Working Papers

HOMEOWNERSHIP AND ITS IMPACTS: IMPLICATIONS FOR HOUSING POLICY FOR LOW-INCOME FAMILIES

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Working Paper No. 96-2

1996

A subsequent version of this paper has been published as:
Scanlon, E. (1998). Low-income homeownership policy as a community development strategy. *Journal of Community Practice*, *5*(2), 137-154.

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Implications for Housing Policy for Low-Income Families.

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July 1996

Abstract

Homeownership for low-income families is becoming the housing policy of choice in the 1990's. To what extent is this justified? What should the policy be? This paper concludes that homeownership policy for the poor may have positive effects, but the circumstances of poor households--especially neighborhood conditions and income instability--must be taken into account.

Introduction

The belief that homeownership has beneficial effects for individuals and their communities is long-standing in American history (Drier, 1992). Homeownership is considered an integral part of the American dream; not to own is to be considered an economic and social failure. Moreover, a variety of claims have been made about the benefits of homeownership. It has been argued that homeowning increases household financial stability, improves self esteem, enhances autonomy, stabilizes communities, and promotes social and political involvement (Rohe and Stegman, 1994a). The idea that homeownership transmits these benefits is so strongly ingrained that it has seldom been put to any rigorous empirical investigation. Where it has, theory has frequently been underdeveloped, with the exact mechanisms by which homeowning provides benefits poorly conceptualized.

This paper begins with an examination of how low-income homeownership programs in the United States are typically constructed, and briefly discusses the social, psychological and economic claims made for them by their advocates. Section two of the paper considers Investment Return, Social Status and Asset theories as possible explanations of the effects attributed to housing. The paper's third section discusses empirical literature that supports and contradicts the claims of low-income homeownership advocates, as well as research implications for this area. The final section suggests implications for policy.

A Description of Low-Income Home-Ownership Programs

In recent years, both the Bush and Clinton administrations have expressed concern about stagnating homeownership rates, and have looked to homeownership as a potential solution for the crisis in public and low-income housing (DeParle, 1991; HUD, 1995; Hays, 1995). Many community groups advocate low-income homeownership programs, and call for more empirical investigation of homeownership impacts (Rohe & Stegman, 1994a; Stegman, 1993). These programs are increasingly seen as an alternative to public housing and low-income rental subsidies, and can be understood as an alternative to the policy of low-income housing provided by the government. This trend of privatization has been followed by a number of European governments as well as the United States in a variety of social, health and welfare programs.

Through the mechanisms of federal banking policy and the tax system, the United States government has promoted home ownership for middle and upper income Americans since the New Deal era (Hays, 1995). Between the late 1940's and 1980, homeownership increased dramatically, moving from 44% to 65.5% in 1980. These rates are not distributed uniformly across race and class, however, as the poor and minorities are far less likely to own than are white and more affluent heads of household (Oliver and Shapiro, 1995). After 1980, homeownership rates leveled off at about 66%, and have remained there. For some groups, such as minorities, the poor and younger people, homeownership rates have actually declined (HUD, 1996).

The federal government has made minor efforts to encourage homeownership among the poor, but these were typically short-lived and inadequate for making significant differences in overall homeownership rates among this population. The Section 235 program, for example, provided subsidies to low-income home buyers which reduced their mortgage loan interest rate to below market values. The program was marked by scandal, however, and a default rate of 20% of the loans insured between 1968 and 1973. The program was eliminated in the Nixon moratorium on government housing programs in the early 1970's (Hays, 1995; Silver, McDonald and Ortiz, 1985).

In 1990, Jack Kemp, the Bush administration's Secretary of Housing and Urban Development, again took up the gauntlet of home ownership for the poor. Kemp, a former congressman from Buffalo, NY, had a strong ideological attachment to an entrepreneurial approach to social welfare, and wanted to create urban and housing policies that would encourage the poor to participate in the same economic structures as middle and upper income citizens. Kemp supported legislation that would allow such participation, such as homeownership programs, enterprise zones, and business development for the poor. A center piece of his housing policy was the Home Ownership for People Everywhere (HOPE) program. Kemp wanted a new "conservative war on poverty", and despite opposition to many in the Bush administration, was able to convince a Democratic congress to pass his HOPE program (DeParle, 1991).

The HOPE program was structured to provide benefits in a manner that is increasingly common among such programs. These low-income ownership programs typically subsidize housing prices directly, or through reductions of interest rates to below market levels. They frequently provide assistance with closing costs and points, or allow these to be financed in the loan. Often, these programs will reduce or subsidize the down-payment, and provide subsidies for incidental legal fees or other expenses. Finally, they often provide money for programs to help potential buyers to become prepared financially for home ownership and to learn necessary skills such as home repair (HUD, 1992).

The Clinton administration has made homeownership the centerpiece of its housing policy as well. In 1995, Clinton announced his administration's National Homeownership Strategy, a series of 100 recommendations made with the goal of increasing national homeownership rates to an all time high of 67.5% within 5 years. The strategy is designed to use existing institutions and community organizations to expand information and access to credit, as well as strategies to cut down-payment and closing costs. The National Homeownership Strategy was produced by HUD in partnership with private groups such as the American Bankers Association and Fannie Mae ("Clinton Pushes", 1995).

These programs have been justified with many of the arguments that have historically been made for homeownership. These claims--that homeowning brings psychological benefits, raises self esteem, stabilizes finances, encourages home improvement and neighborhood involvement--are commonly made by citizens, social scientists and policy elites. In the following section, this paper explores theories that have been put forth to explain how homeownership might generate such benefits.

Theoretical Models of Homeownership Effects

This section will review three theories of homeownership effects and the empirical evidence for such theories. These theories are not explicitly labeled as such in the literature, nor are they fully developed conceptually. This section is presented as an effort at differentiating the ways in which various authors think about homeownership and tenure effects. There is some overlap in these literatures but there are enough distinctions that they can profitably be distinguished. These theories will be referred to as **investment return theory, social status theories** and **asset theory.**

The **investment return theory** of homeownership is based on the idea that homeownership promotes positive outcomes for homeowners because of the increasing economic equity that is earned. In this view, it is economically logical for homeowners to act in ways that will protect their economic investment in a home. Thus homeownership engenders behaviors such as community involvement and home improvement because they makes economic sense.

Investment Return Theory advocates point to the difference in household assets held by homeowners and renters, noting that homeowner median net wealth in the United States is $78,400 while for renters it is $2,300. For minority and low-income renters, home equity makes up more than 50% of accumulated household wealth. For these authors, the wealth accumulation associated with homeownership is proof that it is a beneficial form of housing tenure. However, these authors also argue that the economic investment of homeowning results in improved property maintenance and hence overall valuation of the housing stock. Thus, homeowners make better neighbors because they have an economic incentive to be better neighbors (Butler, 1985; Megbolugbe & Linneman, 1993; HUD, 1995).

Farmer and Barrell (1981) argue that home buying is lucrative financially in a way that most investment is not, because few other investments provide the level of stable returns earned in housing purchases. This benefit, as Merritt (1982) argues, leads to significant changes in behavior, thoughts and attitudes. Yates (1982) echoes Merritt, claiming:

> "Home-owners tend to be more prepared to pay for the upkeep and maintenance of their properties, since they have a financial interest in maintaining or increasing a home's capital value; tenants do not. The condition of the housing stock is therefore more likely to be maintained with owner occupation than with renting (p. 218)."

Stuart Butler (1985) has argued that private home ownership, because it provides owners with a financial stake in their communities, enhances community involvement. Butler argues, in a 1985 book about privatization schemes, that the poor are encouraged to improve their communities because of the financial gains that flow from enhanced property values.

Peter Saunders (1990) has suggested that home ownership is beneficial to the life chances of individuals primarily through asset accumulation. He sees this as especially important in providing security for old age and a cushion against income decreases after retirement. Further, home owners benefit because they no longer have monthly housing costs, as opposed to elderly tenants, who are still paying rent. Saunders suggests that financial gains can be made by homeowners through property value increases, inflation, tax deductions and their ability to use their own labor to increase the value of their property.

Kemeny (1980) and Doling and Stafford (1989) question this theoretical model, suggesting that it misunderstand the dynamics of housing for low-income homebuyers. These low-income homebuyers may actually lose money through property devaluation that occurs in deteriorating neighborhoods, or at least may experience lower returns on their investments than upper income home owners. Further, income shocks and instabilities are more likely to result in evictions and housing repossessions (Meyer, Yeager & Burayidi, 1994). Further, housing repair costs and the generally worse condition of low-cost housing might create financial burdens for poorer homeowners that make home purchase less attractive (Whitehead, 1979; Meyer, Yeager & Burayidi, 1994). This simplistic theory regarding homeowning may not apply equally well to all households.

Social status theories are a set of theoretical perspectives that link home ownership and individual outcomes through social psychological mechanisms. These theories suggest that homeowning serves a symbol of status and success or that the house allows for a sense of autonomy and control over the immediate environment.

One of the first to propose such a social psychological effect of home ownership was Clare Cooper (1972). In what she called a "speculative think piece," Cooper suggested that the house is a reflection of how man sees himself (sic). Borrowing on Jungian psychology, she saw the house as an archetype of man. Houses, as she observed through an analysis of poems, literature and dreams, are frequently imbued with human qualities. The house in our culture is sacred and represents the self, while everything outside of the house represents the universe. That relationship between the house and the external world is metaphoric for our relationship to others. While not an empirical writing, Cooper's essay has been frequently cited by others who see the home as having a social psychological function as a symbol for self and thus connected to self-esteem.

Robert Rakoff (1977) also suggests a social psychological meaning for the house. Robert begins his oft-cited essay by discussing the ways in which homes are the "dominant symbol of a variety of problematic and conflicting life experiences--personal success and family happiness, mobility and permanence, privacy and social involvement, and personal control and escape." (p. 86) He states that houses are valued because of certain meanings and potentials that we place on them in American culture. They are seen as the place where child raising should occur; when children and family life happen in a house it becomes a home. Second, they are a signal of status and success; we judge ourselves and others based upon the quality of the home. Third, homes provide us with sense of permanence and security and are a symbol of order, continuity and safety. Fourth, they are a source for control over our space, and provide a sense of security against intrusions by the outside world. Discussing his surveys of Americans and their feelings about their homes, Rakoff states:

> ...having control of one's own private space gave people a feeling of freedom from the control and intrusion of others...more importantly people felt that by being in control of their own private space they had the power and opportunity to make something of themselves, to be more of an individual and to achieve a kind of self-fulfillment (Rakoff, 1978, p. 102)

Finally, for all of these meanings and potentials to be realized, home ownership was necessary. Home ownership would allow one to form a home, signal their success, experience geographical stability and assert autonomy and control over a space. Thus, these social psychological elements of homeownership confers benefits upon individuals, enhancing their esteem and sense of control. This perspective frequently informs empirical work in homeownership studies.

Constance Perin (1977) also considers the social psychological process of status enhancement that ownership provides. In American life, argues Perin, homeownership is positioned at the top of a ladder that people are expected to climb throughout their life cycle. Renting is at the bottom, condominium or townhouse ownership is in the middle and home owning is at the top. More status is ascribed as you climb this ladder. Perin says that this is so not simply because owning has a social psychological status embedded in the very fact of possession. First, she says that home ownership confers status because it implies economic success since homeowning and higher income levels are correlated. Second, it confers status because it suggests that the owner is accumulating wealth equity. Third, and most important, it signals one's creditworthiness to a mortgage lender, suggesting one's "having made it." This relationship to the bank is key for Perin, because this indebtedness creates the valued quality of permanence and stability of the owner through their indebtedness. This relationship of debt between homebuyer and banker suggests "full citizenship in society"; when one gets a mortgage they are following the correct chronology of life, are responsible and permanent and are economically solvent and creditworthy. These qualities and this relationship, then, are seen as the source of social status the homeowning provides.

Peter Drier (1982) also is concerned with the social status ascribed to home owners in our culture. Drier's essay "The Status of Tenants in the United States" examines the cultural and social preference given to homeowners in that country. He considers both the economic institutions and ideological supports that privilege ownership tenure and confer status upon owners. Owners are perceived as morally superior, thrifty, responsible, rooted individuals, while tenants are seen as transient, poorer citizens, less civic minded, less responsible, less concerned about children and family and lacking the enterprise and skill to own a home. Not only does Drier link this to an historic view of property holder preferences in American history, but he also contextualizes this bias in the tax, zoning and tenant-landlord laws that favor and privilege homeowners. For Drier, as for Perin and Rakoff, homeownership confers this status for explicit social reasons that are linked to the political economy and unique cultural history of the United States.

Finally, Peter Saunders (1978; 1990) echoes earlier theorists who note that homeownership confers benefits through enhanced status and control of space. Saunders, while supportive of the notion that financial incentives and gains provide many benefits for homeowners, also feels that the ontological security that results from home ownership is key to the neighborhood stability, civic involvement and home improvement activities of homeowners. Homeowning allows for control of space and a sense of ontological security not available to tenants. A desire to protect and maintain that valued connection and security, says Sanders, results in activities such as civic involvement. Thus for Sanders, this psychological security mechanism operates separately from financial processes.

Asset theory, proposed by Michael Sherraden (1991), provides an alternative conception of homeownership effects that has both economic and psychological elements. While his theory is not specific to housing assets, and in fact is focused on the holding of a range of asset types, it can easily be extended to homeowning. In a critique of social welfare policy based on income maintenance, Sherraden asserts the superiority of asset based welfare as a means of decreasing poverty and of generating socially desirable behavior. Assets are the stock of wealth in a household or other unit (Sherraden, 1991, p. 96). Sherraden sees asset based policy as important because it sees well-being as a cumulative, dynamic process, resulting from a life time of stored efforts and accrued wealth. Income based policy, conversely, sees well-being as merely a reflection of consumption capacity. Since welfare policy for the poor is based on income maintenance, the poor are shut out of the asset accumulation process and are unable to generate that form of well-being. The poor are then unable to escape poverty, because "few have been able to spend their way out of poverty." Savings, stored wealth--assets--are necessary for the kinds of cushioning and security needed to exit poverty.

Further, Sherraden theorizes that in addition to providing greater economic security for the poor, assets would also impact their behavior in a more beneficial manner. Arguing that income "..feeds the stomach, but assets change the head", he identifies a set of behaviors that he think might result from asset accumulation. These include: 1) greater future orientation, 2) simulated development of other assets, 3) improved household financial stability, 4) greater focus and specialization, 5) a foundation for risk-taking, 6) increased personal efficacy, 7) increased social influence, 8) increased political participation and 9) enhanced welfare of offspring.

These behaviors, suggests Sherraden, would result in an approach to the world that would decrease the likelihood of continued poverty, and increase income and asset holding. The policy of asset based welfare would create a "virtuous cycle" in which asset accumulation and positive social behaviors would be mutually reinforcing. What mechanisms account for these behaviors?

To answer this question, Sherraden introduces the concepts of stakeholding and cognitive schemata. Owning assets gives residents a certain stake in the system, including them as participants in the social order and offering them some reason for participation in economic and social affairs. The assets, Sherraden reasons, alter the very cognitive schemata of the poor. Experiences of the world interject frameworks that structure one's expectations and understandings of self, world and future. With current conditions of welfare and poverty, the poor hold perceptions of causality in the world--schemata--that do not promote future orientation or a sense of personal efficacy. Sherraden reasons that assets would alter their cognitive schemata, providing them with mental structures that could incorporate the importance of asset accumulation. Future orientation, risk taking, efficacy, etc., would be behavioral and attitudinal results of a cognitive schemata oriented toward accumulation of assets.

These three sets of theories are representative of the way in which various social scientists think about tenure effects. In the following section, I will review the empirical work that has been done on homeownership effects and briefly discuss how that work informs theory.

Empirical Findings Regarding Homeownership Effects

The empirical literature examining the impacts of homeownership is problematic in two ways. First, while assumptions about the effects of homeowning are widespread, little empirical work has actually been done to confirm these relationships. Second, the relationships have not been clarified in terms of explanatory frameworks or mechanisms of causation. Why homeowning has social, economic and psychological impacts is not clarified by many of the empirical studies. Those studies tend instead to be oriented to specific outcomes that we can loosely group together. A recent Department of Housing and Urban Development report (1996) includes groupings of studies that suggest homeownership impacts on economic and financial stability, personal well-being, neighborhood stability and social and civic involvement.

Economic and Financial Stability. A number of studies have pointed to the financial and economic benefits of homeowning. Page-Adams and Vosler (1995), in a study of 193 auto-workers, found that homeownership, controlling for income and education, significantly reduced subjects' perceived difficulty of economic strain.

National studies of home ownership equity point to its central role in total wealth among American households. Home owners have consistently demonstrated greater wealth and equity than renter households. The United States Department of Housing and Urban Development (1995) report that median net worth for homeowners exceeds $78,400 while renters hold less than $2,300. This becomes even more true for minorities, where home equity represents almost three-fourths of median net worth of almost $48,300, compared to $500 for renters. Oliver and Shapiro (1995), in a secondary analysis of surveys of 11,257 US households during 1987-1989, found that home equity accounted for 43.3% of white household wealth and 62.5% of black household wealth. Thus homeowners, regardless of race, are likely to have more wealth accrued than are renters.

An additional question is whether homeownership performs well as an investment. General trend data suggest that owner-occupied homes have performed well as long term investments. HUD (1995) found that the median priced home increased by a total of 41% between 1960 and 1989, and the lowest priced homes by almost 30% in the same period. Gyourko and Linneman (1993) in study of housing affordability, examined data from the Annual Housing Survey and found that in the period 1960-1989, homes across the price distribution increased on average. The period of 1980-1989, however, shows some troubling trends in a decrease in housing price, particularly for lower cost homes. This suggests that while overall throughout this period housing was a good investment, those who purchased in the 1980's and those who purchased lower cost homes may accrue less wealth, or even negative equity.

These data are further complicated by the existence of additional studies that suggest that homeownership does not perform equally well in terms of wealth accumulation for minorities and the poor, probably because of neighborhood conditions that decrease housing values. Oliver and Shapiro (1995) analyzed housing value increases for blacks and whites between 1967-1988 and found a $52,000 increase for whites and a $31,000 increase for blacks. The authors concluded that discrimination in real estate markets and racial segregation cost black households in terms of increases in equity. Similarly, Parcel (1982) found in a study of 375 black and 820 white homeowners significant differences in housing equity accumulation; this was at least in part due to SMSA differences, again suggesting the role of neighborhood segregation in reducing equity. Long and Caudill (1992) examined racial differences in homeownership and housing wealth in the United States between 1970-1986 and found that blacks were less likely to have accrued housing equity due to lower ownership rates and to the lower market values of black owned homes. Neighborhood location effects, suggest Long and Caudill, may account for those lower housing values and the resulting decreased asset accumulation.

Doling and Stafford (1989), examining homeownership in Coventry, England, come to similar conclusions and warn of the potential for lower returns and even negative equity for low-income homeowners. According to these authors, neighborhood conditions, repair costs, and income instabilities resulting in foreclosure can prevent low-income households from benefiting from homeownership.

Personal Well Being. The impact of homeownership on a variety of measures of personal well being has also been studied. These have included studies of psychological constructs, health and social indicators. Yadama and Sherraden (1995) examined 2871 Panel Study of Income Dynamics (PSID) respondents in 1972 and found no relationship between the value of one's home and efficacy, risk avoidance or future orientation. Similarly, Rohe and Stegman (1994a), with a largely African American sample, compared 125 homeowners with 101 section 8 renters, and found that homeowning impacted life satisfaction, but not self-esteem or a perceived sense of control and autonomy. Page-Adams and Vosler (1995) found less depression and less problematic alcohol use among homeowners in a study of auto-workers.

Other studies examine social well-being, rather than psychological constructs. Page-Adams (1995) found that among white couples, homeownership is negatively associated with marital violence. Green and White (1994) found that children of homeowners were less likely to drop out of school and have children during adolescence, and that these relationships were strongest among low-income homeowners. They did not find significant differences in arrest rates between children of homeowners and renters. Henretta (1984) examined PSID data and found the adult children of homeowners, controlling for parent income and parental gifts, were more likely than children of renters to be homeowners. Thus, later life status might result from parental homeownership.

Neighborhood Stability. A number of empirical studies contend that neighborhoods are stabilized by homeownership. This occurs through decreased turnover or resident mobility, and studies by Forrest (1987) and Pickvance (1973) suggest that there is empirical evidence that movers tend to be younger, single and renters. Neighborhoods are further stabilized through upkeep, and research by Galster (1987) confirms that homeowners are more likely to engage in repair and home maintenance.

Social, Civic and Political Participation. Other empirical studies of homeownership have focused on civic involvement (in voluntary associations) and neighboring (providing help to neighbors). Rohe and Stegman (1994b) found that low-income homeowners were more likely than renters to be involved civically, but only at neighborhood or block levels. Perkins et al (1990), examining 48 blocks in New York City, found that the proportion of homeowners on a block impacted civic involvement, but only at individual levels. Other studies confirm that home owners are more likely to be involved in civic organizations (Baum and Kingston, 1984; Cox, 1982; Ditkovsky and van Vliet, 1984; Steinberger, 1981), and to be involved in individual and collective political action (Guest and Oropesa, 1986).

Fischer et al (1984) and Baum and Kingston (1984), analyzed survey results from 50 localities in Northern California and reported higher levels of neighboring among homeowners. Hunter (1975), examining homeowners in Rochester, New York, also found positive correlations between ownership tenure and informal neighboring. However, Saunders (1990), in a study of British towns, found that homeowners were less likely than renters to know their neighbors and were less likely to neighbor. Fischer (1977) found through analysis of a national sample of citizens that, controlling for length of residence, presence of children and home value, owners were no more likely to neighbor than renters.

Discussion and Research Implications

What can we conclude about the theoretical and empirical literature on homeownership effects? First, the data suggests that homeownership remains a good investment in the United States, particularly for middle and upper income households. Lower income people and minorities may have different experiences with homebuying, however, and caution should be taken in assuming that such investments are economically productive. Neighborhood conditions and racial segregation may overwhelm beneficial economic effects of home purchase. Further, some middle and upper income households who invested at the peak of the housing market may experience a loss of investment as the market corrects itself (Hughes, 1991). Research should examine the conditions under which low-income and minorities are at risk for loss of investment when purchasing homes.

Second, homeownership does appear to provide some benefits at the level of psychological functioning. Life satisfaction appears to be higher among homeowners, although other characteristics such as self-esteem are not clearly linked. Social indicators, such as improved outcomes for offspring, reduced marital violence and reduced alcohol use, are encouraging, but the dearth of studies in this area suggests the need for further work. Also, many of these studies use variables that are imprecise and for which reliability and validity are not well established. Measurements should be improved so that relationships can be established more conclusively. Existing evidence also suggests a need for more emphasis on examining these impacts on *low-income households*, and in comparing the effects of homeownership in low-income and other households.

The relationship between homeownership and social and political involvement appears to be fairly strong. While there are some contradictory studies, homeowners do appear to be more involved in at least their neighborhoods, although the exact nature of the civic involvement of owner-occupiers should be clarified. Additionally, the research linking homeownership with decreased tenure mobility is strong, and should be examined further, particularly in regard to low income communities. Research in this area should again focus on specifying the nature of the involvement of homeowners and should clarify whether these effects, and their meaning, are different for low-income homeowners.

Finally, research designs should be developed that allow for clarification of how homeownership mechanisms work. Current research usually examines homeownership status and then links it to dependent variables with no aspect of the design examining variables that may be linking homeownership and beneficial outcomes. Theories of status, economics and cognitive alterations, discussed above, provide some clues as to how homeownership promotes positive outcomes. But further research is needed before any conclusions can be drawn about these processes, and we must admit that the literature to date is largely atheoretical.

Policy Implications

Three policy implications follow from the above analysis.

1. Federal tax policy that promotes homeownership for the middle and upper class is generating not only economic, but also social and psychological inequalities. Tax policy should be altered to equalize class and racial disparities in housing tenure. First, if the positive effects of homeownership create life experiences different for tenants than for owners, then homeowning places people on unequal footings in the class system. The disparities that result from tenure differences appear to decrease the life chances of those who rent. By establishing policies that promote greater likelihood of ownership tenure among the middle and upper classes, we have created policies which sediment inequality. This occurs in three ways.

First, the social and psychological benefits that appear to exist may provide the children of homeowners additional benefits in relationship to the children of tenants, further widening opportunities for development and later life success. Homeownership, like school and labor market inequalities, may be implicated in the widening cleavages of our class structure. Higher self-esteem, improved school attendance, later life first pregnancy, lower exposure to family violence--all of these qualities may allow people greater success in life and in the labor market.

Second, as homeowners are far more likely to accumulate wealth, tenants are directly pushed lower in the class structure by this wealth accumulation inequity. Homeownership appears to provide substantial economic benefits, and lower income households who are unlikely to put money in other investments are especially disadvantaged by the failure to own. Tenure differences are contributing directly through economic mechanisms of wealth accumulation to class inequality in the US.

Third, if homeownership increases involvement in neighborhoods and community, tenure may be responsible for providing greater opportunities for networks and social capital. This again provides those with homeownership with greater social advantages through the sort of upward mobility that occurs through informal networks and relationships.

The implication of this sedimented inequality is that social policy must seek ways to address the inequity in homeownership and to bring the poor and minorities into homeownership status. Currently, the mortgage interest tax deduction is a primary mechanism by which the federal government promotes homeownership; in 1995 that tax deduction was projected to cost the Treasury $83.3 billion. That benefit inordinately aids middle and upper income homeowners (Kemper, 1994); the top .7% of US households received 10.6% of the deduction benefits in 1993. Capping the mortgage interest tax deduction on houses worth above $250,000 could provide $7 billion annually by the year 2000; this could be used as a source of funds to promote homeownership among the poor, among minorities and in distressed communities.

2. Homeownership benefits may be attenuated by overwhelming neighborhood conditions such as crime, poverty, infrastructure deterioration, unemployment and violence. Therefore, promotion of homeownership should be pursued in tandem with community stabilization efforts.

An overview of studies regarding homeownership suggests less positive impacts for people in low-income neighborhoods. This may be occurring because of: 1) less equity accumulation for those living in poor and minority neighborhoods where housing values are lower, or 2) homeownership benefits being reduced through the social and psychological impacts of exposure to crowding, crime, poverty and physical deterioration. Differential homeownership effects by neighborhood is cause for concern, and the reasons should be studied further.

Nevertheless, the fact that homeownership does confer economic and social benefits in poor neighborhoods suggests its potential for buffering some deleterious effects of negative community conditions. Because of this, homeownership in poor areas should continue to be promoted as a development strategy. Simultaneously, cities must engage in neighborhood revitalization which recognizes the importance of strong, safe and attractive neighborhoods as the context for which homeownership is most likely to provide benefits.

3. *The income instabilities of poor and working class families suggests potential for loan default due to income fluctuations or sudden financial stresses related to homeowning such as property tax increases or home repair. Therefore, low-income homeownership programs must be structured to decrease the risk of income shocks in causing loan default.*

The sudden nature of disability, illness, unemployment or unexpected bills creates an increased likelihood for families with marginal incomes to default on home loans. Policy should be constructed to assist poor people in avoiding default. At least three strategies can reduce the risk. First, housing programs can offer home repair courses and counseling for potential homeowners so that they can repair minor problems at low-cost. Second, insurance programs can provide temporary unemployment or disability insurance to meet mortgage payments. Third, back-up savings accounts can be created as a funding source for home repairs. Such accounts can be required to secure loans and monthly deposits can be required along with mortgage payments. This is currently being done successfully by the St. Louis Reinvestment Corporation, and a program of matching deposits is being planned.

Summary and Conclusion

In sum, the evidence suggests that there are positive impacts of homeowning on personal well-being, community involvement, neighborhood stability and financial well-being. However, neighborhood conditions may reduce these impacts and household income streams must be sufficient and stable enough to make homeownership feasible and beneficial. Policy should be directed toward increasing federal financing of low-income homeownership through an adjustment of the mortgage interest tax deduction. Homeownership programs for low-income families should provide backups to prevent loan default. Finally, we should bear in mind that homeownership strategies should be pursued in tandem with community revitalization.

Homeownership programs for the poor--if constructed in a manner which pays attention to the circumstances of poor households and low-income neighborhoods--have the potential to help stabilize communities, promote personal well-being and contribute to economic development. Equally important, such programs fit with the American traditions of home, neighborhood and civic commitment, resonating among Americans, who continue to value homeownership as essential to the American dream.

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