

Housing and Society
Vol. 11, No. 3, 1984

Book note of:

Housing America - The Challenge Ahead: The Long Range Planning Report Of The National Association Of Home Builders. Washington, D.C.: The National Association of Home Builders. (\$25.00, \$20 for NAHB members, \$15 for classroom orders for 10-99 copies, \$10 for orders of 100 copies or more.)

Sherman Hanna

I approached this book with some skepticism since it was produced by NAHB, one of the more powerful special interest groups in the United States. This book is slick and well done, lacking only an index. Teachers will find the book to be very useful and comparable to the 1968 *A Decent Home: The Report of the President's Commission on Urban Housing* or the 1974 *Housing in the Seventies* (HUD) in bringing together information about housing in an attractive format. As is appropriate for a NAHB publication in 1985, there is relatively little about federal housing assistance programs for low-income families, but there is much about the impact of other federal, state and local policies on housing. My main fear is that this NAHB publication will be cited by faculty submitting conference papers and journal articles. I consider citing an industry publication for information available elsewhere to be a venial sin. Uncritical citation of an industry publication to establish that Americans cannot afford to buy housing is, in my opinion, a mortal sin.

Despite my bias against trade association publications, I have relatively few disagreements with the substance of this book. I share many of the assumptions and conclusions of NAHB. For instance:

Recent concerns that the nation is losing farmland needed for agricultural production appear to be misplaced. (p.xi.)

The book criticizes the *National Agricultural Lands Study* (1981), which led some states to try to inhibit conversion of farmland to residential development. To farmers at a bankruptcy auction, the idea there is a developing shortage of farmland must seem like a cruel joke.

The book also predictably criticizes rent control, which is in effect in more than 200 communities. It states:

The areas most in need of rental housing tend to be those that have rent controls. Rent controls must be regarded as a major obstacle to providing decent and affordable housing. (p. xi.)

While some would dismiss this statement as the opinion of a special interest group, only two percent of a sample of American economists disagreed with the proposition that rent control reduces the quantity and quality of housing (Frey et al., 1984).

This book has five major sections: Housing Demand and Supply, Government Policy, Housing Finance, Land Development, Infrastructure and Regulation, and Profile of the Housing Industry. There are excellent graphs and tables. Though many are available elsewhere, having them all in one place is very convenient. One graph I found very interesting plots the median square footage of new houses sold between 1963 and 1983. The general trend has been upward, with only slight dips in the 1966, 1969, 1973-75 and 1980-82 recessions. The home ownership rate appears to headed back up after the unusual decline during the 1980-82 recession, despite the fact that the proportion of households consisting of married couples with children was only 27.4 percent in 1980, compared with 41.4 percent in 1960.

To NAHB's credit, such information is beautifully and fairly presented. My only quibble is with the discussion of tax reform proposals. The book has a clear discussion of the three major tax reform proposals in the United States Congress: the U.S. Treasury's December 1984 proposal, Bradley-Gephardt and Kemp-Kasten. All of these proposals would lower marginal income tax rates and thus lower benefits of most housing-related tax preferences. All would eliminate the mortgage revenue bond program. The Treasury proposal would eliminate the deductibility of local taxes and would restrict the deductibility of interest payments for second homes. Bradley-Gephardt would limit the interest deduction to 14 percent of interest, rather than applying the taxpayer's actual tax rate. The book correctly states that these measures would tend to increase the cost of home ownership.

The book does not discuss the possibility that the price of houses would decline if a comprehensive tax reform plan were enacted. The impact would be most severe for high-income home owners, especially for those with second homes. Not counting income tax benefits and capital gains, the cost of home ownership for first-time buyers would decrease.

A broader issue is that of housing versus industrial productivity. It is not an accident that Japan has had an excellent record in manufacturing, while its housing is generally much worse than United States housing. The NAHB book states:

Adjusted for expected capital gains, the total cost of owning a home relative to income declined fairly steadily from 1965 to 1979, a period in which tax savings and equity buildup more than offset the total cash costs of home ownership... (p.20).

A number of economists have related the U.S. tax preferences for owner-occupied housing to a huge over-investment in housing and also to the real decline of the stock market and under-investment in manufacturing plant and equipment (Hendershott and Hu, 1981). To

the extent that the tax reform proposals shifted resources away from housing, more would be available to invest in factories, research, etc.. Personally, I do not see a compelling social need to subsidize the swimming pool on some millionaire's vacation home. Even for middle-income families, the general quality of housing has increased and is far beyond any social need.

The impact of tax reform on rental housing is a more difficult issue. The tax benefits for investors in rental housing provide some of the most offensive examples of the supposed unfairness of the existing U.S. income tax system. Yet, they undoubtedly increase the amount and lower the cost of rental housing. Seminars and books abound on how to legally avoid paying income tax while enjoying an income of \$100,000 a year. For the average real estate investor, this is not a painless way to Easy Street, so I do not consider the tax advantages to be inherently offensive. NAHB estimates that the tax reform proposals would increase rents up to 35 percent. I doubt that the net effect would be that high, as prices of buildings would decrease, but undoubtedly rents would increase. Unless there was a substantial increase in rental assistance, a large increase in rents would be a disaster for low and moderate-income households.

This book should be on housing educators' must-purchase list. The information on demographics, land use, tax policy, finance and the home building industry, while available elsewhere, is available here in a useful combination and in an attractive format.

REFERENCES

- Coughlin, Robert E. et al. *National Agricultural Lands Study*, Washington, D.C.: U.S. Government Printing Office, 1981.
- Frey, B.S., Pommerehne, W.W., Schneider, F. and Gilbert, G. Consensus and dissension among economists: An empirical review. *American Economic Review*, 1984, 5, 986-994.
- Hendershott, P.H. and Hu, Sheng-Cheng. Inflation and extraordinary returns on owner-occupied housing: Some implications for capital allocation and productivity growth. In J.A. Tuccillo and K.E. Villani (Eds.), *House Prices and Inflation*. Urban Institute, 1981.
- President's Commission on Urban Housing. *A Decent Home: The Report of the President's Commission on Urban Housing*, Washington, D.C.: U.S. Government Printing Office, 1968.
- U.S. Department of Housing and Urban Development. *Housing in the Seventies: A Report of the National Housing Policy Review*, 1974.