

A look at
the consequences of

GOVERNMENT IN THE HOUSING BUSINESS



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My name is Emerson P. Schmidt, Director of Economic Research of the Chamber of Commerce of the United States. I am here on request to discuss the questions submitted to me by the Subcommittee:

"What are the prospects for an adequate supply of residential construction labor during the period 1961-70? To what extent will the per unit labor costs increase or decrease the per unit cost of housing during the period 1961-70? How should federal programs be supplemented or modified to improve prospects for an adequate supply?"

An unraised question occurred to me: Why has our national government become so deeply and heavily involved in the people's housing? This Subcommittee, the Senate Committee on Banking and

Currency, the entire Congress as well as hundreds, perhaps thousands, of witnesses and industry people over the last 25 years have spent an enormous amount of time and energy and money considering and discussing housing, housing legislation, financing, and related problems. Had all this legislative activity not taken place, would our citizens be less well housed today, or would they be better housed? Would unit housing costs be higher or lower?

The answers to these basic questions are not obvious. Yet, to a nonexpert, they would seem to be important.

For example, let us take a look at the accompanying table which may help us to consider one of these basic questions.

The table contrasts nonfarm housing starts in two prosperous years in the mid-1920's and two prosperous years in the mid-1950's. The figures show that 35

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years ago, without government intervention, we had over 5 new non-farm housing starts per \$1,000,000 of GNP (in constant 1954 prices), as against only about 3 housing starts in the mid-1950's. Housing starts in the mid-1920's per thousand population were moderately higher than in the mid-1950's.

Offhand, this unfavorable showing for the government interventionist period causes one to wonder whether all this congressional concern for housing was justified in the past 20 or 25 years, and whether its continuation in the future is wise.

Whether other comparisons and more refined and more comprehensive analysis would put the government interventionist period in a less unfavorable light would be worth further study. The figures in the table are not submitted to prove any conclusion; but they do suggest, at least superficially, that

the Subcommittee members should ask themselves whether the proper next steps should be in the direction of more and more government intervention, or, rather, a move in the opposite direction. If the figures are relevant and reasonably representative, they suggest that this Subcommittee and the Congress have been needlessly worried and concerned with the American people's housing problems. The fact that housing is a basic human need does not necessarily mean that it is a public, rather than private, economic problem. There are other needs just as "basic."

The late, great Professor Joseph P. Schumpeter of Harvard University often observed that America is in danger of being one of the first great modern nations to be socialized because something has happened to our spirit. Alexis de Tocqueville, in 1836, said:

HOUSING STARTS IN THE UNITED STATES

	<i>Without Aid</i>		<i>With Govern- ment Aid</i>	
	<u>1925</u>	<u>1926</u>	<u>1955</u>	<u>1956</u>
Nonfarm Housing Starts (thousands)	937	849	1,329	1,118
Gross National Product* (billion dollars)	161.8	170.8	392.7	402.2
Population (millions)	115.8	117.4	165.3	168.2
Housing Starts per Million Dollars GNP*	5.79	4.97	3.38	2.78
Housing Starts per Thousand Population	8.09	7.23	8.04	6.65

*Gross National Product adjusted to reflect the same value of the dollar as in 1954.

"In America . . . the citizen . . . never thinks of soliciting the cooperation of the government; but he publishes his plan, offers to execute it himself, courts the assistance of other individuals, and struggles manfully against all obstacles. Undoubtedly he is often less successful than the State might have been in his position; but in the end, the sum of these private undertakings far exceeds all that the government could effect."

Many of our citizens, it seems, have lost the profound insights of our forebearers and men like de Tocqueville with respect to the great individual and social gains which can come through this individual effort and self-reliance. We seem to have become victims of what has been called "the socialization of the soul."

Perhaps here we have the key to the absence of superior performance in recent decades, even with all our government intervention, as against the performance in our earlier history, for example, in the 1920's mentioned above. Again, I do not want to draw any dogmatic conclusions, but this Subcommittee might think seriously about the kind of society we have and the kind of society we want to build. Where does individual responsibility end? And where should government inter-

vention start? What are the state and local responsibilities, as against the central government's responsibility?

No Shortages in Free Market

The essentially private character of housing as a commodity and the historical record suggest that the questions which the Subcommittee put to me are easily resolved, even though incapable of concrete, quantitative answers.

Even in the first one, "What are the prospects for an adequate supply of residential construction labor during the period 1961-70?" it would seem obvious that if neither labor unions nor government create any roadblocks, labor mobility and individual personal incentives will assure an "adequate" supply of construction labor to meet the bulging requirements of the 1960's. The word "adequate" has little meaning, of course, except in terms of voluntary participation by workers in construction trades and the demand for the services of workers in general in alternative employments.

We might put the matter another way, in the form of a different question: Has any effective demand (desire, coupled with ability and willingness to pay) for any commodity or service ever remained unfulfilled for any extended period because of the scarcity of

common or skilled labor? Except for very short periods, such as a few days or weeks, it would be difficult to identify any significant consumer demand in peacetime which has ever been left unsatisfied because of a scarcity of labor.

Thus, it seems to me that this question enters needlessly into an arena where market forces can be relied upon to furnish the correct answer, provided, of course, no artificial restraints or stimulants are put in the way of these forces. It is the function of the free market, the free price (wage) system, and the self-interest motive to allocate human and other resources in response to free consumer demand.

On the other hand, if artificial forces tend to overstimulate housing starts, when the remainder of the economy is in a buoyant state, an apparent shortage of both labor and materials might occur.

After all, when permitted to do so, the price system does work. In 1934, average hourly earnings in manufacturing were \$.53 and in building construction \$.79, or 50 per cent higher. By 1959, average hourly earnings in manufacturing had reached \$2.21, or 417 per cent of the 1934 figure, while average hourly earnings in building construction had reached \$3.18, or 403 per cent of the 1934 figure.

No labor leader, no businessman,

no labor arbitrator, and no government bureau is wise enough to say what wage rates ought to be. But if permitted to do so, the market will provide the answer. Why have wages in manufacturing gone up slightly faster since 1934 than in building construction (particularly so, since fringe benefits in manufacturing are also larger than in the building trades)? Supply and demand forces unquestionably were at work. Some might argue that even as long ago as 1934, construction labor was too expensive, relatively speaking; although I would have no information to support such a view. But, probably, the rise in construction wages has been retarded, relatively to those in manufacturing, because of substitution effects.

If construction labor is in fact overpriced or deliberate shortages are created by closed unions, unduly high initiation fees, or unnecessarily long apprenticeship training periods, this will raise the price of construction labor in the organized trades. But, if these occupations are relatively more remunerative, additional people will be attracted to the industry in those areas of the economy where this is permitted — that is to say, where the union does not have complete control of job opportunities.

Furthermore, such overpricing

will put a high premium on pre-fabrication and the related trends. It seems altogether probable that the on-site labor requirements for residential construction will diminish year by year in the decade ahead. The use of component construction, subassemblies, and modular design will increase greatly. If it should happen that a scarcity of construction labor develops in the decade ahead, these powerful forces will be accelerated, quite probably, to the point where any serious labor scarcity will be fairly promptly overcome. But local bottlenecks for particular skills will continue from time to time, as they have in the past.

Ways To Break Bottlenecks

Even if the labor leaders were so unwise as to put restrictions on the use of labor-saving methods and components, then building materials firms, contractors, and consumers — that is, the house buyers — are not necessarily under permanent restraint; they have ways of getting around this.

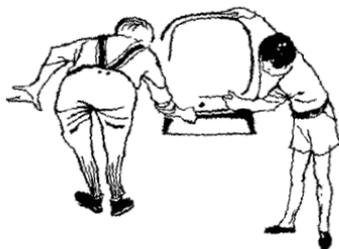
By the supply of labor, we, of course, don't merely mean so many bodies. The economic concept of labor supply involves not only the number of human beings, but also their ability, their skill, their work habits, and the number of hours they are willing to work per week. Reductions in the length of

the work week or feather-bedding or restrictions on the use of labor-saving devices are ways of effectively reducing the supply of labor. Without government support, unions cannot hold back the tide of progress for long.

Thus, it is likely in some localities and at some times that construction trades may overprice their services and restrict output. There are powerful price and technological forces working in the other direction; so that it would appear to be improbable that we would have any secular deficiency of construction labor supply in the period ahead or that unit housing costs, for identical products, will rise relatively.

Labor costs, of course, are not merely a question of hourly wage rates, but also of fringe benefits and of labor input, of productivity. And productivity, of course, is a result of improved tools, management, technology, components, materials, and the like, as well as labor. If wage rates should rise unduly, or restrictive practices — including unduly short work weeks — occur, this will put a very high premium on a massive reduction in on-site labor, and a great increase in the use of components which are factory-made, and will give additional impetus to prefabrication and all the movements in that direction. . . .

The Great Job-Killer



or—IT COULD HAPPEN HERE

It was a sunny afternoon
At story-telling time.
Old Kaspar clipped a fresh cigar
And poured his rum-and-lime,
While Peterkin and Wilhelmine
Looked at the futurama screen.

They saw a monstrous marble tomb
Beyond a shaded square,
And groups of shabby, pallid men
Who stood in silence there;
While men in sandwich boards rehearsed
A picket line with signs reversed.

"Now tell us what it's all about!"
The little children cried.
"It is the tomb of Gus the Great,"
Old Kaspar soon replied.
"His union members gladly bought
A noble tomb to mark the spot."

"How old was he," asked Wilhelmine,
"And just what made him die?"
"Death came upon him in his prime,"
Said Kaspar with a sigh.
"A hungry worker ran amuck
And pushed him underneath a truck."

"Then why do people call him Great?"
Asked little Peterkin.
"He organized the General Strike;
And when the count was in,
He'd killed more jobs in one short year
Than all the Great Depressions, dear."



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