



Understanding housing: The intellectual legacy of John Quigley

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ABSTRACT

John Quigley was an important and beloved figure in housing and urban economics who died in 2012, but many non-specialists are only dimly aware of his contributions. This essay surveys his intellectual legacy, beginning with his early work with John Kain. Their research pioneered the application of hedonic price models to housing micro-data, and kicked off a literature that asked whether housing market discrimination led African-Americans to pay more for equivalent units. Over four decades, Quigley continued to develop housing price models, championing a hybrid approach that used both repeat sales and other transactions. Together with Robert Van Order, Quigley developed empirical tests of rational mortgage default and prepayments. Their work found that frictionless models are often rejected by the data. Quigley's work on green buildings documented their high economic returns; his work on homelessness pointed to high housing prices and overly restrictive supply regulations. Together with Karl Case and Robert Shiller, Quigley demonstrated the strong effects of housing wealth on consumption.

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1. Introduction

In May 2012, the fields of urban and housing economics were diminished when John Quigley died at the age of 70. John's insights were many; his written research materially enriched our understanding of the connections between the built environment and society as a whole. The great theme of his work is that structures matter: rising housing values increase consumption, housing market discrimination creates economically costly segregation, and housing structures shape our energy consumption. Yet John's impact went far beyond his published work, through his encouragement of young scholars, his earnest enthusiasm towards new research, and the leadership that he brought to urban and housing economics.

The basic facts of Quigley's career are straightforward. He received his Ph.D. from Harvard in 1971, taught at Yale from 1972 to 1979, and was at Berkeley from 1979 until his death. He was a major presence both in the Berkeley economics department, where he served as Chair, and in the business school, where he was an intellectual anchor of the real estate program. He was the enduring face of Regional Science and Urban Economics, serving as editor from 1986 to 2003. He had a long list of distinguished students, including Katherine O'Regan, Steven Raphael, and Jesse Rothstein.

He authored 14 books and over 150 articles. Neither the pace nor quality of his academic output showed any signs of slowing over the course of his life. He had two enduring research agendas: the improved measurement of housing prices and formally understanding the behavior of mortgage defaults and prepayments. These were both technical subjects that Quigley furthered with major insights and with work in the weeds. While the Case–Shiller repeat sales index has become famous, Quigley championed a hybrid approach that used both repeat sales and other transactions. He was surely right that in many cases, researchers do not have the luxury of large samples of repeat sales. Quigley's work on mortgages convinced both himself and the world the hyper-rational repayment models have trouble fitting the data, unless there are very unusual patterns of transaction costs.

Supplementing these two long-standing research agendas, Quigley repeatedly pursued opportunistic attacks on topics of particular policy interest. In the early 1990s, he focused on homelessness and did some of the best work in the area. Quigley emphasized that homelessness is explained in part by high housing prices, as well as the de-institutionalization of the mentally unstable and rising poverty. More recently, Quigley's work emphasized the role that restrictions on building new housing played in pushing prices up, especially in California.

Together with Katherine O'Regan, Quigley pursued his early interest in racial segregation by looking at the causes and consequences of segregation. They pushed the literature forward by emphasizing that ghettos suffered more from intellectual isolation than from physical distance to jobs. Their largely correlational work seems to have been overturned by the results of the moving-to-opportunity experiment (e.g. Katz et al., 2001) but, as Quigley himself noted, that treatment may have been random but it was also small. Quigley's view that ghettos

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help perpetuate unemployment by isolating children from the larger urban economy may well be vindicated by future research.

Quigley, along with Karl Case and Robert Shiller, wrote the now standard papers documenting that increases in the value of housing seem to have a larger impact on consumption than changes in the value of stocks. These results are hard to understand in a purely neo-classical model. We are all born short housing, for every current owner and future seller who benefits from higher housing prices, there is some future buyer who is losing out. In a sense, homeowners are less gamblers whose fortunes rise and fall with asset values, than hedgers who have insured themselves through ownership against changes in the cost of residential living (Sinai and Souleles, 2005).

Credit constraints provide a natural explanation for their facts, since added wealth that alleviates a credit constraint will impact consumption more strongly than added wealth that does not. If stocks are owned disproportionately by richer people who are not credit constrained, then changes in stock prices may do little to their consumption levels. Homes are owned by the majority of households, for many owners, rising housing values may increase consumption by alleviating credit constraints. Future buyers may also be credit constrained, and as a result, their consumption will not fall even if they know that they will have to pay more for future housing.

Finally, Quigley wrote two temporally distinct bodies of research on housing and energy. In the 1980s, Quigley emphasized that energy should be seen as one component of housing services: structure choices went together with energy choices. More recently, he focused on green buildings, emphasizing that they created significant economic rewards.

Many of his papers were marked by a consistent desire to use the tools of economics to understand the day's pressing social problems, including homelessness, housing bubbles and racial discrimination. Quigley's considerable talent as an economist was often put in the service of the world.

Almost all of his work highlights the deep connection between the built environment and human existence. Restricted access to housing options made life harder for African-Americans and exacerbated homelessness. Homes are the most important assets for many families, and changes in housing values whip around their consumption levels. Spatial segregation of New Jersey teenagers increases unemployment. The physical structure of society matters.

On a personal level, I knew John Quigley for over 20 years, and was privileged to collaborate with him on two distinct projects: an essay chronicling the achievements of John Kain (jointly authored with Eric Hanushek) and a volume celebrating the life of Karl "Chip" Case. Quigley generously took over the management of the Case volume's conference, when my third son was born on the first day of the conference.

Quigley and I were both mentored by John Kain, and I first attributed Quigley's kindness to me as a by-product of our joint connection with Kain. I eventually realized that Quigley was similarly generous to almost every young scholar. When we were working on Kain's essay only a few years ago, I did not imagine that I would be sadly writing a similar essay on Quigley so soon.

Quigley was as generous as he was thoughtful. He will be sorely missed.

2. Quigley's early years: the Air Force, Harvard, and Yale

Quigley's career is clearly divisible into two periods: the 34 years that he spent as a mature scholar at Berkeley and the years before that period. I begin with his early development.

2.1. The Air Force, Kain, and Quigley

Perhaps unusually, John Quigley's life as a scholar began in the Air Force. After receiving his Ph.D. at Harvard, Quigley became Kain's student while Kain was teaching at the Air Force Academy in the early 1960s. The distinguished education scholar Eric Hanushek similarly

entered Kain's orbit in those years. Quigley served in the Defense Department until 1968, working as an econometrician, where he managed to publish his first paper, an analysis of the determinants of Swedish foreign aid, in the *Swedish Journal of Economics* (Quigley, 1966).

This paper began Quigley's enduring interest in Sweden, which would later produce a *Quarterly Journal of Economics* paper on the determinants of 19th century Swedish emigration and a *Journal of Political Economy* essay on the returns to age and experience among Swedish engineers (Quigley, 1972; Klevmarken and Quigley, 1976). Quigley would later use Swedish housing data to demonstrate how to improve real estate indices, and test the impact of universities on local economic development by examining academic decentralization in Sweden (Englund et al., 1998; Andersson et al., 2004). In 2006, Quigley became a foreign member of the Royal Swedish Academy of Engineering Sciences and he received an honorary degree from that country's Royal Institute of Technology the next year.

In 1968, after finishing his tour of duty, Quigley followed Kain to Harvard to receive his Ph.D., where he entered into a maelstrom of urban research. Widespread concern with America's urban problems during the 1960s had engendered a flood of research funding by the Ford Foundation and other well-endowed, well-meaning urban institutions. In the 1950s, John R. Meyer achieved academic eminence for his pioneering Cliometric study of the economics of slavery and for his work on railroad competition (Conrad and Meyer, 1958; Meyer et al., 1961). In the 1960s, Meyer turned to the "Urban Transportation Problem," and when Kain migrated from the Air Force Academy to Harvard, he would enter into Meyer's orbit.

While Meyer strongly supported urban research, both at Harvard and when he later served as President of the National Bureau of Economic Research, Kain became the lodestar for urban economics at Harvard for decades. Kain's most cited urban paper connected transportation with job market outcomes through the "Spatial Mismatch Hypothesis," which began the river of economics research on racial segregation in which Quigley would so productively swim (Kain, 1968). Almost immediately upon Quigley's arrival at Harvard, he began his productive partnership with Kain.

Their early work was novel both in its topic—segregation was not standard fare for economists during the 1960s—and in its methods. Their 1970 paper, published in the *Journal of the American Statistical Association*, on "Measuring the Value of Housing Quality," was pioneering research in housing price hedonics because it relied on rich house level data instead of the aggregate data that had been used by Nourse (1967) or the tax appraisal records used by Harris et al. (1968), and Kain and Quigley (1970).

The data set is small by modern standards, but richly detailed, produced by three separate surveys of 1500 households in St. Louis in 1967. Real building inspectors went out to investigate the physical state of each home; at-home interviews produced the rent and home value assessments. The core specification regresses rents on 27 independent variables (some of which are aggregates) for 579 St. Louis renters. Given the large number of independent variables and the modest sample, it is almost remarkable that the results came out as reasonably as they did.

Older structures were cheaper ("a new structure will sell for \$3150 more than an otherwise identical one that is 25 years old"); larger structures were more expensive. Structures with hot water or central heating or appliances rented at higher rates. In a sense, rereading the paper takes you back to the beginning of the housing price hedonic literature, to a heroic moment when Kain and Quigley were inventing a whole new field of research.

Just as in more modern housing price work, it is often the neighborhood level variables that are more interesting than the structural quality variables. Two neighborhood variables have a demonstrable link to rents: schooling and race. Both the median schooling of adults in the area and local public school achievement are positively associated with rents; adult schooling levels are also positively associated with

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