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### THE ROLE OF THE HOUSING MARKET IN METROPOLITAN DEVELOPMENT: CONCLUDING OBSERVATIONS

A GREAT MANY FACTORS ENTER into the demand and supply sides of the urban housing market, affecting, in turn, metropolitan development patterns. Changes in demography, tastes, incomes, and the transport system all influence the demand side. The spatial patterns of employment and the availability and price of public services in different jurisdictions are also important. Whereas changes in the demand for particular bundles of housing services in particular locations are often rapid, the supply side of the housing market changes more slowly. Changes in prices arising from these demand side changes induce supply responses over time, ultimately changing the spatial patterns of residential development. These supply changes will be related to land availability and land prices, zoning regulations, and the transport system.

An analysis of the dynamics of how these many variables change over time is complex and beyond the scope of this book. However, the cross-section econometric analysis of housing prices and housing-market compartmentalization, housing demand functions, and the effects of discrimination provide valuable insights into the sources of variation across geographic submarkets within metropolitan areas and illuminate some of the structural changes affecting metropolitan development in the postwar period. Inferences must be made cautiously, since the econometric estimates in this book use a single cross section.

The demand estimates reveal that income, demographic changes, preferences for housing versus other goods, and attitudes toward race all enter into demand functions and, hence, affect the housing market. The demand estimates across income classes—together with the model relating prices by location to job accessibility, public services, and housing-supply characteristics—can be useful in analyzing the causes

of the exodus from the central city. The analysis here suggests that the characteristics of the existing housing stock play a primary role.

In the early postwar years, a large excess demand existed for low-density, suburban residential locations. Residential housing starts had been at a low level from 1930 to 1945. In addition, the cessation of automobile production and gas rationing during World War II helped to defer the demand for suburban locations. After World War II, employment suburbanization accelerated, incomes rose, and birthrates increased. Federal tax laws provided additional incentives for home ownership, and federal mortgage guarantees made it much easier to obtain mortgage financing. Highway investments improved accessibility to the suburbs. All of these factors increased the demand for lower-density, suburban locations.

The rapid suburbanization that followed reflected a gradual adjustment of the urban housing stock to this pent up and increasing demand for newer, lower-density housing. Conversely, the demand for the quality attributes characterizing the central-city stock was declining. Most new construction occurred in the suburbs, at lower densities than previous development. Housing prices, in turn, reflected these supply changes and the residential relocation which occurred. The price differences between newer and older structures were kept down by this high rate of supply of new units, which also facilitated the movement of lower-income households into newer housing via the familiar filtering process.

In the 1960s, factors influencing the housing market were very different from those operative in the immediate postwar period. Two changes occurred which would by themselves tend to slow the rate of residential dispersal. The demographic composition of the population changed—with large increases in the number of young unmarrieds, married households without children or with smaller families, and the elderly. In each instance, the shift has tended to increase the demand for rental rather than owner-occupancy units, and for smaller units. Such a demographic shift by itself implies that the higher-density central-city housing stock would be more suited to households than they were a decade earlier. Also, in the late 1960s, the exodus of jobs from the central cities slowed down. However, the low elasticities associated with employment access in the model of housing prices in Chapter 6 suggest that work-site changes were probably of limited importance in explaining housing-market changes and metropolitan development in the 1960s. This reflects the already very dispersed market for employment and the substantial investment in highway systems, which greatly reduced spatial variations in access costs and congestion. Whether this conclusion, i.e., that work-site changes played a lesser role in the process of metropolitan development, also applies to the immediate

postwar years is less obvious. Transport systems were less well developed then and jobs were less dispersed.

However, the importance of these changes in demography and trends in employment locations pale in comparison with two other factors which are becoming increasingly dominant in the housing market: race and public services. The continued rapid suburbanization in the 1960s and 1970s is largely attributable to these two factors. Little research has been done on the dynamics of changes in housing-market discrimination or changes in public services over time. However, a qualitative case can be made that each of these factors have accelerated the exodus of white households from the central city.

As noted earlier, there is ample evidence that most white households preferred a segregated market in 1965, and that relatively few black households had gained access to the suburbs. Aggregate statistics from the 1970 Census suggest that racial segregation in the housing market has not diminished. Most additions to the black housing submarkets have been in older, central locations, often adjacent to the ghetto, as previously white submarkets are tipped. A further consequence is that many white households who might accept some measure of residential integration, and who might prefer more central locations, find themselves confronting a tradeoff between all-white suburbs and all-black central-city ghettos. Clearly, any significant change in attitudes with respect to discrimination or any other factor which affects the kind of entry barriers to blacks will have major effects on the course of metropolitan development, since both white and black households' choices will be affected.

The nature of public services and tax burdens across neighborhoods has also played an important role in the process of metropolitan development in recent years. Households with different income levels have distinct preferences for different levels of services. Moreover, they impose different burdens on the community and have differing abilities to pay. As long as the property tax is the primary source of local tax revenue, local zoning decisions will have major impacts on tax burdens and benefits in the various communities. Differences between the core and suburban locations in the quality of public services and in the burden of local property taxes appear to have risen in the 1960s. This differential in public services reflects several factors: suburban entry barriers which tend to exclude the poor, racial discrimination, and the financing of a significant portion of welfare and income redistribution functions at the local level, principally through the property tax. Those activities which redistribute income or opportunity, including education, health, and welfare, constituted an ever increasing share of total local public expenditures during the 1960s. This has heightened the incentives for

the more fortunate to migrate from poorer neighborhoods and to attempt to exclude the poor. In short, local governments' decisions have major impacts on the shape of metropolitan development, just as do those of firms and households.

In response to the high rate of growth of demand for suburban housing, principally by middle- and upper-income white households, housing construction has continued to be concentrated primarily in suburban areas. Differences in both the age and quality of the housing stock between the core and the ring have widened during the 1960s. Structure age, lot size, and quality are all superior goods, and hence income differences between the ring and the core have likewise widened. These changes in housing quality and neighborhood incomes explain the widening gap in housing prices despite the substantially higher construction rates in the ring than in the core. (Owner-occupied housing values in central portions of metropolitan areas increased by 32 percent in the 1960s versus an increase of 48 percent in the suburbs. The median level of rents in the center went up 49 percent versus a rise of 69 percent in the suburbs.<sup>1</sup>)

From this analysis of the housing market, several major public-policy issues emerge, principally involving equity considerations. Of most importance is the plight of the urban poor. This research provides additional evidence that a person's housing unit and neighborhood will be much affected by his income or ability to pay. Unless we are prepared to undertake measures to alter the prevailing distribution of income, we may well be confronted with a situation in which our poorest citizens remain very badly housed and receive inadequate public services. The trend toward neighborhood stratification by income poses the problem of how society is to provide public services for the poor.

The strategy to improve housing conditions of the poor which has received the broadest political support is that of filtering. A high rate of construction of new housing produces changes in relative prices of housing of all ages and quality levels, which, in turn, should allow poorer households to move into better quality units. While, as noted earlier, this process much improved housing for poorer families in the 1950s, the problem may have changed. Those families who are badly housed now may be too poor to pay for sound housing. As fast as prices change in older units, particularly in neighborhoods in which the poorest households displace lower- or middle-income families virtually complete-

1. U.S. Department of Commerce, Bureau of the Census, *General Demographic Trends for Metropolitan Areas, 1960 to 1970*, United States Summary, PHC (2)-1 (Washington, D.C.: Government Printing Office, 1971), pp. 16-17.

ly, investors may reduce the quality of the housing stock or abandon the units. In the final analysis, housing allowances or income transfers may be the only solution to the problem.

There are several approaches which could improve the public services available to the poor. One set of strategies would accept the current trend in location patterns and the spatial segregation by income as given, but redistribute taxes for poorer areas by federal actions. Tax redistribution to poorer areas could be achieved by the federal government's financing of more of those activities which involve income redistribution, such as welfare and health care. More generous tax transfers to areas with poor residents would achieve the same result. Tax transfers might be in the form of block grants or they might be tied to particular activities, such as education, which are a special tax burden in poorer jurisdictions. Any of these measures could raise the quality of services in poorer jurisdictions or lower taxes or both.

Alternatively, dispersal of lower-income households might be pursued. A combination of income or housing allowances to the poor together with a reduction in local zoning or other entry barriers would presumably be required. With regard to the latter, some dispersion could be achieved by voluntary actions. For example, federal tax transfers to areas which accepted low-income households might induce some lower- and middle-income neighborhoods to relax entry barriers to the poor. Revenue sharing provides an administrative mechanism for doing this. However, even quite generous federal tax transfers might not be sufficient incentive to break down entry barriers. Achievement of complete dispersal among all neighborhoods would probably require mandatory quotas—each community being required to make a stated percentage of units available to particular groups—and appropriate compensating tax transfers. Such a quota system would spread the effects of providing housing and public services for the poor over the population at large.

Evaluating these policies involves difficult value judgments. There are some obvious objections to physical dispersal or neighborhood integration of the rich and the poor as a means of achieving redistribution of public expenditure burdens. To the extent that public services are a public good and nonexcludability is important, heterogeneity in preferences with regard to public services requires decisions as to what common level of services is to be provided. Such decisions inevitably involve equity decisions. If income is a determinant of the demand for public services, it can be shown on static efficiency grounds that the alternative of neighborhood integration in which people with differing incomes live together and consume the same public services is an inefficient means of redistributing income. Segregation by income together with direct

income transfers to the poor is a Pareto optimum spatial arrangement.<sup>2</sup> On more fundamental grounds, many people will be opposed to socioeconomic integration as a means of redistributing taxes or income. While the idea of tax transfers to geographic areas which have disproportionate numbers of poor households is hardly revolutionary, federal action to force or encourage integration by income or race is clearly a new departure and is far from being politically viable at this time.

The plight of black Americans in the housing market also deserves attention. The existence of housing-market discrimination has wide-ranging effects on the quality of life for this sector of the population. The scarcity of single-family housing available to blacks reduces home ownership, an important means of wealth accumulation. Other harmful consequences of spatial concentration are also evident. For example, given the dispersal of employment, job opportunities for blacks are probably reduced; and there is much de facto public-school segregation.

In recent years, there has been little public sentiment in favor of pursuing policies that reduce housing-market discrimination. The point of view which seems to have commanded the most support is almost the reverse; that is to say, the encouragement of black economic development and political control within central-city black neighborhoods. However, economic and political control in central ghettos may not be worth a great deal. Continuing employment dispersal, an aging capital stock, a probable worsening tax expenditure imbalance in the core, and growing political power of suburban voters in state legislatures all constitute serious problems which will tend to limit the gains which blacks can achieve. Segregated school systems and segregated job markets would also remain. Perhaps most important, a policy of ghetto development in the face of closed suburban housing submarkets, even as a short-run device, is inconsistent with the goals of a free society, which must strive for equal opportunity for all.

While a policy of open housing is of paramount importance, developing policies which directly confront the problem of reducing housing-market discrimination is difficult. The antidiscrimination strategies most likely to be successful politically are those in which the losers can be compensated, or in which the losses or the "costs" of adjustments are spread among many individuals or over a long period of time. It is difficult to ask limited numbers of white households to bear these costs. Neighborhood tipping illustrates this problem. Those white households forced to leave quickly as expectations grow that a neighborhood will tip often

2. Martin McGuire, "Group Segregation and Optimal Jurisdictions," 1972, processed.

sustain large financial losses. This process, therefore, creates huge transfers in wealth and well-being among a few households. It is hardly surprising that resistance by white households to the first black entrant in a neighborhood is intense. A public policy encouraging neighborhood tipping as a means of raising the supply of housing to blacks is clearly unacceptable on grounds of equity, since it imposes the "costs" of social change on a relatively few white households.

The public policy for the achievement of open housing most acceptable politically—but also the one with the least chance of short-run success—is that of increasing market pressures against discrimination. More suburban black employment and higher black incomes both raise the incentives for blacks to search out suburban housing and buy their way into suburban markets. This might be facilitated by more public sector involvement in real estate markets and listing services. At the same time, a high rate of growth in the housing stock and excess supply, or slack, in the white submarket make it more costly for white owners to discriminate; tight housing and employment markets are hardly the appropriate environment to pursue a strategy of equal opportunity for blacks. This general course of action has the advantage that it works impersonally through the marketplace; no individual seller or firm is being pressured in federal court or forced to bear all the burden of shifting market opportunities in favor of black households. Unfortunately the payoffs are very uncertain. A long period of time may be involved. The analysis presented here indicates that increasing black incomes will not markedly improve the housing for black households unless it produces structural changes in the market, i.e., by reducing housing discrimination barriers.

Other more direct strategies could be envisioned. For example, more vigorous use of the courts might bring some measure of success. As a consequence of a series of statutes and legal interpretations in the 1960s, there appears to be ample protection of the rights of black households, at least in principle. The fact that fair housing has *not* been attained in the courts springs from several causes. First, discrimination is not easily proven. Second, bringing a private suit is very expensive. For many citizens, especially the poor, legal protections are more nominal than real; many do not have the knowledge or resources to obtain their just rights in court. An extensive national commitment to legal aid societies or other such means for providing legal services will be required if many of our citizens in the lowest third economically are to be represented in court. Our society is apparently not headed in this direction. The reluctance reflects a fundamental problem of equity, namely, that legal action concentrates the "costs" of integration on a few parties, those unfortunate few against whom suits are brought.



Middle-class white Americans appear unwilling to encourage this use of the courts.

It is hardly surprising that there are no simple solutions or politically acceptable policies for ending discrimination. A basic change in attitude will be required to implement any far-reaching program of racial integration. Nevertheless, the stakes are very high, and success will count for a great deal. Housing, employment, and educational opportunities are highly interrelated. Progress in housing integration is the public action most likely to produce cumulative results. Housing integration will tend to equalize education and will, over the long run, change attitudes, hopefully spurring further reduction of the barriers impeding racial equality of opportunity. The immediate task is to devise policies which will achieve some measure of progress in creating equal opportunity in the housing market.

In each of these policy areas, difficult choices involving value judgments must be confronted. Equity considerations are necessarily involved in any action involving redistribution of income or opportunity. In order to devise effective policies, policymakers must be cognizant of incentives in the housing market and the manner in which market processes operate. Hopefully, the analysis in this book will be useful in this regard.