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The New American Dream: Renting

It's time to accept that home ownership is not a realistic goal for many people and to curtail the enormous government programs fueling this ambition. By Thomas J. Sugrue

By THOMAS J. SUGRUE

(See Corrections & Amplifications item below:)

"A man is not a whole and complete man," wrote Walt Whitman, "unless he owns a house and the ground it stands on." America's lesser bards sang of "my old Kentucky Home" and "Home Sweet Home," leading no less than that great critic Herbert Hoover to declaim that their ballads "were not written about tenements or apartments...they never sing about a pile of rent receipts." To own a home is to be American. To rent is to be something less.

Every generation has offered its own version of the claim that owner-occupied homes are the nation's saving grace. During the Cold War, home ownership was moral armor, protecting America from dangerous outside influences. "No man who owns his own house and lot can be a Communist," proclaimed builder William Levitt. With no more reds hiding under the beds, Bill Clinton launched National Homeownership Day in 1995, offering a new rationale about personal responsibility. "You want to reinforce family values in America, encourage two-parent households, get people to stay home?" he said. George W. Bush similarly pledged his commitment to "an ownership society in this country, where more Americans than ever will be able to open up their door where they live and say, 'welcome to my house, welcome to my piece of property.'"

Surveys show that Americans buy into our gauzy platitudes about the character-building qualities of home ownership—at least those who still own them. A February Pew survey reported that nine out of 10 homeowners viewed their homes as a "comfort" in their lives. But for millions of Americans at risk of foreclosure, the home has become something else altogether: the source of panic and despair. Those emotions were on full display last week, when an estimated 53,000 people packed the Save the Dream fair at Atlanta's World Congress Center. Its planners, with the support of the Department of Housing and Urban Development, brought together struggling homeowners, housing counselors, and lenders, including industry giants Bank of America and Citigroup, to renegotiate at-risk mortgages. Georgia's housing market has been devastated by the current economic crisis—6,605 homes in the Peachtree state went into foreclosure in May and June alone.

Atlanta represents the current housing crisis in microcosm. Since the second quarter of 2006, housing values across the United States have fallen by one third. Over a million homes were lost to foreclosure nationwide in 2008, as homeowners struggled to meet payments. The number of foreclosures reached an all-time record last month—when owners of one in every 355 houses in the country received default or auction notices or were seized by creditors. The collapse in confidence in securitized, high-risk mortgages has also devastated some of the nation's largest banks and lenders. The home financing giant Fannie Mae alone held an estimated \$230 billion in toxic assets. Even if there are signs of hope on the horizon (home prices ticked upward by 0.5% in May and new housing starts rose in June),

analysts like Yale's Robert Shiller expect that housing prices will remain level for the next five years. Many economists, like the Wharton School's Joseph Gyourko, are beginning to make the case that public policies should encourage renting, or at least put it on a level playing field with home ownership. A June 2009 survey commissioned by the National Foundation for Credit Counseling, found a deep-seated pessimism about home ownership, suggesting that even if renting doesn't yet have cachet, it's the only choice left for those who have been burned by the housing market. One third of respondents don't believe that they will ever be able to own a home. And 42% of those who once purchased a home, but don't own one now, believe that they'll never own one again.

Some countries—such as Spain and Italy—have higher rates of home ownership than the U.S., but there, homes are often purchased with the support of extended families and are places to settle for the long term, not to flip to eager buyers or trade up for a McMansion. In France, Germany, and Switzerland, renting is more common than purchasing. There, most people invest their earnings in the stock market or squirrel it away in savings accounts. In those countries, whether you are a renter or an owner, houses have use value, not exchange value.

For most Americans, until the recent past, home ownership was a dream and the pile of rent receipts was the reality. From 1900, when the census first started gathering data on home ownership, through 1940, fewer than half of all Americans owned their own homes. Home ownership rates actually fell in three of the first four decades of the 20th century. But from that point on forward (with the exception of the 1980s, when interest rates were staggeringly high), the percentage of Americans living in owner-occupied homes marched steadily upward. Today more than two-thirds of Americans own their own homes. Among whites, more than 75% are homeowners today.

Yet the story of how the dream became a reality is not one of independence, self-sufficiency, and entrepreneurial pluck. It's not the story of the inexorable march of the free market. It's a different kind of American story, of government, financial regulation, and taxation.

We are a nation of homeowners and home-speculators because of Uncle Sam.

It wasn't until government stepped into the housing market, during that extraordinary moment of the Great Depression, that tenancy began its long downward spiral. Before the Crash, government played a minuscule role in housing Americans, other than building barracks and constructing temporary housing during wartime and, in a little noticed provision in the 1913 federal tax code, allowing for the deduction of home mortgage interest payments.

Until the early 20th century, holding a mortgage came with a stigma. You were a debtor, and chronic indebtedness was a problem to be avoided like too much drinking or gambling. The four words "keep out of debt" or "pay as you go" appeared in countless advice books. As the YMCA told its young charges, "If you can't pay, don't buy. Go without. Keep on going without." Because of that, many middle-class Americans—even those with a taste for single-family houses—rented. Home Sweet Home didn't lose its sweetness because someone else held the title.

In any case, mortgages were hard to come by. Lenders typically required 50% or more of the purchase price as a down payment. Interest rates were high and terms were short, usually just three to five years. In 1920, John Taylor Boyd Jr., an expert on real-estate finance, lamented that "increasing numbers of our people are finding home ownership too burdensome to attempt." As a result, there were two kinds of homeowners in the United States: working-class folks who built their own houses because they couldn't afford mortgages and the wealthy, who usually paid for their places outright. Even many of the richest rented—because they had better places to invest than in the volatile housing market.

The Depression turned everything on its head. Between 1928, the last year of the boom, and 1933, new housing starts fell by 95%. Half of all mortgages were in default. To shore up the market, Herbert Hoover signed the Federal Home Loan Bank Act in 1932, laying the groundwork for massive federal intervention in the housing market. In 1933, as one of the signature programs of his first 100 days, Franklin Roosevelt created the Home Owners' Loan Corporation to provide low interest loans to help out foreclosed home owners. In 1934, F.D.R. created the Federal Housing

Administration, which set standards for home construction, instituted 25- and 30-year mortgages, and cut interest rates. And in 1938, his administration created the Federal National Mortgage Association (Fannie Mae) which created the secondary market in mortgages. In 1944, the federal government extended generous mortgage assistance to returning veterans, most of whom could not have otherwise afforded a house. Together, these innovations had epochal consequences.

Easy credit, underwritten by federal housing programs, boosted the rates of home ownership quickly. By 1950, 55% of Americans had a place they could call their own. By 1970, the figure had risen to 63%. It was now cheaper to buy than to rent. Federal intervention also unleashed vast amounts of capital that turned home construction and real estate into critical economic sectors. By the late 1950s, for the first time, the census bureau began collecting data on new housing starts—which became a leading indicator of the nation's economic vitality.

It's a story riddled with irony—for at the same time that Uncle Sam brought the dream of home ownership to reality—he kept his role mostly hidden, except to the army banking, real-estate and construction lobbyists who rose to protect their industries' newfound gains. Tens of millions of Americans owned their own homes because of government programs, but they had no reason to doubt that their home ownership was a result of their own virtue and hard work, their own grit and determination—not because they were the beneficiaries of one of the grandest government programs ever. The only housing programs prominently associated with Washington's policy makers were underfunded, unpopular public housing projects. Chicago's bleak, soulless Robert Taylor Homes and their ilk—not New York's vast Levittown or California's sprawling Lakewood—became the symbol of big government.

Federal housing policies changed the whole landscape of America, creating the sprawlsapes that we now call home, and in the process, gutting inner cities, whose residents, until the civil rights legislation of 1968, were largely excluded from federally backed mortgage programs. Of new housing today, 80% is built in suburbs—the direct legacy of federal policies that favored outlying areas rather than the rehabilitation of city centers. It seemed that segregation was just the natural working of the free market, the result of the sum of countless individual choices about where to live. But the houses were single—and their residents white—because of the invisible hand of government.

But by the 1960s and 1970s, those who had been excluded from the postwar housing boom demanded their own piece of the action—and slowly got it. The newly created Department of Housing and Urban Development expanded home ownership programs for excluded minorities; the 1976 Community Reinvestment Act forced banks to channel resources to underserved neighborhoods; and activists successfully pushed Fannie Mae to underwrite loans to home buyers once considered too risky for conventional loans. Minority home ownership rates crept upward—though they still remained far behind whites. Even at the peak of the most recent real-estate bubble, just under 50% of blacks and Latinos owned their own homes. It's unlikely that minority home ownership rates will rise again for a while. In the last boom year, 2006, almost 53% of blacks and more than 47% of Hispanics assumed subprime mortgages, compared to only 26% of whites. One in 10 black homeowners is likely to face foreclosure proceedings, compared to only one in 25 whites.

During the wild late 1990s and the first years of the new century, the dream of home ownership turned hallucinogenic. The home financing industry—at the impetus of the Clinton and Bush administrations—engaged in the biggest promotion of home ownership in decades. Both pushed for public-private partnerships, with HUD and the government-supported financiers like Fannie Mae serving as the mostly silent partners in a rapidly metastasizing mortgage market. New tools, including the securitization of mortgages and subprime lending, made it possible for more Americans than ever to live the dream or to gamble that someone else would pay them more to make their own dream come true. Anyone could be an investor, anyone could get rich. The notion of home-as-haven, already weak, grew even more and more removed from the notion of home-as-jackpot.

And that brings us back to those desperate homeowners who gathered at Atlanta's convention center, having lost their investments, abruptly woken up from the dream of trouble-free home ownership and endless returns on their few

percent down. They spent hours lined up in the hot sun, some sobbing, others nervously reading the fine print on their adjustable rate mortgage forms for the first time, wondering if their house is the next to go on the auction block. If there's one lesson from the real-estate bust of the last few years, it might be time to downsize the dream, to make it a little more realistic. James Truslow Adams, the historian who coined the phrase "the American dream," one that he defined as "a better, richer, and happier life for all our citizens of every rank" also offered a prescient commentary in the midst of the Great Depression. "That dream," he wrote in 1933, "has always meant more than the accumulation of material goods." Home should be a place to build a household and a life, a respite from the heartless world, not a pot of gold.

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Corrections & Amplifications:

Home mortgage lenders acquired 6,605 properties in Georgia through foreclosure in May and June 2009, according to RealtyTrac, a real estate data provider. An earlier version of this essay incorrectly said 338,411 homes went into foreclosure in Georgia in May and June.

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