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For have-nots, housing crash is cruelest blow

By Paul McMorrow | NOVEMBER 08, 2011



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A "For Sale" sign stood in front of a house in Chicago earlier this year.

A FUNNY THING happened over the past decade: As a country, we stopped providing real avenues for economic advancement, and then covered over this fact with a white-hot real estate market. As long as housing prices never fell, the real estate wealth masked a deeply dysfunctional economy.

The housing-driven recession has now laid this dysfunction bare. Housing was a flawed bridge for closing the gap between society's haves and its have-nots, but it was also the best thing going. Now, the stagnant post crash housing market is exacerbating inequality, and fueling widespread unrest.

In 2005, a few wealthy Americans were concentrating their hold on the nation's wealth, and average families were falling farther and farther behind the country's elite. The economy was growing, but growth didn't lead to widespread prosperity. Median family income, measured in real terms, grew by less than half a percentage point per year between 1997 and 2005.

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Flat incomes meant families were essentially running in place. This is exactly the regressive development that now has crowds across the world marching in the streets. But if anybody was camping around South Station in 2005, they weren't there to protest income inequality. The housing bubble kept everybody fat and happy.

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Frothy home prices gave homeowners what they couldn't get from their jobs — meaningful wealth accumulation. Americans took to tapping their homes like ATMs because there was money in most families' homes, but not in their bank accounts.

The crash that began in 2006 often gets measured in the theoretical value of the real estate that's been erased by steep post-bubble price declines. Losses haven't been abstract, though. Just as the equity from rising home prices boosted stagnant incomes, steep housing price declines have magnified the effects of more than a decade of stagnant family incomes, and created frightening new liabilities. Homeowners who bought houses or took out a new mortgage near the market's peak now owe far more on their mortgages than their homes are really worth. They're unable to refinance into more affordable mortgages, and have zero equity to lean on.

Pain isn't being distributed evenly. Wealthy markets are escaping the housing bust relatively unscathed, while poor cities and neighborhoods have suffered catastrophic losses. Housing declines have hurt populations that have been hit the hardest by

stagnant incomes and the widening gap between the rich and the poor.

Statewide home prices are off their 2005 peak by 16 percent, but in Weston, they're off by 10 percent. Newton home prices remain just off their all-time high. By contrast, home prices in Chelsea and Roxbury are now 40 percent lower than their peak.

The upper echelons of the income scale, which have seen appreciable income gains over the past decade, have also retained a greater share of their home equity, while the middle and working classes, which leaned on housing to make up for flat paychecks, have been hammered.

And we have it easy in Massachusetts. In Nevada, the country's foreclosure capital, home prices have fallen by nearly 60 percent since 2005. Half of Fannie Mae's loans in the state carry mortgage balances that exceed housing market values by more than 125 percent. Housing had been the only thing keeping Nevadans afloat, since middle-class real incomes in the state fell by 13 percent over the last decade.

It's one thing to work hard for a declining paycheck, while a tiny portion of the population gets exponentially wealthier; it's another to fall behind despite working hard, and then have the one means of escaping this economic cycle turn into a monumental liability. Combine those two, then add some rich guy blowing in from out of town and telling you to suck it all up, and you've got an unexpectedly lethal political third rail.

Mitt Romney learned this lesson last week, when he told a Las Vegas paper that foreclosure relief efforts should be halted, and the housing market should be allowed to hit bottom on its own. Angry locals responded by trying to crash a Romney fund-raiser, and waving signs outside that likened the Republican presidential front-runner to Gordon Gekko. Romney didn't receive such rough treatment when he suggested letting Detroit's auto industry fail. It was a telling moment. Factory jobs can come and go, so long as there's home equity to fall back on. But when a bubble that was supposed to cushion an increasingly harsh economy collapses — that's when things get dangerous.