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The Housing Productivity & Regulatory Alignment Act (HPRA): A Supply-Side Solution to Shelter Inflation

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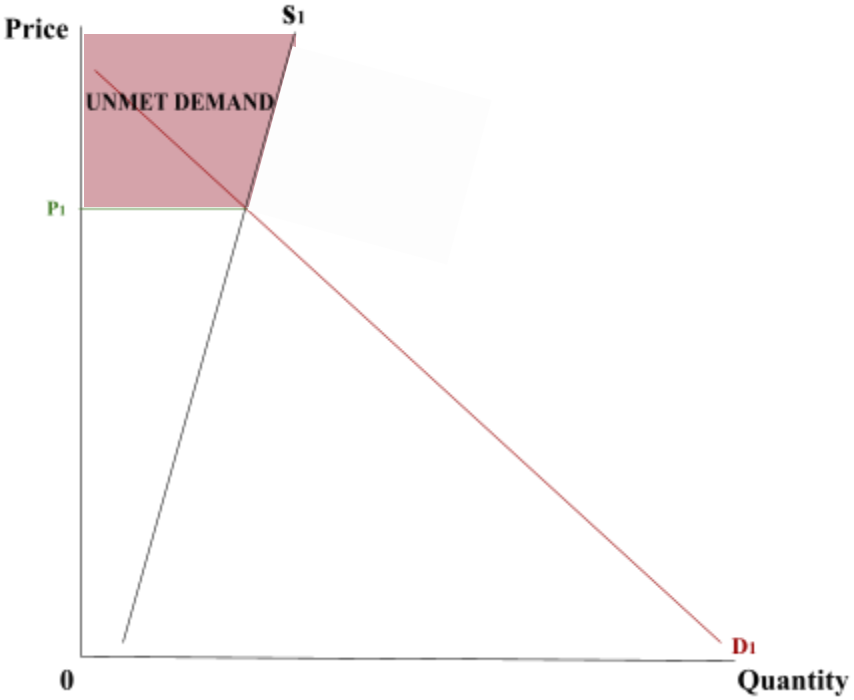
Executive Overview: The Housing Productivity & Regulatory Alignment Act (HPRA)

The United States is currently suffering a ‘two-speed’ inflation reality. Although it has made many provocative and successful measures to reduce inflation to a low rate of 2.5%, it has failed to address the economic problem of the CPI of housing, which remains elevated. This problem has *not* arisen due to failure in interest rates and inability to reduce aggregate inflation - this is caused due to a **failure in the ability to recognise the inelasticity of supply of housing.**

In many areas of the United States, the supply curve for housing tends to look like this:



As we can see from this graph, supply is highly inelastic. This means that the market cannot supply efficiently due to currently persisting issues such as restrictive zoning and high regulatory costs. This results in less houses being built, and existing houses to become more expensive, hence raising inflation of housing.

The steepness of this curve indicates the inability of the market to effectively respond to price signals. This also indicates an inefficient equilibrium of scarcity as there is a high amount of unmet demand.

The Policy Thesis

The **Housing Productivity & Regulatory Alignment Act (HPRA)** is a strategically designed $300 billion mechanism, systematically spread through five years, which is designed to shift the Long-Run Aggregate Supply curve of housing to the right. We intentionally move away from Demand-Side subsidies as these may unintentionally raise prices to an even further extent (price-pushing) and we shift towards four Supply-Side measures.

Policy Pillar	Initiative Name	Allocation (5 years)
Pillar I	The Infrastructure Bonus	$100 Billion
Pillar II	Pre-Approved Building Plans	$20 Billion
Pillar III	Trade School Scholarships	$30 Billion
Pillar IV	The Local Builder Guarantee	$150 Billion

PILLAR I

THE INFRASTRUCTURE BONUS

The reason why the supply of housing is currently inefficient is more than just due to a lack of money. It is illegal to build anything other than giant residential houses in most cities. Local governments seem to get stuck in these ‘zoning deadlocks’ because many residents do not want their neighbourhoods to change.

By using Pillar I effectively, we are putting this $100 billion into a fund which many cities will find attractive due to the opportunity to have better roads, cleaner parks and even faster trains. However, to

receive a part of this fund, they must change their laws to allow housing such as townhouses or small apartments.

Conclusively, both the city and the federal government benefit from this and it is a productive exchange. The market forces can determine where and how people would like to purchase their residential properties.

PILLAR II

PRE-APPROVED BUILDING PLANS

This pillar aims to lower the non-monetary restrictions to housing production. Currently, a builder must hire architects and engineers to create new blueprints before actually starting a project. This can lead to time delays, as it often takes weeks to months for the city to approve a new design. Furthermore, there is also a high risk that the design may be rejected and the builder must start all over again.

This is where Pre-Approved Building Plans come in. By allocating $20 billion, the government will purchase the master blueprints so individual builders have less time constraints. They will be engineered by professionals and a large variety of buildings will be curated (townhomes, cottages, apartments) and it will be ensured that they meet all safety, climatic and aesthetic standards. Any builder who chooses to use a design from this catalog will automatically be gained approval. All in all, they are essentially skipping the line for design reviews.

By providing such plans to the builders for free, we eliminate the thousands of dollars that they would normally spend on architecture. Hence, the barriers of entry for small construction firms would be reduced, causing an increase in these firms too. Moreover, the elasticity of supply for housing would also increase as market changes can be met by an increase in housing immediately, rather than after a few months due to approval delays.

PILLAR III

TRADE SCHOOL SCOLARSHIPS

Now, this pillar is very important because even if the first two *are* successful, without a steady supply of skilled labour, there would be a physical ceiling on how many houses can be built. Hence, the supply curve cannot shift without the labour to meet rising demand.

Due to the inverse relationship of supply and price, the wages of workers skyrocket when they are scarce. These costs are eventually passed on to the consumer which would cause the supply curve to remain steep. This is also an important reason for why wage-push inflation may occur. In order to prevent this,

we will be subsidising trade schools, which would increase the quantity of skilled labour and would hence stabilize costs of housing in the long run.

Furthermore, this pillar aims to remove the barriers of entry for young workers into the market. It is not just a loan, rather a full scholarship which would promote the construction industry much more. In order to ensure that the investment stays in the housing market, we would also state that such scholarships come with a catch - graduates must work in residential construction for at least a period of 3 years, ensuring the $30 billion investment directly leads to new homes being built.

By expanding the workforce, the entire industry becomes more elastic. Hence, when demand rises, the industry can effectively meet it and build faster.

PILLAR IV

THE LOCAL BUILDER GUARANTEE

Even with sufficient land and workers, there may be some financial constraints which workers face, this pillar changes the focus from physical labour to financial barriers.

Large banks and financial institutions would much rather lend money to massive corporations in order to build luxury skyscrapers because it is ‘less risky’. Small- scale, local construction firms may find it difficult to obtain loans due to high interest rates being charged or even being rejected. This barrier allows the market to be dominated by a few firms and increases the barriers to entry significantly, which reduces aggregate supply.

This pillar aims to remove such barriers by offering a ‘guarantee fund’ to banks. If a small scale builder takes on a project and it fails, the government will cover a portion of the bank’s loss. Banks will be more willing to give out loans to builders at lower interest rates due to a reduction in the risk. This would have a direct relation in lowering the cost of production for new homes. This would also make it easier for small firms to enter the market, creating a highly competitive market which usually is more efficient, hence causing the supply curve to shift to the right. In order to get the guarantee, builders must agree to building multi-family units (like townhomes) rather than just single-family mansions. This would ensure that the $150 billion is used in order to create the highest number of units per possible acre of land.

In summation, with all of these measures, the supply curve would inherently shift to the right, causing an increase in the quantity of housing and a decrease in the price as shown in the diagram below. This relates to an increase in the aggregate supply. The first diagram had a more vertical supply curve due to regulations but the new supply curve is flatter due to the market becoming more responsive.

Now, when the prices rise, builders can react quickly and the bottlenecks have been removed.

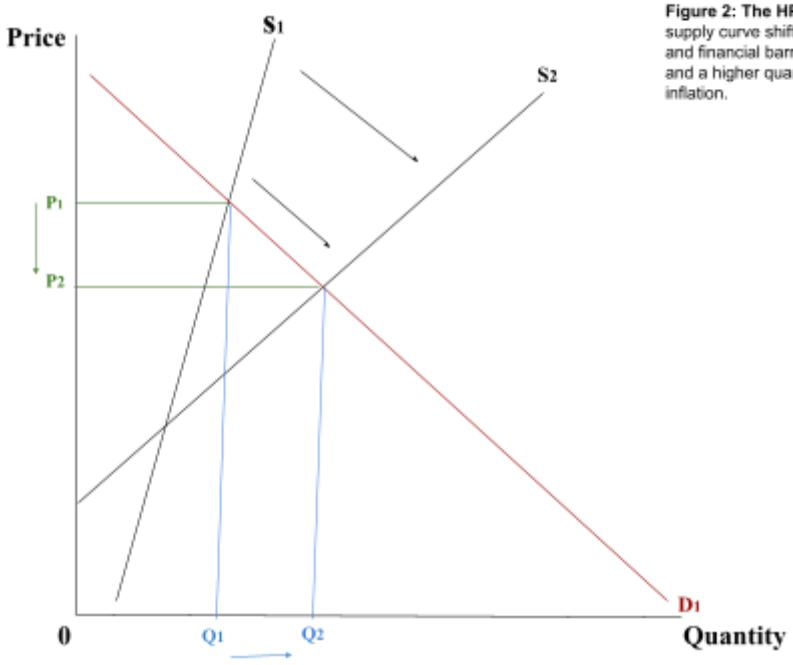


Figure 2: The HPRA Effect. Following the implementation of the four pillars, the supply curve shifts from **S1** to **S2**. The curve becomes more elastic as regulatory and financial barriers are removed. This results in a lower price equilibrium P2 and a higher quantity of available housing units Q2, successfully cooling shelter inflation.

Conclusively, the HPRA represents a necessary shirt away from demand-side subsidies that often unintentionally cause prices to skyrocket (demand-pull inflation). By addressing the root causes of supply inelasticity through these four pillars, we are creating a long-term solution to shelter inflation rather than a temporary fix. Although we may see short term spikes in the prices of building materials, the long term macroeconomic benefits of increased labour mobility and an increase in disposable income for individuals outweigh the initial costs. This policy aims for the housing market to move towards a more elastic and responsive equilibrium, ensuring the supply can meet demand effectively. Ultimately, we can unlock the productive capacity of the construction industry and pave a sustainable path towards cost efficient housing for the next generation.