Balancing Regulation and Affordability of Housing

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ABSTRACT: Housing regulation is a growing concern because affordability of housing has been declining and regulations which increase housing costs have been escalating. Many of the regulations which have been adopted fulfill goals of protection of health, safety, or welfare; preservation of the environment; or improved energy conservation. Little attention, however, has been paid to the effect of these regulations on affordability. This article reviews the role of government regulation on housing, and discusses the parameters of the affordability/regulatory issue.

KEY WORDS: affordability, housing, housing regulation.

Introduction

Housing is primarily available to consumers through the private housing market, which when it is efficient, allocates resources to satisfy the expectations and welfare of market participants. The housing market differs from markets for other consumer goods and services because housing is in a relatively fixed location, is durable, and provides services not only from the structure itself but also from the quality of the neighborhood environment and the larger community. Thus, the housing delivery system involves a complex set of interrelationships between the private market activity of producers, sellers and buyers, and government policy, programs and regulations. Activities or decisions in the private sector affect the governmental role in housing; likewise, government legislation and programs play an im-

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important role in private housing production and consumption (McFadden & Brandt, 1990).

Although housing markets are local, there is multi-level regulation of housing (Brannigan & Meeks, 1991). Governments regulate all phases of housing production and distribution. There are regulations on the structure and location of housing, the construction and distribution process, as well as financing and sales transactions. In recent years the number of housing regulations has escalated, not only to avoid the types of perceived damage caused by past development, but also to deal with other societal concerns such as health and safety, energy conservation or environmental preservation, or needs of special groups.

Why Regulate?

Several societal goals provide the justification for regulation of various aspects of housing markets. Part of the rationale for government involvement in markets is to improve the welfare of society and protect consumers and families by reducing or eliminating harmful environments and activities. The goal is often to reduce both the incidence and severity of injuries. Government involvement seeks to promote and protect the public interest; that is, to improve the welfare of all and optimize benefits for the community as a whole. A third goal of government involvement in markets is income redistribution, either in cash or through in-kind programs that reflect the values of society. There are housing programs as well as regulatory actions in the housing arena which reflect each of these three goals.

For over 50 years the United States has had a goal of promotion of home ownership. The income tax structure as well as federal and state housing and finance programs have been directed toward achieving this goal. However, much of the local regulatory activity is directed toward preserving the social and economic environments for current homeowners and is detrimental to new home buyers. In many instances, new or potential first-time homeowners are politically weak but allied with builders/developers against existing homeowners.

One of the key methods used in the United States to achieve social and economic goals is promotion of market competition. Competition benefits consumers by ensuring lower prices, adequate quantities of goods and services, and new and improved products. Perfect competi-