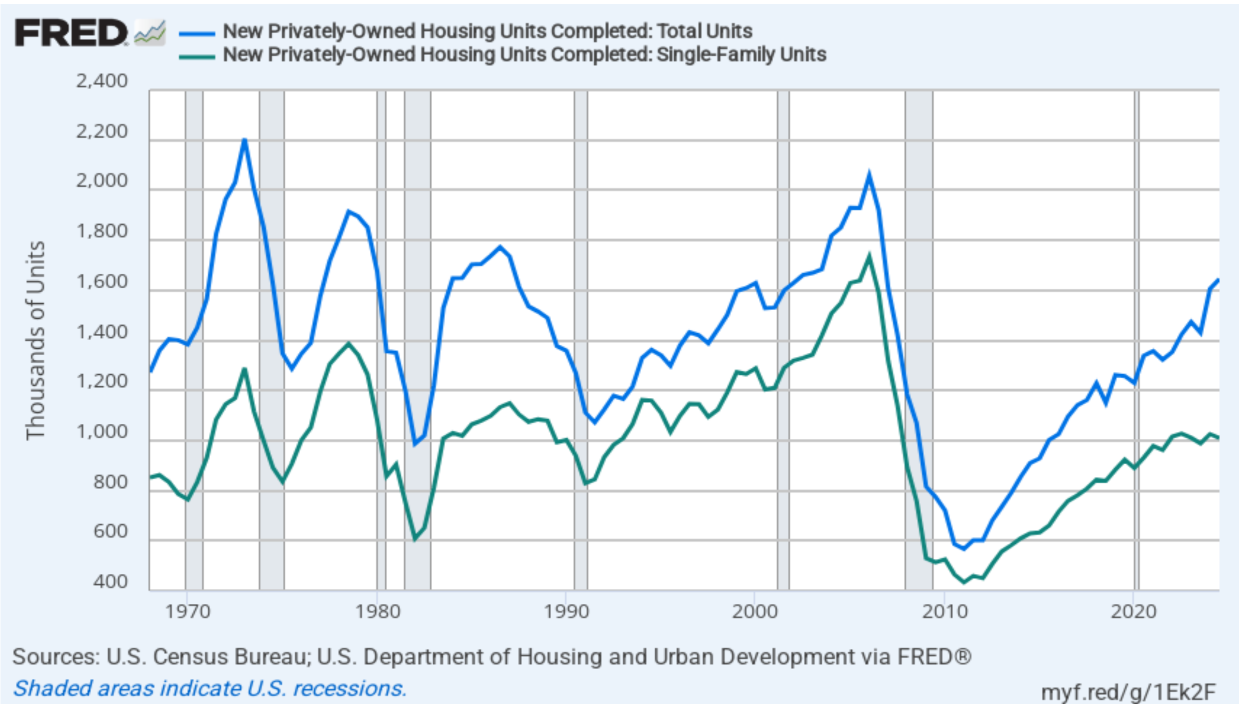
Economists sort out supply and demand by looking at prices and quantities.

If prices are up and building is up, then demand has driven up prices.

If prices are up and building is down, then the explanation for high prices is limited supply.

As the next exhibit shows, home building across the US collapsed after the global financial crisis, and it has yet to recover. We are producing fewer single-family homes at the start of 2025 than we did at the start of 2021, and 38 percent less than we did twenty years ago.

Exhibit 2: The Decline in Housing Production

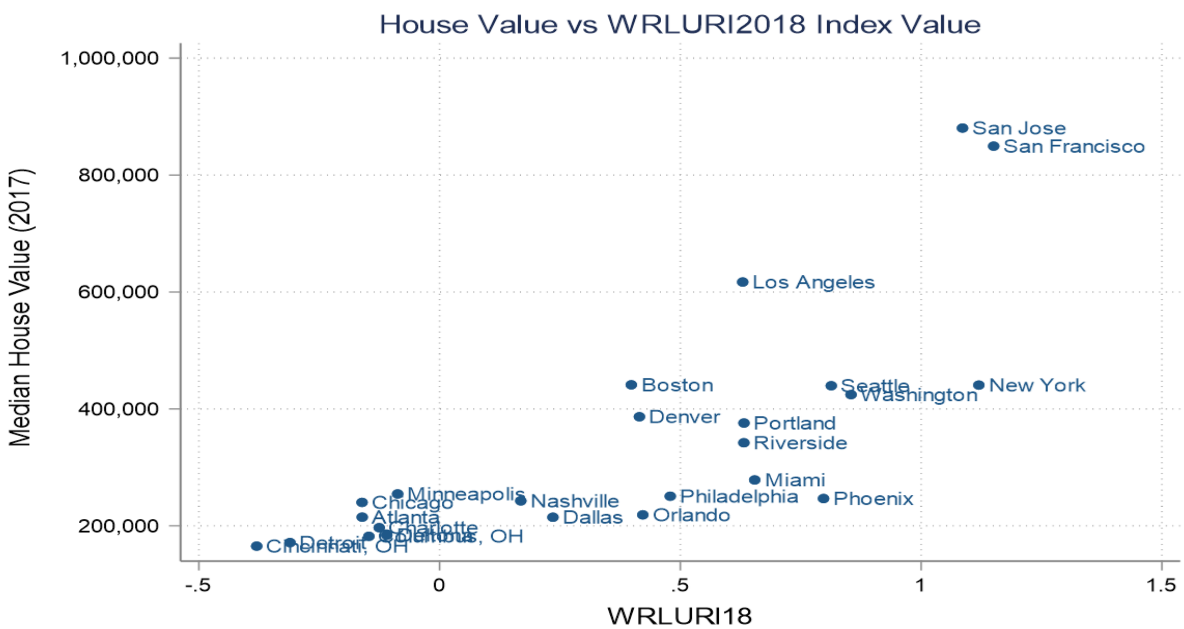


The next exhibit shows that places in America that are expensive don't build a lot and places that build a lot aren't expensive. There is demand for homes in California and in Texas, but Texas builds much more and it remains more affordable.

Exhibit 3: Prices and Mean Growth in Housing Stock from 2000-2023 for the 100 Largest Metropolitan Areas

The combination of high prices and limited building means that America has a supply problem, despite the fact that we lack neither land nor construction capacity. The next exhibit uses the Wharton (or WRLURI) index of local land use regulation, and shows that prices are much higher in more regulated places.

Exhibit 4: Housing Prices and the Wharton Regulation Index



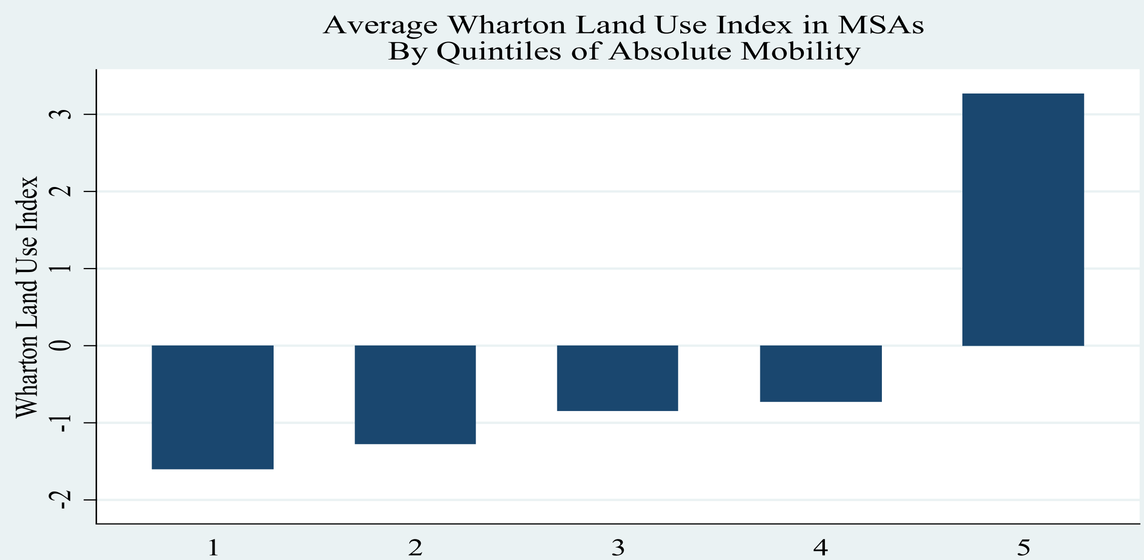
Why is this a problem?

Most obviously, because ordinary Americans have to spend too much on housing. The nationwide ratio of home price to median income reached 5.6 in 2022, which is the highest in recorded history. According to the Consumer Expenditure Survey, 39 percent of spending by renting households goes on housing and that's painful. Fifty-six percent of Californians told a recent poll that they had considered leaving the state because of the cost of living.

Our country is less productive because we build too little in our most productive places. Three economists, including the Nobel Laureate Edward Prescott, "find that U.S. labor productivity would be 12.4% higher and consumption would be 11.9% higher if all U.S. states moved halfway from their current land-use regulation levels to the current Texas level."

Throughout our history, Americans have made our country richer by moving to more productive places. 19th century New Englanders fled their rocky farms for the richer soil of the Ohio River valley. 20th century refugees from the Dust Bowl found a better future in California. Yet today, we see no migration to more productive places, because those places have become too expensive.

The next exhibit shows the relation between the Wharton land use regulation index and the level of upward mobility experienced by poorer children. The places that provide the brightest economic prospects for lower income kids also make it hardest to build.



Notes: Absolute Mobility is the average percentile rank of children who grow up in below-median income families that move up in the income distribution. (http://www.equality-of-opportunity.org). Lowest absolute mobilities are in Quintile 1. Lower Wharton numbers mean less land use regulation.

Restricted Supply argues against increasing Demand-Side Subsidies

The Federal government has fought for affordability with demand-side policies, such as the home mortgage interest deduction and Section 8 Housing Vouchers. But demand-side policies can be counter-productive when the fundamental problem is restricted supply.

If homes were abundantly supplied at $250,000 each, then demand-side subsidies would primarily benefit the households that get those subsidies.

If the number of homes is fixed, then demand-side subsidies, such as a homebuyer's tax credit, will just push up prices. If there are 1,000 homes in a neighborhood, and there are 1,001 buyers who are willing to pay exactly $500,000 for each home, then providing each of them with a $50,000 tax credit will just cause the price to increase to $550,000.

So what could work?

Existing supply-side policies, such as the Low Income Housing Tax Credit, could be reconfigured or expanded to promote more building, although there is a lot of work to do. One recent study found that the average cost to build a low-income unit in California was $708,000.

A better alternative may be to encourage states and localities to permit more private construction. But here's the rub. America's tradition of Federalism is important, and we should never want Washington to micro-manage local zoning codes.

An alternative that respects state and local sovereignty is to use existing Federal spending to encourage more construction.

One approach is to tie a state's eligibility for discretionary Federal infrastructure grants to the building of new housing in its most productive counties. Transportation-related grants are particularly natural, because the benefits of transportation spending are tied to the number of people who are able to live nearby. Moreover, our high housing costs problem is closely linked to our high infrastructure costs problem, and so it is natural for housing and transportation committees to work together.

Here is a possible plan. Take the 119 most productive, large counties in the US. These areas collectively produce more than one-half of America's national income, and they are spread throughout our country – from Richland County, South Carolina to Middlesex County, Massachusetts.

We then decide how many homes we'd like to see built per year in these counties. An 870,000 number would mean that their housing stocks would grow by two percent per year. Then we'd allocate the homes to these counties using a sensible formula, which might consider current densities.

Once building expectations have been set, jurisdictions that meet those expectations can be rewarded. Among states with high productivity countries, discretionary Federal funding for transportation would be targeted towards states that meet building expectations and away from states that don't meet expectations. The current allocation process would continue for those states without high output counties.

My hope is that these incentives will induce states and localities to find their own solutions. We want local creativity, but we also want productive places to make room for outsiders.

I want to end by again thanking the committee for their interest in this topic and in giving me the chance to speak.

Relevant Academic Literature

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