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## CHAPTER XIX

### NOTE ON THE TIME PATTERN

ALTHOUGH this volume is primarily concerned with trends, periodic fluctuations in construction cannot be disregarded as might be the shorter oscillations characteristic of other sectors of the economy. The period from 1890 to 1950 was characterized by long swings in residential construction of thirteen to twenty-five years duration. If another long swing is in the offing, the period to 1975 might be encompassed by one long cycle.

Past economic fluctuations, wars, and their aftermaths shape in large measure the future time pattern of residential construction. They influence changes in rates of population growth, the age composition of the population, marriage rates, and household formation. Wartime building restrictions generate postwar building booms to make up for the accumulated deficit as well as to meet current additions to housing demand. When the deficit is removed the volume of building is again controlled by current demand. The influence of these factors can be examined with reasonable assurance, as compared with other forces operating on the movement of private residential construction, such as national income and the soundness of the price and mortgage structure of existing residential real estate.

For this discussion of the future time pattern of residential construction it is unnecessary to assume that the swings observed during at least the past sixty years or so have been self-generating cycles and that the cyclical behavior exhibited in the past must be projected into the future. Two of the three long cycles examined in Chapter III have been associated with wars, and these two have shown much greater amplitude of fluctuations than the first. A great deal of additional research would be needed to assign the characteristics of these cycles to the effects of war, to the coincidence of long swings in residential construction and long swings in the secular growth of the economy after World War I, and perhaps to inherent characteristics of residential real estate and its production and market behavior. Such research is beyond the scope of this monograph. Even when these questions are waived it is possible and fruitful to examine the possible effects of past events on the future movement of residential construction.

At the beginning of 1954 and probably earlier, the war-induced backlog of effective demand for new residential construction had been largely met. While there is no unique measure of backlog demand, the number and ratio of doubled-up families is a fair expression of the

force of this demand. According to the Census Bureau, there were fewer doubled-up families in April 1953 than in 1940: 1,546,000 compared with 1,946,000. The number of such families in 1953 was little more than half the postwar peak of 2,861,000 in 1947 and had declined by almost 500,000 between 1950 and 1953. The ratio of married couples living with relatives or others at the latest date was little over 4 per cent against nearly 9 per cent in 1947, about 7 per cent in 1940, and 6 per cent in 1930.<sup>1</sup> In other words, the ratio was even lower than in April 1930, when the use of housing facilities by consumers still reflected prosperity conditions and high vacancy ratios assured a wide choice of accommodations.

While the rate of doubling up is determined largely by economic conditions, there is a rock bottom level of doubled-up families which, for reasons of convenience, live with others. To judge from all available historical data, this level was approached in 1953. Consequently, not much demand for housing can be expected from this source. Even the undoubling of individuals seems to have progressed at a rapid rate. From 1950 to 1953 the number of "primary" individuals having their own household increased by about 1.3 million or over 26 per cent, while the number of husband-wife families with their own household rose little more than 4 per cent.<sup>2</sup> The increase in the number of dwelling units occupied by individuals reflects the movement of single adults from other household combinations as well as other factors such as death and divorce.

Another factor partly related to past wars and previous economic fluctuation is the prospective formation of households. Changes in birth rates have an "echo" effect on marriage rates twenty to thirty years later. The number of marriages in the next five to eight years will reflect the relatively low birth rate of the thirties, and the number of marriages in subsequent years will reflect the relatively high birth rate of the forties.<sup>3</sup> The number of children less than 15 years of age was 36 million in 1930 and 33 million in 1940, but the comparable number in 1950 was 41 million.<sup>4</sup> These changes are bound to influence the volume of residential construction ten to twenty years after these dates, although the formation of "biological families," as was pointed out earlier in this volume, is not the only factor determining increases in the number of households.

<sup>1</sup> *Current Population Reports*, Bureau of the Census, Series P-20, No. 53.

<sup>2</sup> *Ibid.*

<sup>3</sup> Births per 1,000 population ranged between 21.0 and 23.7 in 1920-1924, between 16.6 and 18.9 in 1930-1935, and between 23.3 and 25.8 in 1946-1950. *Historical Statistics*, Bureau of the Census, 1949, p. 46, and *Statistical Abstract of the United States*, Bureau of the Census, 1952, p. 59.

<sup>4</sup> *Statistical Abstract of the United States*, 1952, Table 18.

It thus appears that the first few years of the remaining period to 1975 will be characterized by low population pressure on residential construction compared with the later years, when the rich baby crop of the postwar years will reach marriage age. Barring a war of major dimensions, it would require economic forces of spectacular impact—such as prevalence of full employment during the next ten years and a severe, prolonged depression during the subsequent period—to compensate for the effects of past population changes on the time pattern of new housing construction. Since these effects are pervasive and by no means limited to residential construction, it would be unreasonable to expect changes in economic conditions to perform such a compensatory function.

During the next few years, expansion in certain types of nonresidential construction may tend to offset declines in residential building occasioned through the operation of population forces. Fluctuations of nonresidential construction in the past have not coincided with those in residential activity.<sup>5</sup> While some types of private nonresidential building, such as shopping and institutional facilities, are in a large measure dependent upon the volume of residential activity or respond directly to consumer demand, others are more investment- than consumer-oriented. And the volume of public building is determined by many factors other than the quantity of residential construction.

Finally, the application of government aids will influence the future time pattern of residential construction. The potential importance of this influence is obvious from the scope of government programs discussed previously, including public housing and urban redevelopment as well as credit aids to privately financed residential construction. The question is whether government activities can and will be used to minimize or reduce the degree of fluctuations that may result from the free operation of market forces. It can be—and has been—reasoned that, when government programs in residential construction operate over so large a part of the market, they may be used for just that purpose. Aids would be intensified during periods of contraction and diminished or withdrawn during periods of expansion and high levels of building activity.<sup>6</sup> It is instructive to examine the record of experi-

<sup>5</sup> Miles L. Colean and Robinson Newcomb, *Stabilizing Construction*, McGraw-Hill, 1952, pp. 45-50.

<sup>6</sup> See Leo Grebler, "Housing Policy and the Building Cycle," *Review of Economic Statistics*, May 1942, pp. 66-74. The desirability of using the federal instrumentalities for mitigating fluctuations in the volume of residential construction is not accepted generally. There is some feeling that housing aids should be used continuously to advance housing standards, and that government policies directed at greater economic stability should operate through other sectors of the economy or through general fiscal and monetary measures.

ence in the timing of government aids to date—a record covering twenty years.

A review of this record allows only qualified optimism about the application of federal credit aids in such manner as to mitigate severe fluctuations. The policy of expansion of federal credit aids and liberalization of credit terms, inaugurated during the late thirties in a period of low construction volume and low prices and rents for existing residential real estate, was continued and intensified during the postwar years, when pressures on all resources and particularly construction resources were great and prices rising or high. "There has been little recognition in federal policy of the fundamental difference in the effects of liberal credit during periods of substantial underutilization of resources and during periods of full employment or overemployment of resources. During the thirties, of course, it was possible through liberal credit to stimulate the demand for housing without substantial rise in the cost of, and the price for, new dwellings. The large unused resources for construction could be brought back into employment without bidding up wages and materials prices. Moreover, the market for existing houses was a buyers' market in most areas and localities, and the large number of such houses offered for sale at distress or near-distress prices served as a check on prices for new dwellings. When the volume of new construction is limited by materials and labor supply and a sellers' market prevails for existing houses, as was the case from VJ-day to late in 1948, liberal credit is likely to push up costs and prices rather than to increase production, i.e., to be inflationary."<sup>7</sup>

There may be some question whether the record after World War II represents a fair test of the political and social difficulties that beset a policy designed to bring greater stability to residential construction. The test was complicated by the housing shortage and the problem of providing housing for veterans. Nevertheless, it may be reasonable to draw this much of an inference: the facts that housing has been increasingly vested with public interest and that the volume of residential building is subject to strong governmental influences do not of themselves assure greater stability. A real conflict may exist between the social objective of economic stability and the social objective of maximum volume of housing construction when there is full employment

<sup>7</sup> Leo Grebler, "Stabilizing Residential Construction—A Review of the Postwar Test," *American Economic Review*, September 1949, pp. 901-902. On the relationship between credit terms and price levels see also Ernest M. Fisher, *Urban Real Estate Markets*, National Bureau of Economic Research, 1951, pp. 69-90, and the same author's "The Role of Credit in the Real Estate Market," address before the 41st Annual Meeting of the American Life Convention in Chicago, October 7-11, 1946.

and general pressure on resources. In such a situation "housing production cannot be maximized without sacrifice of economic stability" and "economic stability cannot be maintained without sacrifices of maximum housing construction."<sup>8</sup>

On the other hand, the need for meshing the timing of federal housing aids with general economic stabilization policies has been increasingly recognized. The principle was embodied in the provision of federal funds for urban redevelopment and of federal contributions for public housing in 1949.<sup>9</sup> The principle was put into practice after the outbreak of the Korean hostilities when mortgage credit was restricted by Regulation X and accompanying limitations on FHA-insured and VA-guaranteed loans. It was expressed in the Housing Amendments of 1953, which gave the President stand-by authority to liberalize FHA maximum terms when "conditions in the home building industry and the general economy require it." Later, the President's Housing Message of January 25, 1954, extended the principle by proposing executive authority to vary, within certain limitations, the maximum terms for both FHA and VA mortgage loans. "This action by the Congress," the message stated, "would materially strengthen our ability to stabilize economic activity at high levels of production and employment." While Congress failed to adopt the recommendation, the Federal Housing Administration and the Veterans' Administration through regulation in July 1955 reduced the maximum maturity of home mortgages insured or guaranteed under their programs from thirty to twenty-five years and increased the requirements for minimum downpayments by 2 per cent. These and other steps taken by government agencies to cope with the exceedingly rapid increase of housing credit on easy terms in late 1954 and early 1955 represented the first peacetime effort to restrain home mortgage lending under federal programs, as part of a concerted credit policy designed to moderate the exuberant economic expansion during 1955. In January 1956 the maximum maturity of FHA and VA home loans was restored to thirty years.<sup>10</sup>

<sup>8</sup> Grebler, "Stabilizing Residential Construction," as cited, p. 906.

<sup>9</sup> Section 102(e) of the Housing Act of 1949 stipulates that the annual amount of the federal notes and obligations authorized for loans to local public agencies for urban redevelopment may be increased by specified amounts "upon a determination by the President, after receiving advice from the Council of Economic Advisers as to the general effect of such increase upon the conditions in the building industry and upon the national economy, that such action is in the public interest." Section 304(a) of the act contains identical language in regard to the maximum amount of annual contributions which the Public Housing Authority is authorized to contract with local housing authorities. Public Law 171, 91st Cong.

<sup>10</sup> *Economic Report of the President*, January 1956.

It is fair to conclude that liberalized credit aids to housing will be used, along with other measures, to soften any severe decline in business activity. The recent actions seem to indicate that the reverse use of these aids, for preventing overstimulation of demand when production resources are fully utilized, has also come to be adopted as a matter of practice as well as principle.

The transformation of principle into practical policy always requires statesmanship in the face of social pressures and, more fundamentally, a balancing by the community at large of reasonable expectations of long-run benefits against apparent or real short-term advantages. The solution of this problem will in large measure determine whether the government's influence on residential construction will tend toward greater stability in this important sector of the economy.