

## **STRUCTURE OF OUR ECONOMY AND POVERTY**

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While I don't disagree about the two versions Bob Caylor describes -- people swept into poverty by the ups and downs of the business cycle and people whose poverty is in some part due to their own actions -- I think there is a third aspect which is much less visible to most observers.

Is it possible that a significant share of the poverty we consider intractable is actually due to something in the structure of our economy?

Housing costs in most parts of the country have risen significantly. A portion of that can be attributed to fuel costs, and a portion of that can be attributed to people borrowing on the equity in their homes, and a small portion can be attributed to increases in property taxes and insurance costs. (source: [http://www.nhc.org/CenterPieces\\_homeownership\\_2004.pdf](http://www.nhc.org/CenterPieces_homeownership_2004.pdf), which focuses on those whose incomes are below 120% of their local Area Median Income -- Exhibit 6) Income, however, has not risen nearly as much. That is a recipe for disaster, for individual and family desperation. Families can't provide for their (continued on page 9)

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children the extras, like college, which will propel them into the middle class. When the costs of housing rise much faster than wages do, housing costs eat up more and more of one's income. As of 2001, 27.7% of working family homeowners were faced with so-called moderate cost burdens. Moderate is defined as housing costs absorbing 30% to 50% of their income. An additional 11.0% face severe cost burdens, defined as spending over 50% of their income on housing. That's almost 39% of homeowners in the under-120% AMI category.

Those who rent their housing (a group which includes nearly 50% of Californians, for example) face serious housing cost burdens: nationally 22.6% of all renters are paying more than 50% of their income for housing [source: Table 6 in the supplemental tables for the above study].

Let's look at who is enriched by this. First, those who rent housing to others get to collect rents which rise, not because of the rising value of the houses or apartments -- the buildings, being manmade, are depreciating, as the investors' tax returns will affirm (in fact, most of them are also depreciating a portion of the land value -- and those buildings will be depreciated all over again by a new investor when the current one is through). Those rents rise for reasons that have NOTHING to do with what the landlord is providing. They rise because of scarcity of housing. They rise because of the natural increase of population. They rise because of immigration. They rise because an area's natural amenities draw population to the area. They rise because the local taxpayers invest in better schools, sending a higher percentage of children to college. They rise because the local taxpayers fund improved services and infrastructure and also because their elected representatives bring home the pork of federal spending (think of Boston's Big Dig, which has raised property values all around it, to the private benefit of the landholders better served). They rise for reasons that the landholder can take no more credit for than can his tenant or can the fellow who would like to own a home there.

And yet the landholder profits, and the tenant goes on paying, and the buyer goes on paying.

And then something happens. An uninsured illness, for example, or a missed paycheck, or an auto accident which totals a car, or a storm destroys one's furnishings or one's refrigeratorful of food.

One is already stretched thin. One doesn't have much in savings. (If you search on "asset poverty" you'll find pretty good evidence that a distressingly small percentage of us have enough to support ourselves at the poverty level for even 3 months.) So what happens?

One borrows to meet living expenses. Using a credit card, or an auto loan, or a home equity loan, if one is fortunate enough to have some home equity to borrow on. Or a payday loan. And so one's fixed costs go up. Or one moves further away from one's work, and spends more of one's time and money commuting, and away from one's family. (Where I live, the fellow who works in my local print shop leaves at 7 am to be at work at 8:30. He lives 30 miles away. That's 3 hours in the car each day.) Or one files one's federal income

tax return, and pays dearly for a loan that speeds things up by 2 weeks.

But no matter what happens, the landholder keeps on doing better than the non-landholder.

And so far we've only looked at our common need for a place to live. The story is more striking when we consider commercial property. We talk a lot about "small business." Some are home based, but most require a bit of well-located land if they are to succeed. If you are a fast food franchisee, you need a well-located piece of land. Before you can start your business, you need to pay the landlord. If you want to open a retail establishment, you need a well-located piece of land, so that your customers can find you. If you want to manufacture something, you need to be close to a pool of employees and to the transportation systems which will bring your raw materials and ship your finished goods. You pay the landlord. If you want to open a law practice, or a medical practice, or a dental practice, you need to be centrally located, and in the first two cases, accessible to the court house or the hospital.

In a small town, that landlord is likely to be a local resident. And the odds are that he lives in one of the nicer sections of town. When he does well, which is most of the time, he probably invests in more properties, either locally or in more desirable (that is, faster-appreciating) areas, such as waterfront. Perhaps he does his shopping in town, benefiting all the small businesses. He also pays property taxes -- perhaps 1 to 2% of the market value of his property each year.

In a medium-sized or large city, that landlord is likely to be a large corporation, or a family trust of some wealthy individual, or a Real Estate Investment Trust, or a pension fund. They pay their property tax -- which is probably based on an underassessment, because the town doesn't want to risk a lawsuit. When they do well, they don't contribute much to the local coffers. Their shareholders are elsewhere.

Let's return to the small business owner. His first need is for a place to conduct his business, and he must pay dearly for it -- most of which goes to pay for the location and not for the building itself, or the equipment he needs. From what is left of his revenue, he must buy inventory and equipment and must pay his employees. Is it any wonder that he can't afford to pay wages sufficient for an individual to support a family without also relying on having a working spouse?

[Sidelight: look at the doctors and dentists and lawyers in your town. Notice which ones own the buildings in which they conduct their practices, and which ones are tenants. Then notice the kind of homes and lifestyles the landlord ones have versus the tenant ones.]

And then, in addition to what we each pay for housing (either as tenants or as mortgage-payers) and what some of us pay for a place in which to conduct business, we must pay taxes on our wages to be (continued on p. 11)

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— so-called social insurance — and taxes on many of the items we buy (in Alabama, the sales tax in some counties is 11%, and extends to basic things like milk), and often state income taxes, and, if our income is high enough, federal income taxes.

I apologize for the length of this, but hope it might suggest to you the structural reasons why we have poverty. This is not to minimize the business cycle explanation you provide, and it is not to minimize the personal behavior explanation, which is also relevant. But that personal behavior might in part be a function of the extent to which we are not on a level playing field. And of course most of us aren't conscious of this structural aspect. We blame ourselves for not being able to get by, for not being adequate to the situation. It becomes easier to accept that some people might become susceptible to dependence on drugs or alcohol to cope with the situation. And even if no family member turns to drugs or alcohol, these pressures can be hell on a marriage. And these pressures make some people "unmarriageable." Someone who can't provide enough income to support a family isn't a good candidate to be a husband — which may or may not be related to whether they are a desirable sexual partner or "baby daddy."

How do we fix this? I know at least part of the answer. And I suspect that even with what I've laid out here that you won't see it. The good news is that it is largely a private sector solution, a matter of fixing the incentives. <<