

# Uprooting the Great Stagnation: The Building Blocks of a Strategy for Remaking American Housing and Jobs in the Post-Crisis Economy\*

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I want to begin by thanking the sponsors of this event. It is an honor to be here. My assignment today is to propose a policy approach to housing and jobs.

In these areas, the US economy faces several immediate problems:

- (1) **A post-bubble insolvency epidemic, especially for households and small-medium enterprises.** A huge fraction of homeowners' mortgages are 'underwater', in foreclosure, or in limbo. This catastrophic collapse of wealth disproportionately affects African Americans and Latinos.
- (2) **A shelter crisis.** Owners and renters alike are being forced into homelessness or into shared quarters with relatives.
- (3) **A balance-sheet problem in the financial sector which has become a bottleneck for the housing market.** Banks have declared many losses, but have held off on declaring many others. They are taking ever more homes – possibly a million or more – off the market and into their asset inventories. These homes have increased vacancy problems in communities already under unprecedented stress.
- (4) **A jobs famine.** And many of the jobs that disappeared were far distant from housing that workers in those jobs could afford. Job losses, foreclosures, and housing-value deterioration are concentrated in areas with severe jobs-housing spatial mismatches.

These immediate crises are rooted in four deeper, structural ones:

- (5) **Unsustainable land-use, resource-use, and technology.** The “barely” affordable housing that provided the fuel for the subprime crisis often was built far from employment sites. It was often unsustainable – built with the

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wrong size and in the wrong place. As such, it embedded huge social, environmental, and dead-weight costs in the core of US economic growth.

- (6) **A failed housing-supply strategy.** Since the end of the 1970s, the federal government has done little to increase the stock of affordable housing – especially rental housing – for lower-income people. Meanwhile, the cheap credit it has made available for homeownership has augmented housing demand and worsened cyclical volatility – in single-family housing.
- (7) **A financial sector that has super-sized itself and is now subject to mission drift.** This was already discussed; banks have sometimes emphasized predatory, instead of productive, relationships with SMEs and households.
- (8) **A 20<sup>th</sup>-Century infrastructure confronting the challenges of the 21<sup>st</sup>-Century global economy.** Many Americans now face a triple whammy: they have lost jobs located far from homes they can no longer afford, in cities and states that are cutting back on public services. And there is little prospect now for good, sustainable jobs to replace those now being lost.

This is a formula for indefinite stagnation. It will not resolve itself: action by proactive public officials willing to lead the nation forward will be needed. The administration has made good progress on some aspects of these problems. But the gains have been outpaced by the growth of the housing foreclosure process, which will grind on for several more years at a minimum.

These problems are especially challenging because they arise in a complex and uneven patchwork. One size does not fit all. The cities with foreclosure and jobs crises include some that had no housing bubble, and some that did. Some cities are wracked by declining populations, abandoned housing, and empty lots; other cities' empty subdivisions coexist near crowded neighborhoods where more and more people have to double-up in living spaces.

What do we do to resolve these problems, emphasizing the housing crisis?

I recommend that to begin, we stop thinking of housing as an investment. Homeownership has been the American dream, until recently the primary way that US households have saved. But this version of the American dream presumed that households had steady, secure jobs. Those jobs have largely gone away in our nation at the present. So we need American Dream 2.0.

Certainly, housing should be built where it is needed – I have some specific ideas. But my point here is that the idea that Americans' path to employment is through homeownership – that, in effect, the equity in one's home should start or fuel an enterprise that will sustain one's family – has to be set aside. Small business is a key engine of US economic growth, but most small businesses fail. We don't need casino housing any more than we need casino banks. We can't create sustainable incomes by stabilizing homeowners' solvency only to insist that homeowners borrow heavily against their homes. After all, we have just found out what happens when this becomes widespread.

My specific proposals, which were developed in consultation with Kevin Stein of the California Reinvestment Coalition, are these:

(1) The Administration has helped many people faced with foreclosure, especially with the Home Affordable Mortgage Program (HAMP), which just passed a half-million household milestone. But we have to get more aggressive in taking steps to keep people in their homes - when they can afford to pay restructured mortgages.

That is, principal reduction – not the capitalization of arrears – should be adopted as a tool of the federal government. Specifically, mortgage “cramdowns” should be deployed when: (a) the homeowner in default was supplied a predatory loan; (b) the home was sold for more than 200% of the historical price level in neighborhoods whose income level is less than 75% of the metropolitan average. The test for inclusion in a cramdown process should use transparent criteria like the ‘waterfall’ test for the HAMP program.

Other parties to the mortgage/ownership process (such as servicers), who have sometimes blocked mortgage workouts, should be forced to play a supportive, not an obstructive, role.

(2) There should be Home Mortgage Disclosure Act-like data reporting for loan modifications. Treasury should do this with HAMP data. This will shed light on problems, including fair lending problems if people of color aren't receiving their fair share of loan modifications. Given that the loan modification process will go on for years, this investment will pay important social and economic dividends.

More broadly, there is a need to collect more systematic and reliable data on homelessness, foreclosures, and mortgage processes.

(3) Make it easier for owner occupants to buy real-estate-owned (REO) properties. First-time homebuyers and FHA borrowers can't compete for REOs purchases with investors who bring cash to the table. We are just creating a new class of absentee owners, this is not good for communities.

(4) Tenants are innocent victims here. Banks have to respect federal, state and local tenant protections. They banks must at a minimum give tenants in REO properties the option of renting there so properties don't sit vacant.

(5) A large expansion in vouchers for affordable housing for lower-income households under the United States' Housing Choice Voucher (Section 8) Program should be approved. Vouchers should be increased whenever the number of homeless and displaced households rise. That is, in downturns, voucher flows should increase when more households lose housing.

(6) As the home-default/foreclosure process continues, banks will have ever larger inventories of the REO homes on their balance sheets. Home properties held off the market by banks for more than 60 days should be registered and used in the Housing Choice Voucher Program

(7) A planning and construction initiative be undertaken to increase the supply of housing for lower-income people – to end homelessness. Where local communities have developed plans for homeless populations, these plans should be extended to include displaced and overcrowded households.

(8) A national Housing-for-America program should be developed, drawing on (and learning from) the Teach-for-America and VISTA programs. This program can help resolve the severe un- and under-employment problems facing young people in today's economy, and take advantage of the new national "can do" spirit.

(9) One focus of these housing construction efforts should be re-engineering of existing – unoccupied – homes. In many neighborhoods, units built with higher target prices are no longer viable for the lower-income households that actually live there. Unleash the architects: larger homes once intended for owner-occupancy can be re-engineered as more affordable renter-occupied duplexes and multiplexes.

(10) One special challenge with this area are widespread NIMBY (not-in-my-backyard) dynamics. These can block those who have lost housing from regaining it.

The government should experiment with incentives to persuade localities to accept Housing-for-America projects and more lower-income housing.

Carrots are preferred to sticks. Affordable housing development can be encouraged by fixing the problem of the diminishing value of the low income housing tax credit. Also, the construction or refurbishment of affordable rental housing can be linked to access to resources for launching “green technology” and “green jobs” programs.

(11) Banks are heavily subsidized and supported by the taxpayer public. In exchange, they should meet the credit and banking needs of their entire market areas – not just their upscale customers. Community economic vibrancy can be protected by including a modified Community Reinvestment Act in the proposed Consumer Finance Protection Agency. A new agency focused on consumer protection will ensure that communities get loans, investments and services from all sectors of the financial services world.

(12) Finally, as emphasized above, housing fixes are not enough. People need income to maintain their homes, and that means attacking the jobs famine directly, as well as through housing-construction initiatives.

Green jobs are a magnet for thinking these days. There is not time here to develop these ideas. Suffice it to say that developing jobs, especially green jobs, in the communities where lower-income and working-class people live, is of crucial importance. Links between green jobs and affordable housing should be deepened through multiple experiments. A new public-investment initiative should seed these experiments – perhaps we should design a public-investment bank for infrastructure and green technology.

I conclude here with one final observation. One source of the subprime crisis was desperation – it seemed to many that homeownership, however speculatively achieved, was the only way to grab onto the “American dream.” This desperation resulted in part from the absence of meaningful alternatives. We need to see the progress made by the Obama Administration in this area thus far as just a down-payment on a continuing effort to imagine and build a better-housed and greener – and thus a more sustainable - America.