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# Housing Affordability: One-Third of a Nation Shelter-Poor

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# A Right to Housing

## Foundation for a New Social Agenda

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# 2 Housing Affordability: One-Third of a Nation Shelter-Poor

IN HIS SECOND Inaugural Address, March 1937, President Franklin D. Roosevelt uttered his now-famous lament: "I see one-third of a nation ill-housed. . . ." During the half-century following the Great Depression and World War II, the proportion of the nation ill-housed was dramatically reduced, but the United States became and has persistently remained one-third of a nation "shelter-poor." Even after the 1990s brought the longest period of economic growth in the nation's history, the new century began with more than 32 million households in the United States unable to meet their nonshelter needs at even a minimum level of adequacy because of the squeeze between their incomes and housing costs.

When one-third of a nation is shelter-poor, it is impossible to claim that those affected are an unfortunate few left behind by pervasive and sustained prosperity. When the official unemployment rate is under 6 percent, yet more than 90 million people live in shelter poverty,[1] it is impossible to claim that the labor market can provide "good" jobs for all who are willing to work. When 32 million households cannot afford the homes they are living in, it is impossible to claim that the housing market has the capacity to provide "affordable housing" for all who are shelter-poor with just a little more subsidy or a little less regulation. Persistent and pervasive shelter poverty challenges us to acknowledge the structural flaws in our institutions of housing provision and income distribution.

How is the problem of housing affordability any different from that of health care, food and other necessities? Housing has a pervasive impact on all aspects of our lives. If it is adequate, housing provides privacy and security against unwanted intrusions, both physical and emotional. It defines our community and determines our access to jobs, services, stores and networks of support. The residence is the principal locus of family and personal life, in which our personality, values and many of our social roles are defined, shaped and experienced. In its complexity and contradictions, the housing environment may be the setting of anguish, abuse and violence, yet it nonetheless continues to offer the hope of security, love, and expressive and aesthetic fulfillment.

Despite its intimate and profound significance, adequate housing in the United States is not assured to all as a right. Rather, for most of us, the housing we need has to be purchased in the marketplace. What we are able to pay for housing determines not only the quality of our dwelling but also the quality of our residential community and indeed whether we have housing at all. The cost of housing is by far the largest single expenditure in most families' budgets. Not only is the cost large, it is inflexible. Housing is usually the first thing paid for out of disposable income. Other expenditures have to be adjusted to fit whatever income is left over. To be sure, in extreme emergencies, we will feed our kids even if it means not paying the rent. If this continues, however, eventually we will be evicted—lucky to find another place but otherwise homeless. That is, it is not our income alone but income in relation to the cost of housing that is decisive in determining our standard of living. Housing affordability is central to the dilemmas

of inequality and insecurity confronting our society. The affirmation and realization of a Right to Housing would thus mean, most basically, the guarantee of true affordability, with pervasive benefits and implications far beyond housing.

This chapter examines the housing affordability problem in the United States through the lens of the shelter poverty concept. "Shelter poverty" challenges the conventional standard claiming that every household can reasonably afford up to a fixed percentage of income—currently 30 percent—for housing. It offers instead a sliding scale of affordability that takes into account differences in household composition and income. In the aggregate, the shelter poverty measure does not reveal a more extensive housing affordability problem than shown by the conventional approach. It does, however, suggest a rather different distribution of the problem. Some very-low-income households and larger households who pay less than 30 percent of their incomes are nonetheless shelter-poor because they still do not have enough left over after paying for their housing to meet their nonshelter needs at a minimally adequate level. By the same token, high-income households and many small households (especially the elderly) of middle income can afford to pay more than 30 percent of income for housing yet are still able to obtain adequate levels of nonshelter necessities and thus are not shelter-poor. The conventional percentage-of-income measures understate the affordability problem of families with children and other larger households in comparison with households of one and two persons as well as understating the affordability burdens of lower-income households in comparison with those of higher income. The shelter poverty approach is a more finely honed tool for identifying which segments of society are most vulnerable and where attention is most needed.

Before presenting the contours of shelter poverty in the United States, some of the confusing and inconsistent ways in which housing affordability is often understood and discussed will be examined. This leads to explication of the logic and methods underlying the shelter poverty standard of affordability. The balance of the chapter then summarizes the housing affordability situation at the start of the 21st century as well as trends since the 1970s. The major findings are not especially surprising but perhaps are more dramatic than might be expected; *viz:*

- Large and growing numbers of shelter-poor: The number of shelter-poor households has exceeded 30 million since the early 1990s, an increase of more than 70 percent since 1970.
- Worse for larger households: Among families with children, rates of shelter poverty are much higher and over the past several decades have risen faster than among households with just one or two persons.
- Worse for renters (but still bad for homeowners): Nearly one-half of all renter households are shelter-poor, victims of low incomes and rising rents; most are headed by a woman and/or a person of color. Nearly one-quarter of homeowner households are shelter-poor; most are single-parent families or elderly.
- Widening differences between renters and homeowners: Renters have experienced much greater increases than homeowners in their affordability problems; nearly two-thirds of the increase in shelter poverty since 1970 has been among the one-third of all households who are renters.
- Worse for households headed by a person of color: Renter households headed by a person of color have about a 25 percent higher rate of shelter poverty than renter households headed by whites, with a smaller but still significant racial gap among homeowners.
- Worse for households headed by a woman: More than one-half of all shelter-poor renter households are headed by a woman, and two out of five shelter-poor homeowner households are headed by a woman.
- Wide inequality among elderly households: Shelter-poor elders are predominantly very poor women living alone, renters and homeowners; elderly married couples, by contrast, have low rates of shelter poverty.

Other chapters in this text examine the underlying sources of persistent and pervasive shelter poverty in the economy and the housing system. Taken together, these analyses convincingly demonstrate that realization of a Right to

Housing will require changes in the prevailing ways of thinking about housing ownership, production and financing, along with strategies to narrow income inequality.

## CONFUSION ABOUT THE MEANING OF HOUSING AFFORDABILITY

In both academic and policy discussions, the notion of housing affordability is often imprecise and inconsistent along a number of dimensions:

- Housing affordability versus housing standards
- Housing affordability versus "affordable housing"
- A conceptually sound standard of affordability versus the practical policy implications of such a definition
- A normative standard of affordability versus empirical analysis of housing costs in relation to incomes
- Diverse and incompatible definitions of housing affordability

### *Housing Affordability versus Housing Standards*

Housing deprivation can take a variety of forms, of which lack of affordability is only one. People may live in housing that fails to meet physical standards of "decency," in overcrowded conditions, with insecure tenure, or in unsafe or inaccessible locations. While each of these other forms of deprivation is logically distinct from the lack of affordability, in reality, most households who experience one or more of these other forms of deprivation do so because they cannot afford satisfactory housing and residential environments.

If other forms of housing deprivation are largely due to the affordability squeeze, how should affordability assessments account for those households who seem *not* to have an affordability problem (as measured on some standard of affordability) yet *do* experience one or more other forms of housing deprivation? If the cost of obtaining satisfactory dwellings and residential environments within the same housing market area exceeds what such households could afford, then they reasonably should be considered to have an affordability problem even though not revealed by application of an economic affordability standard. Only if such a household actually *could* afford adequate housing might it reasonably be considered to be living in inadequate housing by choice. Thus, while housing deprivation is complex and can take various forms, the measurement of other forms of deprivation and their relationship to affordability is, in principle at least, reasonably tractable.

On the other side, can it not be argued that those households that *do* appear to have an affordability problem yet are "overhoused" might not have an affordability problem if they were not overhoused? This question is the obverse of the one in the above paragraph and could in principle be answered by a similar analytical technique. The difficulty is of course arriving at a reasonable, broadly acceptable operational definition of "overhoused." Although the relationship between the number of persons in a household and the number of rooms or bedrooms in the dwelling is widely used as an operational definition, in its simplicity this definition tends to be simplistic. For example, an apartment consisting of two tiny bedrooms, a tiny living room and dining room, and a minuscule kitchenette could easily have less than one-half the usable space of a unit with one large bedroom, a good-sized living room and an eat-in kitchen. Is it reasonable to consider a widow living in the former to be overhoused because the apartment has five rooms, including two bedrooms, but not in the latter because it has three rooms, including just one bedroom? Of greater subtlety, but as significant for assessing affordability, should households be considered overhoused if they have rooms for anticipated additional children, for overnight visits from family and friends, for study or hobbies, or for home-based business or employment? That is, the number of households that appear to have an affordability problem, but would not have such a problem were they not overhoused, is likely to be considerably lower based on application of some flexible standard rather than a simplistic person/room or person/bedroom definition of what it means to be overhoused.

In sum, housing affordability is not really separable from housing standards. An analysis of the extent and distribution of housing affordability problems that takes into account the indirect effects of affordability on other forms of housing deprivation would increase the number, while adjustment for overhousing would decrease the number of households determined to have a "true" affordability problem. Because of these offsetting tendencies, and the difficulties of definition, housing affordability studies ideally should be iterative—such as applying an economic affordability standard in the first instance while exploring ways of enhancing the precision of the analysis to account for underhousing and overhousing.

### *Housing Affordability versus "Affordable Housing"*

Affordability is quite often expressed in terms of "affordable housing." But this term is at best meaningless and at worst misleading, as affordability is not a characteristic of housing—it is a *relationship* between housing and people. For some people, all housing is affordable, no matter how expensive; for others, no housing is affordable unless it is free. "Affordable" housing only can have meaning (and utility) if three essential questions are answered: Affordable to whom? On what standard of affordability? For how long? Indeed, in light of the discussion in the section above, one might also add meeting what physical standard?

Prior to the 1980s, subsidized housing (public and private) was referred to as "low-income housing" and "low- and moderate-income housing," with explicit definitions of "low-income" and "moderate-income." Although such terms and definitions are still used in determining eligibility under various housing policies and programs in the United States,[2] in the 1980s, "affordable housing" came into vogue as part of the retreat from public responsibility for the plight of the poor and as affordability challenges moved up the income distribution. The term has since achieved international stature yet still lacks precise and consistent definition. As well, it has come to encompass not only social housing and low-income housing but also housing that includes financial assistance to middle-income households that find it difficult to purchase houses in the private speculative market. While the latter is touted as "affordable housing," in reality, it is affordable only to a narrow spectrum of households (depending upon the definition of affordability and local housing market). Such housing is frequently only "affordable" to the initial residents, after which it may be sold, not with restrictions to maintain affordability but into the speculative market where even a semblance of affordability is lost.

It thus seems that a far more accurate and honest term than "affordable housing" would be "below-market housing." The latter properly denotes identifiable segments of the housing stock, without making any unjustifiable general claim of affordability.

### *A Conceptually Sound Definition of Affordability versus the Practical Policy Implications of Such a Definition*

There seems to be some confusion between, on the one hand, the importance of formulating a conceptually sound affordability standard for analytical purposes and, on the other, the potential consequences of adopting such a standard wholesale for purposes of policy. Although some people in the field recognize the conceptual weaknesses of the conventional ratio (percent-of-income standard), most of those who do retreat from fully embracing alternative approaches, declaring, for example, that such approaches are "clearly more sophisticated, and therefore more difficult to apply" (London Research Centre 1996:19; see also, for example, Budding 1980; Wilcox 1999).[3]

Acknowledgment that housing subsidy policy inevitably will and should be shaped by factors other than conceptual clarity of the affordability standard (such as potential perverse incentives, fiscal constraints, political interests) should not result in avoidance of intellectual responsibility for rigorous and sound conceptualization, both for purposes of analysis and as an important consideration (if not the sole consideration) in the formulation of policy.

### *A Normative Standard of Affordability versus Empirical Analysis of Housing Costs in Relation to Incomes*

Studies of consumer expenditures have been carried out in Europe and North America since the late 19th century, yielding considerable information about how households have spent their incomes for housing and other items. One way of summarizing the data on housing costs has been to calculate the mean or median ratio of shelter expenditures to income. It has then been assumed that because households on average actually spend such a fraction of their incomes for shelter, ipso facto this percentage is justified as a standard of what is reasonable to spend.

In reality, what most households actually pay for housing is not what they realistically can afford: Many pay more, while some pay less, whether measured in money or as a percent of income. Who pays more and who pays less than they realistically can afford is not random. An affordability *standard* is a normative concept, which must have some independent logical or theoretical basis, against which households' actual circumstances can be measured. Otherwise, the standard is tautological or arbitrary, or affordability is purely subjective, as discussed in the next section.

### *Diverse and Incompatible Definitions of Housing Affordability*

In practice, there appear to be six different approaches to defining housing affordability or lack thereof:

1. *Tautological*—ability or inability of households to pay for market-rate housing;
2. *Relative*—changes in the relationship between aggregate central tendency measures (medians or means) of house prices or costs, on the one hand, and summary measures of household incomes, on the other;
3. *Subjective*—whatever individual households are willing or choose to spend;
4. *Behavioral*—standards based on aggregate or average housing expenditure patterns, or alternatively on the characteristics of households in arrears;
5. *Ratio*—normative standards of a maximum acceptable housing cost:income ratio;
6. *Residual*—normative standards of a minimum income required to meet nonshelter needs at a basic level after paying for housing.

Statements manifesting the first of these approaches, the *tautological*, are not unusual. For example: "[Affordability is] people's ability to secure housing, to rent or to buy, based on their ability to pay either the rent or the mortgage. . . ." Or, households with an affordability problem are those "who cannot meet the market cost of buying or renting housing from their own resources, i.e., those whose housing costs have to be subsidized. . . ."[4] Such statements, however, are circular and of no practical use, as they imply a standard of affordability but fail to provide any.

The *relative* approach is widely used by the mortgage lending and real estate industries to assess the residential sales market. It is simply an empirical summary that enables two or more points in time to be compared as to whether, on average, dwellings for sale have become relatively more or less affordable. The technical sophistication of such affordability measures does vary, with considerable discussion as to the most appropriate definitions of housing cost and income to use in constructing the measure as well as the implications of different definitions (see Linneman and Megbolugbe 1992; Pannell and Williams 1994). This approach provides no normative standard for assessing how much households realistically can afford and thus for determining how many and which kinds of households can and cannot afford those properties that are for sale. Nor does it provide any basis for assessing possible affordability stresses of households in their current situations as owner-occupiers or renters.

The *subjective* approach rests on the assumption of *Homo economicus:* Because households are rational utility-maximizers, every household is by definition paying just what it can afford for housing. Some households may live in

undesirable conditions or some may have low incomes that give them few choices, but they make the choice that is best for them within their constraints. Thus, from this perspective, housing affordability per se has no generalizable meaning: It is neither rationally possible nor socially desirable to establish a normative standard of affordability other than individual choice.

More sophisticated versions of this perspective do recognize that the degree of financial flexibility does increase with income. Kempson, for example, has argued (1993:26–27) that:

> [P]eople differ in the way they allocate their money. Some choose to spend more on their housing and cut back on other expenditure; while others keep their housing costs low in order to spend more on other things. The higher the income the less need there is for such choices. . . .

Linneman and Megbolugbe (1992:388) have expressed this perspective particularly pointedly. While they acknowledge a "real" affordability problem among low-income households—claiming, though, that it is "primarily a problem of income inadequacy"—they assert, in response to widespread anguish about the cost of achieving homeownership, that housing affordability is "an issue manufactured by middle-class and affluent young adults with ever growing expectations. . . ."

While no one could disagree that higher-income households have considerable discretion about how to allocate their resources between housing and other items, and hence for them affordability may be quite subjective, at the lower end of the income distribution, households are not simply choosing freely between housing and other needs. Rather, since housing costs tend to make the first claim on a household's disposable income, lower-income households have little discretion in what they can spend for nonhousing items. Thus, "subjectivity" of affordability is not only not universal, it is not even a continuum that increases with income. Instead, there is a threshold above which affordability may become increasingly subjective. The important questions are what is that threshold or transition zone below which affordability is *not* subjective and how to define and measure objective affordability below that threshold? These questions are not addressed within this perspective.

The fourth approach to conceptualizing housing affordability—the *behavioral*—has had two strands. One has focused on what households actually spend; in practice, this has formed the basis for the ratio approach, although in principle a residual income standard could also be defined behaviorally. This strand embodies perfectly the confusion between empirical analysis and normative standards discussed in the preceding section.

The other strand has focused on payment arrearage and involuntary displacement resulting from the financial squeeze between incomes and housing costs, with analysis of household characteristics and circumstances potentially providing a basis for assessing risk. Mortgage default and foreclosures, and rent arrearage and evictions for nonpayment, are the most proximate manifestations of such affordability stress. Homelessness (including doubling-up as well as shelter demand and street sleeping) is certainly the ultimate consequence for many families and individuals.

However, while these latter phenomena are complex and have aspects that may be difficult to measure, for the most part they are extreme behavioral responses to dire circumstances. Indeed, families with severe financial stress often continue to pay for their housing but live in substandard housing and/or have inadequate nutrition, with resulting threats to health and child development (see Doc4Kids 1998 and the sources cited therein). As Kearns has similarly put it (1992:539): "A static rate of incidence of rent arrears could hide the fact that households may be adjusting their expenditure priorities in order to meet their housing costs, and as a result be suffering hardship in other areas. . . ." Thus, at best, measures of payment arrearage and loss of housing due to financial stress are useful indicators of some of the consequences of extreme lack of affordability but do not in themselves provide a sufficient basis for establishing a normative standard of affordability.

The *ratio* approach recognizes that what many households pay for housing in relation

to their income is the result of difficult choices among limited and often unsatisfactory alternatives. It asserts that if a household pays more for housing than a certain percentage or fraction of its income, then it will not have enough income left for other necessities. It usually specifies an explicit ratio of housing cost to income as a norm against which households' actual circumstances can be measured. This approach to a normative standard has the longest history and widest recognition and acceptance for assessing affordability throughout most English-speaking countries—even though there is no theoretical or logical foundation for the concept and the particular ratio or ratios that are used.

How can one account for the existence and persistence of the fixed ratio or percent-of-income affordability concept? Apart from the mathematical simplicity of the percent-of-income standard, the rationale for the conventional standard (and the rationalization for raising the acceptable level in the United States from 25 to 30 percent in the 1980s) has been built upon interpretations of empirical studies of what households actually spend for housing, as noted above. Because ratios are pure numbers, they can be compared across time and space, and thus are susceptible to being reified as universal and lawful. Such "laws" then become legitimated as standards. (See Feins and Lane 1981; Pedone 1988:9; Yip 1995:Chapter 7; for a critique of such alleged "lawfulness," see especially, Chaplin et al. 1994:13–14.)

Surely this is specious reasoning. Since a housing affordability standard is intended to measure whether housing costs make an undue claim on household income in relation to other needs, basing such a standard on what people actually pay provides no way of assessing whether they are in fact able to achieve some minimum standard for nonshelter necessities. Furthermore, the notion that a household can adequately meet its nonshelter needs if it has at least a certain percentage of income left after paying for housing implies that the lower the income of a family, the lower the amount of money it requires for nonshelter needs, with no minimum whatsoever. These logical flaws in the ratio approach lead inexorably to the residual income approach to affordability, the only truly logical normative approach, as taken up in the next section.

## THE SHELTER POVERTY STANDARD

### *The Residual Income Logic of Housing Affordability*

The residual income approach to affordability—including the shelter poverty standard I have developed[5]—arises from the recognition that housing costs tend to be inflexible and for most households make the first claim on after-tax income—for instance, that nonhousing expenditures are limited by how much income is left after paying for housing. This means that a household is "shelter-poor" if it cannot meet its nonhousing needs at some minimum level of adequacy after paying for housing. That is, shelter poverty is a form of poverty that results from the squeeze between incomes and housing costs rather than just limited incomes. On this basis, only if a household would still be unable to meet its nonshelter needs if shelter costs were reduced to zero should its condition between regarded as *absolute* poverty rather than *shelter* poverty. Even in the latter circumstance, as long as housing costs are in fact not zero and do make the first claim on such a household's meager income, the depth of their absolute poverty is determined by the squeeze between their income and housing costs.

What are the implications of this logic for the amount and fraction of income that households realistically can afford? Consider, for example, two households with comparable disposable incomes. Suppose that one consists of a single person, while the other is a couple with three children. Obviously, the larger household would have to spend substantially more for its nonshelter necessities than would the small household in order to achieve a comparable material quality of life. This implies that the larger household can afford to spend less for housing than the small household of the same income. Now compare two households of the same size and composition but different after-tax incomes. Both would need to spend about the same amount to achieve a comparable standard of living for nonshelter

items. The higher income household could thus afford to spend more for housing, in percentage of income as well as in monetary terms.

Generalizing from these examples, since the nonhousing expenses of small households are, on average, less than those of large households (to achieve a comparable basic standard of living), smaller households can reasonably devote a higher percentage of income to housing than can larger households with the same income. Since low-income and higher-income households of the same size and type require about the same amount of money to meet their nonhousing needs at a comparable basic standard of living, those with lower incomes can afford to devote a smaller percentage of income for housing than otherwise similar, higher-income households can afford. In this way, the shelter poverty scale emerges as a sliding scale of housing affordability—with the maximum affordable fraction of income varying with household size, type and income—that is logically sound and more realistic than the widely used ratio approach. The residual income logic reveals that any attempt to reduce affordability of housing to a single percentage of income, or even a set of ratios, simply does not correspond to the reality of fundamental and obvious differences among households.

*The Shelter Poverty Scale*

Operationalizing the shelter poverty standard involves use of a conservative, socially defined minimum standard of adequacy for nonshelter necessities, scaled for differences in household size and type. It takes into account the actual cost of a standardized, basic "market basket" of nonshelter necessities in determining the maximum amount of money households can afford to spend for housing and still have enough left to pay for this basic market basket of nonshelter necessities.[6] Thus, while the logic of shelter poverty has broad validity, a particular shelter poverty scale is not universal; it is socially grounded in space and time.

To illustrate, suppose a family of four persons has a disposable income of $2,000 a month. Their out-of-pocket expenses for rent and utilities are, say, $800 a month. They then have $1,200 a month available for nonshelter expenses. If the basic minimum cost standard for nonshelter items at some point in time were to be $1,500 a month for a household of four, then this family is "shelter-poor": They are unable to meet their nonshelter needs adequately at even a basic level because they have a deficit of $300 a month due to the squeeze between their income and their shelter cost. That is, shelter poverty is ascertained by considering actual income and actual shelter costs against a monetary normative standard for nonshelter items, not a normative standard for shelter costs.

The practical issue in translating the shelter poverty concept into an operational affordability scale is how to specify the monetary level of a minimum standard of adequacy for nonshelter items. Although every household has its own unique conditions of life, there do exist historically and socially determined notions of what constitutes a minimum adequate or decent standard of living. They represent norms around which a range of variations can be recognized and about which there certainly may be some philosophical debate. While the experience of "poverty" is recognized as more than just the inability to secure a socially determined minimum quantity and/or quality of essential goods and services, measurable material deprivation is certainly a central element in poverty. Furthermore, in societies where most basic goods and services are commodities, it is possible (at least in principle) to determine the monetary cost of achieving such a basic material level. This budget standards approach to poverty and income adequacy has a long and honorable history (see Bernstein et al. 2000; Bradshaw et al. 1987; Bradshaw 1993; Citro and Michaels 1995; Ruggles 1990).

There are, however, conceptual problems in the treatment of housing costs in the budget standards methodology due to the inherent nature and variability of housing costs. If the budget amounts for housing specified in the standard budgets really do represent the amount of income needed for essentially any household to obtain physically adequate housing, then housing affordability has no independent meaning; for instance, in principle, any household with an income no less than the total budget should be

able to meet all of its basic needs, including housing, at the physical quantity and quality represented by the budget standard. However, while the budget standard methodology is well conceptualized and operationalized for other items, it is flawed with regard to housing. The issue is revealed by contrasting the budget standard approach and its implications for food with that of housing.

For both food and housing (and most other items), some combination of expert opinion, social surveys and focus groups is used to establish a minimal standard of type, quantity and quality, in a given social context at a given point in time. (The physical standard will of course vary by household type, and this qualifier applies to all of the following.) The food standard can then be priced, resulting in a monetary standard. Then, given the nature of food items—low price variance and high supply elasticity—essentially any household could in principle meet the physical food standard with the amount represented by the specific monetary standard, at least within a particular geographical region.

Housing, by contrast, is highly inhomogeneous. Because it is bulky, durable and tied to land, it shows high price variance and low elasticity of supply—even within a given market area. How then to price the minimum standard for housing? If prices are determined for a sample of housing units meeting the minimum physical standard, the price distribution has a large variance. Which point on the distribution should then be selected for the monetary standard for housing? If the very lowest cost is selected (say, the tenth percentile), then most housing is more expensive, and therefore most households, despite their best efforts, will not be able to obtain physically adequate housing at the monetary standard. That is, most households would need income above the total specified by the monetary budget standard in order to meet the minimum physical standard. If, on the other hand, the monetary standard for housing were to be set closer to the midpoint of the price distribution (say, the fortieth percentile, which is the definition of "Fair Market Rent" computed by the U.S. Department of Housing and Urban Development and used in recent U.S. budget standards; see Bernstein et al. 2000), then some households are able to spend less than the monetary standard for housing and hence need less income than the total budget, through no virtue of their own, while others would have to spend more (though not as many as with a standard located at a lower point on the cost distribution). In sum, housing is unique; the budget standard methodology may be able to specify a reasonably precise *physical* standard for housing, but it cannot establish a precise *monetary* standard.

Thus, the budget standards concepts and methodology provide an appropriate basis for establishing a normative standard for *residual* income, but not for total income, given the distinctive nature of housing and housing costs. For operationalizing the shelter poverty scale for the United States, I have utilized as the normative standard for residual income the non-shelter costs (other than taxes) in the Bureau of Labor Statistics (BLS) Lower Budgets, appropriately scaled and updated.[7] This approach reveals, for example, that in 2001, a married couple with two children and a before-tax income of $30,000 a year could afford just 21 percent of their income for housing on the shelter poverty standard. They would have needed an income of at least $38,000 to be able to afford to spend 30 percent of their income for housing and still meet other necessities at a minimal level of adequacy. If their income were $20,000 or less, they could afford nothing for housing. A single parent with two children, working at a full-time job paying $10 an hour, could barely afford to spend 25 percent of her income for housing in 2001—and only if her job included health benefits and she had subsidized childcare; without these benefits, she could afford only a much lower percentage for housing. An elderly couple with an income of $15,000 could afford just 25 percent of their income for housing; but with an income of $17,000, they could afford 35 percent.

The following sections summarize the results of applying the shelter poverty standard to national data on housing expenditures to determine the extent and distribution of housing affordability problems, in the aggregate and for various subsets of the population, over time and

in comparison with the conventional percent-of-income measures of affordability.

## SHELTER POVERTY IN THE UNITED STATES[8]

### *Large Numbers of Shelter-Poor*

In 2001, there were about 106 million households in the United States. Over 32 million were shelter-poor. Strikingly, about 2.5 million more households were paying 30 percent or more of their incomes for housing (Figure 2.1). That is, the shelter poverty approach does not overstate the extent of the housing affordability problem in comparison with the conventional measure. But, as we shall see, it does suggest a significantly different distribution of the problem: Not all shelter-poor households are paying over 30 percent of their incomes for housing, and not all households paying over 30 percent are shelter-poor.

There were 90 million persons living in shelter-poor households in 2001, compared with 84 million people living in households paying 30 percent or more of income.[9] The reason why the number of persons in shelter-poor households was 6 million greater than the number of persons in households paying 30 percent or more—despite the number of shelter-poor households being 2.5 million fewer—is the sensitivity of shelter poverty to household size and hence the relatively larger size of the typical shelter-poor household. The median size of shelter-poor households was 2.5 persons, compared with just 2.1 persons on the 30-percent standard. Thus, while 30 percent of all households were shelter-poor in 2001, 33 percent of all persons lived in households that were shelter-poor.

### *Increasing Shelter Poverty*

Between 1970 and the mid-1990s, the number of shelter-poor households grew by more than 70 percent. From under 19 million households in 1970, shelter poverty grew slowly during the 1970s and then rose sharply in the long, deep recession of the late 1970s to early 1980s, to a

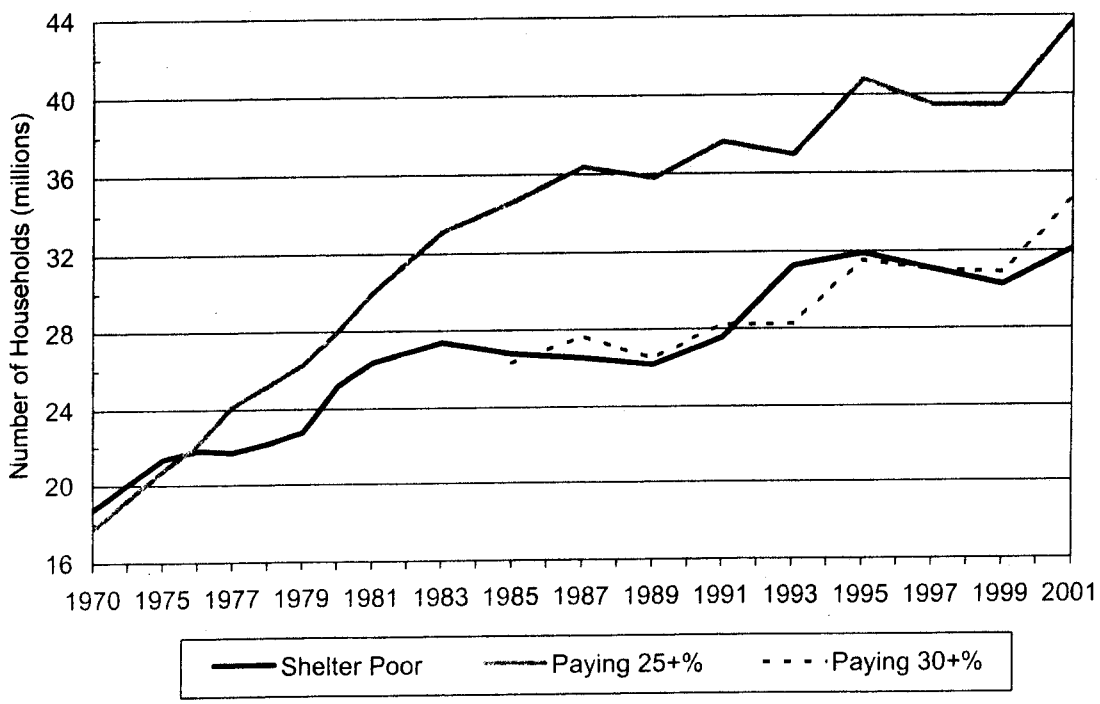


FIGURE 2.1. Affordability Trends in Number of Households, 1970–2001.

temporary peak of a little over 27 million households in 1983. During the following six years of economic growth, shelter poverty actually declined by 1.2 million households. It then soared again in response to the recession of the early 1990s, reaching a new high of nearly 32 million in 1995. Over the next four years, sustained economic growth brought shelter poverty down to just over 30 million households. With the subsequent decline in the economy, shelter poverty climbed past 32 million households by 2001, again surpassing the previous peak (Figure 2.1). Over this period, the *rate* of shelter poverty has also fluctuated with the ups and downs of the overall economy. In 1970, 30 percent of households were shelter-poor; the rate showed little variation from 1970 through 1979, then increased steadily to nearly 33 percent in 1983 before declining to 28 percent in 1989.[10] It increased dramatically over the next four years, reaching a record high 33 percent in 1993, followed by only a slight decline in 1995, before dropping to almost 29 percent in 1999, after which it again climbed past 30 percent in 2001 (Figure 2.2). The share of the population (as distinguished from households) living in shelter poverty has fluctuated between a low of about 31 percent in the early and late 1970s and late 1980s and highs of 36 percent in the early 1980s, 38 percent in the early 1990s and 33 percent as the decade turned.[11]

Shelter poverty is thus seen to be sensitive to business cycle fluctuations, with swings up and down as employment and incomes shift with the overall economy. It is important to keep in mind, though, that underlying these ups and downs, there has been a persistent, long-term shelter poverty rate of about 30 percent of all households—a rate that actually shows a slight upward trend of about two percentage points over the last three decades of the 20th century, as Figure 2.2 reveals. About one-sixth of shelter poverty can be considered cyclical—households who drop into shelter poverty when the economy turns down, suffering job loss and income decline, but who emerge from shelter poverty with economic upswings. The remaining five-sixths of shelter poverty is structural—households for whom growth in the overall economy does not provide the way out of shelter poverty.

Strikingly, in comparison with the traditional percent-of-income measure, the shelter poverty approach actually shows far less growth

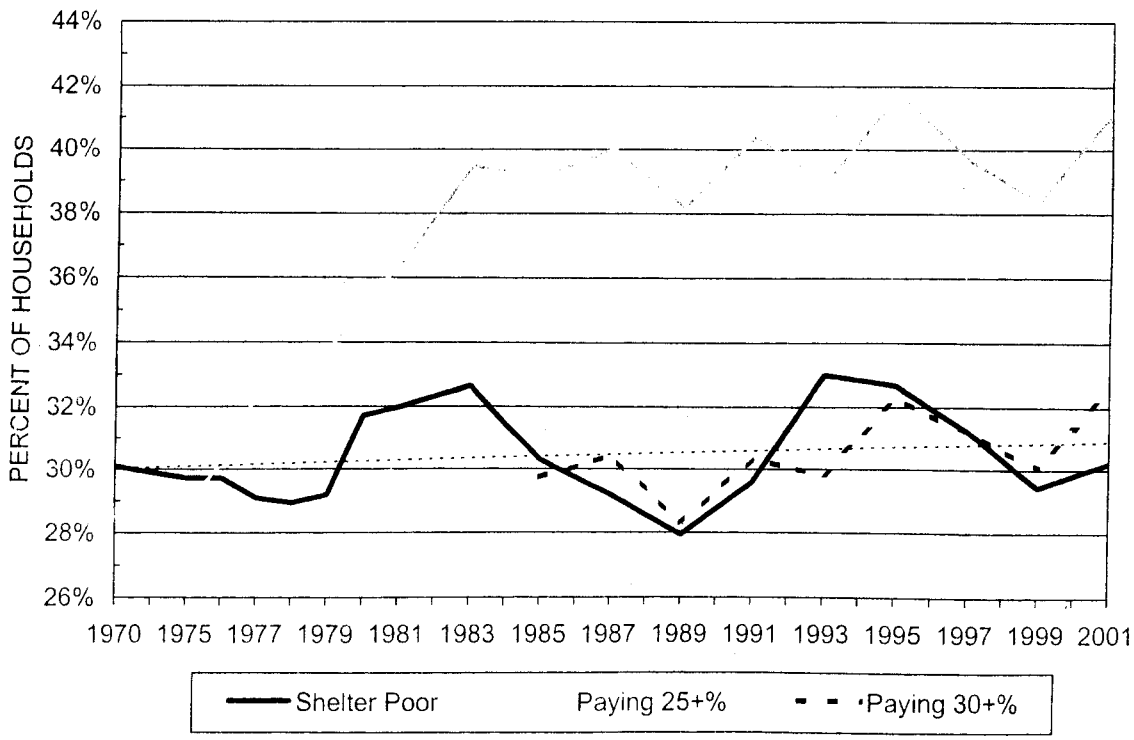


FIGURE 2.2. Affordability Trends in Percent of Households, 1970–2001.

in affordability problems since 1970. Note that prior to the 1980s, the conventional affordability standard was 25 percent of income, so this standard provides a long baseline comparison with shelter poverty, supplemented by comparison with the newer 30-percent-of-income standard since the mid-1980s. In 1970, the number of shelter-poor households exceeded the number paying over 25 percent their incomes for housing by over 1 million. Since 1976, however, the number of shelter-poor households has been less than the number paying over 25 percent, with the difference being 8 to 10 million households since the late 1980s (Figure 2.1). As this gap opened up, the proportion of households paying over 25 percent of income has exceeded 40 percent since the late 1970s, fully 10 percentage points higher than the rate of shelter poverty (Figure 2.2). These trends suggest that, as housing costs rose and the 25-percent standard was jettisoned as the basis for public and private decision-making, more households have had to accept paying over 25 percent of their incomes for housing as a permanent state of affairs. While many of these households are shelter-poor, those of higher income are not, as they can afford more than 25 percent of their incomes for housing without neglecting other needs.

Unlike the gap that opened up with the 25-percent standard, there has been fairly close correspondence in the aggregate number and percent of households shelter-poor and those exceeding the newer 30-percent-of-income standard—at least since the mid-1980s (Figures 2.1 and 2.2). However, as has already been suggested and will be further explored in the next section, this remarkable coincidence in the aggregate extent of the problem as measured by these two affordability standards masks sizable differences in the experience of large and small households.

### *Worse for Larger Households*

The relative stability in the underlying long-term rate of shelter poverty masks a growing affordability problem over the past three decades for families with children. This is because the overall incidence is a mixture of trends in shelter poverty for small (one-person and two-person) households—for whom there has been a significant downward trend in the underlying rate of shelter poverty since 1970—and larger households (containing three or more people) for whom the basic shelter poverty rate has risen substantially during the same period. In 1970, small households had a 3 percentage point higher rate of shelter poverty than larger households. By 1975, these rates had reversed, and since then, the incidence of shelter poverty among larger households has remained consistently above that of small households—a differential reaching 8 percentage points by the late 1980s, then soaring to 15 percentage points in the mid-1990s before narrowing to 10 to 11 points later in that decade (Figure 2.3).

Of households containing three or more persons, the number who were shelter-poor rose by 86 percent—from a little over 9 million in 1970 to over 17 million by 1995, after which it dropped to the 15 to 16 million range. Meanwhile, their rate of shelter poverty rose from a low of 29 percent in 1970 to a relative peak of 36 percent in 1983. The rate declined just a few percentage points in the mid-1980s but surged to over 41 percent from 1993 to 1995, after which it declined to about 36 percent (Figure 2.3). That is, shelter poverty among households with three persons or more—nearly all of which contain children—has risen to where close to two out of every five are shelter-poor.

In comparison, the number of small households (one or two persons) who were shelter-poor rose 66 percent between 1970 and 1997, from slightly over 9 million to nearly 16 million, then declined a bit before rising to 16.5 million in 2001. However, because this increase was exceeded by enormous growth in the number of small households of relatively high income, the *rate* of shelter poverty among small households actually declined during the 1970s and remained less than 30 percent even in the recession of the early 1980s. It reached a low of 24 percent in 1989 before turning up to 27 percent during the recession of the early 1990s, fluctuating between 25 and 27 percent thereafter (Figure 2.3).

The conventional measures, by contrast, show no reversal in the affordability situations

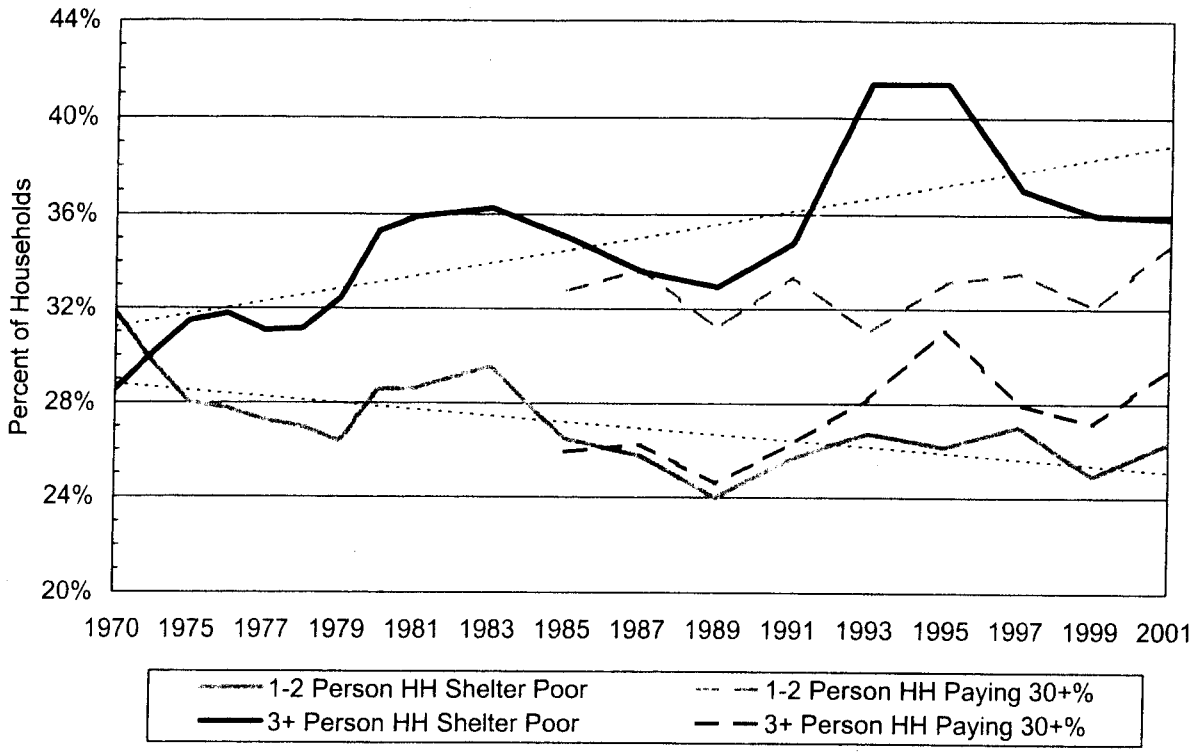


FIGURE 2.3. Affordability Trends by Household Size, Percent of Households, 1970–2001.

of small and larger households. The percent-of-income standards have consistently suggested that small households are substantially worse off than larger households, although the difference narrowed considerably in the early 1990s (Figure 2.3). The reason the conventional measure continues to suggest that smaller households are more likely than larger ones to have affordability problems is that it gives undue weight to the growing number of small middle-income households, many of whom are not necessarily shelter-poor, even if they are paying more than 25 or 30 percent of their incomes for housing. In revealing the disproportionate growth of affordability problems among larger households, the shelter poverty approach reveals much more clearly than the conventional approach how housing affordability is one of the principal causes and manifestations of the economic strains on families with children.

*Worse for Renters (but Bad for Homeowners)*

Nearly one-half of all renter households are shelter-poor, the incidence averaging about 45 percent since the early 1990s. By contrast, approximately one-fourth of all homeowner households are shelter-poor, averaging about 24 percent over the same period (Figure 2.4). The primary reason for renters' much higher rate of shelter poverty is that they are poorer on average than homeowners: median income in 2001 of about $25,000 for renter households compared with over $49,000 for homeowners. Also, unless they are protected by rent control or housing subsidies, renters do not have the benefit of relatively stable housing costs, unlike those many homeowners who have fixed-rate mortgages and have not recently bought their homes or borrowed against their equity.

In addition, shelter-poor renters are somewhat poorer than shelter-poor homeowners on average: Shelter-poor renters had a median income of $11,300 versus $16,300 for shelter-poor homeowners in 2001. Indeed, 56 percent of shelter-poor renters (8.4 million households) can actually afford *nothing* for housing compared with 42 percent of shelter-poor homeowners (7.1 million households). However, homeowners are far more diverse economically

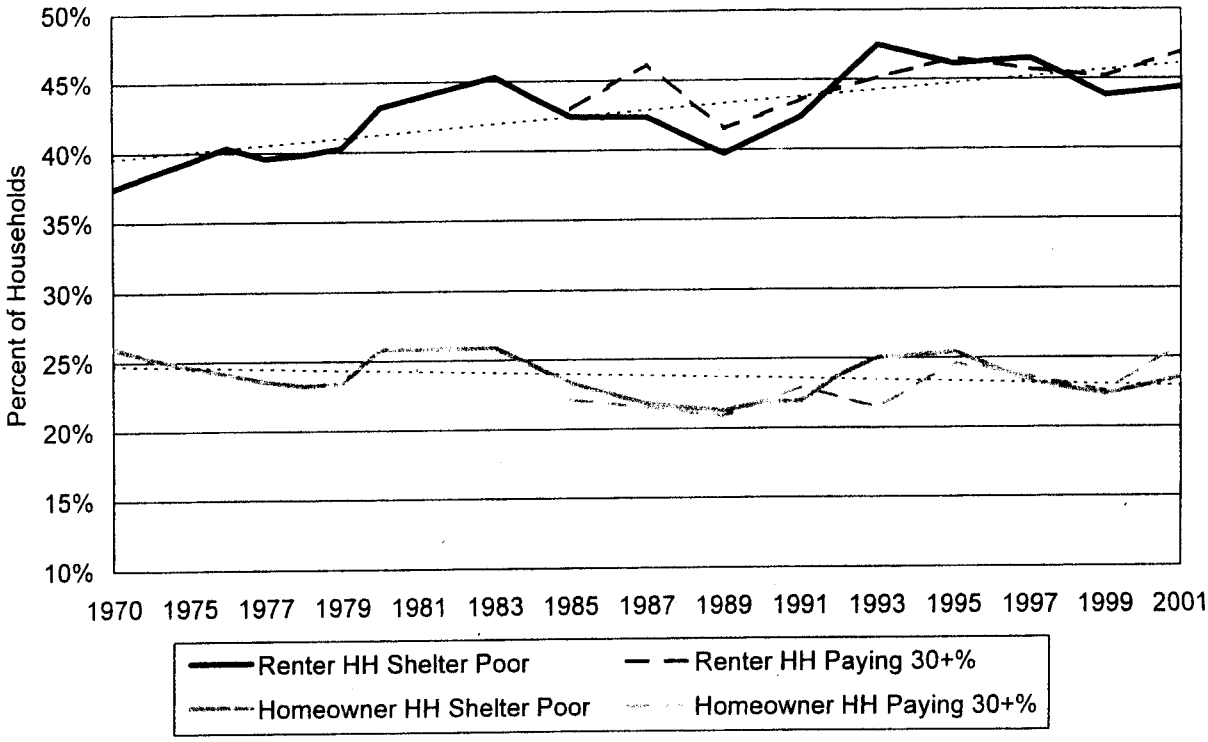


FIGURE 2.4. Affordability Trends by Tenure, Percent of Households, 1970–2001.

than are renters: For example, single homeowners have a median income of only $25,000; those with three or more persons have a median income of about $65,000. Homeowner shelter poverty also reflects wide social inequality among homeowners, with shelter poverty differences by income and household size correlating strongly with gender, race and age differences.

More than 15 million renter households were shelter-poor in 2001. More than four out of five had incomes of less than $20,000. Indeed, nearly 80 percent of all renters with incomes under $20,000 were shelter-poor. Shelter poverty rises sharply with household size, ranging from 31 percent of one-person renters to nearly 73 percent of renter households with six persons or more (Figure 2.5). This disproportionate burden on larger households means that the rate of renter shelter poverty measured in terms of persons was 52 percent in 2001 (41 million people) compared with 44 percent of households. More than one-half of all shelter-poor renter households are headed by a woman, and more than two-fifths are headed by a person of color.

By way of comparison, on the 30-percent-of-income standard, about 47 percent of renters had an affordability problem in 2001 (with a median income of $13,900). As we have seen, though, the aggregate similarity in the extent of the problem on the shelter poverty and 30-percent standards masks significant differences by household size. Unlike shelter poverty, the conventional measure suggests virtually no difference in the rates of affordability problems among renters by household size, thereby understating the problems faced by families with children while exaggerating the problems of small households. For renters with incomes below $10,000, the two approaches show nearly all households to have severe problems. At higher incomes, however, shelter poverty remains quite serious among the largest households with incomes all the way up to $40,000 but among one-person households is not serious above $15,000. The conventional approach shows no such differences and hence, to repeat, is a much coarser instrument for understanding the problem and focusing resources where they are most needed.

A little over 17 million homeowners were shelter-poor in 2001. Homeowner shelter poverty disproportionately afflicts households headed by someone who is a woman and/or

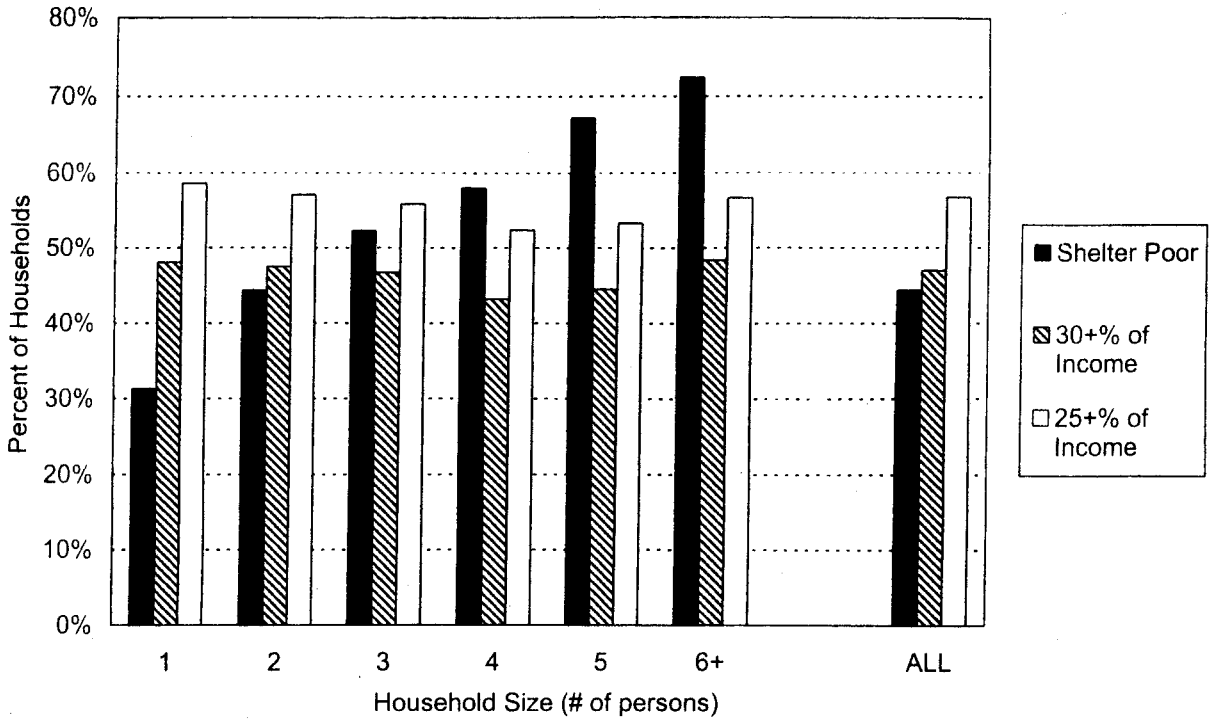


FIGURE 2.5. Renter Affordability by Household Size, Percent of Households, 2001.

elderly and/or a person of color. The rates of shelter poverty among one- and two-person homeowner households were slightly above 20 percent in 1997 but were much higher among larger households—26 to 28 percent for three-, four- and five-person households and 39 percent for six-or-more-person households (Figure 2.6). That is, once again, the shelter poverty approach reveals the greater affordability problems faced by larger households, although the rate rises much more steeply for renters. Among one-person households, the incidence of shelter poverty among renters is 10 percentage points higher than for homeowners. For three-person households, renters have a shelter poverty rate 26 percentage points higher; for six-or-more person households, the differential is 33 percentage points.

*Widening Differences between Renters and Homeowners*

Nearly two-thirds of the rise in shelter poverty since 1970 has been among the one-third of all households who are renters. In 1970, shelter-poor renters accounted for 45 percent of all shelter-poor households; since 1985, they have been a majority nearly every year. From 1970 through 1993, the number of shelter-poor renter households increased by 90 percent, from 8.4 million to 15.8 million, and has since fluctuated between 15 and 16 million. The incidence of shelter poverty among renters grew from 37 percent in 1970 to a temporary peak of over 45 percent in 1983. Renter shelter poverty then fell steadily to just under 40 percent by 1989, but with the onset of recession, it then soared to nearly 48 percent in 1993 and declined to a little under 44 percent in 1999 before turning upward again with the new century (Figure 2.4).

Single renters have experienced a substantial increase in the number who are shelter-poor yet a long-term downward trend in the percent shelter-poor. This trend is due primarily to striking differences in shelter poverty between elderly and nonelderly singles, and the enormous increase in the total number of nonelderly singles. Elderly singles, who are overwhelmingly female, have long been the poorest of all households and have faced rents increasing faster than incomes; by the mid-1980s, nearly one-half of such households were shelter-poor. Meanwhile, there has

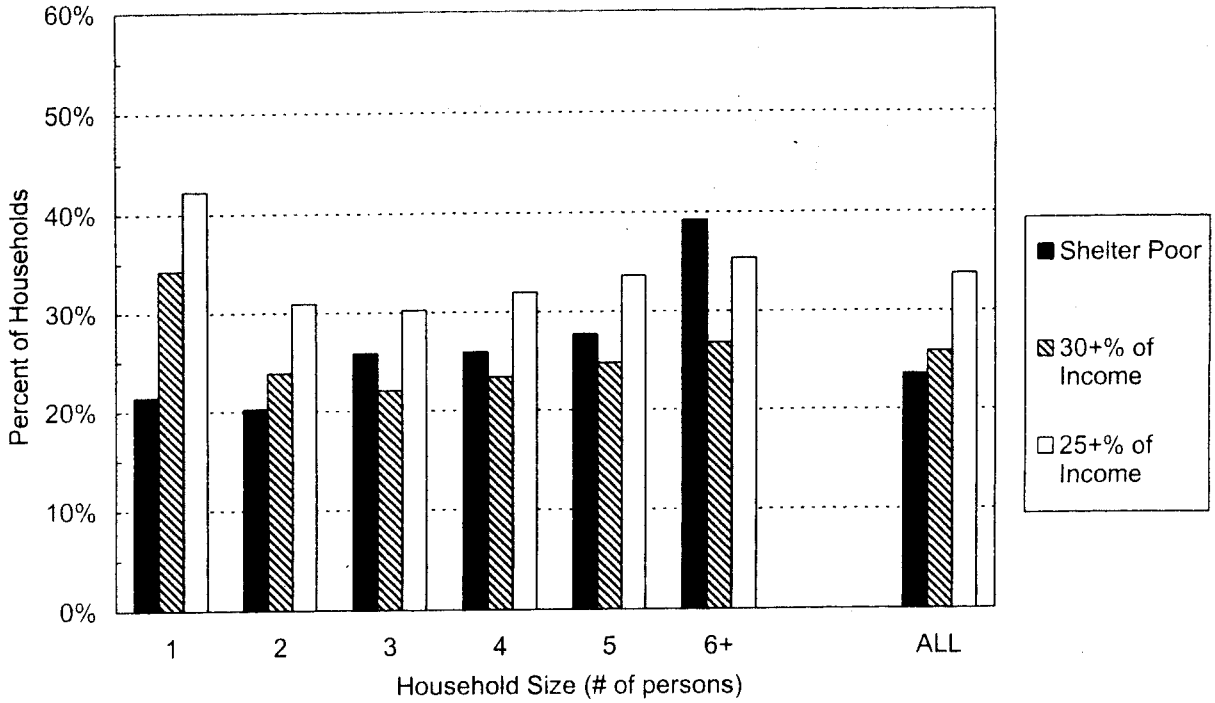


FIGURE 2.6. Homeowner Affordability by Household Size, Percent of Households, 2001.

been a rapid increase in the number of middle-income and higher-income nonelderly singles, nearly all of whom are not shelter-poor.

The majority of renter households containing three persons or more are shelter-poor and have had enormous increases in their rates of shelter poverty. Their incidence of shelter poverty rose from 44 percent in 1970 to 61 percent in the early 1980s, followed by some improvement through the rest of the 1980s. Their plight again worsened with the recession in the early and mid-1990s, when their rate of shelter poverty surpassed 66 percent. It fell slowly thereafter to 58 percent in 2001.

Meanwhile, the number of shelter-poor homeowners grew by 64 percent between 1970 and 2001—from slightly more than 10 million to 17 million households. Homeowner shelter poverty has been more volatile than that of renters, reflecting fluctuating homeownership rates, rising mortgage debt burdens and widening inequality among homeowners. There was an increase of nearly 4 million shelter-poor households from 1970 through the early 1980s, followed by a decline of 1.5 million households from 1983 through the late 1980s, and then another surge of over 3.5 million households from 1987 through 1995. This was followed by a decline of under 1 million in the late 1990s, followed by another sharp increase of over 1.5 million in the number of shelter-poor homeowners between 1999 and 2001 as the economy again headed downward. The incidence of shelter poverty among homeowners has shown fluctuations with the economy, ranging between about 21 and 26 percent, against a background of a modest, long-term downward trend (Figure 2.4).

Homeowner households with one and two persons experienced sizable decreases in their rates of shelter poverty during the 1970s, with the rates remaining nearly unchanged at about 20 percent since the mid-1980s. Yet the number of small homeowner households who are shelter- poor rose by 45 percent from 1970 to 1997. The resolution of this apparent inconsistency is to be found in the more rapid increase in the number of small homeowner households who are not shelter-poor. Some of the latter are "empty-nesters," long-term owners who benefit from relatively low housing costs plus incomes rising with inflation; many others are younger,

higher-income households without children. By contrast, it is primarily elderly and middle-aged female-headed households who account for the increase in the number of shelter-poor small homeowner households.

Larger homeowner households (three persons or more) have seen their rates of shelter poverty fluctuate with the economy. However, the variations are correlated with household size. Homeowner households with three and four persons have had fairly consistent shelter poverty rates of about 20 percent since the mid-1970s. Only the relatively small proportion of homeowners with five persons or more have experienced high and rising shelter poverty rates since the mid-1970s.

Shelter poverty patterns by tenure suggest the need for particular attention to the problems of renters—almost one-half of whom are shelter-poor and who, for the most part, are suffering simultaneously from the depredations of the private rental market along with low and stagnating incomes. They therefore need extensive and effective strategies from both sides of the affordability squeeze. Homeowners, by contrast, are only one-half as likely to be shelter-poor, and those who are shelter-poor mostly are afflicted by one side of the housing cost/income squeeze or the other. Specifically, one major segment of shelter-poor homeowners consists of older, long-term owners who have relatively low housing costs but very low incomes. Another group is single-parent families, for whom dissolved relationships left them with houses but with less income and hence mortgage and property tax payments that are much less affordable than before. The third major group consists of younger, more recent buyers of moderate to middle income who are carrying huge mortgage burdens.

### *Worse for Households Headed by People of Color*[12]

The majority of shelter-poor households are white, but shelter poverty is disproportionately borne by households headed by a person of color. While about 77 percent of all households were headed by a white person in 1997, 66 percent of shelter-poor households were headed by a white. Conversely, about 23 percent of all households were headed by a person of color, but 34 percent of shelter-poor households were headed by a person of color.

Among households of color, the highest rates of shelter poverty have been experienced by Latinos, the next highest by non-Latino Blacks, followed by Asians. In 1997, 50 percent of Latino-headed, 45 percent of Black-headed (non-Latino) and 35 percent of Asian-headed households were shelter-poor, compared with 27 percent of white-headed households.

When examined by tenure, the same relative severity in the incidence of shelter poverty by race/ethnicity is found for both renters and homeowners. Among renter households, 58 percent of Latinos, 52 percent of Blacks and 46 percent of Asians were shelter-poor in 1997, compared with 42 percent of white renters. Among homeowners, 39 percent of Latinos, 36 percent of Blacks and 25 percent of Asians were shelter-poor compared with 21 percent of white households.

Notice that the differences in the rates of shelter poverty by race/ethnicity are somewhat smaller, controlling for tenure, because of differences in the proportions who are renters and homeowners. That is, households headed by a person of color are more likely to be renters, and renters have higher rates of shelter poverty. Over 57 percent of Latino households, 54 percent of Black households and 49 percent of Asian households were renters in 1997 compared with just 28 percent of white households. In addition, Black, Latino and Asian households are a steadily increasing proportion of all renter households of three persons or more and an even greater share of those who are shelter-poor.

Certainly, one of the major factors accounting for differential rates of homeownership between households headed by a person of color and by a white person are differences in income. But within tenures, are the higher rates of shelter poverty among households headed by a person of color due to lower average incomes and larger average household size, or are they perhaps also due to households of color paying more for housing? Analyses of shelter poverty among Blacks and Latinos (Stone 1993:52–53) and Asians (Stone 1996:10–12) demonstrate that, controlling for income and household size,

differences in the rates of shelter poverty by race/ethnicity are not statistically significant for both renters and homeowners (and the same holds true for the conventional affordability standard). That is, a household of a given tenure, income and household size that is headed by a person of color is not more likely to be shelter-poor than is a white-headed household of the same tenure, income and household size.

However, the fact that Latinos, Blacks and Asians of a given tenure, income and household size pay, on average, comparable amounts for housing as do whites of the same characteristics does not mean that they obtain housing of comparable quality. Analyses of rates of physical problems by race/ethnicity, controlling for income, among Blacks, Latinos and Asians, reveal that race/ethnicity is a highly significant factor in determining the quality of housing occupied by a household of a given income or paying a given amount. They further reveal that the situation is worse for Blacks than Latinos and worse for Latinos than Asians; Blacks continue to be most victimized by racism in the housing market (Stone 1993:52–53; Stone 1996:10–12; see also Chapter 3). Combining this with the analysis of affordability demonstrates that there is not direct but instead indirect price discrimination against households of color: Although households headed by people of color are not more likely than white households of the same tenure, income and size to be shelter-poor, the former often get poorer quality housing for their money. This means that even though elimination of housing discrimination would, all else being equal, have little direct impact on shelter poverty among households of color, it would at least increase their chance of obtaining decent housing.

*Worse for Households Headed by Women*

Households headed by women comprised 38 percent of all households in 1997. Yet they accounted for 47 percent of all shelter-poor households and 48 percent of households paying more than 30 percent of income. Nearly 39 percent of all households headed by a woman were shelter-poor compared with a little over 31 percent of all households.

Among renters, 8.4 million female-headed households were shelter-poor in 1997—a little over 50 percent, compared with under 47 percent of all renters. Among homeowners, 6.2 million household headed by women were shelter-poor—30 percent—compared with slightly more than 23 percent of all homeowners. As with households headed by a person of color, the differences are smaller within tenure categories because households headed by women are more likely to be renters—44 percent of female-headed households are renters versus 34 percent of all households.

However, unlike households headed by a person of color, the differences in shelter poverty rates for female-headed households in comparison with other renters are explained entirely by differences in average incomes, not at all by household size differences. Despite the fact that there is no difference in median size, the median income of female-headed renter households was $17,000 in 1997 compared with $21,000 for all renters. Indeed, for every category of household size, households headed by women are poorer than other renters. Looking at shelter poverty by household size, female-headed households have shelter poverty rates 3 to 6 percentage points higher than for all renters of the same size, except for two-person renters, for whom the rates are comparable. Of those who are shelter-poor, the median income of female-headed households was just $8,900 in 1997 versus $9,600 for all shelter-poor renters. Among one- and two-person shelter-poor households, the income differences are small, but among all larger household sizes, shelter-poor female-headed households have median incomes about $2,000 lower than that of all shelter-poor renters of the same size.

Household size does matter for female-headed homeowners. Among homeowners, households headed by women are smaller on average than all households (1.8 vs. 2.4 persons). Fewer than two-thirds of all homeowners who live alone are women; yet more than three-fourths of shelter-poor homeowners who live alone are women; 27 percent of female homeowners who live alone are shelter-poor, nearly twice the 14 percent of male homeowners living alone. Indeed, women living alone are the

modal type of female homeowner household: Approximately 40 percent of all female-headed homeowner households and almost 36 percent of those shelter-poor consist of a woman living alone.

Nonetheless, the majority of homeowner households headed by a woman have more than one person. The difference between female-headed and other household types is the smallest among two-person homeowner households (about 5 percentage points). Among larger households, by contrast, the differences are enormous: Female-headed homeowner households containing three or more persons have shelter poverty rates that are more than 10 percentage points higher than for other household types. Furthermore, these 2.5 million larger shelter-poor households account for about 40 percent of shelter poverty among female homeowners, and they account for nearly one-third of all shelter poverty among all homeowner households with three persons or more. This group of households is comprised mostly of women with children who are suffering financially as they try to support their families and avoid foreclosure. (See Chapter 14 for further discussion of the housing experiences of households headed by women and appropriate policies and strategies.)

*Wide Inequality among Elderly Households*

There were about 21 million households headed by a person at least 65 years of age in 1997. Of these, nearly 6.5 million, or 31 percent, were shelter-poor—just about the same percentage of all households who are shelter-poor. Seniors do, however, have a higher rate of homeownership (79 percent in 1997) than do younger households (62 percent). So when disaggregated by tenure, elderly households are slightly more likely to be shelter-poor than are younger households.

Far more significant, though, for understanding shelter poverty among seniors is the much smaller average size of elderly households. One-person seniors—most of whom are women—have about twice the rate of shelter poverty as do younger people living alone: 49 percent of senior renters are shelter-poor versus 25 percent of nonseniors; 30 percent of elderly homeowners are shelter-poor versus 15 percent of nonelderly households. Two-or-more person senior households—most of whom are married couples—show far less difference in their likelihood of being shelter-poor: indeed, among renters, 45 percent of the elderly and 45 percent of the nonelderly are shelter-poor; among homeowners, 24 percent of the elderly are shelter-poor versus 16 percent of the nonelderly.

These differences by household size are suggestive of the wide inequality among elderly households. There is one group with incomes of under $15,000, most of whom are shelter-poor: It includes the great majority of one-person renters (75 percent) and homeowners (60 percent); this group also includes a little under one-half of married-couple renters and about a one-fourth of married-couple homeowners. The other, relatively high-income group of seniors consists mostly of married-couple households: Among renters, about one-fourth of elderly households with two or more persons have incomes of $30,000 or more; among homeowners, close to one-half of elderly households of two or more persons have incomes of $30,000 or more. (See Chapter 13 for further discussion of the housing challenges of the elderly and policies for addressing them.)

*The Housing Affordability Gap*

In 2001, shelter-poor households faced a gap of about $450 a month, on average, between what they were paying for housing and what they could afford. By contrast, the average affordability gap was about $345 a month if one uses the 30-percent-of-income standard of affordability. Among renters, the shelter poverty affordability deficit averaged about $460 a month (about $5,500 a year), ranging from $370 a month for one-person households up to $530 for those of five-plus persons. The average affordability gap for shelter-poor homeowners was about $450 a month (nearly $5,400 a year), ranging from $390 a month for one-person households up to $800 for households of six-plus persons.[13]

Of course, these figures in no way measure the physical adequacy of the homes that shelter-poor families occupy or the quality of their residential environments. Some may be housed quite well but are financially squeezed; others are housed quite poorly but would have a considerably larger affordability gap if they were to obtain better housing in the private market. In addition, this figure does not include the tangible and intangible costs of homelessness.

The sum of the affordability gaps for all shelter-poor households is the national affordability deficit. In 2001, it was about $170 billion when using the shelter poverty standard and about $140 billion when using the 30-percent standard. By way of comparison, at the end of the 1980s economic boom, in 1989, the national shelter poverty affordability deficit was about $95 billion—$136 billion if measured in 2001 dollars. That is, over the 12 years from 1989 through 2001, the national housing affordability deficit grew 25 percent when measured in constant (inflation-adjusted) dollars.

While the national affordability deficit is staggering in terms of its economic and policy implications, it is less than 2 percent of the gross domestic product (GDP) of the United States, less than 10 percent of total federal budget outlays, less than three-fifths of military spending and less than one-half of Social Security outlays (U.S. Census Bureau 2001:Table 463).

## CONCLUSION

This nation has a long history of ambivalence at best toward the poor. Periods such as the beginning of the 20th century, the 1930s and the 1960s, during which there was fairly widespread support for some efforts toward reducing inequality and assuring a minimum adequate standard of living, have been followed by periods of retreat from such concern. Each era of reform has, of course, not only been in response to incontrovertible human needs, but in response to political insurgency by those in need, with support of those in sympathy. The policies and programs adopted have provided a measure of relief for systemic economic and political stresses as well as real benefits for some people in need. Yet at best the programs have been partial and piecemeal, and at worst stigmatizing and demeaning in practice if not in design.

If one were to believe in simple historical cycles, he or she might have predicted that the 1990s would have been a time of slowing and even of reversing some of the widening inequality that began in the early 1970s. However, the 1990s turned out to be a harsh extension of the 1980s' war on the poor. The suffering and the injustice are real and ultimately will be overcome only through broad and sustained political action. Nonetheless, we need to uncover, understand and publicize the nature and extent of this injustice and suffering if there is ever to be the moral and political strength for truly responsible reform and institutional change.

The now-platitudinous National Housing Goal of "the realization as soon as feasible of a decent home and a suitable living environment for every American family" makes no mention of affordability. Since these words were enshrined in the 1949 Housing Act, most of the U.S. population has come to occupy what would be called "a decent home," but the ability to afford a decent home has become more elusive. In recent decades, a considerable amount of effort and an even greater amount of rhetoric have been expended in pursuit of affordability for the promised "decent home" and "suitable living environment." The dilemma is that prevailing private practices and public policies have not only failed to bring about its realization, they have widened the gap between hope and reality even while ostensibly addressing the problem. Public action and social responsibility must move beyond the hollow promise of past policy to the establishment of a legally enforceable and publicly secured *right* to "a decent home and a suitable living environment."

Yet the persistence and scope of shelter poverty—one-third of the nation—and the magnitude of the housing affordability gap—$170 billion a year—reveal not only this society's failure to meet the housing needs of so many but also the folly of imagining that a Right to Housing for all could be realized if only there were more subsidies, additional construction and a

bit of tinkering with the existing housing system. For if this society were to declare a Right to Housing, and were to interpret that right primarily to mean the right not to be shelter-poor, pouring $170 billion a year into the private housing market would not eliminate shelter poverty. Much, if not most, of the funds would be swallowed up by higher prices and higher profits. Dimensions of affordability not captured by the $170 billion affordability gap—such as elimination of homelessness—would also add to the price tag. Many households would opt to move to more satisfactory homes and communities that cost more than their current places of residence. The total claim on public resources would spiral upward, raising legitimate issues about the efficiency and cost-effectiveness of such an approach.

More realistically, recognition of the scope and persistence of shelter poverty, who is disproportionately afflicted by shelter poverty and the magnitude of the affordability gap should compel us to confront the roots of this problem in widening inequality of income, high and rising housing costs generated by the prevailing institutions of housing ownership and finance, and perverse public policies. Neither more nor less government tinkering can solve a problem that is rooted in the very structure of the housing and labor markets and the inextricable weaving of private profit and power with public policy. The resolution of this dilemma lies in a transformation of both the role of government and the mechanisms of housing provision. Rather than idealizing the market and providing endless subsidies and bailouts to private capital, public policy must transcend the limits of the market and truly serve social purposes. The chapters in the second half of this book suggest some of the ways in which this can happen.

## NOTES

1. The 32 million shelter-poor households contained about 90 million people actually residing in housing units. This number does not include the literally homeless.

2. The term "moderate income" is one for which there is no longer a precise definition for national policy in the United States, although some state governments do have explicit definitions. But "low income," "very low income," and "extremely low income" are defined by federal statutes and regulations. Each year, the U.S. Department of Housing and Urban Development (HUD) publishes the income limits for each of these categories, adjusted for household size, for every geographical area of the United States. See Stone 1994, for a critique.

3. For extensive discussion of debates about affordability concepts in the United States from the late 1960s to early 1990s and in the UK since about 1990, see Stone 2003.

4. The two quoted statements have appeared in the public record in Britain (UK Parliament 2002), but similar statements are not unusual in the United States. The authors of these quotations shall nonetheless remain anonymous to avoid any embarrassment to them. While the authors might claim that I have taken their statements out of context, the contexts from which they have been taken do not dispel the essentially tautologic character of the statements.

5. The shelter poverty concept was formulated in the early 1970s and first appeared in print a few years later (Stone 1975). Ways in which it could be adapted for use in housing subsidy formulas first received attention in Stone (1983), and the most extensive discussion of the methodology and its implications may be found in Stone (1993). See Hancock (1993) for an independent, theoretically grounded formulation of the residual income logic of affordability.

6. Household size is the most decisive element of household composition in distinguishing affordability. Other elements, particularly ages and relationships, are also significant, though somewhat less so than household size. The shelter poverty scale presented in this chapter has been derived for nonelderly married-couple households, nonelderly single-adult households and elderly households in order to take into account elements other than just household size.

7. See Stone (1993), Appendix A, for details. See Stone (2003) for a detailed discussion of the derivation of a shelter poverty scale for the United Kingdom.

8. The extent and distribution of shelter poverty and conventionally defined affordability burdens have been computed from American Housing Survey data for every year from 1975 through 2001 and from decennial census data for 1970. See Stone (1993:Appendix B) for discussion of methods used to analyze these data.

9. The population base for determining the percentage of people who are shelter-poor is the population in households—-that is, the population occupying housing units. By definition, this excludes the population living in group quarters (such as penal and custodial institutions, nursing homes, boarding houses, military barracks, college dormitories,

fraternity and sorority houses, monasteries, convents and ships) as well as the homeless.

10. The mid-1980s decline in shelter poverty was not, however, merely a consequence of the recovery from the recession of the early 1980s. Another significant factor was the dramatic decrease during the mid-1980s in the total number of homeowners with incomes under $20,000 and hence in the number shelter-poor. This was an ironic way for shelter poverty to decrease because it was really a result of worsening affordability for many people. For example, in some cases, adult children moved back in with their parents because they could not afford to live on their own but in the process somewhat increased the household income. In other cases, foreclosures and forced sales in the face of job losses or other income problems led to former homeowners moving in with others or into apartments costing less than what they had paid as homeowners.

11. The reason for higher incidence among persons than households is that larger households are more likely to be shelter-poor than smaller ones. Obviously, the larger the household, the greater the number of people it houses in shelter poverty.

12. As of this writing (mid-2004), it has not yet been possible to update detailed analyses of shelter poverty by race/ethnicity, gender and age. Therefore, the results presented in the following three sections are for 1997.

13. Unfortunately, the American Housing Survey does not identify Native Americans, and even if it did, the subsample would be too small to draw statistically valid conclusions. Even the Asian/Pacific Islander subsample is quite small, meaning that sampling errors are quite large for the figures given for Asians. (See Stone 1996 for further discussion of this issue.)

14. The average affordability gap is so similar for renters and homeowners, yet the range is so much greater for homeowners by household size, because one-half of all shelter-poor households among both renters and homeowners have only one or two persons, while those with five persons or more account for just 14 percent of those shelter-poor among both renters and homeowners. Large homeowner households have large affordability gaps because of the burden of mortgage payments, yet the average gap for all homeowners is primarily a reflection of the situations of small, older homeowners with low housing costs but low incomes.

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