America's housing is at a crisis point

by Richard Freeman

America is in a severe housing crisis, in which housing stock does not exist to house a growing portion of its population: A significant segment of housing is decrepit and unfit for habitation, the average age of the housing supply is rising, and new housing construction is vastly inferior to that of 30 years ago. Tens of millions of U.S. households, whose consumer market basket, and, hence, purchasing power, has collapsed by 50% over the past 30 years, must now spend 30-60% of their monthly income on housing, and many cannot afford it. In 1963, America produced 0.029 housing units per household per year; today, it produces 0.013 housing units per household, a collapse by more than half. Over the past 30 years, America's ability to adequately house its population, has begun to disappear.

This crisis stems from the post-industrial-society policy that British oligarchical financiers imposed upon America in the mid-1960s. This policy collapsed physical economic production and the consumer market basket, while transforming housing into a speculative instrument. Today, housing is at the heart of the financial bubble. Financiers loot more wealth out of the population in rent and home mortgage payments, than at any time in U.S. history.

The housing crisis seriously affects all but the top 20-30% of households, in terms of income. But it most severely affects the low-income household, whose circumstance today foretells that of the entire population: 17.6 million households of the 33.5 million households that rent in America, that is, more than half, are in such an extremely precarious position, that they are a few missed paychecks or a major medical bill away from eviction. Were the ongoing economic depression to reach the point of disintegration, which Lyndon LaRouche has been warning about, it would make nearly all of them—45-50 million people, nearly one-fifth of the U.S. population—homeless within a month. Already, according to a 1993 study, approximately 7 million Americans experienced homelessness during the late 1980s.

The threat of homelessness exacerbates the housing crisis. For example, consider conditions in New York City, where thousands of families are reported to be squeezing into often illegal, one-room apartments which have poor ventilation, inadequate fire-safety features, often no sink or stove, are rodent-infested, and the tenants are charged exorbitant rents. In one reported case, 12 people are sleeping in one room, but they don't complain about the horrid conditions, because the alternative is being out on the street.

Such situations confirm the report of the research staff of the New York Rent Stabilization Board, that 52% of New York City's 2.98 million dwelling units are defective in one way or another.

The housing bubble

Driving this deterioration in housing stock, is the speculative bubble in housing and real estate, which is growing at a hyperbolic rate, created by the mid-1960s imposition of the post-industrial-society policy in the United States. The growth of this bubble can be seen in the workings of blue-blood families of the Boston Vault, which employ "urban renewal," i.e., removal of blacks, to fuel their speculative windfalls.

The LaRouche movement first looked at the residential real estate bubble during the 1960s and 1970s, in New York City, the residential real estate capital of the United States. In one case study, an apartment building, which was valued at $175,000 in 1913 when it was built, saw its value in current dollars rise to $375,000 by 1975, a more than doubling in price. The building, now 60 years old and in worse shape, in physical and replacement terms, was now worth less to the tenants, but the rents were higher. The building had changed ownership a few times; the value of the mortgages had gone up. The landlord, in order to pay off the ballooning mortgage payments to the banks, looted the building by not making repairs (letting the boiler fall apart, and so on), and kept raising the rents.

Now, single family homes have also become prey to this practice. Banks and financial institutions now hold $3.4 trillion in single-family home mortgages, at interest rates of 7-12%, an earnings bonanza. Because of this policy, the single-family home, for 4-6 people, in the price range of $40-50,000, has become extinct.

But consider what a tragedy is now unfolding, because housing is one of the most critical elements in the consumer market basket, necessary for the reproduction of the human species.

In the preceding article, economist Lyndon LaRouche has defined the role of housing from the standpoint of land use and creating cities, and, thus, in increasing the free energy of the system, the not-entropic development of the economy. It provides shelter, but it is also profoundly social. It constitutes the setting in which family life occurs, discussions are held, and solitary thinking can occur; where the raising, nurturing, and education of children, the future workforce, takes place. Properly constructed, housing is a crucial element of the well-organized city. The housing collapse accelerates the breakdown of the reproductive capability of the U.S. labor force and economy.

FIGURE 1
Housing starts per household, 1963-95

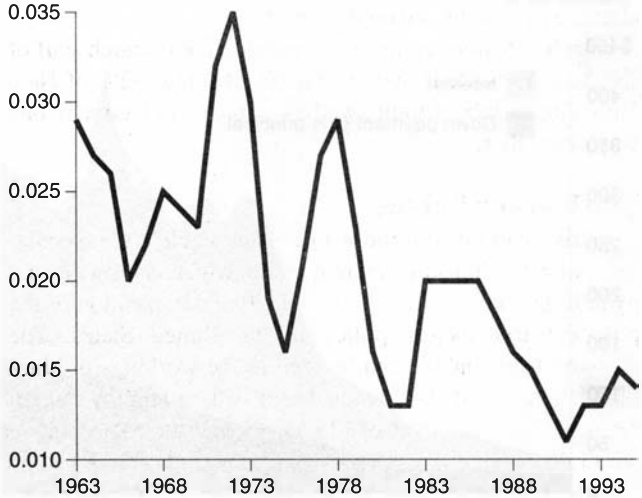
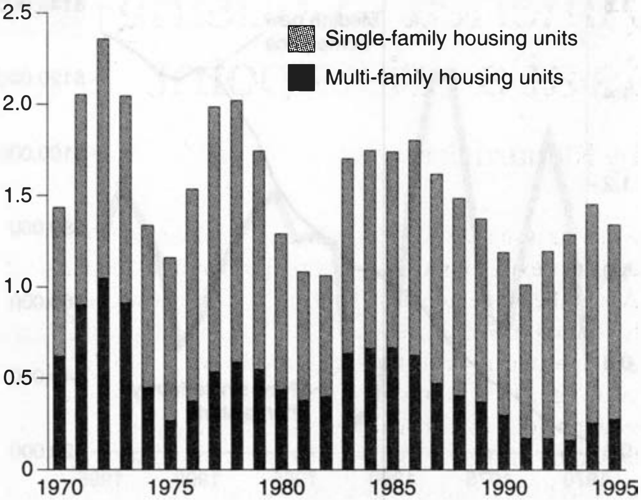


FIGURE 2
New housing construction, single- and multi-family units
(millions)



The decline of U.S. housing

In examining America's housing stock, one comes across a problem assessing the condition of housing stock: The U.S. Census Bureau's decennial housing census lists a building as sound so long as it has indoor wiring, indoor plumbing, and doesn't have an egregiously bad structural problem. According to the Bureau of the Census, approximately 96% of U.S. housing is in "sound" condition. That is nonsense. To get at the real picture, this report uses crucial anecdotal material, and looks at the destructive role of the financial bubble in housing.

Figure 1 shows that, in 1963, the United States produced 0.029 housing starts per existing household; today, it is producing 0.013. This is less than half the 1963 level. By stating production or consumption on a per-capita, per-household, and per-square-kilometer (or per-square-mile) basis, one represents the prospective power that each household has in the transformation of the economy. It also shows the availability of the commodity produced.

Figure 2 shows the absolute number of new housing starts for 1970-95 (not expressed on a per-household basis), and distinguishes between multi-family and single-family housing production. The overall downward slope is clear.

A single-family unit represents a single-family home, although it can include 2 to 4 household units. A multi-family unit frequently includes 2 to 4 household dwelling units, but most are comprised of dwellings of five household units or more, most of which are apartment complexes. Notice that the absolute number of multi-family dwelling units has declined. **Figure 3** depicts the same data, showing multi-family housing units as a percentage of all housing units constructed. In the early 1970s, multi-family units constituted nearly 45% of all housing units constructed; today, this has plunged to one-fifth. This has not occurred because the production of single-family units has grown; in fact, the construction of all types of homes declined. This decline in apartment construction has had a great impact on urban centers especially, where housing

FIGURE 3
Multi-family units as percentage of new housing units constructed, 1970-95

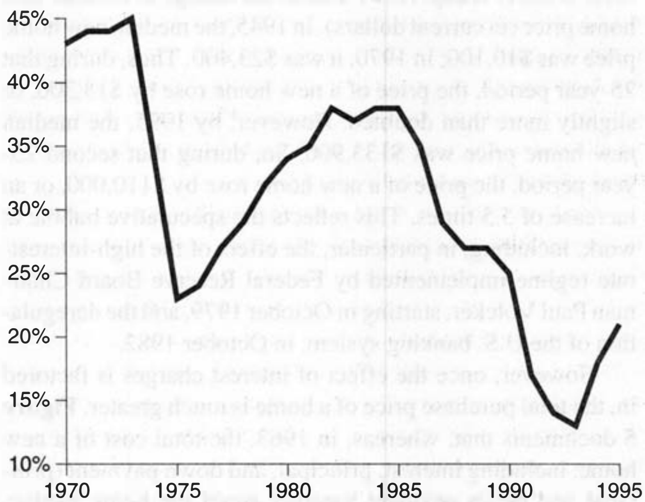


FIGURE 4
Median new home price soars, while single-family housing starts fall

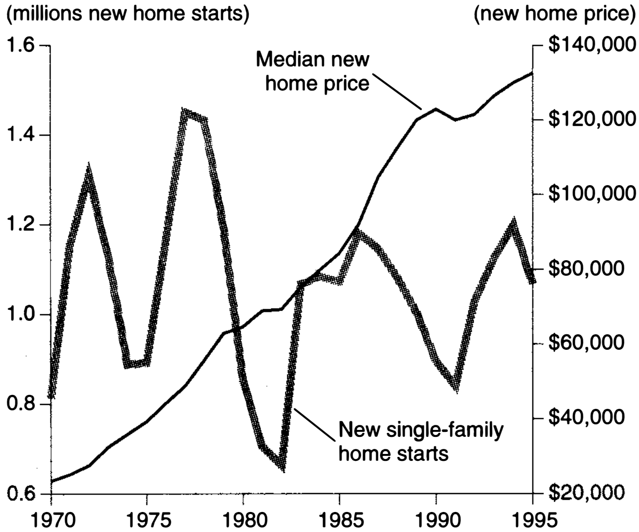
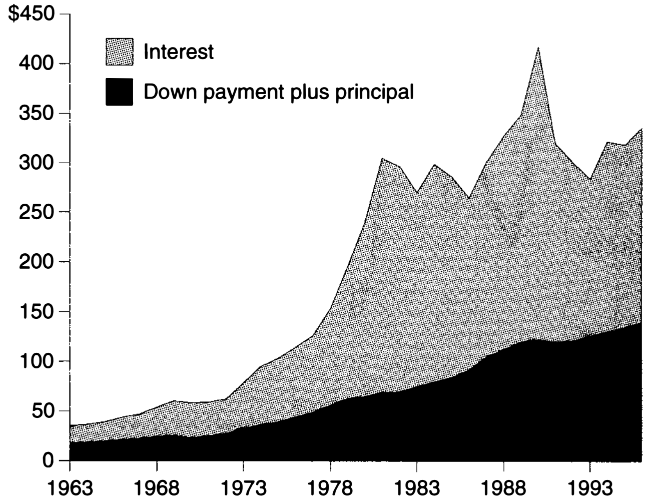


FIGURE 5
Interest increases total cost of new home
(thousands $)



stock is already decrepit and cramped.

Figure 4 shows new single-family home starts. Notice that the high point was reached in the mid-1970s, and that the level is lower today. Now, look at the change in median new home price (in current dollars). In 1945, the median new home price was $10,100; in 1970, it was $23,400. Thus, during that 25-year period, the price of a new home rose by $13,300, or slightly more than doubled. However, by 1995, the median new home price was $133,900. So, during that second 25-year period, the price of a new home rose by $110,000, or an increase of 5.5 times. This reflects the speculative bubble at work, including, in particular, the effect of the high-interest-rate regime implemented by Federal Reserve Board Chairman Paul Volcker, starting in October 1979, and the deregulation of the U.S. banking system, in October 1982.

However, once the effect of interest charges is factored in, the total purchase price of a home is much greater. **Figure 5** documents that, whereas, in 1963, the total cost of a new home, including interest, principal, and down payment (principal and down payment together equal the home median purchase price), was $33,300, in 1995, the combined cost was $318,700 (the calculations assume a 10% down payment, a 30-year mortgage, and whatever new home median purchase price and 30-year mortgage interest rate prevailed for a particular year). To put this into perspective, today, the interest cost is one-and-a-half times the principal cost.

This practice of usury now makes clear the dynamic of the past 20 years. A deliberate policy decision was implemented to cut back the supply of housing, while simultaneously raising the price. Housing was priced in the range of two groups: upper-income households, and those willing to load themselves up with a huge amount of debt in order to buy a home. The banks reasoned that they could make more money financing five homes at $200,000 or more apiece—each of which which would earn interest charges of $300-500,000 over the life of the mortgage—than financing 10 homes at $50,000 apiece. Housing was built for the upper 20% of American households in terms of family income, or those who were willing to go heavily into debt. Housing for the rest of the population ranged from sparse to nonexistent. The wealthy got homes they could afford, while the home in the range of $40-50,000 for a working family of 4-6 people disappeared from the market.

Another way of stating this point is shown in **Figure 6.** In 1945, the total occupied housing stock of the United States was 36 million dwelling units. In 1995, it was an estimated 98 million units, an increase of two-and-two-thirds times, with much of that increase reached before 1982. But, in comparison, consider the volume of single-family-home mortgage debt pyramided against the collateral of this housing stock. Single-family-home mortgage debt, which was $21 billion outstanding in 1945, was, up until 1975, still below one-half-trillion dollars. But, it leapt to $1.4 trillion by 1985, and to $3.4 trillion by 1995. Between 1945 and 1995, single-family-home mortgage debt skyrocketed by a factor of 162 times. As the price of up-scale homes rose, the prices of average homes also shot up. The same process is under way with regard to rental units.

Figure 7 shows the number of weekly paychecks it takes

FIGURE 6

Hyperbolic growth of single-family home mortgage debt

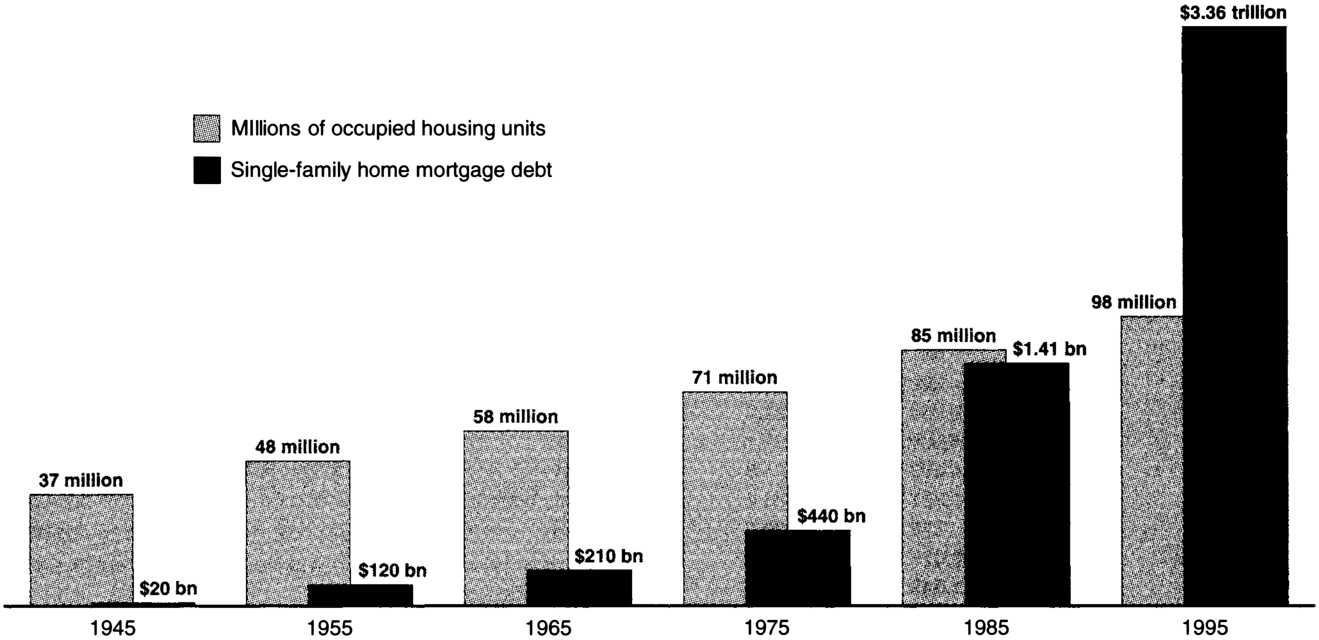
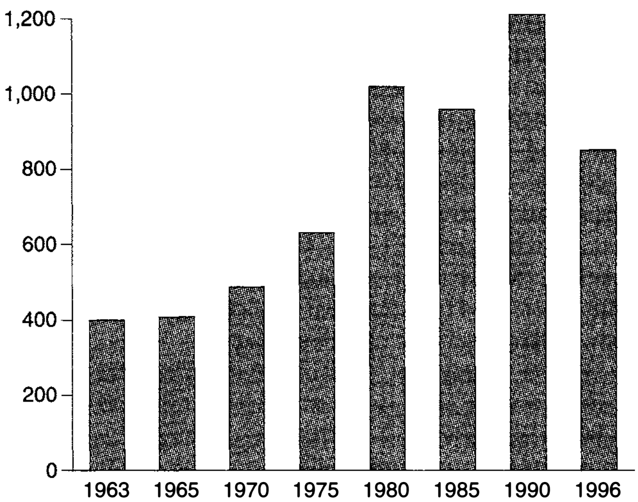


FIGURE 7

Number of paychecks needed to purchase a new home



to buy a new home, based on the average weekly wage of a full-time worker in non-agricultural industry. This reflects two distinct, but interacting processes. First, it reflects the speculative rise in the price of housing and rental units. Second, and more important, it reflects the collapse in the consumer market basket by 50% since the mid-1960s, as measured by the productive output of the economy and the productive versus non-productive composition of the labor force. The fall in the family's purchasing power, as measured by the consumer market basket, and the sharp rise in the price of housing, together have caused the cost of a home to rise from 399 paychecks in 1963, to 877 paychecks in 1996. Thus, today, a worker must work 478 weeks, or 119.7% longer, to acquire a new home. Conversely, a worker's standard of living has fallen 59.1%, compared to 1963, with respect to the ability to buy a home.

Growing dilapidation of housing

What about the physical condition of housing? From the age, frame, foundation, and basic building materials of the house, to the inside facilities and living space available, the quality of American housing is deteriorating.

First, look at construction. Often, new homes are made with the cheapest and shoddiest materials. New homes, sometimes priced at a quarter of a million dollars, are built with doors made of cardboard cores instead of wood; no cross-braces under the joists of floors to support them and prevent shaking, and the proverbial 2×4 piece of wood shaved down to 1½×3½. Whereas 50% of the siding in a house in the 1970s was made of brick (in the 1950s, entire homes used to be made out of brick), today less than 30% of house siding is made

TABLE 1
States in which one-quarter or more of housing stock was built before 1939

	Housing units (thousands)	Percentage built before 1939
Massachusetts	2,472	38.9
District of Columbia	279	37.7
Vermont	271	36.5
New York	7,227	35.7
Pennsylvania	4,938	35.1
Iowa	1,144	35.0
Maine	587	34.9
Rhode Island	415	34.0
Nebraska	661	30.5
South Dakota	292	30.4
Wisconsin	2,056	28.5
Illinois	4,506	27.1
Ohio	4,372	25.8
Connecticut	1,321	25.5
North Dakota	276	24.7
New Jersey	3,075	24.6
Minnesota	1,848	24.5
Kansas	1,044	24.5
Indiana	2,246	24.2
West Virginia	781	23.7
U.S. total	102,264	18.4

Source: Statistical Abstract of the United States, 1994-95.

of brick, replaced often by siding made of a cheap plastic compound. Moreover, the material placed between the house frame and the siding, called the sheathing, is overwhelmingly made from either aluminum foil or foam. Both are good insulating materials—one of the functions of sheathing—but they have no racking strength, that is, the ability to stand up to high winds. As one contractor put it, "The aluminum-foil-covered sheathing has about as much racking strength as hanging down a few strips of tin foil." This is one of the reasons that so many homes disintegrate in hurricanes, floods, and other natural disasters.

Second, there is age. **Table 1** shows that in 20 states (including the District of Columbia) approximately one-quarter or more of their housing stock, including single- and multifamily dwelling units, was built before 1939, or nearly 60 years ago. In Massachusetts and the District, nearly two-fifths of their housing stock was built before 1939. The national average of housing stock built before 1939, is 18.4%. While much pre-1939 stock was built better than today's housing, after 60 years, some of it is very run down. Approximately one-quarter of it needs to be rebuilt or replaced with new units. That is 4.7 million new or rebuilt units right there that are needed. (*EIR* will show in a future issue, that approximately 11 million new housing units are needed in America, on top of what is being built.)

Third, is an anecdotal picture, which is nevertheless revealing. New York City has 2.985 million dwelling units: 2.047 million are rental, 0.827 million are owner-occupied, and 0.111 million are unavailable for rent or sale. On Nov. 19, a researcher for New York City's Rent Guidelines Board told *EIR* that 52% of New York City's 2.985 million dwelling units have defects of one form or another. These include 34.6% of all owner-occupied units, and 59% of all rental units. The defects include heating breakdowns, cracked walls, rodent infestation, and so on.

Granted, that housing in New York City is older than in some other cities. But, if more than half of New York City housing is defective, it is likely that between one-fifth and one-half of other major cities' housing is also defective. This begins to give a real picture of the status of defective housing in America's major cities.

But this is only half the story. Added to the decrepit state of New York's housing stock, is a level of unsafeness and additional breakdown, triggered by the extreme housing shortage in New York, which has been exploited by the landlords and the bankers.

Tens of thousands, and perhaps hundreds of thousands of New Yorkers are now shoved into illegal housing, or overcrowded legal housing, in attics, cellars, or apartments that have been subdivided 4 or 5 times, with as many as 12 persons to a room. The housing was not built to hold this many people; it is unfit for human habitation. But, for the residents, the only alternative is to sleep on the street. In this, New York City is a microcosm of the nation.

In a series of articles Oct. 6-11, the *New York Times,* which interviewed hundreds of New Yorkers, reported on three cases with respect to housing:

• Maria Pagan, an 83-year-old retired cafeteria worker, who lived in a collapsed room in the Bushwick section of Brooklyn. "Because the bathroom sink did not work, Miss Pagan had to scoop water from her toilet to wash her hands and brush her teeth." Pagan's landlord was New York City; the city took over and poorly runs tens of thousands of housing units abandoned by delinquent landlords (the city has since moved Miss Pagan out of the building).

• "Mr. Zheng, 35, [who emigrated from the Chinese coastal province of Fujian] is still working off a $30,000 debt to the smugglers who secured him passage on a series of ships. He can devote very little of his meager busboy's salary to rent, so he has 11 roommates. They share a studio bracketed by triple-tiered bunk beds, with a narrow passage like a gangplank between them." The inhabitants keep their belongings in plastic bags above their mattress. This exists for immigrants all over the city. For example, Mr. Zheng's den is one of two dozen "bachelor complexes" squeezed into three low-rise buildings on Allen Street, in Lower Manhattan.

• Miss Ana Nunez and her three children, Kenny (18 years old), Wanda, and four-year-old Katarin. They are stuffed into an illegal apartment in lower Manhattan. This is a $350-a-month rectangle, which has no sink and no toilet. They must go down the hall to share a tiny bathroom with five strangers. The two older children share a bunk bed, while Miss Nunez squeezes into a bed with Katarin. Last winter, Kenny got tuberculosis, and he spread it to his mother, who then spread it to Kenny's two sisters—a picture right out of the 1910s.

This gutting of housing has been exacerbated by the drastic cut in the number of housing inspectors. In 1970, New York City had 650 housing inspectors: not a lot for 140,000 apartment buildings, but at least they had regularized schedules to basically inspect every building during the course of a year. The number of housing inspectors was cut to 400 by 1990, and then halved to 200 by 1995. The inspections are now often perfunctory and fruitless: There are now 3,094,779 outstanding housing code violations. The landlords are having a field day.

"There is no real enforcement," New York City Housing Commissioner Barrios-Paoli said. "We don't have a system where an inspector can go into a building, slap a bunch of violations on it and force the owner to address them. The owners know that nothing will happen to them unless the situation is pretty egregious." In fact, most of the fines are only $250, and the city has less power over negligent landlords than the Parking Violations Bureau has over double-parkers.

The city mails out forms to landlords to get them to comply with housing rules and to register their addresses. The landlords are on an honor system to fix their apartments. But a study by the city comptroller last year found that about 40% of landlords falsely claimed to have corrected violations on their property. Moreover, one-third of the landlords' addresses are wrong or outdated, so that whatever the city mails to them never gets there. Of course, the real estate mob, which has one-half to three-quarters of a trillion dollars invested in New York City real estate, is engaged in keeping it this way.

Acute crisis for the low-income and poor

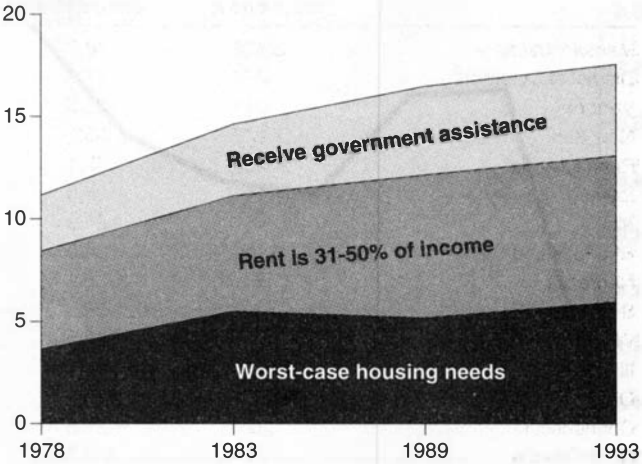
New York City epitomizes the development of an underclass which is growing, and is housed in a subterranean level of the market that is unsafe, often illegal, and unfit for habitation. New York City housing is perhaps an extreme example, but the rest of the nation is not far behind. A significant part of housing, perhaps half of all rental housing, is a way station, potentially on the way to homelessness.

The U.S. government officially reports homelessness to be 600,000, based on a study by the Urban Institute conducted in 1987. But the Urban Institute's figure is a snap-shot, if you will, of how many may be homeless on any single night. A more accurate picture is given by a 1993 study conducted by Dr. Bruce Link of Columbia University, and reported on by the U.S. Inter-Agency Council on Homelessness, located in the Department of Housing and Urban Development (HUD). This study said that during the latter part of the 1980s, between 4.95 million and 9.32 million American adults and children experienced homelessness. The mid-point figure of 7 million Americans in the homeless milieu is probably more accurate: They may find housing for a few months, only to be without a home or shelter soon thereafter.

FIGURE 8

Number of renter households in extremely precarious condition

(millions)



As of 1993, there were 61.251 million U.S. households headed by homeowners and 33.472 million households headed by renters of homes, or more likely of apartments (thus, renters comprised 35% of all households). Of the 33.472 million households that are renters, 17.6 million, or 53% of the total, are in a category called "extremely precarious": They could end up homeless. For comparison, in 1978, some 41% of all renters in the nation were in this extremely precarious category.

Figure 8 shows the situation for 1978-93. Three groups make up the renters who are in the "extremely precarious" category. The households in these groups are usually either very-low-income, i.e., earning 50% of the median family income in their area, or extremely-low-income, i.e., earning 30% of the median family income in their area. The three groups are:

• The 4.457 million very-low- and extremely-low-income households that receive public housing assistance from the federal government. This group is subdivided into 1.25 million households living in public housing (which public housing stock is currently shrinking), and 3.2 million house-

FIGURE 9

Steady rise in households facing worst-case housing needs

(millions)

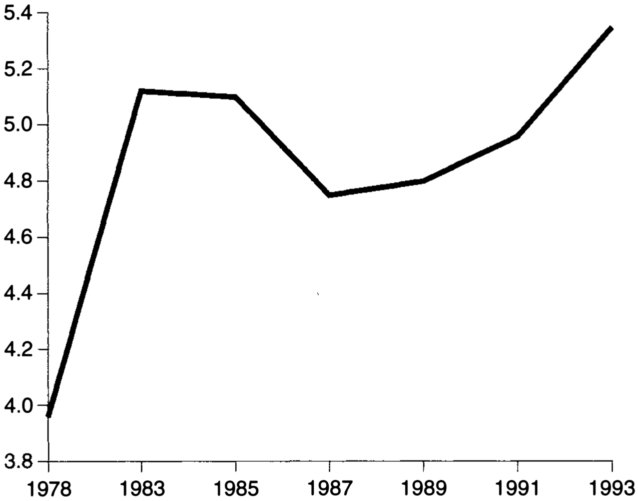


TABLE 2

Loss of housing affordable to low-income families*

	Percent share of all rental units	% loss over four-year period	number of units
Anaheim (1986-90)	12%	-48%	-9,500
Boston (1985-89)	38%	-38%	-40,700
New York (1987-91)	36%	-37%	-138,700
Portland, Oreg. (1986-90)	48%	-33%	-28,600
Seattle (1987-91)	42%	-32%	-38,500
San Bernardino (1986-90)	26%	-31%	-8,700
Los Angeles (1985-89)	22%	-30%	-63,000
Phoenix (1985-89)	23%	-29%	-12,800
Philadelphia (1985-89)	38%	-28%	-44,000
Houston (1987-91)	75%	-28%	-136,300
San Francisco (1985-89)	29%	-27%	-33,500
Newark (1987-91)	34%	-25%	-40,400
Washington,D.C. (1985-89)	42%	-21%	-34,600
Hartford (1987-91)	43%	-21%	-7,100
Miami (1986-90)	24%	-19%	-11,000
San Antonio (1986-90)	49%	-14%	-7,000
Chicago (1987-91)	46%	-14%	-52,000
Baltimore (1987-91)	47%	-12%	-10,800
San Diego (1987-91)	15%	-10%	-2,200

* i.e., families 50% of or below median income

Source: "Rental Housing Assistance at a Crossroads: a Report to Congress on Worst Case Housing Needs," published by the Office of Policy Development and Research of the U.S. Department of Housing and Urban Development.

holds that receive government assistance/subsidies in paying their rents in either project-based assisted housing or tenant-based assisted housing. The latter two programs are designated as "Section 8" under the HUD housing programs. Without federal government housing assistance, these 4.457 million households would be either paying 50% or more of their income for housing, or living on the street, or with relatives.

• The 5.35 million households that the federal government designates as "worst-case needs" or "acute housing needs." These are very-low- or extremely-low-income households that meet either one or both of two qualifications: They are paying more than half of their income for rent, and they live in what is defined as "severely inadequate housing." These 5.35 million households are displayed separately in **Figure 9.** These households meet the qualifications to receive U.S. government public housing or rental assistance, but either the housing stock is simply not there, or the government assistance is not forthcoming. They simply hang on the best they can, and many of them drift in and out of homelessness.

According to a March 1996 HUD report, entitled "Rental Housing Assistance at a Crossroads: A Report to Congress on Worst Case Housing Needs," *"Despite their priority for admission under current program rules, these [worst-case needs] people do not receive Federal housing assistance.* Without Federal assistance, they lack the income to afford adequate, market-rate housing. Only one missed paycheck, an unexpected medical bill, or another emergency separates many of these families from homelessness." (Because of the different technical ways that HUD counts this group in different reports, the HUD figure for this group of 5.95 million is used in Figure 8.)

• The 7.157 million households that pay 31-50% of their income for rent. These households do not qualify for government assistance under the current formulae.

Table 2 depicts the fact that already during a four-year period, which is different for each city but roughly covers the end of the 1980s to the beginning of the 1990s, the supply of rental housing affordable to low-income families, sharply contracted. The first column shows the housing affordable to low-income families represented as a percentage of that city's total rental housing stock.

The Gingrich-led Conservative Revolution crowd is relentless in its drive to worsen the crisis. It slashed the HUD budget from $25.2 billion in fiscal year 1993, to $19.5 billion in FY 1996, a cut of one-fifth. This slashed the funds going to the 4.457 million households which receive U.S. government housing assistance. Under such an assault, the number of poor who are semi- or permanently homeless will swell—45 million people could end up in that condition very soon, with many millions perhaps to follow. This is the point to which America's housing crisis is heading.