

EconoFact Chats: Taking Stock of the U.S. Economy: Government Shutdowns, Inflation, Housing, Unions and More

Binyamin Appelbaum (New York Times), Scott Horsley (National Public Radio), Larry Edelman (Boston Globe) and Heather Long (Washington Post)

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Michael Klein:

I am Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

This is our ninth EconoFact Chats episode that features a panel of distinguished economic journalists. I'm very pleased to welcome to the podcast Binyamin Applebaum of the New York Times, Larry Edelman of the Boston Globe, Scott Horsley of NPR, and Heather Long of the Washington Post. We last spoke in June. Today, I'll ask our panelists about some ongoing issues discussed in previous podcasts, notably the fight against inflation and the likelihood of a recession. I'll also want to get their opinions on some issues that have been in the news recently, like the government shutdown, which we avoided with a stock gap measure, the UAW strike and what that might imply about the union movement, and the Amazon anti-trust case, and whether that foreshadows a new aggressive stance towards market dominating businesses. Also, all four of our panelists have recently written about housing, a topic that affects many Americans, and I look forward to their insights on this. Binyamin, Scott, Larry, and Heather, welcome once more to EconoFact Chats.

Scott Horsley:

Thank you. Great to be with you.

Larry Edelman:

Thank you, Michael.

Michael Klein:

So let's start out with the piece of news that dominated this weekend. The fact that we avoided a government shutdown, but only through a stopgap measure that lasts for 45 days, which takes us till mid-November or so. When this podcast is being posted, it'll be a little more than a week since the passing of that stopgap measure. What is this fight over spending and the stopgap measure and all the politics and economics that goes around it... What does it tell us about the functioning of government? Scott?

Scott Horsley:

Well.

Michael Klein:

You laughed.

Scott Horsley:

The government is still functioning, just barely. It's a good thing that they didn't shut down the government. Government shutdowns are fiscally stupid, and disruptive, and probably not terrible for the broader economy, but just dumb policymaking. So it's a good thing that they avoided that, and it is particularly good this week. We're teed up here as we record this for the jobs numbers, and those would not have come out had the Labor Department and the Bureau of Labor Statistics been shuttered, and it's particularly difficult for the Federal Reserve to do its job and try to engineer a soft landing if they are flying blind, and all the other people who depend on those government statistics. So it's certainly a good thing. It doesn't instill a whole lot of confidence that the reprieve came really almost at the 11th hour, and only for about six weeks.

Michael Klein:

So with the statistics, that's an example of where ignorance is not bliss. I guess.

Larry Edelman:

Michael, I would say that we shouldn't take too much good news away from the fact that they reached an agreement. Like you said, it only takes us through for about 45 days. More importantly, this fighting is going to go on as long as the Republican Party is at war with itself. As long as this small, but pivotal faction from the right can block legislation, nothing of any consequence is going to get done. And that's just bad news for the economy because there's so many things that need to be done. The administration was able to squeak through some stuff through the Inflation Reduction Act, and the CHIPS Act, but now that kind of big picture policymaking is going to grind to a halt again. And look, there are plenty of problems that need to be dealt with, including climate change and the border, where immigration is just a mess as a result of both parties' failures to really do any comprehensive immigration reform.

Michael Klein:

Well, we'll revisit this again when we have our next panel. We'll see what happens at that time. We may also revisit inflation, or maybe not. The latest inflation rate was 3.7% for August, which was well below its peak of over 9% last summer. The unemployment rate in August was 3.8%. Many economists predicted that we could not have brought down inflation by over five percentage points without causing a recession, and a big rise in unemployment. So have we achieved the much desired soft landing and can we expect this Goldilocks outcome -- not too hot, not too cold, to last?

Heather Long:

I'll take a stab at it first. I call it the 'yes, but economy' at the moment. And it does seem more likely that a soft landing is achievable, and you can imagine various professors in economics classes 10, 20 years down the road really pointing to this as some sort of miracle that we were able to avert a recession and we were able to bring inflation back down. But, in the but part for those of us who are about to live through the next six to 12 months, I hate to use the term 'slow-session.' We really need better terms in economics, but more than likely the Fed's predicting this and a lot of private economists predicting whether or not we get an actual recession, growth is going to slow. We're probably not going to be at 2% anymore in the next few months. Maybe it falls more to a 1% growth. This probably starts to feel a lot more like what we saw late 2015, early 2016. And slowing from 2% to 1% doesn't feel great. You're already starting to see a lot of examples in the real world of what I would call 'wait and see mode.' So there's positions that are open, but companies are being much more slow at hiring and very picky and selective. A lot of companies are giving a sort of belt tightening for the next few months message. And again, it doesn't mean something's like falling off a cliff, but that type of environment after what we've seen for the past two years is people are going to feel it. It's noticeably different. It's a noticeable downgrade.

Binyamin Applebaum:

Yeah. I've always thought that image of a soft landing is a little weird because it implies that there's like an end point and then things stop, and in fact things keep going. So we've avoided a recession so far. That's a real victory. There was concern that the Fed's campaign would send the economy down fairly precipitously, or into a fairly quick downturn that didn't happen. But there is obviously still risk going forward. It's a constant balancing act for policy.

I think the government is still playing an outsized role in the economy. There's still leftover fiscal impetus, there's still significant...the Fed could obviously squeeze tighter if it wants to. So the government remains in a position that I think is probably going to be difficult to sustain. And so we're not yet back to some equilibrium in which we can feel confident that this episode has ended. And I think it's uncertain how it's going to play out. But the fact that we've avoided a recession thus far is in and of itself a victory.

Larry Edelman:

If you think about it, the Fed has been able to slow inflation very substantially without causing a major uptick in unemployment. And that was the easy part. Now comes the hard part and that is how to time it. What's going to be the new level of interest rates going forward on a real basis adjusted for inflation. And these are very difficult questions and that's where it's going to be very hard for the Fed, I think going forward, is do they make this rate cut another... rate hike either in November or December or do they still pause? And if they still pause, when do they start to cut next year? And it's just not clear yet how that is going to play out. So good news so far and the second half of the football game still has to be played.

Michael Klein:

Well, following up on what you said Larry, and also what Binyamin said, the Federal Reserve did pause its aggressive policy of raising interest rates at its last meeting in September, but at the Jackson Hole meeting in August, chairman Powell said that it's the Fed's role to bring inflation down to 2%, and that the Fed is committed to this goal. Is that a wise choice? We had a recent podcast with Peter Blair Henry, who's now at Stanford, but had been the dean of the Stern School of Business at NYU, and he has a recent research paper with Anusha Chari, where they talk about the difficulty of bringing down moderate inflation. Will the cost of an additional decrease in inflation by 1.7 percentage points come at the cost of a spike in unemployment?

Scott Horsley:

Well, that's the billion-dollar question I guess. As Binyamin said, we've managed to avoid a recession so far and that's more than lots of forecasters thought we could do. As Jerome Powell said, forecasters are a humble bunch and they've got a lot to be humble about. So I'm not going to venture any guesses as to whether you can get that extra from 3.7 down to 2 without a spike in unemployment. So far so good. Michael Barr gave a talk last week at which he said it's less important whether they hike in November or December, than how long they leave rates elevated. And the markets seem to finally begin to believe the Fed when they say we're going to leave them elevated for a while. For a long time the market seemed to think that the Fed was going to hit this peak and then almost immediately turn around and start cutting rates. And Powell and his colleagues have been pretty consistent in saying, no, we expect this to be a bit of a slog and we think rates are going to stay elevated for a while. And if they do, that certainly leaves more room for something around the economy to break and tip us over into a recession. Even if we do go into recession though, it's probably going to be fairly mild. And so the difference between plus 1% GDP growth or minus 1% may not be... whether technically we're in a recession or not, it's going to feel slow, it's not going to feel great, but it's probably not going to feel terrible either. It's not going to be a crippling recession.

Binyamin Applebaum:

One thing I'd say is that the political consequences of a recession may be greater than the economic consequences. If we go into a downturn next year, it has the potential to decide who the next President will be, even if that difference between a couple points below zero and a couple points above zero can be important in that sense. But more broadly, the question you asked about the inflation rate and whether it's worth getting down to 2, I think is a really interesting one. Because I think that there's very compelling arguments to be made that 2% was a mistake as a target, that it's too low, and that if we were starting over and setting a target, we would not set it at 2. But the problem is that we did, and there are also compelling arguments to be made that the Fed's credibility is invested in reaching the target that it's set. And that if it fails to do so, it will be more difficult for the Fed to maintain control of inflation going forward. That's a hard one because it doesn't... if you sort of play that out, it becomes really difficult to figure out when if ever, one could move to a different target than 2%. And so it becomes an argument for staying with a mistake because it's hard to know when to abandon it. But I don't think it would be without cost. So I think it's a really difficult dilemma that the Fed is confronting.

Heather Long:

I'll just add that I'm old enough to remember and to have been at the Fed Press conferences in sort of 2018, 2019. I know many others on this recording were as well. When the Fed chair was asked why inflation was too low from the target and he would have to... this was Powell and Yellen before him, stress that it was a symmetric target, so it was okay if you were a little bit below for a while, or a decade. So obviously, as Binyamin was outlining, and it's been very clear that the Fed wants to get near 2%, but I think it's going to be a lot more interesting how close near is in the next 12 months. And looking at something like Core PCE and the latest report, if you look at the past 3 months, we're pretty much at 2.2%, which looks pretty good and everyone would be very comfortable with. So I think they have room to be a lot more flexible than people maybe make it out to be.

Michael Klein:

Yeah. I have an EconoFact memo that I wrote a few years ago about the Fed never actually reaching its target of 2%, and mentioning in that, that 2% was not a ceiling, it was a target and they were consistently below that.

Larry Edelman:

It's a good point that Heather made about PCE when you strip out food and energy prices. The last three months annualized those 2.2%, so the Fed is not that far away, if things continue to hold up. And really the two main sticking points, one is energy prices at this point, which have gone back up, and the other being services, the non-housing services costs. But I think the Fed has to be happy about where it is right now and I think is willing to talk a much more hawkish game than it necessarily thinks it might have to play over the next several months. For right now, the market's clearly taking the Fed at its word, but I would not be surprised if we got maybe one more rate hike and that was it. And you could see rates coming down next year before the first half of the year. I think the last thing the Fed wants to do is say, we've got this done, and have that George Bush mission accomplished moment. It's going to talk the tough game until it's really certain, when it's obviously clear that there's no going back to 4%, 5%, 6% inflation in the foreseeable future.

Michael Klein:

Well, when we talk about the fight against inflation, invariably we're talking about the possibility of a recession and the opposite of a recession -- economic growth is good, but it's especially good for traditionally economically disadvantaged communities. We just published a memo by Aaron Sojourner of the Upjohn Institute and Valerie Wilson of the Economic Policy Institute who mentioned that for the first time ever, the employment-population ratio for black workers exceeded that of white workers this past spring. So black workers were doing better than white workers for the first time ever. Heather, you have a recent article saying that black and hispanic workers have been powering the economic recovery. Can you talk about that a little bit please?

Heather Long:

Yeah, it really is an incredible story and let me just amend. It's black, hispanic and asian. Unfortunately, we didn't get all three in the headline. But we were tracking this throughout most of the year, and the numbers certainly just seemed to get better and better. We looked at it as labor force participation. We looked at it as EPOP. We looked at it as just flat out employment levels. And when people are trying to scratch their head saying, how do we avoid this recession--What didn't people foresee? This is it. This is a big part of the story. No one foresaw that there would be such a surge of particularly prime age age workers and particularly women of color coming off the sidelines back into the labor force and even more of them coming into the labor force than we saw even in a "boom" year like 2019. We have about 4 million more workers than we did pre pandemic. About half of those are hispanic, about a quarter black, about a quarter asian. You can also look at it as immigrant versus non. About half of this is an immigration or foreign born worker surge. And I just want to read, I love Aaron and Valerie. They have a great memo that I encourage all to read, but I also want to invoke the late great Bill Spriggs, a black economist, longtime economist at the AFL-CIO. And he was someone who made this great point to me that really is food for thought. He said, "it's not that the labor market is overheated, it's that the labor market is getting closer to how it's supposed to work in a textbook." And I may push back a little bit on the overheated part, but I do think he makes a good point that for decades people simply assumed that black workers, or the black unemployment rate, or whatever statistic you want to choose, could never be the same as the white rate. And that sort of has been thrown out as bollocks in the last several months.

Michael Klein:

The strong recovery has also been good for business. For example, auto companies like Ford, General Motors, and Stellantis have record profits, and workers want to benefit as well. This has led to the UAW strike, but the strike isn't just about higher wages. What does the UAW want to achieve and is it likely to do so? In particular, Binyamin, you have a recent article about the 32-hour work week. Can you talk a little bit about that, and also perhaps about what the strikers are trying to achieve?

Binyamin Applebaum:

Yeah. I think this is really interesting. You have an assertive UAW that feels that it has not benefited from the resurgence of the American auto making industry. Statistically speaking, they're getting a smaller share of the profits than they used to. So they're right in that sense. And they want their share and they want it in terms of higher pay, but they're also making some other interesting demands for sort of a rebalancing of what a corporation is responsible for. They want protections for workers who may lose their jobs during the course of the transition to electric vehicles. They want the company to assume greater responsibility, or to contribute more toward the cost of healthcare and toward their pensions. They're essentially seeking a new social contract with their employers. One really interesting aspect of that is that for the first time in more than a generation, they're pressing to shorten the work-week. This was for a very long time, one of the central demands of the union movement. American workers went from working six days a week to working five after decades of struggle by the union movement, to press for the 40-hour week. And when that happened in the 1940s, many union leaders thought the progress would continue

toward a 32 or 30 hour week, but it stopped there. And so we've all grown up in a world in which the 40-hour week is conventional. But the UAW is now arguing that workers should be employed for 32 hours a week, still paid for a full week of work, for four days of work. And this is an idea that's been gaining currency in the union movement. It's been gaining currency in some foreign countries. There are experiments in the United Kingdom in recent years where employers have moved to a four-day week and found that revenue held constant and that workers worked harder during the time that they were at the office. And the idea is that this is a necessary rebalancing of your work life with other aspects of your life. And I think for the union movement, it's also an effort to reinvigorate the movement by setting goals that people are excited about. If you're going to fight well, you need things to fight for. And for the union movement, in recent years, it's been so much about just playing defense and trying to get the best severance packages as workers are pushed out the door and holding on to whatever they can for as long as they can. And so it's really interesting to see union leaders sort of turn around and saying, "no, this is an environment in which we can dream bigger dreams. We're going to articulate some bold goals. We're going to fight for them, and we're going to try to get our members excited about our ability to collectively seek a larger share of the economic pie."

Larry Edelman:

I would add that a lot of what the union is trying to do is recoup what it gave up around the Great Recession in 2007, 2008. Let's not forget that the US government had to bail out the auto industry and the auto industry survived because of the US taxpayer, and now workers feel like it's their turn to get some of those wages and benefits back. There's a two-tier wage system that I think really gnaws at the union, gnaws at any union when some people are making less than others for doing the same job. And I think they'd love to get rid of that. And I think the other trend here is the introduction of new technology and what the conversion to electric vehicles means. The battery plants are largely being built in the south where unions aren't very strong and the electric cars need fewer parts and don't take as many workers to put together. So those are big things to fight back for. And you saw the technology issue at play in the Hollywood writer strike. The same thing, trying to protect workers from very fast moving changes in the way work is done.

Michael Klein:

So the change in people's attitudes towards unions is, avoid the pun striking, I guess. President Biden joined a picket line. The first sitting President to do so, and he's always claimed to be strongly supportive of unions. So do you think this resurgence in support for unions is durable and politically, will the UAW strike be good for the President, since polls do suggest that there's popular support for the strikers or could this cause a recession that will harm the President's chances at re-election?

Scott Horsley:

Yeah. There was a Gallup poll in August that showed three out of four Americans support the UAW members. Only 19% support management at the automakers. Organized labor overall has something like a 67% approval rating in the US right now. That's down a little bit from a year ago, but it's sure a lot higher than the President's approval rating. So no surprise that Joe Biden

wants to hitch his wagon to the union locomotive right now. But the deck is just so stacked against organized labor in this country. Even though a lot of Americans are supportive of organized labor, the actual number of workers who are represented by a union is an all time low, just over 6% in the private sector. And more than half the states have so-called right to work laws, which prevent closed shops. The National Labor Relations Board was antagonistic to unions for so long. Even though we've seen a lot of organizing activity in the last couple of years, we've seen very little in the way of gains for new organizing efforts. So it's just a very difficult environment for unions to operate in.

Binyamin Applebaum:

Yeah. I think that's exactly right. The idea of a union revival is hugely overstated because there can't be a union revival. There just aren't that many unionized workers. The United States has made it incredibly difficult for new unions to be formed or for unions to add members at businesses where they don't currently represent workers. Until laws are changed, there will be no revival of the union movement. And one thing that's really important to recognize is that the workers who most need the benefits of collective bargaining are the ones who are least represented by the union movement. What we are seeing is the residual unions in the manufacturing sector. And then you've got these sort of... I don't even exactly know how to describe them, but the writer's unions or journalism is another space where we've seen a resurgence of union activity in recent years, or Starbucks workers. These are almost like boutique unions or ersatz-unions, I don't know. They're not representing large numbers of interchangeable workers in the quest to raise wages from the basement to the first floor, which is what the union movement historically has been most necessary for. And those workers today work in the service industries. They work in home healthcare, they work in industries like that, and there are no unions in those industries, and there are not likely to be any unions in those industries unless and until the United States Congress decides to allow unionization again in this country.

Scott Horsley:

Yeah. The president bills himself as the most pro-union president, and he has thrown some crumbs in organized labor's way. He's directed some more public spending to go towards unionized workers and that sort of thing. The labor department has tried to reinforce the 40-hour week when it comes to salaried managers at fast food places, and that sort of thing. But they've gotten nowhere on legislation that would actually make it easier for workers to organize. And the Democratic Senate can't even confirm Julie Su as the Labor Secretary because she's viewed as too pro-worker. God forbid the Labor Secretary be too pro-worker.

Larry Edelman:

There's a very strong political element to this that I think that Biden is playing. There will not be a great revival of the union movement in this country. But if you look at who he's trying to appeal to, it's those white Midwestern male workers who just ran away from Hillary Clinton as fast as they possibly could. So much so that they embraced Donald Trump even though he didn't care anything about them. And also the black and hispanic and asian workers in the services industry. Hotels and hospitals that are represented by unions like the SEIU, which is a pretty big union. So I think it's really very smart political move by Biden to come out strongly for the UAW because

he's sending a message to these key constituencies that Democrats have struggled with in recent years. So there's the political side of this as well, and it's probably even more important at this point than this sweep of union history in this country.

Michael Klein:

Another business related item that's in the news is the anti-trust case brought by the Federal Trade Commission and 17 states attorneys general against Amazon. Online sales for Amazon represent about 40% of all online sales. Amazon claims that its market dominance helps consumers by getting them lower prices, but the FTC and the attorneys general say that the restraint of trade is bad for the economy. Does this case represent a shift in anti-trust policy?

Heather Long:

I can jump in on that one just briefly. As someone who works for the same owner as Amazon, I'm going to be a little bit guarded in what I say, but look, there's clearly been a massive shift in anti-trust with Lina Khan coming to the head of the FTC agency. The question is, is it going to work? This is a huge gamble, a bunch of these cases that are coming forward, and if this one fails, I think you actually set the anti-trust movement back possibly decades in terms of what will be achievable here. Anti-trust is generally an area where the courts have tended to side with corporations in the United States. We're not legal scholars on this panel, but this is a very risky strategy. And it's been interesting how many different...i'm on the editorial board now at the Washington Post, and how many different industries have wanted to come in and specifically talk to us about FTC actions. Probably the most that any of us can remember on the editorial board in the last 40 years. So the wake-up call is there, but it's a big, big question mark, legally, whether this is a good idea to this extent.

Michael Klein:

We have a number of memos on this by my colleagues Dan Richards and Lynne Pepall about the evolution of anti-trust policy, especially with the work of the late Robert Bork and how anti-trust is different for these big firms like Amazon and so on.

Binyamin Applebaum:

Yeah, there's a sort of a narrow answer to your question, which is that the FTC is pursuing an interest in platforms. The idea being that businesses that sort of serve both, that make markets, that are places where buyers and sellers meet, are a different category of animal than the businesses traditionally subject to anti-trust scrutiny, a major retailer for example, or a major manufacturer. And that this type of platform, an Amazon-like entity, requires a different kind of scrutiny and different kinds of rules. That the power that it exerts over a marketplace can't be measured simply in the prices that it delivers goods to customers, but in its ability to limit the supply of goods, to squeeze the people who are providing those goods, to dominate the marketplace in ways that are ultimately harmful for workers and consumers. And so the FTC is pursuing a new kind of anti-trust action in this case. I am going to disagree with Heather. I think it's a really important thing for them to do. I think if you don't fight these battles, you can't win them. I don't know whether or not Amazon should lose this case, but I think that the way that we

need to start...there has been so little litigation, so little anti-trust action around the new tech industry that we have very little idea of how the law can or should relate to it. And we need to begin having these cases so that we can sort that out. And so I think the importance of the Amazon case and of the Google case that is simultaneously in progress are that we are finally, as a society, beginning to grapple with the question of how anti-trust rules should apply to these new models of business, and to these new kinds of companies. And so, I think that is necessary and valuable work.

Michael Klein:

Yeah. Dan and Lynne's memo talks about this sort of two facing aspect of these tech companies, where they're simultaneously buyers and sellers, and also why the network externalities -- the bigger you are, the more profitable you are, the bigger you can become -- why that's very important in this sense as well. Finally, I'd like to turn to housing. There seems to be a crisis of affordable housing in this country that really hits young people who want to buy their first house, as well as many other people who are forced out of their homes by gentrification, and even people in the middle class who are looking for either a new house or to buy their first house. Each of you have written about different aspects of this recently. First, Larry, you had a recent article in the Boston Globe in your 'Trendline Series' about the cost of mortgage borrowing. How is that affecting home sales?

Larry Edelman:

Well, it's affecting home sales by pretty much freezing them up. Right now, and it's been this case for a while, the housing market is a broken market. It just doesn't work. And if you think about it, some of the real losers, the biggest losers of the Fed's anti-inflation campaign have been home buyers, some home sellers. Yes, venture capitalists can't do as many IPOs as they wanted to. They'll survive. And I do have a lot of sympathy for the tech workers who are getting laid off as the venture funding market slows down. But the average homeowner, if you want to buy a house... I looked at the numbers back in May and it's only gotten worse because at that point the interest rates on a 30-year mortgage were like 6.8%. They're now 7.3%. But in the Boston area alone, according to the Fed, the percentage of median income that you needed to buy the median priced house was 47%. And that is compared to their preferable target of 30%. And in the Boston metropolitan area, it had been running at about 33% from 2014 to 2019 before the pandemic. So you can see how that affordability has just gotten way out of control. And that just won't change until interest rates come down. There's no other way to free the log jam, as far as I can see.

Michael Klein:

Scott, the interest burden of borrowing that Larry's talking about is one cost, but it's not the only factor. You had a recent piece on housing affordability. What did you mention in that segment?

Scott Horsley:

Well, ordinarily, one thing that might give a little bit when interest rates are as high as this, is the price might come down somewhat, because obviously the monthly payment is a function of the price and the interest rate. And if the interest rate...the prices that were set when mortgage rates

were next to nothing typically would have to fall to keep those monthly payments affordable. But the prices haven't really come down very much because there's so little inventory because anybody who already owns a home doesn't want to sell, and have to get a much more expensive mortgage. So there's a real dearth of homes on the market, and you've got this kind of double whammy of a very high mortgage interest rate and still elevated prices that have shown very little give. One thing this has done is create an opening for home builders to sort of be a little bit of a relief valve. And so you're seeing home builders building more than you might expect in a 7% rate environment to take up some of that slack. And the share of first time buyers who are buying new homes is much higher than it would typically be. Usually, it's under 30% of new constructions bought by first time buyers. Now it's north of 40%. And the home builders have gotten pretty creative in trying to create homes that are more affordable. They're not cheap, they're not easy starter homes, but they are more affordable. And they're doing that in a number of ways. They're stripping out the granite countertops. They're using laminate flooring instead of hardwood. But the biggest thing they're doing is they're actually shrinking the homes a little bit. They're making homes a little bit smaller, which is... I know it sounds un-American, but it is one way you can cut the cost. However, home builders are limited in what they can do there by restrictive zoning. It's still just hard to build housing in the size and density that we would need to have anything like a truly affordable starter home that the median income could swing. And until we've changed some of that zoning policy, it's going to be hard to change that.

Michael Klein:

You said un-American. Binyamin, you had a really interesting piece about Tokyo. The supply of housing in America is a big contributing factor to affordability and access to housing, but surprisingly, this is much less of a problem in Tokyo. What do the authorities in Tokyo do to make housing more affordable there?

Binyamin Applebaum:

They let people build housing. Our problem in America is actually not very complicated. We have made it impossible to construct the amount of housing that the market wants, in the places where people want it. You can build an affordable starter home in wide swaths of this country, but there are no jobs in those places. The places where there are jobs, places like Boston and San Francisco and New York and Washington, you can't build housing. And that's why housing is unaffordable. It's essentially become a private club with a limited number of seats at the table, and the price of those seats keeps going up, and that is not going...lower interest rates would help. Building smaller homes would help, but nothing is actually going to change. Nothing's actually going to become affordable until governments make it possible for developers to build the amount of housing that is demanded in these places. And Tokyo has done this. It sort of stands alone among global cities and its success in maintaining affordable housing prices, through the very simple expedient of getting out of the way. They build a lot of transportation infrastructure. It's not just that they're not regulating. They're creating an environment in which it's possible for people to live and get around. But fundamentally, what they are doing is allowing developers to replace existing buildings with new, bigger ones, allowing developers to make use of available land to build the type of dense housing that is in demand, and in so doing, they're allowing those cities to grow. One of the most remarkable facts about the United States and not

just the United States, Western Europe as well, is that throughout history growing cities, cities that were prospering, economically grew because they attracted people to those opportunities. And we have now inverted that reality. Our most prosperous cities are now the ones that are not growing, and that is just at the crux of so many of our societal problems. And there are a few things I just think are clearer than that we need to open the floodgates and allow housing construction.

Michael Klein:

Yeah. I would commend that article that you wrote, Binyamin. I found it really interesting. And so then I started to think, well, maybe we could use office spaces and convert them to housing. And then I read this really interesting article by Heather, why that's very difficult to do. Heather, can you explain what you wrote in that article a bit, please?

Heather Long:

Yeah. Definitely. The editorial board at the Washington Post has been doing a year-long series on how to revive downtowns. Anybody who's been anywhere in a downtown or city urban core, if you prefer, knows how we use the word 'comatose' it's been. Mainly because the opinion editor didn't want to use the word dead. Almost everybody's immediate thought is just what Binyamin was saying, which is, let's open the floodgates and let's turn these buildings, these offices into much needed housing. The problem is it's really complicated to do, and we had a piece and others have had good pieces that tried to visually walk people through all the challenges with plumbing or windows. We fought for so long a hundred years ago to insist that all bedrooms have windows. Well, now that could be a little bit of a hindrance in turning an office into a apartment building. But honestly, the best visual is if you're in an office, the next time you go to one, get off the elevator and just stand there for a minute and visualize could you put an apartment between where you're standing and wherever the office is, wherever the windows are at the edge of the building. And a lot of buildings, it's really hard to do. You'd end up with this really elongated space that just does not work well. So on top of that, the other thing that really surprised me, of course, we've all been talking about high interest rates is a hindrance right now. Certainly developers are not very anxious to take a jump and a try on converting a building at the interest rates where they are. Commercial buildings are often funded by regional banks, which obviously went through a little bit of a mini banking crisis earlier this year. They're not very eager to lend. But the other biggest problem of all is the prices are too high for a lot of these buildings, and we basically need a 're-pricing tsunami,' I've been calling it. You're starting to see a little bit of that. Buildings in Boston and San Francisco selling for anywhere from a discount of 25% to almost 50% off the asking price. But the problem is a lot of buildings in these core major metro areas were valued at over a hundred million dollars pre-pandemic or even in 2021. And now, most people call you up and they say, sure, I'd love to convert that building to housing, but I'm not touching it for less than \$50 million. And that's a big haircut for a lot of banks and a lot of developers and a lot of property owners to take. So keep your eye in that space when the prices start to fall. Keep your eye also when the different incentives the different cities are starting to roll out to try to make this happen.

But here's some numbers that we just published last week, kind of hot off the press, vacancy rates in most cities in the office space, it's 20% or more of office space is currently vacant. And that's just the stuff that's officially vacant, not like, hey, if you look around the Washington Post, we are definitely not utilizing most of our space, which is probably true for anybody else listening to this.

So how much of this is under conversion, has been converted into anything new? Usually housing, but it could be a theater or it could be at a hospital or a school. It's less than 2% of office space has seen some sort of conversion right now. So we've got a long way to go. We need to get that number to at least 10% to really stabilize the market and to get back to anything like pre-pandemic levels.

Michael Klein:

Well, as always, I really enjoyed this discussion and find it really illuminating and interesting. So thanks to all of you for joining me today. And we will see what happens to housing, what happens to inflation, what happens to the soft landing, what happens to strikers, and we can talk about that again in another few months. Thanks again very much everybody.

Scott Horsley:

Great to be with you.

Binyamin Applebaum:

Thank you.

Heather Long:

Thanks, Michael.

Larry Edelman:

Thank you.

Michael Klein:

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