

Homeowning Since 1978 Shows 'Two Americas'

by Paul Gallagher

Since the bond and mortgage markets began to fall in the G-7 countries at the beginning of April, attention has been focussed on the sharp fall in new home construction and sales in the United States (21% and 11.8% down respectively, from March to May), and the looming threat of a blowup of the vast mortgage-credit bubble which has been sustaining the American "consumer economy." The threat in Britain has seen both government agencies and realtors themselves demanding sharply higher interest rates, supposedly to shrink the huge British real-estate bubble without having it explode. But a different report appearing in May analyzed the American population's homeownership over the course of the last generation. It punctured the claims of all those from President George W. Bush to the National Homebuilders' Association, who've been insisting that the recent years' mortgage-bubble boom has been making the dream of homeownership nearly universal for Americans. The Center for Housing Policy re-

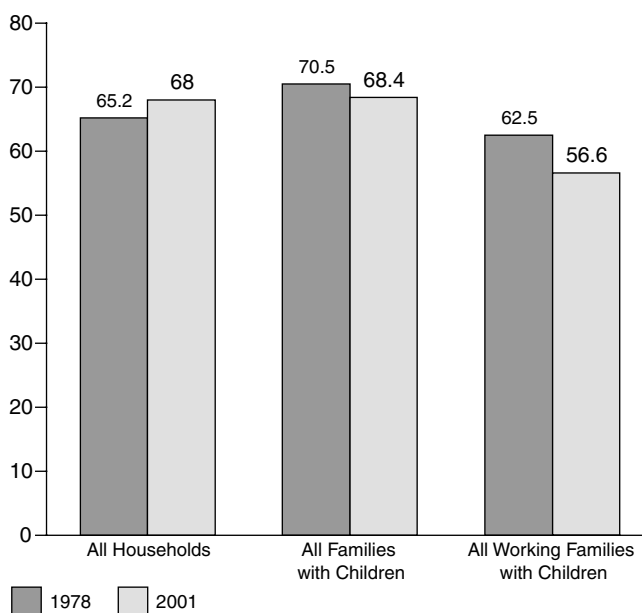
port instead shows that the "two Americas" pattern—a widening gap between upper-income and lower-middle-income households—has been strongly evident in housing.

The report analyzed the quarter-century from 1978 to 2001, and found that taking all households in the United States, of all income-levels and household sizes (the average size has declined steadily over that period and is now well below two persons), the homeownership rate has risen by about three percent, to 68%. *But*, say the authors, "The homeownership rates of *all families with children* (regardless of income) fell from 70.5% in 1978 to 63.4% in 1991, rising . . . to 68.4% in 2001. Thus, the homeownership rate of families with children . . . has not fully recovered from the losses experienced in the 1980s. This drop over 25 years reflects the fact that working family households with children in the United States have lost ground in their real standards of living since the 1970s. The Center's study "working families" as low- and middle-income families whose household income is no more than 120% of the median household income for their region. It finds that whereas in 1978, about 41% of American children lived in such households, a generation later 48% of all children lived in low-to-middle-income households.

"Low to moderate-income families with children fared particularly poorly" in homeownership, the report said. "In 1978, 62.5% of working families with children owned their homes. By 1991, their homeownership rate dropped to 55.8% . . . remaining relatively flat through 2001, when their homeownership rate was only 56.6%" (see **Figure 1**). This substantial drop confirms extensive *EIR* "market basket" economic studies in 2001-2002, and is tied to the dramatic increase in costs of ownership relative to household income (see **Figure 2**).

FIGURE 1
U.S. Households' Rate of Homeownership, 1978 and 2001

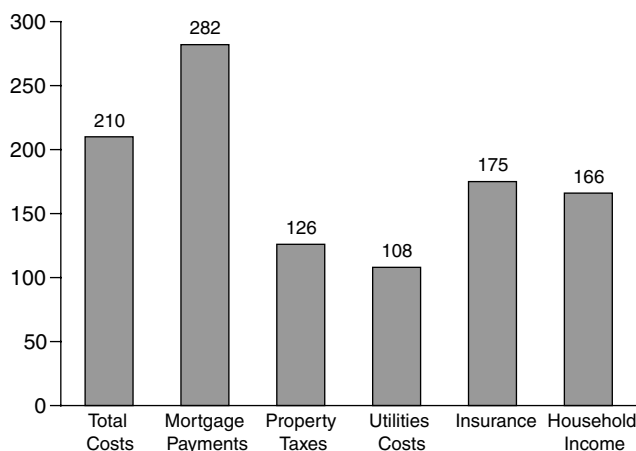
(Percent)



Source: Center for Housing Policy.

FIGURE 2
Increase in Homeownership Costs of Working Families With Children, 1978-2001

(Percent Increase)



Source: Center for Housing Policy.