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Housing and Income

Mason Gaffney

Outline for Seminar, Dept. of Ecs., UCR, Friday 16 Jan 04

1. Growing value of dwellings and sites in the U.S., contrasting with bankrupt governments at all levels. "Private affluence and public squalor" redux—only this time it's real.

2. Preferential tax treatment of owner-occupied dwellings
   a. Income tax, personal and corporate
   b. Property tax
   c. Sales tax

3. Rationale for undertaxation: dwellings are an "inferior good." (That rationale is important to economists, and at higher levels of government. At the local level, "NIMBY" is the overwhelming cry, and regressivity is considered desirable, but this local attitude is not addressed here.)
   a. In politics, champions of the "inferior good" rationale range from real-property guardian Jon Coupal (Howard Jarvis Taxpayers' Assoc.); to Gov. Arnold Schwarzenegger and former Gov. Gray Davis; to labor economists and lobbyists Lenny Goldberg, Dean Tibbs, Robert McIntyre, and Lt. Gov. Cruz Bustamante. The labor activists favor raising property taxes on "businesses" (loosely defined), but not on residences, which they see as the average working man's investment. To them, undertaxing a few mansions and manors is a price worth paying to protect the poor.
   b. Economists: Richard Musgrave; Daniel Lucas et al. from D.C. govt.; Ed Wolff, Robert Lampman, et al. These parties observe that industrial and commercial property is concentrated in a few hands; likewise, tax-exempt bonds and corporate shares. The dominant view seems to be, however, that owner-occupied homes are the poor and middle-class store of value.
   c. Construction industry organizations and lobbyists, whose views are consistent with their self-interest. Findings from my research do not support those views. Details follow.

4. Contrasts of the extremes, rich and poor

   a. Rock bottom: 1/3 or more of household units own no dwelling at all.
      - Those institutionalized: barracks, cells, dorms, labor camps, asylums, public housing, etc.
      - The homeless.
      - Renters, from transients in cheap motels (desperately poor) to long-term lessees. They have in common that they have incomes but own no dwellings.
      - The overcrowded, e.g., in Santa Ana and similar cities.
      - Young families going bankrupt in record numbers, moving home to double up.
      - Poor towns, e.g., Slab City, Mecca, Parlier, Alpaugh, etc.

b. Middle level: Some are nominal owners with little equity.
c. The very rich.

- Dwellings valued over $1 million: numbers, and aggregate value. 2-3% of dwellings in California. Revenue potential estimated at high level.
- Multiple dwellings of the very rich, with examples: Pitkin County, CO (Aspen); islands of Puget Sound; “Jock” Whitney family; etc.
- Some enclaves of great wealth, e.g., Rancho Santa Fe, Ross, Hillsborough, La Jolla, Belvedere, Emerald Bay, Beverly Hills, Pacific Palisades, Bel Air, etc.
- Country houses with manors.
- Recreation grounds, attached or not, not counted as parts of “dwellings.” Examples of prime locations: Berkshire County, MA; the Hudson Valley; Loudon and surrounding counties, VA; Vilas and Walworth counties, WI; Barrington, IL; coastal South Carolina; coasts everywhere; etc. Examples of polo fields, golf courses, fox-hunt clubs, views, shooting areas for blood sports, views to protect, etc.
- Small families or none. Nick Nolte on 6 acres in Malibu; Laguna Beach Ave. household with 1.1 members, compared with 4.6 in Santa Ana nearby.
- Inheritance. Data from Thomas Dye, sharply rising fraction of the very rich whose fortunes arise from inheritance.

5. Some comprehensive data
   a. 123 cities in the U.S. (John Talbott data, processed by M.G.)
   b. 51 cities in the U.S. (D.C. research department data, processed by M.G.)
   c. Riverside County and Orange County data. (DataQuick source, processed by M.G.)
   d. State sales taxes (as surrogate for income) by county, as percentage of property values.
   e. Rent and income. (Data of barely credible quality from National Low Income Housing Coalition.)

   f. Affordability Indexes by city from California Association of Realtors and National Association of Realtors.
   g. Data from Sperling’s Best Places, on web.
   h. Consistency of data from the various sources.

6. Adjusting income data
   a. Need to use “instrumental variables.” Margaret Reid, Harold Brodsky, Richard Muth, and my data in #5, using geographical units as variables. Incomes bounce around with time, creating illusion of high housing values in low income brackets and low housing values in highest income brackets. Instrumental variables relate housing to “permanent income.”
   b. Correcting for regression fallacy without creating reverse regression fallacy.
   c. Adding back improper deductions to reported incomes.
   d. Adding invisible income to reported income.
      i. Imputed income (Survey Research Center; David Brainin and John Germanis)
      ii. Unrealized and Unrecognized Capital Gains

Allegations of illiquidity are widely credited, yet unsupportable.

e. Deflating incomes in high-rent areas for the high rents themselves. Official data do not adjust for differences in cost of living, mainly rents.

7. Race as an instrumental variable

a. Low ratio of Dwelling Value/Income among blacks, Hispanics

8. Adjusting reported values of dwellings

a. Add recreational appurtenances to structure values.
b. Add non-cash values other than shelter (a long list).
c. Controversial: add excess of WTA (willingness to accept) over market values.
d. Inferring mean values from given median values:
    - richer towns have more skew, but housing values are almost always given as medians, understating the contrasts;
    - combining data from two or more towns gives more skew;
    - combining data from two or more periods gives more skew.

9. Conclusion: dwellings and their associated lands are a superior good.