Testimony of Barry Bluestone
Before the U.S. House of Representatives
Committee on Financial Services

"Household Incomes and Housing Costs: A New Squeeze for American Families"

Brookline Town Hall
Brookline, Massachusetts

April 4, 2007

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My name is Barry Bluestone and I am the Russell B. and Andrèe B. Stearns Trustee Professor of Political Economy at Northeastern University where I also serve as the Dean of the university's new School of Social Science, Urban Affairs, and Public Policy and Director of its Center for Urban and Regional Policy. Since 2000, I have been involved with our Center in the preparation of numerous studies of housing production and affordability including the annual *Greater Boston Housing Report Card.* I also served as a co-author of the policy report that led to the passage of Massachusetts' Chapter 40R and 40S "Smart Growth Zoning and Housing Production" legislation. I appreciate the opportunity to testify before this distinguished committee on the question of household incomes and housing costs.

Today, I would like to briefly address trends in household income in the U.S. and Greater Boston and their relationship to trends in rents and housing prices in the local region. The major point I hope to make is that because of spiraling housing costs and stagnating household income, the housing affordability gap has skyrocketed. Housing affordability has now become a serious concern in many parts of America not only for low income families, but for a growing proportion of working families and an increasing share of the middle class. In regions like Greater Boston, assuring the availability of affordable housing must now be seen not only as a moral obligation, but an economic necessity if we are to remain competitive in the new global economy.

U.S. Trends in Family Income

We can begin our inquiry by looking at family income in the U.S. **Table 1.1** provides the basic data for the U.S. as a whole. Note that between 1947 and 1973, we experienced what my late colleague Bennett Harrison and I once described as "America's Glory Days."[1] Inflation-adjusted median family income virtually doubled in a single generation, growing from $22,499 in 1947 to $45,865 in 1973 (in 2005 dollars) -- an increase of 104 percent or 2.8 percent per year.[2] As a result of this strong income growth, tens of million of Americans were able to secure a home of their own. Between 1940 and 1970, according to the Decennial Census, the homeownership rate increased from 43.6 to 62.9 percent -- much of this increase occurring between the end of World War II and 1960 as a result of the GI Bill and related federal programs that helped American families purchase their first homes.

The period after 1973 was not anywhere near as prosperous. Between 1973 and 1979, family income increased at 1.0% a year, only a little bit more than one-third the rate for the previous 1947-1973 era. In the following decade (1979-1989), income growth continued to slow to only 0.6% a year – less than a fourth of the rate during the post-World War II Glory Days. Not until the second half of the 1990s did we experience anywhere near the family income growth of those Glory Days. Between 1995 and 2000, during the second Clinton Administration, family income grew by 2.2 percent.

Since 2000, each year family income has stagnated or declined. Between 2000 and 2005, median family income actually declined at a half a percent (-0.5%) a year. For younger and middle-aged families, the story was even worse. During the same period, median family income fell by 1.3% per year for families with a householder under 25 years of age; by 1.2% per year for 25-34 year old families; by 0.9% for 35-44 year olds, and by 1.1% for those 45-54. On average, only older families with householders over the age of 55 experienced an increase in inflation-adjusted income.

What is most disconcerting, however, is that figures on median income fail to fully capture the income losses of those at the bottom of the income distribution. Real income for the poorest one-fifth of U.S. families fell by nearly 8 percent (7.8%) between 2000 and 2005, nearly double the rate of the second-lowest fifth (4.0%) and more than eight times the rate of the top fifth. What growth there has been in family income has gone almost exclusively to the richest among those who are part of the single generation of post-World War II "baby boomers." Today, the typical family in the top 5 percent of the income distribution makes nearly 21 times the income of the typical family in the lowest 20 percent of the income distribution. As late as 1979, the richest made "only" 11 times as much.[3]

Family and Household Income Trends in Massachusetts

Until 2000, median family income in Massachusetts followed a different trend than in the U.S. The Commonwealth's "Glory Days" were the 1980s when the high tech revolution, financial services, and the "Eds and the Meds" -- the universities and the health care sector – came into their own. Between 1979 and 1989, median family income increased by 2.4 percent per year, four times the U.S. rate. During the 1990s, however, the U.S. outperformed Massachusetts by half, with median family income rising by only 0.6% per year in the Commonwealth versus 0.9 percent nationwide. Since 1999, family income has been essentially flat in Massachusetts, rising by an anemic 0.04 percent per year. The best estimate of the U.S. Census is that the median family in the Commonwealth enjoyed no more than a $115 increase in its real inflation-adjusted income over the past six years (1999-2005). That is equivalent to a $19 increase in income per year, an amount just about equal to a single lunch for a four-person family at a local fast food restaurant.

Median “household” income has fared even worse in the Commonwealth since 1999. Households differ from families in that they include single-person housing units. Using this measure, the Federal Reserve Bank of Boston estimates that between 1999 and 2004, real median household income did not rise at all. In fact, it declined by 2.8 percent in the Commonwealth and by 1.9 percent in Greater Boston (Boston MA-NH PMSA).[4]

Rents and Housing Prices in Greater Boston

Rents and housing prices in Greater Boston have followed distinctly different trends since 1990. Average rents exploded between 1990 and 2000, rising from a nominal level of $825 per month to $1,500.[5] This was in response to a substantial increase in population unmatched by an increase in new rental housing production. As rental vacancy rates fell from a normal level of 5 percent to little more than 0.5 percent during the decade, the rental market became a sellers’ market. Tenants were subject to sharp increases in rents nearly every year. Since 1999, however, rents have stabilized largely as the result of increased multiunit housing supply and some reduced demand as households have moved into the homeownership market taking advantage of low mortgage rates -- and too often the aggressive marketing of subprime loans.

Single family home prices in Greater Boston actually declined between 1986 and 1992, but then began an enormous upward trend that continued all the way through to 2005 (see **Figure 1**). In nominal terms, home prices more than doubled in the brief period between 1998 and 2005. Only after this breathtaking run-up in prices was there a minor correction in 2006 with nominal prices falling by about 5 percent.

Another way to view this home price escalation is to ask the question how many of the 161 communities in Greater Boston had a median single-family sales price under $300,000 in 2005 compared with 1998.[6] Back in 1998, 85 percent of these towns and cities had median selling prices below this level. By 2005, only 4.4 percent of them! The proportion with a median selling price of $500,000 and above increased from 2.5 to 26.9 percent.

According to Freddie Mac data, its home price index in Greater Boston based on data from conventional mortgage loans increased by 128 percent between March 1998 and March 2006.[7] This far eclipsed the U.S. increase of 89 percent, but given the sluggish growth in household incomes nationwide, the national home price increase suggests that housing affordability has become a significant problem in many areas of the country, not just Boston.

Housing Price Appreciation vs. Household Income Growth

Combining the data on household income growth and home prices (adjusted for inflation) shows just how much housing affordability has been compromised by a combination of stagnating incomes and skyrocketing prices. **Figure 2** provides this comparison. The dashed line reveals that real household income in Greater Boston has generally been flat over the past fifteen years while the real price of homes has risen sharply. *Essentially, the real median housing price in the region rose by 50 percent between 1989 and 2005 in the face of virtually no improvement in real household income.*

There is an even more graphic way to describe this situation by asking the following question. Across the 161 Greater Boston communities, how many have median home prices that would be affordable by the median income homebuyer in that community? Back in 1998, the median household could afford the median home in 148 of these communities (92%). In 2005, this was true in only 19 communities (12%). What about affordability for first-time homebuyers? Back in 1998, a first-time homebuyer with an income of 80 percent of the community's median income could afford to purchase a home valued at 80 percent of the community's median home price in 116 towns and cities in the region. In 2004, such affordability remained in only one town (Millville) … and even that last town disappeared as "affordable" to the first-time homebuyer a year later.

What has made the affordability problem even tougher is that home prices have increased at a faster rate in lower income communities than in more wealthy municipalities. Using data on Greater Boston's 161 communities, there appears a clear inverse relationship between median household income in 2000 and the rate of change in median home price between 2001 and 2003.[8] Those communities with median incomes under $50,000 experienced three-year price increases all in excess of 30 percent. Those municipalities with median incomes in excess of $75,000 generally saw home prices appreciating by 10-20% while the wealthiest communities (MHI>$125,000) rarely saw prices rising by as much as 10 percent. This was the natural outcome of households bidding for homes in communities they thought they could afford. Unable to bid on homes in cities and towns where prices had reached the $400,000 range or above, homebuyers bid up prices in communities where the median home price had been between $150,000 and $250,000. Enough joined the bidding war for these homes that prices accelerated in what became hot sellers' markets. This explains why there are no longer any affordable communities for first-time homebuyers in Greater Boston.

The Problem: Inadequate Supply of Housing; Global Oversupply of Labor

The housing problem in Greater Boston -- and in a good number of other metro regions especially on the east and west coasts -- is a classic case of demand outstripping supply in the housing market while an increasing supply of workers in the global labor market is outstripping demand. The former is pushing up home prices and rents while the latter is helping to push down wages and income. The result is a huge and growing affordability gap in the housing market.

While remedies for this gap require a much longer discourse on the causes of the housing shortage and the causes of stagnating wages and incomes, a few points can be made here. As for housing, the problem in Greater Boston has been identified by many scholars and policy experts as a lack of appropriately zoned land in local communities where denser, more affordable housing can be built.[9] The new Chapter 40R and 40S housing legislation is aimed squarely at providing state incentives to local municipalities to rezone land to meet our housing needs. But even with sufficient zoned land, producing homes that are affordable by an increasingly income-constrained workforce will require additional production subsidies in the form of federal low income tax credits, passage of the bill to establish a national affordable housing trust fund, and/or other programs that provide low cost construction aid.

Dealing with the on-going stagnation in incomes will require an even more imaginative set of programs. Essentially, the once strong link between labor productivity growth and median family income has been broken by a combination of free trade agreements without labor standards or labor rights, the increased technical ability to outsource production of both goods and services, the declining value of the federal minimum wage, the weakening of the trade unions, and a host of other factors. During the Glory Days between 1947 and 1973, labor productivity increased by 103.7 percent. Real median family income tracked this boom in economic efficiency perfectly – growing by 103.9 percent. Between 2000 and 2005, productivity continued to grow by a respectable 16.6 percent.[10] But for the most part, America's workers and their families did not share in any of this increased economic bounty. Their real income fell by 2.3 percent.

Now is the time to begin to think seriously about solving both the under-supply of housing and reigning in the global over-supply of labor in order to bring real housing prices into line with real family incomes.

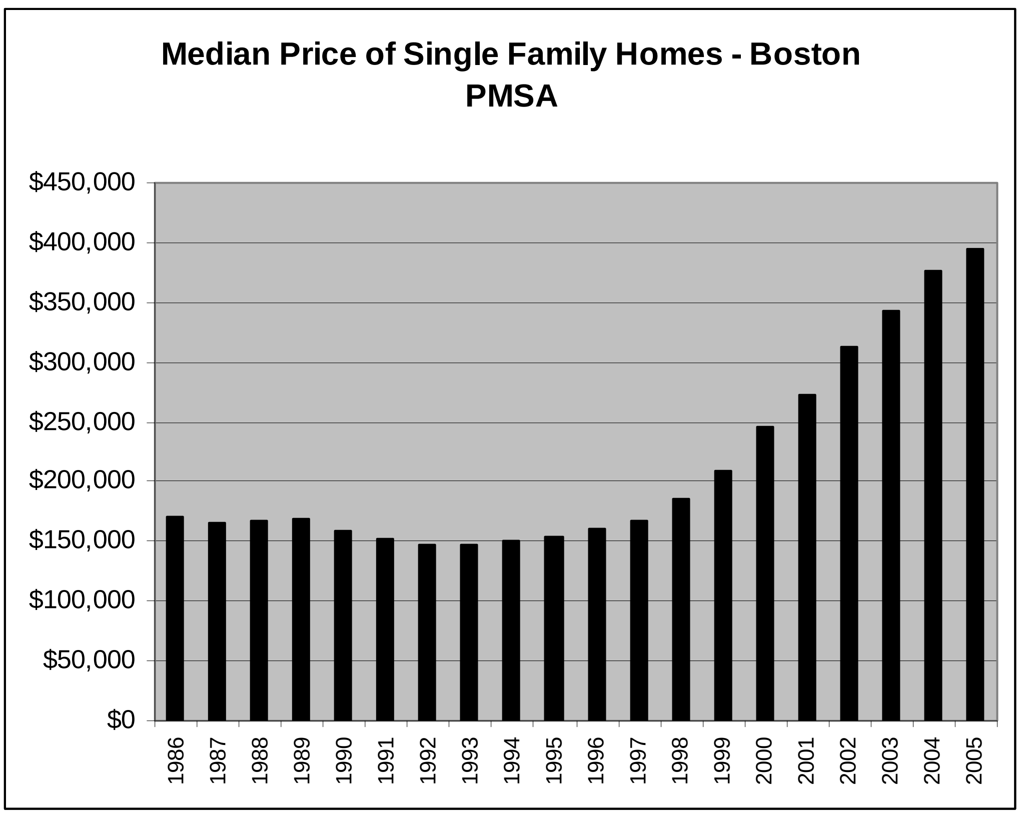
Thank you for the opportunity to share with you these thoughts.

Table 1 Median Family Income, 1947-2005 (2005 Dollars)

Year	Median Family Income	Era	Annual Growth Rate
1947	$22,499		
1973	45,865	1947-73	**2.8%**
1979	48,804	1973-79	**1.0%**
1989	52,015	1979-89	**0.6%**
1995	51,659	1989-2000	**0.9%**
2000	57,508	1995-2000	**2.2%**
2005	56,194	2000-2005	**-0.5%**

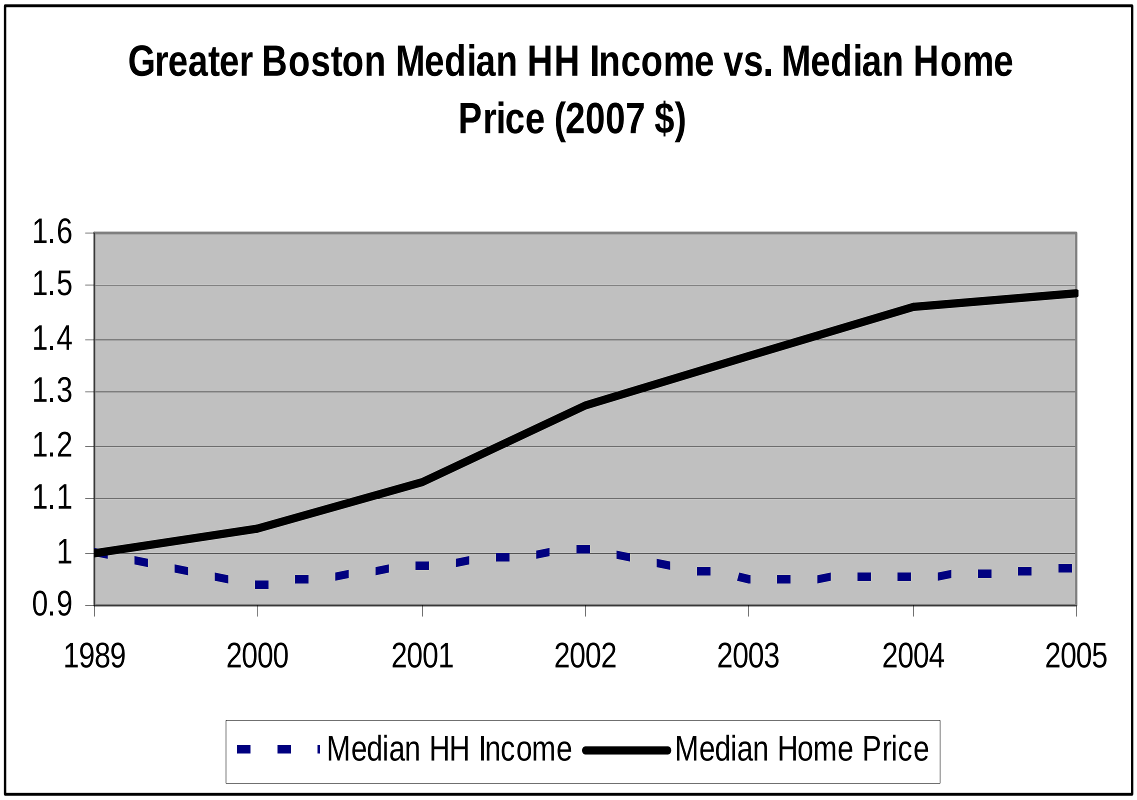
Source: *The State of Working America 2006/2007*, Table 1.3, p. 47

Figure 1



Source: National Association of Realtors as reported in *Greater Boston Housing Report Card 2005-2006*, Figure 2.11, p. 23.

Figure 2



Source: U.S. Census Bureau, 1990 Decennial Census; American Community Survey, 2000-2006

ENDNOTES

[1] Bennett Harrison and Barry Bluestone, *The Great U-Turn: Corporate Restructuring and the Polarizing of America* (New York: Basic Books, 1988.

[2] Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007* (Washington, D.C., The Economic Policy Institute, 2007), Table 1.3, p. 47. The table is computed based on U.S. Census Bureau data.

[3] Mishel, et. al. *The State of Working America 2006/2007*, Figure 1J, p. 58.

[4] Alicia Sasser and Brad Hershbein, "Trends in Median Income in Massachusetts, Greater Boston, and the City of Boston," New England Public Policy Center, Federal Reserve Bank of Boston, May 19, 2006.

[5] Bonnie Heudorfer and Barry Bluestone, "The Greater Boston Housing Report Card 2005-2006: An Assessment of Progress on Housing in the Greater Boston Area," The Boston Foundation, Citizens' Housing and Planning Association, and the Center for Urban and Regional Policy at Northeastern University, September 2006, Figure 4.1, p. 34.

[6] Heudorfer and Bluestone, "The Greater Boston Housing Report card 2005-2006," Table 4.5, p. 42.

[7] "Conventional Mortgage Home Price Index: New England Metropolitan Areas and U.S." See http://www.freddiemac.com.

[8] Bonnie Heudorfer, Barry Bluestone, and Stein Helmrich, "The Greater Boston Housing Report Card 2003: An Assessment of Progress on Housing in the Greater Boston Area," The Boston Foundation, Citizens' Housing and Planning Association, and the Center for Urban and Regional Policy at Northeastern University, April 2004, Figure 4.4, p. 26.

[9] See, for example, Barry Bluestone, Charles C. Euchner, and Gretchen Weismann, *A New Paradigm for Housing in Greater Boston*, Center for Urban and Regional Policy, September 2000; Edward C. Carman, Barry Bluestone, and Eleanor White, "Building on our Heritage: A Housing Strategy for Smart Growth and Economic Development," The Boston Foundation, The Commonwealth Housing Task Force, and the Center for Urban and Regional Policy at Northeastern University, October 30, 2003; Amy Dain, "Residential Land-Use Regulation in Eastern Massachusetts," The Pioneer Institute and the Rappaport Institute for Greater Boston at the Kennedy School of Government, Harvard University, December 2005; and Edward L. Glaeser, Jenny Schuetz, and Bryce Ward, "Regulation and the Rise of Housing Prices in Greater Boston," The Pioneer Institute and the Rappaport Institute for Greater Boston at the Kennedy School of Government, Harvard University, January 5, 2006.

[10] Mishel, et.al. *The State of Working America 2006/2007*, Table 1.4, p. 48.