Journal of Urban Economics 67 (2010) 249–258

Contents lists available at ScienceDirect

Journal of Urban Economics

www.elsevier.com/locate/jue

What are the social benefits of homeownership? Experimental evidence for low-income households

Gary V. Engelhardt [a,*], Michael D. Eriksen [b], William G. Gale [c], Gregory B. Mills [d]

[a] Department of Economics and Center for Policy Research, Maxwell School of Citizenship and Public Affairs, 426 Eggers Hall, Syracuse University, Syracuse, NY 13244, United States
[b] Department of Real Estate, Terry College of Business, University of Georgia, Athens, GA 30602, United States
[c] Brookings Institution, 1775 Massachusetts Avenue, Washington, DC 20036, United States
[d] Institute for Quantitative Social Science, Harvard University, 1737 Cambridge Street, Cambridge, MA 02138, United States

ARTICLE INFO

Article history:
Received 27 June 2008
Revised 13 September 2009
Available online 19 September 2009

JEL Codes:
H2
R2

Keywords:
Homeownership
Social benefits

ABSTRACT

We estimate the social benefits of homeownership using an exogenous instrument based on randomly assigned treatment status from a field experiment that subsidized saving for home purchase for low-income renters through Individual Development Accounts (IDAs). This approach attempts to eliminate the potential correlation present in previous analyses between unobserved individual characteristics leading to homeownership and traits leading to provision of social capital or local amenities. Consistent with previous work, we show that homeownership positively affects political engagement in simple probits. Instrumental variable probits, however, show no impact of homeownership on political involvement. IV results for other social outcomes are less conclusive. The analysis suggests that with the use of an exogenous instrument, it is possible to generate results that are different from the previous literature. Our results also suggest that being eligible to open an IDA did not spur households to provide more social capital or local amenities.

1. Introduction

Federal, state and local governments in the United States subsidize household investment in owner-occupied housing.[1] Beyond the provision of private benefits and redistribution of income, subsidies are often justified on efficiency grounds—namely, that homeownership generates significant social benefits. In the terminology of DiPasquale and Glaeser (1999), homeowners may provide local amenities—which improve the quality of neighborhoods through classic externalities—or social capital—which improves social connections among neighbors. Some even have argued there are positive impacts on child well-being (Green and White, 1997; Boehm and Schlottmann, 1999; Haurin et al., 2002; Harkness and Newman, 2003).[2]

Most of the previous literature has concluded that homeowners generate both local amenities and social capital. A recurring issue, however, is the extent to which studies have successfully addressed the potential biases created by unobserved correlation among individual characteristics that encourage homeownership and those that lead to provision of social capital.[3] The most

* Corresponding author. Fax: +1 315 443 1081.
E-mail addresses: gvengelh@maxwell.syr.edu (G.V. Engelhardt), eriksen@terry.uga.edu (M.D. Eriksen), WGALE@brookings.edu (W.G. Gale), gmills@iq.harvard.edu (G.B. Mills).

[1] The portfolio of policies includes the non-taxation of imputed rents, favorable tax treatment of capital gains, local land-use restrictions, exemption of housing from means-tested social insurance programs, subsidized mortgage insurance, and the sponsorship of secondary mortgage-market enterprises. While the mortgage interest deduction (MID) is probably the most well known tax or spending policy toward homeownership, the deduction itself is not a subsidy in the context of a well-designed income tax system, in which all interest and capital income were taxed and all interest payments were deductible. The federal income tax subsidy hence derives from the non-taxation of the imputed income, not from the MID.

[2] We make a distinction between these social benefits from homeownership at the household level versus those at the group level. The latter are due to spillovers and occur to the extent that neighborhood homeownership rates affect household-level behavior independent of household-level homeownership status. Such spillovers are a broader form of externality from homeownership. Haurin et al. (2003) review this literature. Additional aspects of household-level homeownership that have been studied, but for which the benefits are more likely private, are the impacts of homeownership on health, happiness, and personal efficacy. In addition, Oswald (1996) has conjectured that homeownership may generate negative labor-market externalities by raising mobility costs. This has been explored empirically by Green and Hendershott (2001), Coulson and Fisher (2002, 2009), Van Leuvensteijn and Koning (2004), and Munch et al. (2006, 2008), among others. We do not address any social costs of homeownership in our study.

[3] For example, households with (unobserved) low rates of time preference have greater incentive to invest in both housing and social capital (Glaeser et al., 2002), so that it is difficult to identify the impact of homeownership separately from this unobserved heterogeneity. The presence of such heterogeneity in this case would upwardly bias standard estimates of the social benefits of homeownership.

0094-1190/$ - see front matter © 2009 Elsevier Inc. All rights reserved.
doi:10.1016/j.jue.2009.09.010

sophisticated contributions to date recognize this endogeneity and employ instrumental variables (IV) techniques to isolate the true impact of homeownership. DiPasquale and Glaeser (1999) and Aaronson (2000) use the group-average homeownership rate, based on a household's race, income group, calendar year, and state of residence, as an instrument for homeownership in their social outcome regressions. Green and White (1997), Haurin et al. (2002), and Harkness and Newman (2003) use the relative user cost of owner-occupied housing as an instrument for homeownership in their child outcome specifications.[4] These studies found social benefits of homeownership, but the instruments may not be exogenous, because unobservable characteristics that influence the social and child outcomes may be correlated with either group membership or parental investment in children, respectively.[5]

Against this backdrop, our paper makes three contributions. First, we attempt to identify the social benefits of homeownership using an exogenous instrument for homeownership. Our instrument is the randomly assigned treatment status for low-income households from a field experiment that subsidized saving for home purchase through Individual Development Accounts (IDAs) conducted in Tulsa, Oklahoma, from 1998 to 2003. Using this instrument, we generate new estimates of the impact of homeownership for a wide variety of social capital measures and for a classic externality, exterior home maintenance. The primary advantage of this instrument is that it is exogenous via random assignment.[6] In a companion paper (Mills et al., 2008), we show that, 4 years after randomization, treatment group renter households had a 7–11% point higher homeownership rate than control group renter households. This represented a 25–30% increase in homeownership, which is sizable relative to baseline.

Second, our analysis focuses on low-income households. Although most homeownership subsidies accrue to middle- or high-income households, low-income households are an interesting subgroup to study for policy purposes. Homeownership rates are already quite high for upper-income households, so if there are externalities to expanding homeownership rates, they would arise in the lower-income population studied here.

Third, we add to the small literature on experimental evidence on the effects of Individual Development Accounts (IDAs). IDAs are saving accounts designed to provide matching contributions for withdrawals that are used for particular purposes, such as home purchase. Although IDA programs have grown in popularity in the United States, there has been little formal analysis of their effects.[7]

Our broad conclusion is that use of an exogenous instrument for homeownership casts doubt on the previously-found positive effect of homeownership on local amenities and social capital. Three sets of results support this conclusion. First, the impact of homeownership on measures of political involvement—voting, giving time or money to a candidate, or calling or writing a public official—figures prominently in the previous literature. Similar to previous work, we find that simple probit estimates show positive effects of homeownership on political involvement. In contrast, our IV estimates show negative effects. The difference is substantively large (around 50% points) and highly statistically significant ($p = 0.0001$). This suggests the simple probit estimates are biased upward substantially by unobserved characteristics that are correlated with both the propensity to be politically engaged and the propensity to own a home. The results do not appear to be explained by mobility necessitated by the transition from renting to owning, which might break households' ties to the political system in the short run. Overall, there is no evidence that homeowners are more politically involved than renters.

Second, although we find that homeowners are more likely to perform home maintenance, statistically significant effects arise only for interior repairs, which confer private benefits, rather than for external maintenance, which is the classic public externality. Third, our results imply that the treatment status itself – being eligible to open an IDA – did not spur households to provide more of any type of social capital or local amenity.

Although our research design represents a substantial improvement over earlier work, the results should be qualified in three ways. First, the IV estimates for outcomes other than political involvement – such as neighborhood involvement and giving to the community – are less precise, generally not statistically different from the probit estimates, and in some cases are actually larger than the probit estimates. Second, our sample sizes are not very large, which makes it more difficult to obtain conclusive estimates. Third, because the field experiment lasted only 4 years, we estimate only the short run impact of homeownership on social benefits. Whether such benefits emerge in the long run is an open question. It is also worth noting that our sample is not a random sample of all low-income households; however, it does consist of households who are motivated to buy homes, which may make it more relevant than a random sample to the analysis of the marginal social benefits of increasing homeownership rates.

The paper is organized as follows. Section 2 briefly reviews the key findings in the previous literature. Section 3 describes the experimental design and program rules. Section 4 examines attrition and characteristics of the treatment and control groups at baseline. Section 5 presents the main empirical results. Section 6 concludes.

2. Existing findings

The empirical literature on the social benefits of homeownership is summarized by Rosen (1985), Rohe et al. (2002), and Dietz and Haurin (2003), among others. We focus on a widely cited and influential study, DiPasquale and Glaeser (1999), which highlights the key difficulties in identifying the impact of homeownership on social outcomes and focuses on social outcomes roughly similar to those measured in our data.[8] In their model, renters invest less than owners in social capital and local amenities because renters are more geographically mobile and the returns on their investment accrue to the landlord. They use micro data measured in the US General Social Survey (GSS) and 1990 Census IPUMS on: number of memberships in nonprofit organizations, whether knows school head, whether

[4] Green and White (1997) also used weeks worked and marital status of the parent as instruments. Harkness and Newman (2003) also used the state homeownership rate, the metropolitan area or county ratio of median rent to median value, and the annual change in state per capita highway investment as instruments. Coulson and Fisher (2009) used the state marginal tax rate and the percentage of households in the MSA in multifamily housing as instruments for homeownership. Van Leuvensteijn and Koning (2004) used the regional homeownership rate as an instrument. Similarly, Munch et al. (2006) used the labor-market level aggregate homeownership rate as an instrument for individual-level homeownership. Munch et al. (2008) used as instruments the regional homeownership rate in both the current area of residence and the birth area of residence, as well as the parents' homeownership status.

[5] This point was first made by Glaeser and Shapiro (2003) . Also, differential tax treatment, which may generate a wedge between the average cost of owning and average rents, will confer income effects, so that, in general, it is not possible to separately identify homeownership effects from income effects using relative user-cost measures as instruments. An alternative to IV is to estimate fixed-effects models with panel data, as in DiPasquale and Glaeser (1999), but this approach requires that households who change housing tenure are not also the ones predisposed to change their investments in social capital and local amenities. Munch et al. (2008) also exploited longitudinal data.

[6] Recent studies that use randomization to study social interactions and social capital include Katz et al. (2001), Sacerdote (2001), and Hastings et al. (2007), among others.

[7] Publicly sponsored IDAs have been adopted in 34 states, Washington, DC, and enabled through a series of federal laws. See Mills et al. (2008), Grinstein-Weiss et al. (2007), and Schreiner and Sherraden (2006).

[8] Unfortunately, our data do not measure child outcomes that would allow for a comparison of findings with Green and White (1997), Haurin et al. (2002), and Harkness and Newman (2003).