Revised and expanded: substitute this for version circulated Thursday, 15 January 04

Housing and Income.

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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."
      "Undertaxing mansions and manors is a by-product of protecting the poor. It is trivial and harmless enough to ignore."
      (That rationale is important to economists, and at higher level of governments. At the local level, "NIMBY" is the overwhelming cry, but this is not addressed here.)
      a. In politics: Gov. A.S., former Gov. Gray Davis; labor activists Lenny Goldberg, Dean Tibbs, Robert McIntyre; property protector Jon Coupal. Labor activists favor raising property taxes on "businesses" (loosely defined), but not on residences.
      b. Economists: Richard Musgrave; Daniel Lucas et al. from D.C. govt.; Ed Wolff, Robert Lampman, et al.
      c. Construction industry organizations and lobbyists.

      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, etc.
            ?   The homeless.
            ?   Renters, from the transient to long-term lessees. They have incomes, but own no dwellings.
            ?   The overcrowded, e.g. in Sta. 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: Nominal owners with little equity
      c. The very rich.
            ?   Dwellings valued over $1 million: numbers, and aggregate value.
            ?   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 Sta. Fe, Ross, Burlingame, Emerald Bay, 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 S. Carolina; coasts everywhere; etc. Examples of polo fields, golf courses, fox-hunt clubs, views, shooting areas with game, 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 Sta. Ana nearby.
? Inheritance. Data from Thomas Dye

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 dept. 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.

6. Adjusting income data
     a. Need to use "instrumental variables." Margaret Reed, Harold Brodsky, Richard Muth, and my data in #5, using geographical units as variables.
     b. Subtracting improper deductions from reported incomes.
     c. Adding invisible income to reported income
          Imputed income (Survey Research Center; Brainin and Germanis)
          Capital gains
               Allegations of illiquidity are not supportable.

7. Race as an instrumental variable
     Low ratio of Dwelling Value/Income among blacks, Hispanics

8. Adjusting reported values of dwellings
     a. Add recreational appurtenances
     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.

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