

WHY HOUSING CONSTRUCTION HAS SLUMPED

At the end of an eight-year period about equally divided between depression and recovery, housing construction is still a severely depressed industry. Moreover, it is currently in the kind of slump that foreshadows a lower volume of construction in 1938 than in 1937.

Two years ago industrial production generally reached 90 per cent of the 1923-1925 average. Housing construction reached only 21 per cent. Last year industrial production generally stood at 105 per cent of 1923-1925 average. Housing production stood at only 37 per cent.

Moderate estimates of the need for new housing since 1934 have ranged from 600,000 to 800,000 units annually. The number actually built in 1935 was 129,000. The number built in 1936 was 270,000. The 1936 year-end estimates of the number that would be built in 1937 were from 400,000 to 450,000. The present estimate for the full year 1937 is only 300,000.

The great disparity between expectations and results this year follows a marked and unseasonal downward trend that began

in April. This downward trend has more recently become accentuated. Furthermore, many houses completed earlier this year still remain unsalable except at a loss, and reports from numerous localities indicate a substantial curtailment in building plans for the next construction year.

The development of a marked recession in construction at a time when there is a widespread housing shortage and a steady rise in rents is an incongruous situation. The recession cannot be ascribed to a decline in money incomes, for it got well under way during months when money incomes were still rising. It cannot be ascribed to the disturbed public sentiment of recent months or to the more recent drastic decline in security values. The recession in housing construction preceded these other developments. The fact that it got under way during the very months when a substantial increase in construction should have occurred was itself an important factor in rousing business uncertainty and unsettling the security markets.

The explanation of the housing slump that began in April lies solely within the construction industry itself. It is that wages, costs, and prices were raised, beyond all reason, to a point that drove potential builders and buyers out of the market.

During the latter part of 1936 and the early part of 1937, the hourly and weekly wage rates of workers engaged in the building of houses and in the manufacture of building materials were sharply

increased in anticipation of a large demand for housing this year.

Besides this, the work-week of building labor in various localities was reduced. In New York, for example, this reduction was from 40 hours to 35 in some cases, and from 40 to 30 in others; but the rate of increase in hourly and weekly wages was in every case at least sufficient to offset the reduction in working time, and in some cases sufficient to give a 10 per cent increase in weekly wages together with a five-hour decrease in working time.

The practical result of this running up of hourly and weekly wages that are already disproportionately high is to give the building-trades workers the sensation of earning more money for a little while and then being thrown out of work. They are engaged in a self-defeating attempt to supply houses for workers earning \$25 a week with labor earning two and one-half times that weekly wage.

In the case of building materials, the increase in prices was disproportionately high in comparison with the increased cost of labor and also in comparison with the increased prices of finished products generally. Striking evidence of the unwarranted extent to which prices were increased is to be found in the earnings during the first half of 1937 of 11 important corporations. These

corporations show a greater profit than for the corresponding period in 1929, notwithstanding the fact that in 1937 their output was only half what it was in 1929.

These facts make it abundantly clear that, between the over-reaching of building-trades workers on the one hand and building material manufacturers on the other, the development of the great potential market for housing in this country is being thwarted. As a further result, the salaried workers and ordinary wage workers who need new housing, and who could pay a fair price for it, are being subjected to the burden of rising rents that a housing shortage engenders.

The facts suggest the need of a thoroughgoing reconsideration of policy on the part of the construction industry, with emphasis on continuity of employment and volume of production rather than on high hourly wages and high profit margins.