Intro:

Today on *Political Economy*, I'm talking with Edward Glaeser about the problem with American housing supply and the many hurdles to building affordable homes. Ed and I look at the past century of urban and suburban construction and the attitudes and policies that have held back the US housing market.

Ed is the chair of the economics department at Harvard University, where he has been a professor since 1992. He is also a visiting senior fellow here at AEI where his research focuses on urban economic policy. His most recent co-authored paper, "America's Housing Supply Problem: The Closing of the Suburban Frontier?" is published in the National Bureau of Economic Research.

Pethokoukis:

When we refer to the Sunbelt, we're talking about the southern and southwestern US, like California and Texas, all the way out to the southeast. The population and economic boom in that area in the mid-20th century reshaped America. What conditions in the '50s and '60s made it possible for people to move to the Sunbelt and build or buy affordable homes?

It is absolutely true that the strongest correlate of regional success, metropolitan area success, over the last 130 years is January temperature. It's a basic fact and you're not getting away from it. As you say, there are many things that are wrapped up in that. In the post-war era, it was a particularly pro-business area, much of it.

The work of Tom Holmes compares counties that are on the right-to-work side of a state border with those counties that are not and finds massive increases in industry and manufacturing in the right-to-work states relative to the non-right-to-work states. It's also, as you say, about temperature itself. People don't appear to love driving in a Massachusetts winter. As someone who raised three New England children, I think that shows a lack of character on the part of America, but it is what it is.

Of course, part of it is housing. The way we can actually empirically differentiate these things is by looking at: To what extent is the growth related to increases in wages, which suggests that things are coming from heightened productivity, industry moving in, to what extent is it associated with rising housing prices, in which case it's showing demand for the amenities of the area, and in what cases it's associated with declining housing prices, in which case it's coming from abundant housing supply.

There's no question, throughout the entire post-war period, that some significant part of it is rising productivity. But in the last 30 or 40 years in particular, housing also played a role, and you just cannot understand why Atlanta, Dallas, Houston, Phoenix all were adding a million people to their metropolitan areas per decade without understanding that these places have historically made it much easier to mass produce housing than parts of Northeastern America and, increasingly, California as well.

California's golden age of building was in the '50s and '60s where, in fact, there were projects with 3000 or more units that were going up in some parts of LA, but that vanished by the '70s. But throughout 2006, you were still building massive amounts of housing in Atlanta, Dallas, Houston, and Phoenix. To

some extent, you still are in some of them. Houston still manages to build quite well, I think Dallas, of the cities that we focus in a recent study, looks relatively good, but the changes in other places are palpable.

The things that made it easier were having both a relatively light regulatory touch and just having a lot of flat land and highways that made it relatively easy to build on that land. It's not rocket science: You have a lot of land, you have a relatively entrepreneurial building sector, and they just lay down houses unless you regulate them. What we've noticed in the data is that there really has been a palpable slowdown in these areas. It actually didn't just start with the global financial crisis, it started,

I think people would say, because you said 2006, the first thing that comes to mind is the global financial crisis, and the second thing, because you mentioned there was a lot of land, that maybe they just ran out of the kind of land that you would want to build houses on, that the suburbs all filled up.

That's exactly right. It seems like this is something where it really is just the global financial crisis that has caused a change. Together with Joe Gyourko. I've written a paper that tries to understand what's been going on in the Sunbelt over time, and we think it really started earlier, and we think it's not particularly related to running out of land.

There's no question that the quantities have declined — and again, this is how we know that what's going on today with high housing prices is a supply problem. Economics is a discipline of really simple tools, and when prices are up and quantity is up, then this tells you you've got a demand situation going on, and if prices are up and quantity is down, this tells you you've got a supply situation going on. And across America, quantities are way down.

If America had built the same kind of housing stock that it did between 1980–2000 between 2000–2020, we'd have 15 million more units than we currently have. There really has been this big change at the national level, and the change is particularly clear in these places that used to be the Sunbelt superstars: places like Atlanta, Miami, and Phoenix which, back in the ’50s, ’60s, and ’70s were building an unbelievable amount of housing. And all of these places have gotten much more similar. They've essentially gotten like Los Angeles. So the slowdown that we saw in Los Angeles during the ’70s, basically by the ’90s and 2000s, these other metropolitan areas were coming to look much like the City of Angels.

Housing has been in the news a lot more in recent years, not just because of the financial crisis and the housing depression, but also because there does seem to be this affordability issue. We've heard stories about housing regulation in San Francisco and on the East Coast. Has the coastal housing supply disease migrated inward?

That's what we think has happened. We think that people moved to places like Buckhead and Scottsdale and they brought the same expectations for growth and for land use controls that they saw in California, and that ended up freezing the housing stock in these places as well.

Just to settle the facts on density, on running out of land: We actually subdivide land up into places that are relatively high cost, relatively medium cost, relatively low cost, and places that are high density, medium density, low density. Where we really see a huge decline in building is the modest-density, relatively high-value areas, which used to really build a lot and don't really build yearly as much anymore.

The relationship between prices and new construction used to be quite strong, but not anymore, and that tells you something.

Exactly. Two relationships have changed. In the 1970s in these Sunbelt areas, less so in Los Angeles, two facts were very clear. They built more in areas where prices were higher and they built less in areas where there was already more density. Both of those relationships have sharply attenuated, have gone to zero or reversed.

We used to build where the demand is higher — we don't. We used to build where there was lots of space — we don't anymore. That change is really remarkable and that change is compatible with a view that supply conditions have become more important over time and the heterogeneity in supply conditions, the places that let you build matter now more than the places where people want to buy.

That, in some sense, is a replay of the national level. If you go back a hundred years, we think we've probably built cities where people wanted to live there. Now, people really have wanted to live in the San Francisco area a lot over the past 50 years, and we haven't seen substantial growth there because it is so difficult to build, despite the fact that there's actually an enormous amount of land in greater San Francisco. I just flew in and out of SFO last week, I was just marveled by just all the space that you see, none of which, of course, you're legally allowed to build on.

When we talk about making it harder to build, what kinds of things are we talking about, and are we seeing similar kinds of limits in the Sunbelt as we saw in other places?

Limits on building can take lots of different forms. Most simply, minimum lot size or growth control. Minimum lot size says, “You cannot have a home with a lot that's less than one acre, or less than half an acre, or less than 60 acres,” which is actually true in some parts of greater San Francisco. And so if you're going to have 60-acre minimum lot sizes, you're not going to get a lot of housing in this particular area.

You can also get various forms of environmental reviews, and we should mention that we're actually recording the day after California dropped the California Environmental Quality Act for most housing developments, which is sort of an amazing change. I'm not sure that I ever thought that I would see CEQA vanish, but this happened yesterday.

In fact, in greater Massachusetts, the environmental stuff takes the form of wetlands controls. I have a fair amount of land outside of my window right now in my home. None of that's buildable because it's all allegedly wetlands, aka swamp, so you can't build on this stuff either. There basically are an infinite number of ways that communities have figured out to say “No.” It's very easy to come up with one rule, which is why I'm never in favor of things which are, “Oh, just switch from policy A to policy B, that will make all the difference,” because if the community doesn't want to build, the community's going to figure out some other policy, some other rule to do it. So you've really got to look at the whole system together.

Do you think what's going on here is a great love of wetlands or is it a great love of rising home prices by people who are already there?

It's hard to parse out people's motives, but I think certainly the fact that most of these communities are dominated by their incumbent homeowners tells you that, for these people, rising housing prices are not

going to be seen as a problem by them, they're going to be seen as a robust gain in the value of probably their most important asset. So for sure, rising housing prices have at the very least got to dull any incentives to make it easier to build.

I think they also dislike change. I think that's a very natural human thing — and I don't mean to say that they rationally dislike change, I mean to say that, as human beings, all inconvenience is vaguely frightening, so we hear they're going to build some project in the south side of town and we get all upset about it when, in fact, the project is not actually going to make any difference to your life in a major way.

I think there's probably is some occasional real environmentalism in this, but the California environmentalism is very problematic environmentalism. Together with Matthew Kahn of the University of Southern California. I wrote a paper called "The Greenness of Cities" about 12 years ago that argues that the innate carbon emissions associated with building in greater San Francisco or greater Los Angeles are much lower than most of America. That's not because of any environmental policies, it's just because of the weather. It's just milder there. So you should be building in these areas, and yet because of California's environmental rules, some of which may have changed yesterday, it's much harder to build in these areas.

I think it's really important that people understand when you turn off building outside of San Francisco, you don't turn off all building in America, some building goes on somewhere else and it goes on in a place that's hotter, or more painful to live in, or colder, or something else. So carbon emissions are actually going up because of California environmental rules.

You said something interesting a moment ago, which is that a lot of times people from high-cost areas brought their views on land use with them to lower-cost areas. So rather than their views changing after they move, their views changed those areas.

I believe that, but we have not actually studied the changes in Scottsdale that we probably should. I think it's worthwhile looking at whether or not the rules have actually changed or they're just being enforced differently, because certainly the amount of building is much is far reduced. I think that would be a natural thing, and there's some neat work that's done by a couple of economists at New York University and the University of Illinois at Urbana-Champaign, which set AI to make sense of zoning codes, which is a much less time-intensive thing than work that I did 20 years ago where we went in and measured all of the individuals zoning codes in greater Massachusetts. Jenny Schuetz was very involved with actually making that happen, and Amy Dain, 20 years ago. I'd love to measure that. We haven't done it yet, hopefully somebody will.

We've ruled out the constraint of land in these areas. We know it's not that. Are there other things? Is it rising construction costs? Are there other things that had to be ruled out?

Construction costs have certainly gone up, but nowhere near as much as prices have gone up in these places. Some of my original work, again 20 years ago, trying to make the case that zoning was important, was all about comparing how much it cost to buy a house and how much it cost to build a house. Now, that doesn't tell you directly about the role of zoning in places where the house comes with land. You can do things like value how much land is worth if it extends an existing house versus how much land is worth if it sits under a new house, and in a world of no zoning, they're supposed to have the same kind of value. Of course, they don't at all. Land that sits under an existing house is worth a heck of a lot more

than land that potentially extends the house, largely because you can't build on the land that extends the house most of the time.

But the really clean test of the regulation hypothesis was actually just looking at high rise buildings in New York because here the price of adding extra space doesn't need any land at all. It just says, “I'm going to add an extra story. I'm going to go from eight to nine, I'm going to go from 10 to 15.” There we found — we used a variety of different ways of getting at construction costs — we found that it was costing roughly twice as much to buy as it cost to build. That just is not compatible with the core economic logic that in a relatively competitive market — and building is a very competitive market — the marginal cost of building should be somewhere close to the price of housing. While that was true 50 years ago, it has not been true for many decades. The price of building has always been important to us.

But in other recent work, again with my co-author Joe Gyourko, as well as Leo D'Amico, Giacomo Ponzetto and Bill Kerr, we've actually asked the hypothesis, “Does the high price of building, do construction costs themselves, also reflect America's land use regulation?” We think there's a lot of suggestive evidence that it does. The way the hypothesis works is that, in a world of regulation of each individual project, the projects will tend to be small to get through the regulatory process. Small projects are very hard to reconcile with large firms because, in fact, managing a far-flung group of projects with two or three houses in it is really hard. So the construction firms are tiny, and indeed they are. More than 50 percent of the workers in residential construction in the US are in establishments with fewer than 10 workers, as opposed to for all of the other major industries more than 50 percent are in establishments with more than 500 workers. It’s a totally different scale.

An establishment or firm with six employees, you know what it doesn't have? It doesn't have a research and development department. If you look at the long haul of productivity in American construction, it seems kind of flat 1900 to 1940, then it soars from 1940 to 1970 and then it goes backwards from 1970 onward. This is inspired in part by earlier work by Chad Syverson and Austan Goolsbee documenting the general backward flow of productivity in all of the construction industries.

What we document is that it doesn't have to be that way. 40 to 70 showed huge increases in productivity, and that productivity is directly linked to the scale economies and the innovations that were being reaped by people like William Levitt who was building his Levittowns outside of New York City, outside of Philadelphia, massive scale, mass-production techniques, all of these things which were making construction easier, and that just stopped because the projects got smaller — we can document in our paper that the projects got smaller — and the firms are tiny.

We also are able to document that from about 1840 to 1950, patenting activity in construction moves really closely together with patenting activity in other industries like manufacturing. After 1970, they just totally diverge, and whereas American manufacturing industries patent like crazy, construction does less than it did 50 years ago. Again, it's a vision of an industry in which we kind of do things the way that we have for decades. We're not engaging in a lot of new technological innovation and, unsurprisingly, our construction costs are not coming down.

I think about labor and obviously there's been a lot of talk about immigration and I'm not sure how less immigration will affect housing costs, but how much of that labor — if we're not building new homes — then is getting absorbed into remodeling homes?

Our number is about 200,000 fewer people in construction, offset by about 100,000 more in remodeling. That’s, I think, what our number is in the paper. So we've gone from being a nation of builders to a nation of remodelers. So there you have it.

Remodeling is inevitably a fairly inefficient process because it's just hard, you're working with an existing structure. It's this issue of sort of rehabbing office space in downtown cities for residential. It's just a really expensive thing that's probably not a lot cheaper than tearing the thing down and building up again, if indeed it's cheaper at all.

I live in the DC area where there's a lot of older, Cape Cod-style homes. These small, one-story houses often have a lot of creative additions, but families clearly need more space. Yet we don't see the next step — new, modest, two-story homes for a family of four — being built.

So Levitt built a lot of homes that were sold as Cape Cods. That certainly was part of the Levitt thing. Then people did personalize them in lots of different ways, and over his career, the houses got bigger as America got bigger. Like any natural large-scale firm, he was able to respond to demand and adjust, but when we freeze our neighborhoods in regulatory amber, it becomes very hard for them to adjust to changing circumstances. People have housing that they may love, but is not really all that they should have.

You mentioned this regulatory change in California, is this just a state problem and there's not much the federal government can do?

It's a difficult problem for the federal government to do things about, and you need to decide how much of federal intervention you want to stomach. All of these localities are creatures of state law. Every state has the power to do whatever it wants to local zoning anytime it wants to do that if the state legislature can agree, so all the states have the power to do that. My understanding of the state of the law is there's nothing the federal government is allowed to directly do that would change the zoning practices in San Francisco or Boston.

Now, what it can do is it can affect the purse strings. So you can, in the same sense that we tied highway funds to states raising the minimum drinking age in the 1970s, you can tie various forms of federal funding to rules about state building and, presumably, that might have a difference.

I tend to think doing something small of that nature symbolically might make sense. I'm very skeptical that the Senate will ever get its way towards having a massive amount of highway spending tied to actually building. That seems like a lot, and many people with legitimate fears about federal overreach would push back, even though they're on the side of building more, and I totally respect that.

I think that getting to something where the federal government is actually doing something that's largely symbolic seems doable. In fact, I would favor such a thing. Doing something where there was lots of federal money that was tied to how much you're building in high-value areas . . . it's not inconceivable, it's just much harder, and I think many more people would have reasonable doubts about such a policy.

What would you advise the next mayor of New York City to do, and not do, if the goal was more affordable housing of all sorts in New York?

Well, I sure as heck would not do rent control, or not do try to increase rent control more. There's a great line of Assar Lindbeck, which is, "In many cases rent control appears to be the most efficient technique

presently known to destroy a city—except for bombing." So I think there are good reasons why we want to create incentives to build buildings, not dampen those incentives.

I think it would all be about making it really easy to add density in different ways. So one-stop permitting as of right, lots of predictability, getting rid of reviews that go on. You want building codes, you want safety, it's not that you want nothing, but things that are justified on some other grounds. I would just be making it as easy as possible to build as quickly as possible, and obviously as easy as possible to rehabilitate as possible. The areas where that tends to be easiest, politically, are in sort of brownfield sites, commercial sites, that kind of thing.

I would probably scrap much of the 1961 zoning code. I would probably scrap the whole idea that you are going to try to determine uses in particular areas except for a very small number of noxious uses.

Euclidean zoning was born in the 1920s and born of genuine fears of industrial pollution in residential neighborhoods. We all get that. That's fine, totally reasonable. But cities aren't really in the manufacturing business as much anymore and most of what goes on in cities is various forms of urban services, whether the high-end financial services, or people working in leisure and hospitality, or retail and trade. There's no reason why that needs to be separated from residential space and very good reasons for those things to be connected. And indeed, part of the whole problem with re-energizing the downtowns of New York, or Chicago, or Washington DC is just you have these huge agglomerations of office space, which means that the commutes are necessarily large, because you don't have what would be much healthier, which would be the sort of pepper and spice kind of interspersing of residential and commercial that would make commutes short and easy and would also mean that you have a steadier demand for various urban services like restaurants. I think taking an axe to the zoning code would be the place to start.

I will just say one final thing on this, which is, I go back and forth on what part of zoning offends me more. Some days it's Euclidean, some days it's minimum lot sizes that are egregiously high, sometimes it's free parking requirements, but I think the basic notion that we're going to get the cities that we should have, we're going to get cities that are built for outsiders if we just reduce some of the regulation and we just make it a lot easier to build, I think there's a lot of strength in that. There's a lot of strength and freedom.

One final thing that I want to say, which is that one of the things that all these regulations do is they make sure that cities take care of insiders rather than outsiders. 40 years ago, Mancur Olson wrote a book called *The Rise and Decline of Nations*, and when I read that book about 30 years ago, its message of how, in stable societies, insiders managed to accrete power and they managed to figure out rules that keep outsiders out, and they sort of build a world that's meant for them, that didn't feel like a lot of America. Maybe that was New York, but it didn't feel like Texas in the age of Reagan or in the age of Bush. 30 years later, particularly as we see these Sunbelt Metropolises increasingly shut down building, I think Olson is just completely prophetic. In some sense, what we're hoping for, if we're going to see a reduction in regulation and building, is a world in which America, the American Sunbelt, and even the coast, becomes an America that's built for outsiders as well as insiders.