



Episode 1,334: The Government's War on Affordable Housing

Guest: Ryan McMaken

WOODS: Let's talk affordable housing. It seems like this is easy: you want affordable housing, you give people money, then they can go afford the housing. The thing with affordable housing that's gone on and that really, really came to a head in 2008 was kind of like affordable education. We don't do anything to address why the education is so expensive in the first place. We just give people low-interest loans so that they can go over to that overpriced education and then saddle themselves with debt. So then it becomes affordable. Same thing with housing. Oh, we'll just come up with all these creative ways to lend people money, and that way they'll be able to afford the housing. Well, we have rather more ambitious desires for affordable housing, which is: what if we just actually made the houses cheaper to start with? Maybe that would be the better approach. And there may be ways to do that. So you have a series of articles on this topic, and I'll be linking to them at TomWoods.com/1334. And one of the subheadings in one of these pieces gets right to the heart of the question. It's "Why Housing Costs Are So High." What can you tell us about that?

MCMAKEN: Well, one of the things we need to make clear is that, when we talk about affordable housing, we mean subsidized housing, usually is the terminology in public policy circles. So I'll try to not be confusing, that when I say "affordable," I'll try to mean like, actual affordable on the market, like without a subsidy. And when I mean like government housing, government-subsidized housing, I'll say "subsidized housing." But I may mess up on that.

But nevertheless, going forward, yeah, if we want to make housing actually more affordable in the real sense, then you just need to produce more of it. But if you talk to people who are involved in housing policy, this is just a crazy option that nobody wants to talk about. And so it's always, *Oh, well, what new program can we come up with? What new low-interest loans can we do? What sort of Section 8 vouchers can we do?* And then my question is: well, how about we just encourage people to build more houses by lowering zoning requirements and all these other regulations that go into that? Nobody wants to talk about that or hear it except just the craziest libertarians. And so that's a big problem we're facing, because you've got this coalition between both planners and government, who've got all their very specific ideas about how housing should be developed and all this, and then you've got people who just don't want their property values to be affected. So they don't want any more housing built, and they just come together, and then you're not producing anything new, and so the price of housing just continues to go up. This isn't rocket science. You don't need a PhD in econ to see the relationship here. But if you're not building enough to housing and you continue to have more people moving out of their parents' house, you're going to need more of it, so you've got to build more. So that's the key problem that we're dealing with.

WOODS: So what is the motivation behind zoning? Couldn't you say that, in an anarchocapitalist society, you would work this out in one way or another, in that I can understand, in other words, why some homeowner doesn't want his kids' school to be next to a brothel?

MCMAKEN: Right.

WOODS: And so that's why you have zoning. But yet, in an ancap society, obviously the guy building the school would either reach an agreement with local property owners, or he'd buy up property nearby, or there'd be some way to resolve this contractually. So it's not like it's totally unreasonable to say I don't want a brothel next to a school. So how do you handle a legitimate concern like that, while at the same time not letting that legitimate concern become an obvious act of self-interest that just amounts to reducing the amount of housing available?

MCMAKEN: Well, there are a couple ways you can deal with that. One, of course, is the covenant community or the homeowners' association. People like to trash homeowners' associations, but that's of course a key way to ensure that your house is next to other houses that you want it to be next to. And that's a purely private solution and one that is used in the marketplace today and can be used, to the effect of not just needing to be for housing or suburban housing development. The same model can be used in all sorts of environments for all sorts of purposes and incorporate commercial development into that as well.

Another consideration is the fact that, just left to itself, people just don't tend to build that way, in the sense of — now, I could see people wanting to stick a brothel away in a less easy-to-see neighborhood, but mostly what people talk about — since brothels are, of course, illegal, and they're easier to get rid of if one's in your neighborhood. But mostly what people talk about are, well, I don't want somebody building a Best Buy right next to my three-bedroom house. But as has been pointed out, they just don't do that anyway, because you want to build a Best Buy on a main thoroughfare where thousands upon thousands of people are going to drive by it every day. And you don't build housing normally in that same environment. It's the same way with a gas station. You want to have a gas station in a highly visible, high-traffic place, and normally, that's a disincentive for your housing, is you don't want to be on a high-traffic street, and so on. Maybe you might have an apartment there, but of course, we have lots of apartments next to gas stations and things like that. And so there's just a natural way that you develop things, where certain types of development want a different environment than just a single-family house. And so we don't build the way that people think that would happen if you just didn't zone. And so there are just natural tendencies there that should be recognized.

WOODS: Another one of your headings — these headings, by the way, in your piece, they really get to the heart of what you're talking about. Because you point out: "Government Controls on Housing Are Very Popular." So we sometimes like to portray ourselves as being the spokesmen for the downtrodden, you know, and sometimes the downtrodden don't even know they're downtrodden or why they're downtrodden, but we are going to stand up for them. But in this case, we're standing against a lot of people who want the current situation. They're quite happy with it. So talk about that.

MCMAKEN: Well, yeah, this is not something that you could blame on just rich people or just middle class people. It's actually the poor in this case, who truly tend to be the least powerful

in this equation, because they're least off in the residential property owners. What you've got are people, they move into a neighborhood, they are concerned about the property values because we have an economic mindset in this country where people are obsessed with their home value, because so much of their personal net worth is sunk into residential property, and so they don't want that to be affected in any way.

So they go to the city councils — I mean, you've seen this all the time. I see it in my neighborhood, in my city, and I live in a regular city, where you would think people would get less worked up about, *Oh, we want to build an eight-unit apartment building here.* But nope, every time they want to build even a medium-sized apartment building or even a tiny strip mall with just four storefronts in it, people go nuts. They want to park there. It's like a park at a corner along two busy streets. *Oh, no, you should put a playground there, because you don't want to disturb the character of the neighborhood.* I'm like, it's a dumpy corner on an industrial street. But nope, we can't build anymore housing there, and you can't put a sandwich shop there. People, they're just obsessed with this idea. *I moved into my neighborhood the way it is, and I don't want it to ever change.*

And it just kind of reveals how, yeah, people talk about, *Oh, I should be able to do what I want with my private property,* but when the rubber hits the road in terms of someone else developing something they don't like in their neighborhood, well, that all just goes right out the window. And I mean, even if you got a room of like 200 libertarians together and they were all living in like a residential neighborhood, and you said, "How many of you people would be annoyed or oppose the idea of your neighbor fixing a bunch of junk cars in his front yard and selling them to people out of his front yard?" there's no way all of those people would be fine with that. And these are people who say, "Oh, I love private property." But the reality is, they don't want their neighbor doing that stuff, and they want some way to prevent people from doing that. And we just see that at all levels, all the time in these neighborhoods. And that's why stuff doesn't get built.

WOODS: You write that the twin approaches of subsidized housing and inclusionary zoning constitute band-aid approaches. Now, why is that?

MCMAKEN: Well, inclusionary zoning, it's easy to point out the problem with that. This is the idea that any new housing that you develop, a certain percentage of it has to be subsidized or priced at a certain level. And so you see that in a lot of cities where, you know, I want to come in and develop 100 condos. Okay, well, 10 of those, then, they need to be sold at a certain price level. So it's a sort of price control regime that goes into place. What happens then is people don't want to be subject to that, so they just then develop all their housing that they had planned to develop, they take the resources to a neighboring jurisdiction. And so what you've got, then, is that city that says they needed more "affordable housing," they then get less housing produced over all, because they've got this additional regulation in place. And that's been documented in lots of empirical evidence as happening. And it's why you end up with housing so much worse in places like San Francisco.

And then there's the issue of the subsidies, of course. Now, that's at all levels. That can happen from the local level, where you just have a local housing fund of some sort that subsidizes purchases or rents, or it goes all the way up, of course, to the central bank, where they're subsidizing loans through monetary policy. But the effect of all of it is to drive up the prices, just as it does with student loans, as you mentioned earlier, where you're basically handing over people for money that must be spent on a specific purpose, so that funnels

money then into housing and drives up the prices in certain times and places. Now, of course, you might say, well, people need that money. That stuff's not affordable otherwise. But it very much distorts the market then, in terms of producing certain types of housing, and in making the housing more expensive, because there's more money coming into it that can't go elsewhere.

And we see what I mean by that if we look at higher ed. And so higher ed, has now been documented, they're building new fabulous dorm buildings with like cascading waterfalls in the lobbies and all of these amenities, and every building is beautiful, and every residential hall is just this amazing luxury thing. And a big reason for that is now you've got universities who want to get their hands on all of these huge amounts of funds that are being subsidized, and people are less sensitive to price because of the subsidy. So what we would probably see without these subsidies are more modest, more reasonably priced higher education packages.

And the same would be true of housing. As I've noted in other articles at Mises.org, we continue to see median sizes of homes continue to go up. And that's median, not average, so it's not being driven by just like a few zillion-dollar houses. These continue to go up. People aren't really scaling back on their housing sizes, and a lot of that is because the money continues to be cheaper. In reality, since we're hearing so much about affordability, we should be building more two-bedroom houses on small lots, small, simple houses, especially since family size is getting much smaller. But that's just not happening.

WOODS: I want to read a passage from one of your articles, because you say this, and it's such an interesting insight:

"Nor should we trouble ourselves with mandating that builders create housing that caters to low-income houses. The problem isn't too little low income housing per se. The problem is too little housing overall.

"After all, for every new unit built — even if it's a luxury unit — the housing supply increases, prices will fall ever so slightly, all else being equal. Over time, the cumulative effect of new units built for a wide variety of price levels will be to bring housing prices down overall. As new luxury units are built, the wealthiest renters and homeowners will tend to move into newer and fancier units. The older now-less-demanded units will fall in price, making them more affordable to lower income buyers and renters.

"Today's luxury units are tomorrow's affordable housing."

There'll be a lot of pushback on that, but there's no escaping the logic.

MCMACKEN: Yes, and I believe some policy analysts call this like the "ladder of housing" or the "housing ladder," so that as units age, people just move up into what were formerly super-nice units. And when I worked at the division of housing, I would get calls from the media, and they would say, "Is neighborhood X over-built?" And my answer was always: well, it depends on the on whose perspective you're coming from. So rarely is a neighborhood overbuilt from the renters' perspective. A neighborhood really is only overbuilt from a renters' perspective when you have so much housing that you've got like empty units that criminals are like cooking meth in. However, if you've just got a bunch of units and the price keeps

coming down, well, that's great from a renter's perspective. That's not over-built; that's great for you.

What they really mean, of course, is: is this over-built from the developer's perspective? And so I come in, and I built a new bunch of apartment buildings, but now I can't get the price that I had told my investors I would be able to get, and I can't make my debt payments, and so on, on this new apartment building as the owner. So then it's "over-built." Now, I'm thinking, well, that's the developer's problem, right? They came in and they built a bunch of stuff, and now what you had imagined as this incredibly luxury apartment, it's not getting the prices you thought it would, and now you've got more middle class people moving into some of these units, and so on. And so I just don't see the big reason to worry about that.

Now, if it happens too much, of course, then you would have capital leaving the multifamily or single-family development sector for other sectors. But people scale back immediately, as soon as they see that that new building isn't profitable. So it only happens really at the neighborhood level, where you've got "over building." But it's just not a problem from the larger perspective. You come in and build a lot of housing, well, that just means you end with more affordable housing, even if that housing is luxury housing. And so you over-build luxury housing, all that means is it's now more affordable than you hoped it would be. And that's fine. It's not really something to worry about.

WOODS: Can we go back in history a bit and talk about rooming houses?

MCMAKEN: Yeah, this is a great topic. You know, I just saw an article on how, oh, millennials and people are starting this new thing called house sharing, where we're renting out a room to a lonely old person, or an empty-nesting couple is renting out a room to like a 20-year-old who needs a place to live and now they're less lonely.

WOODS: Yeah, where did they ever get that idea?

MCMAKEN: [laughing] Right. And I thought, well, this isn't a new idea, right? And yeah, in the article I wrote on boarding houses, it noted some of these historians who were saying that a huge portion of Americans had lived in boarding houses, had even grown up in boarding houses. And the advantages are numerous. You could see that if you're a single mom who had children — and of course, this was fairly common in the 19th century, because husbands died in accidents and things like that — well, this was much, much safer for you, if you could then rent a room with your two small children or whatever from a family who lived in a neighborhood on the edge of the city and so on. Or if you were a young woman who wanted to move in the city, you could find a roommate and room up with some little old lady who owned a small apartment building that she was renting out a bunch of rooms in, that sort of thing. And this was very common in cities, and this was the source of affordable housing for a lot of people.

What happened was norms changed over time I note some weird efforts by progressives to force everybody to live in single family houses, because that was what good, middle class, Protestant Christians do. We all live in our own single-family house, because otherwise, that's just communism. They actually said this. And so that gradually over time stamped out the idea of the boarding house. And then, of course, also the fact that there was so much prosperity in the postwar period during the late '50s and the '60s, that, *Well, I'll just buy my own single-family house, that's no big deal.*

But as soon as things started to become unaffordable again in many areas, people then either made it illegal to have the boarding houses or the culture had not come around again to embracing that as a viable solution. And then another variation on that is the residential hotel. That used to be a big, big thing too, where old people, especially, whose incomes were declining and they were spending down their capital, but they could live in those places very cheaply, and there was security offered in those places as well. And so that was all very important, but we're not employing those very useful options now.

WOODS: I want to read yet again here — this is actually a quotation that you have from an Alan Durning, because you're pointing out that there are even some people on the left who are coming out and saying that regulations in existence against this type of living arrangement are obviously hurting people. Because one of my favorite remarks along these lines comes from our friend, the economist, David R. Henderson, who says something like this: you don't improve the welfare of the poor by looking at the list of their options, and removing the one they actually chose. So if somebody actually chooses a job you think is undesirable, removing that option obviously can't improve that person's life, because now he's got to go on to the next most-desired thing. Well, likewise, if people choose to live this way, and then you simply say, well, in your own interest, we're going to take that option away, how is that in their interest? So here's what we read:

"A future unfettered by such rules" — so that is to say, zoning against boarding houses — "would see the reemergence of inexpensive choices, including rooming houses and other old residential forms. Such units will not satisfy those of greater means and the expectations that accompany them. They would not try to. But they can meet an urgent need for young people, some seniors, and for poor and working class people of all ages: the need for homes they can afford that are still more luxuriant than those lived in by a third to a half of the population of the earth."

Now, that itself is a very, very important point, that to say, "Oh, but that's not the best kind of housing arrangement," okay, but it is better than most people on earth have and better than most people who ever lived have. So you do have to bear that in mind. And plus, nobody says you have to live there forever. I pointed out in one of my episodes last week that, when somebody went and looked years later at those crowded tenement houses that Jacob Riis documented in the 1890s, they were almost completely empty, because as people became wealthier, they just moved to Brooklyn, they moved out of these, and that was the end of it. So you don't have to live there forever. But certainly if that's the best option you have, especially as you're just starting out, it's better to have that option than not to have an option.

MCMAKEN: Yeah, this is horrible how we've taken away these options. A big factor in the homelessness problem was in urban renewal, and a lot of leftists have pointed this out too, that bulldozing flophouses was not the way to help poor people. But that's what happened in the '50s and '60s and '70s, is, *Oh, we've got a bad neighborhood, these flop houses are filthy and moderately dangerous. You know what? Let's bulldoze them all, so that the people who had lived in there can now live under a bridge.* And that was what happened. And so now those people are freezing to death, whereas before, they just lived in extremely suboptimal housing. And that seems to be the rationale, for some bizarre reason.

And that's exactly the point you make also, is that, yeah, a lot of those people weren't even living in those conditions their whole lives. They had fallen on hard times. We used to have

expressions for this, right? You're just down and out, and things like that, and the idea that you'd probably get back on your feet. Now, I'm not saying that's true for everybody, but it is true for a lot of people, who, they just need an extremely cheap and undesirable option that's better than sleeping outside at various times. And so then just removing that on the grounds that, well, a middle class family, or rather, just a family of four shouldn't have to live this way. Well, that's fine. That's a good way to think. However, maybe they just need that for a few weeks in order to not live in their car, so these options should be kept available to them.

And when we're looking at things like boarding houses and so on, a lot of the time, as was noted by the historians, these were usually used by single people or widows and people that don't have another option. A lot of the time, sure, if you've got both parents who were able to work and things like that – which, by the way, was a common thing. We shouldn't assume that – there's this weird thing where people believe that only one parent worked throughout history, and this is a new thing that two parents work. That's not true. I mean, historically, both parents worked – which, by the way, was another advantage of the boarding house, where you had other adults around so that you could go and run an errand and leave your kids unsupervised but not totally alone.

And so all of these options are important in recognizing that people are in different places in their lives. I mean, just think of ourselves, right? I remember before I had a house, my wife and I lived in this complete dump along an extremely busy streets in Denver. It was 600 a month during an expensive period in Denver, and that was fantastic, but there were semis whizzing by my window all the time. And of course, I wouldn't want to have kids there, but being able to live in that dumpy place allowed me to save enough money to move somewhere else where I could have kids in a safer place. And so we need to look beyond just this idea that, well, this is where people are going to live for 50 years, so obviously, we can't just have this at all, so just tear it down.

WOODS: It somewhat reminds me of the example I've heard people give, where, imagine that you're unhappy at the quality of automobile that the poor have, so you say, *All right, well, no more awful jalopies for these poor people to have to drive around in. From now on, we're going to say that there can't be any car on the road that costs less than \$25,000, and that way, we'll make sure that everybody's got a quality car.* But you can immediately see the fallacy of that. Just putting that regulation into place doesn't magically create a bunch of really nice cars. It just means that now the poor can't get a car. And this is the same kind of thing that you see, in this case, with housing and in other areas as well.

And the pattern is repeated so often that we're either dealing with unbelievable blockheads, or we're dealing with something more sinister. And I don't necessarily want to go down that route, but I will say that there was a time when I was giving a talk at the Mises Institute – I think it was one of the named lectures at the Scholars Conference. And there was a gentleman in the audience whose name I won't mention, but he was an economist in the Bush Labor Department. And he was saying – because I was talking about people in the Catholic Church who favored certain interventionist economic policies, because they thought they would help the poor.

And he said, "You know what? I don't believe that. I don't believe that for a minute. There's no way that you can be a sentient being and think that these policies are going to help these people. All they're going to do is entrench them in their poverty." And then he said, "And that's exactly," he said, "where the Church wants them, is to keep them stupid and

impoverished and easily manipulated." He says, "They're not dumb. Do you really think they looked these policies over and said, 'Oh, yeah, let's make it harder to employ poor people, and let's remove the options that they have. That will make things better.'" He says, "Sorry, no way am I buying that."

So he had this theory that they were doing it on purpose now. And there are some people who have said that the Democratic Party figures, we want to keep these people on a leash, we want to keep them in our pocket, we want to keep them suffering so that they'll constantly look to us for help. Even I am not sure that I'm cynical enough to believe that, you know? I think, for the most part, it is just a fact that most people can't think beyond one level of argument. And the one level is: these people need something, so let's pass a law to give it to them. And they just can't see beyond that.

MCMACKEN: Yes, having worked, of course, in state government, which is just a little less horrible than the federal government, I can't say I encountered any secret schemes to keep poor people poor. And you can see the rationale is easy, is that on a certain level, if you've got a household that has no money and they're living in their car, you give them some money and now they don't live in their car. This isn't like — like, they actually were helped in that sense. And so that doesn't keep them poor, especially most people have aspirations to live in more than a one-bedroom apartment, if they've got three kids, so there are still incentives there and motivations and things like that. Now, all these problems we've discussed, of course, those really do hurt people, because they take away options. But I think it's just somewhat the bureaucratic mindset, in that nobody's given it much thought. It sounds good at a two-hour city council meeting. Nobody opposed. Nobody cared, so let's just pass it. Also, the federal government wants to hand us a bunch of money to do it, so who's going to turn that down? So let's just move on to the next order of business on the agenda. And I think it's just a matter of minimizing your work, is also an issue. I think laziness is often a much more likely motivation for people than evil, although maybe sometimes the effects are the same. But that's much more likely, I think, the thing.

I think the reason that people refuse to talk about how we just need to build more housing and that will solve the affordability problem is because they know that's politically untenable, because they know, as a city councilman or county commissioner or legislator, whatever, they get up and they lecture the neighborhood and say, "Hey, you should be open to us building another apartment building here, and why are you standing in the way of it, you NIMBY people?" well, their constituents will just be outraged, especially the ones that have property and more money and more time to make their lives miserable as politicians. So that's a pretty easy thing to figure out: *I'm just not going to say anything about it, and I'll just throw up my hands and say, "Well, I don't know how to create more affordable housing without subsidies."* And it's not terribly mysterious to me about how that ends up happening when you see local government dynamics at work.

WOODS: Right, and then at the federal level, they act as if none of this is happening, that this is just a market failure, and therefore, we need subsidies. But imagine a scenario — not difficult — in which there's something a lot of people want and the price is out of their reach, and there are all these artificial restrictions on creating more of it. Wouldn't your first instinct be: we got to knock those down? I mean, regardless of how politically difficult it is — I mean, at the federal level, you're away from the local politicians. You can at least speak your mind. And to think that you would stand there with a big, hundred-page policy wonk paper, when all you need is two sentences — maybe even, if you were lazy, you could even do it in

one sentence — to solve this problem, it's just a reminder of the perversity of the government sector.

Ryan, how can people read more of your pieces? You are very prolific, and you're producing stuff all the time. Where do you do this?

MCMAKEN: Well, this is all at Mises.org, and housing is a particular interest of mine, just because I worked in the field for a while. But yeah, we cover all kinds of stuff, and yeah, if you haven't been to Mises.org in a while, come by. We have about three or four articles a day, sometimes more. And I'm the editor there too, so I try to vary up the topics, and also written for different difficulty levels. So some will be very long articles, some will be short, easy stuff. And yeah, I think it's fun for people now. So yeah, come on by.

WOODS: Oh, it's tremendous. I mean, there are two — are there two blogs? Is that how you'd describe it?

MCMAKEN: Yeah, there's of course the main page, and yeah, don't forget about the Power and Market blog on the side, which is more kind of rough-and-tumble, less straight-laced stuff.

WOODS: Oh, I see. Yeah, so you've got the columns, and then you've got — yeah, then you've got that. So that's what it is, because I'm always looking at two streams of pieces when I go there. So it's Mises.org. If you haven't been there in a while, you know in your heart that it's a great repository of stuff. But it's probably doubled since you've been there, so you'll definitely want to check that out, and you'll see Ryan's name, Ryan McMaken over and over again there. So go in the comments section and tell him what a great guy he is. Ryan, thanks for your time today.

MCMAKEN: Thank you, Tom.