

# A problem of housing market

Economics



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Many economists argue that market solutions are more efficient than government agencies in providing services even when it comes to merit goods. In the discussion of housing problem, I would disagree with the economists view. Housing is a very complicate issue that I believe it will work the best by the cooperation of market and government agencies. The Canadian government has worked for many years on the housing issue, but does not seem to have any adequate solutions to solve the problem. The housing market, unlike other industry, has a dominant feature of inelastic short-run supply. This characteristic of the housing market has made a great obstacle in coping with the problem. In fact, we may look at other countries experiences and learn how to deal with the problem effectively.

Canadian governments housing policy is based on the idea that everyone is entitled to decent and affordable housing. Housing is a necessity and everyone needs a place to live. It is for this reason that government set its goal to ensure everyone is living in housing of adequate quality at a price they can afford. However, the government has turned into wrong definition of decency and affordability. Firstly, decency is subjective according to different cultures. I think that the Canadian government is setting a very high value on living environment, and such a high standard may cause more difficulties in solving the problem. Secondly, Canadian government has continuously reduced its standard in defining affordability. It was consider affordable if housing cost no more than 20% of your income. Nevertheless, the standard has been reduced to no more than 40% until recently. Such dramatic change of the figure has made the goal become ambiguous. Practically, the government has tried many methods in dealing with the

housing problem. Housing code enforcement is a method that tries to regulate minimal conditions for rental housing. However, this method does not seem to work because it brings additional costs to the tenant. On the other hand, the government tries to help people become homeowner by benefits in kind, such as imposing tax exemption on first home down payment and low interest rate on mortgages. However, the method does not really aim at helping the poor. Moreover, the government tries to increase the supply of housing by building new shelters and buying existing apartments. Yet, none of these work efficiently. The reason that building new shelters does not work is because most of these new housing projects are expensive and time consuming. It may take years to finish a construction project from scratch. With a growing population, supply could never meet immediate demand. Moreover, new houses are more expensive due to high production costs. Therefore, low-income family would not be able to afford them. In other words, new housing could not fulfill the demand of low-income people. In the short run, new construction cannot directly increase the supply of housing at the lower end of the market. This is also the reason that the housing market supply is inelastic.

In solving the housing problem, I think both government agencies and private sector would have to work together. Government could select appropriate land site to develop new residential area. All the developing work could be contracted out to private builder for bidding. There are few reasons that why contracting out is better. First of all, it introduce competition which would reduce the production costs, lead to better quality and faster paces. Also, contracting out could avoid disaster happen from

public-sector strikes. With the help of private sector, government can develop a decent and affordable residential village. It also provides employment opportunities and stimulates the economy as positive externalities.

In conclusion, I think that the government is taking a short sight view in solving the housing problem. It is good to have the goal of decent and affordable housing. However, the government is trying to fulfill the goal in one big step and end up failing (e. g. code enforcement). I believe the housing policy in Canada can be improved by taking a board and long term view and maintain a close relationship with private builders. Then, they could create and provide an ideal community for the poor.