

Affordable Housing & the Case for Impure Public Goods

In recent decades house prices have increased astronomically, leading to an unaffordability crisis. (Ministry of Housing and Urban Development [MHUD], n.d.) This essay argues that the free market has failed to deliver affordable housing, a public good, and calls for government intervention.

Data from MHUD (2022) shows that deposit and mortgage affordability decreased in a ten-year period due to increasing house prices, relative wage stagnation, and increasing interest rates, amalgamating in unaffordable housing. For affordable housing to be designated a public good, it must meet three criteria:

1. Consumption by an individual does not result in fewer opportunities for consumption by others. (Bahmanteymouri, 2023a, p. 29)
2. "Non-payers cannot easily be excluded from receiving the benefit that others pay for." (Local Government Forum, 2008, p. v)
3. Free markets do not provide adequate levels of the good as it would be unprofitable to do so. (Bahmanteymouri, 2023a, p. 29)

Affordable housing fails to meet the first criterion for public goods, as one person's consumption directly impacts others' opportunities to do so.

Furthermore, affordable housing fails to meet the second criterion – non-excludability. Individuals who cannot afford housing costs can be easily excluded; moreover, many are excluded due to increasingly unaffordable housing. The type of housing mainly developed consists of multi-bedroom homes, whereas the primary demand for housing consists of homes with few bedrooms, illustrating a shortage and oversupply in the market.

(Bahmanteymouri, 2023a) This is because housing development is seen as a tool for speculative investment and capital accumulation rather than a necessity (Bahmanteymouri, 2019). Marxist analysis of this situation demonstrates that this vicious cycle will eventually lead to the over-accumulation of capital in this sector, leading to diminishing returns, as observed in the 2008 financial crisis (Bahmanteymouri, 2023b)

Affordable housing meets the third criterion for public goods. Though housing is generally profitable, affordable housing developments are less profitable than alternative ones. The mismatch of supply and demand (Bahmanteymouri, 2023a) and the innate desire for inflation within the housing sector for capital accumulation, over planning for low-income groups (Astle et al., 2022) illustrates that affordable housing cannot be left to the free market. Furthermore, Hu & Qian (2017) illustrate that unaffordable housing can lead to social and political unrest, meaning affordable housing would have positive externalities.

In conclusion, affordable housing fails to meet some criteria for public goods. However, the positive externalities and the free market's inability to supply it justify its designation as an impure public good and calls for government intervention.

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