Summer 2000

Why America's Workers Can't Pay the Rent

Peter Dreier

Follow this and additional works at: http://scholar.oxy.edu/uep_faculty

Part of the American Politics Commons, Civic and Community Engagement Commons, Community-based Learning Commons, Community-based Research Commons, Comparative Politics Commons, Environmental Policy Commons, Health Policy Commons, Inequality and Stratification Commons, Other Political Science Commons, Other Public Affairs, Public Policy and Public Administration Commons, Place and Environment Commons, Politics and Social Change Commons, Public Policy Commons, Social Policy Commons, Transportation Commons, Urban Studies Commons, Urban Studies and Planning Commons, and the Work, Economy and Organizations Commons

Recommended Citation

Dreier, Peter, "Why America's Workers Can't Pay the Rent" (2000). UEP Faculty & UEPI Staff Scholarship.
http://scholar.oxy.edu/uep_faculty/701

This Article is brought to you for free and open access by the Urban and Environmental Policy at OxyScholar. It has been accepted for inclusion in UEP Faculty & UEPI Staff Scholarship by an authorized administrator of OxyScholar. For more information, please contact cdla@oxy.edu.
WHY AMERICA'S WORKERS CAN'T PAY THE RENT

By Peter Dreier. Dissent. Summer 2000. Vol.47, Iss. 3; pg. 38

HECTOR CUATEPOTZO, a waiter at the upscale Miramar Hotel in Santa Monica, California, and an active member of the Hotel Employees and Restaurant Employees (HERE) union, lives in a tiny one-bedroom apartment with his wife, Maria, six-year-old daughter, Ashley, and infant, Bryan, who was born last October.

All four sleep in the same small room. Bryan's crib is nestled in one corner, Ashley's bed sits in another, and the parents' bed in another. The sixty-six-unit building, located in a rundown neighborhood in Los Angeles, has no place-inside or outside-for the children to play. Several times Hector has asked the manager not to yell at Ashley for running in the hallways. Hector often has to fix leaky faucets and the toilet himself because the manager claims the handyman is unavailable. Hector also painted the walls and cleaned the carpet himself because the landlord refused to do so. Hector earns about $20,000 a year in salary and tips (about $10 an hour, almost twice the state minimum wage). But with $625 a month in rent and another $80 monthly for gas and electricity, the Cuatepotzo family spends more than 40 percent of its income on housing. Hector works the 6 a.m. to 2 p.m. shift and travels forty miles a day to work and back because rents are even higher in buildings closer to his job.

Even when Maria was working as a cashier for Pollo Loco, before Bryan was born, the Cuatepotzos had problems paying the rent. Since then, things have gotten worse. The family has received several eviction notices for late payment, though each time Hector persuaded the landlord to let them remain after they borrowed money and paid. After paying for food, gas and car repairs, and other necessities, the family has no money left and is frequently in debt. Thanks to Hector's union, the family has medical insurance, but it doesn't include dental coverage. Hector's thinking about getting a second job, but that would mean he'd hardly ever see his children. Hector, who has worked at the Miramar since he arrived from Mexico ten years ago, would like to own his own home someday. "It's my dream," he says. But he can't imagine how he'll ever get there when his family lives paycheck to paycheck and can't put anything away for savings.

HECTOR IS ONE Of a growing number of American workers even union members-who can't afford to pay the rent.

Despite the strong economy and low unemployment rate, working families face a severe shortage of affordable housing. Wages are rising, but housing costs are spiraling upward even faster. This situation shows that a "rising tide" not only doesn't lift all boats, instead it raises rents and home prices. Moreover, if income disparities continue to widen, disparities in housing conditions will widen too.

In fact, according to a new study prepared by the National Low-Income Housing Coalition, there's no city in the entire country where a family living on the minimum wage can afford a typical apartment. The report compared the federal minimum wage ($5.15 per hour) to rents across the nation. In seventy metropolitan areas, minimum-wage workers would have to work more than a hundred hours a week to afford market rents in their area-that is, to pay no more than 30 percent of their income for housing.

In some cities, of course, the "housing wage" is much higher. In San Francisco, for example, a typical two-bedroom costs $1,167 per month. The housing wage required to afford this typical apartment is more than $30 per hour. Wherever they live, working families-even those such as the Cuatepotzos who make far more than the minimum wage-face a housing squeeze. Housing is the most expensive part of all working families' budgets.

The most telling indicator of the housing shortage is the gap between the number of low-income households and the number of rental units affordable by the poor. In 1970, there were 6.5 million low-cost units and 6.2 million low-income renter households-300,000 more low-cost rental units than low-income renters. Today, the gap has reached a record level of 4.4 million units-10.5 million poor renters and 6.1 million low-income units. Waiting lists for subsidized housing are huge and growing. The Cuatepotzos are eligible for federal housing subsidies, but the wait to get a unit in Los Angeles is typically five years or more. Nationwide, more than 80 percent of poor renters-six million households-spend at least 30 percent of their income on rent and utilities. Fifty-nine percent of poor renters four million households-spend more than half of their income just to keep a roof over
their heads.

Many working families—even those with incomes above the official poverty line—have serious housing problems. According to Housing and Urban Development (HUD), about 2.4 million working renter households with incomes under $25,000 spend more than half of their incomes on housing or live in severely substandard housing. And almost four million homeowners with comparable incomes face similar housing problems. Moreover, according to HUD, the housing situation of the working poor has been growing worse.

THE HIGH COST Of rental housing makes it difficult, if not impossible, for many families to save enough money for a down payment on a home. Although the nation’s overall homeownership rate is now at an all-time high, this is primarily because people over age fifty-five—the pre-baby boom generation—purchased their homes when housing was more affordable. According to the U.S. Census Bureau, among every age group under fifty-five, the homeownership rate has actually declined since the late 1970s. For example, the homeownership rate among the thirty to thirty-four age group was 62.4 percent in 1978 and 53.6 percent twenty years later. Even those who purchase homes find themselves overextended. In late 1999, American households had an unprecedented level of debt, according to the Federal Reserve Survey of Consumer Finance.

This housing crisis has serious short- and long-term consequences. To name a few:

Low-wage workers often find themselves paying more than half their household incomes in rent and still living in slum buildings. Millions of Americans live in overcrowded buildings with serious health and safety problems. According to a recent report by the Citizens Task Force on Slum Housing, in Los Angeles at least 150,000 apartments—one in nine—is substandard.

Working families that pay too much for housing have less disposable income to spend on other goods and services, including other basic necessities such as food and health care. This undermines the economic health of local businesses and neighborhoods.

Rising housing costs require low- and middle-income workers to live farther and farther from their job sites, increasing traffic congestion and pollution.

The shortage of affordable housing undermines the local business climate and makes it difficult to attract and retain an adequate workforce.

Working families need help paying the rent—or buying a home. But contrary to conventional wisdom, federal housing programs are not geared toward assisting the poor or toward average working families. In fact, the United States provides fewer housing subsidies for the poor than any other major democratic nation. Federal housing assistance for the poor is not an entitlement, as is the case with food stamps or Medicaid. The available funds serve a small portion of those who meet eligibility criteria.

Only one-quarter of the sixteen million low-income renter households eligible for federal housing assistance receive any subsidies. About 1.2 million households live in units owned by local public housing authorities; 1.4 million households live in private, government-subsidized developments owned by private or nonprofit entities; and 1.5 million households receive tenant-based rental certificates or vouchers that allow them to pay for private rental units.

This leaves almost twelve million poor households eligible for federal housing subsidies who do not receive them. They have to fend for themselves in the private marketplace. Moreover, the problem is getting worse as the gap between the number of poor people and the number of low-cost private apartments has widened during the past three decades.

Federal housing assistance for the poor (administered primarily by HUD) reached a peak in the late 1970s, declined sharply during the Reagan and Bush years, and increased slightly during the Clinton years. The federal budget for low-income housing was slashed from $54 billion in 1980 to $13 billion in 1988 in inflation-adjusted 1999 dollars. It has since climbed back up to about $20 billion, but this is far below earlier levels. During that period, HUD shouldered more cuts than any other domestic agency.

The nation’s housing program for the middle class involves government-backed mortgage insurance administered by the Federal Housing Administration (FHA) and the creation of a secondary mortgage market to buy mortgage loans from banks and replenish the supply of mortgage credit (administered by the Federal National Mortgage Association, known as Fannie Mae). During the 1950s and 1960s, the FHA practiced redlining, refusing to insure mortgages in many cities, which helped to fuel the middle-class exodus to the suburbs and contributed to the decline of many cities and urban neighborhoods.
Organized labor has not only been a key supporter of these homeownership programs, but has helped lobby Congress to require FHA and Fannie Mae to target their programs to families and communities with modest incomes and minority areas redlined by major banks. Today, these two programs reduce the cost of homeownership so that families earning about $40,000 can purchase a home in some parts of the country. But this strategy is less effective in areas where home prices are high.

America's largest housing program, however, primarily benefits the wealthy. The nation's tax system allows homeowners to deduct both mortgage interest and property tax payments from their federal taxes. Last year this cost Uncle Sam more than $63 billion in lost revenues. That's about three times the size of the entire HUD budget. These tax breaks disproportionately benefited those with the largest homes and the highest incomes. The wealthiest 1.5 percent of all taxpayers (those with incomes over $200,000) received more than one-fifth of the $63 billion in homeowner tax breaks. Three-quarters of the wealthiest families received a tax break-an average of more than $8,000 per family. Most middleclass families received little or nothing. Only 15 percent of families earning $30,000 to $40,000, and only 25 percent of families earning $40,00 to $50,000 received part of this homeowner subsidy. Those who did received an average of about $700 per year. Poor homeowners don't qualify for a tax break, and poor renters are shut out of this system altogether.

This system is not only unfair, it's inefficient. The homeowner tax break hardly affects a wealthy family's decision to purchase a home. By contrast, families with average incomes receive hardly enough government help to buy a modest bungalow. It is revealing that Canada has no comparable tax breaks for homeowners and its homeownership rate is about the same as the United States. But Canada has a much larger and more politically powerful labor movement, which has played a major role in improving the housing conditions of the Canadian population. Canada's cities have no slums and far fewer homeless people. Its average workers are better housed than their American counterparts south of the border.

In other words, many working families with and without union contracts fall between the cracks of federal housing policy. They earn slightly too much to be eligible for many HUD programs for the poor, but they don't earn enough to take advantage of FHA mortgages or homeowner tax breaks.

The deepening housing problems among workers with modest incomes should push organized labor to make housing policy a priority once again. Again? In fact, unions were once at the forefront of the fight for decent housing. As early as 1914, at the American Federation of Labor's annual convention, unions called for government action to provide workers with low-cost housing loans. In the 1920s, the Amalgamated Clothing and Textile Workers Union sponsored cooperative housing projects for its garment-worker members in New York City. Several unions established banks, credit unions, and building-and-loan societies to offer low-interest mortgages to members. Until the depression, however, most American opinion leaders believed that the private market—with a helping hand from private philanthropy—could meet the nation's housing needs. Reformers who wanted the government to play a major role in housing were rare. The economic collapse of the depression provided reformers with a political opening to push the radical idea that the federal government should subsidize "social housing" and help create a noncommercial sector free from profit and speculation. Like their European counterparts, these reformers envisioned home ownership for the middle class as well as the poor.

Most depression-era unions had housing committees devoted to lobbying for government action. Based in part on the success of the garment workers housing cooperatives, unions pushed President Roosevelt and Congress to create a housing division within the Public Works Administration to make loans for housing cooperatives built by nonprofit groups and unions. The program helped finance 3,123 housing units in seven projects, including the 284-unit Carl Mackley Houses in Philadelphia sponsored by the Hosiery Workers Union. These homes—which still exist—were spacious and well designed, with playgrounds for children, art and education programs for tenants, and lots of political activity.

Union leaders and housing reformers (including Catherine Bauer, who led the Labor Housing Conference and is the subject of two fascinating new books) hoped to turn these prototype projects into a permanent, large-scale government housing program for working-class families that would both create jobs and provide decent housing. The unions and housing reformers battled with the private real estate industry, which feared competition from well-designed government-subsidized housing. Warning about the specter of "socialism," the homebuilders, realtors, and banks fought vigorously against any public housing program at all. The Public Housing Act of 1937 was a compromise. (The law was sponsored by Senator Robert Wagner [D-N.Y.], a close friend of organized labor who had also sponsored the National Labor Relations Act, often called the Wagner Act, which gave workers the right to unionize.) The unions achieved their goal of a government-subsidized housing program, but the provision for union-sponsored housing cooperatives was eliminated. More important, the real estate lobby pressured Congress to limit public housing to the poor (so it wouldn't compete with private builders) and to give local governments discretion over where the housing would be located. The lobby also pressured Congress to provide only enough funding for the design and building of unattractive, box-like structures. From its inception, public housing was stigmatized as housing of last resort. Today, it represents only about 1 percent of the nation's housing stock. Only the poorest of the poor- and few, if any, union members—now live in public housing. The average annual income for families living in public housing is $9,500.

During the postwar boom years, organized labor continued to support federal assistance for low-income housing but also
pushed for government-backed low-cost mortgages (through the Federal Housing Administration, now a branch of HUD) for the increasingly middle-class union members. In the early 1950s, unions in New York formed the United Housing Foundation, which built thousands of cooperative apartments for moderate-income workers until the early 1970s. In 1965, the United Auto Workers formed the Watts Labor Community Action Committee in Los Angeles's black community and the East Los Angeles Community Union in the city's

Latino neighborhood, which, along with a variety of other job-training and small business programs, sponsored several hundred units of housing for low- and moderate-income people. A few other unions, including the American Federation of State, County and Municipal Employees, the Communications Workers of America, the International Brotherhood of Electrical Workers, and the Bricklayers, have also used a combination of union pension funds and government subsidies to create housing.

In the late 1980s, Boston's HERE Local 26 surveyed its members and found that their biggest problem was the city's skyrocketing housing costs. In its next contract negotiations, the union won a "housing trust fund," which required employers to pay seven cents per hour into a fund that would be used to meet members' housing needs. When the hotel owners' association claimed that the union had no legal authority to do so, Local 26 led a successful campaign to amend the nation's labor laws in 1990 to allow unions and employers to provide housing assistance to workers under collective bargaining agreements. Few unions, however, have utilized this provision to bargain for housing benefits—whether employer-sponsored mortgage assistance or rent subsidies.

Currently, organized labor's biggest involvement in housing is through the AFL-CIO's Housing Investment Trust (HIT). Since 1981, it has invested over $3 billion in union pension funds in a variety of housing developments. Last year alone, the HIT invested more than $488 million in housing projects—both rental and homeownership—with over 4,500 units. Many of HIT's projects involve the growing number of non-profit community development corporations in cities around the country. But even the HIT typically needs federal government subsidies to make this housing affordable to families with modest incomes. And it is no coincidence that the decline of organized labor's membership and political clout during the past few decades has coincided with the sharp drop in federal housing assistance for low- and moderate-income families.

Today, housing is a serious problem but barely recognized as a political issue. Housing policy lacks a coherent and well-organized political constituency. For the most part, the key constituencies for federal housing policy are big-city mayors and local government housing bureaucrats; private housing developers, landlords, and speculators; and community organizing groups and community development organizations. These constituencies are often at odds over major issues. Progressive housing advocates have such low expectations that token gains—such as an additional sixty thousand housing vouchers in the latest budget—are greeted as major victories.

BY FAR the most significant missing component in the political coalition for housing is organized labor, the one constituency with large membership, a progressive policy agenda, significant financial resources, and the potential to engage in effective mobilization. It is also the one major political vehicle with the potential for organizing effectively across racial lines, across income groups from the very poor to the middle class, and across city and suburban boundaries. Indeed, it is unlikely that a renewal of progressive politics is possible in the United States without a stronger labor movement.

Union strength, which reached a peak of 35 percent in the mid-1950s, allowed American workers, especially blue-collar workers, to share in the postwar prosperity and join the middle class. Union pay scales even helped boost the wages of nonunion workers. Unionized workers continue to have higher wages, better pensions, longer vacations and maternity leaves, and better health insurance than their nonunion counterparts. In general, union members have better housing conditions than nonunionized workers. For example, about 75 percent of current union members own their own homes, compared with the national average of almost 67 percent.

Unions are also a force for greater economic and racial equality. In unionized firms, the wage gap between black and white workers is narrower than elsewhere. Whites and blacks not only earn roughly the same wages, they both earn more than workers without union representation. Unionized black males earn 15.1 percent more than black people in comparable nonunion jobs; for whites, the union "wage premium" is 14.9 percent. It is 18.7 percent for Latinos. From the 1970s through the 1990s, union membership has declined precipitously, reaching 15 percent of the workforce in 1998, the lowest since the Great Depression. This erosion is a major reason for the nation's declining wages and widening economic disparities.

A new cohort of labor leaders at both the national and local levels—reflected in John Sweeney's election as AFL-CIO president four years ago—is now seeking to rekindle the "movement" spirit of activist unionism, in part by focusing on the low-wage sectors, made up disproportionately of women, people of color, and immigrants. In recent years, local union-community-clergy coalitions have worked successfully to enact living wage laws in more than thirty cities. Organized labor created the Union Summer program and gave key support to the burgeoning campus anti-sweatshop movement. Labor's efforts to successfully mobilize members for key congressional races in the 1996 and 1998 elections helped to narrow the GOP's grasp on Congress and helped turn back the Gingrich revolution. All these trends suggest that the Sweeney regime has already helped change the
political culture of the union movement. In recent years, union membership has grown slightly, although it has not increased as fast as the size of the workforce.

Now THAT organized labor is on the rebound, it should play an important role in reshaping the nation's housing policies and improving the housing standards of America's working families. One welcome sign was Sweeney's presence at the September 1999 press conference announcing the National Low-Income Housing Coalition's Out of Reach report, documenting the wide gap between minimum-wage incomes and housing costs.

Getting unions more engaged in housing must start at the grassroots level, with housing advocates building relationships with local unions, working on issues central to labor groups (such as local living wage laws and organizing drives) and housing groups alike. At the same time, national housing and union organizations can begin working on common concerns, such as efforts to raise the minimum wage and fight for universal health insurance.

In the Los Angeles area, for example, HERE Local 814 is working closely with the Community Corporation of Santa Monica (CCSM), a local nonprofit community development group, to help members with their housing problems. The HERE/CCSM collaboration has helped union members find, apply for, and qualify for subsidized and market-rate rental housing. It provides a referral system for members to get homeownership assistance and an information network to educate members about their rights as tenants. Los Angeles, Pittsburgh, Boston and other cities have adopted "linked deposit" policies that require the local government to issue a report card on local banks, identifying lenders that fail to invest in urban neighborhoods. Unions can piggy-back on these programs to make sure that banks where they deposit union funds are not redlining working-class neighborhoods and are making loans to union members and nonprofit groups that build low-cost housing.

Unions can also join housing groups to push for municipal housing trust funds and state housing bonds that provide resources for developing affordable housing. Local unions can also help community-based nonprofit housing developers identify good union contractors so that they can get the most out of paying prevailing wages.

At the federal level, there's a need for unions to push to expand the HUD budget, particularly to provide funding for construction of affordable housing and for more Section 8 housing vouchers. This would help expand the good work of the AFL-CIO Housing Investment Trust, which formed a partnership with HUD to link union pension investments with federal housing assistance. Additionally, pressure from unions could also push for a revision of federal tax laws to enact a progressive homeownership tax credit. Unlike the current approach, this credit would provide a tax break to working-class families who need help with down payments and monthly mortgage payments.

Finally, unions can push for a strengthening of the Community Reinvestment Act (CRA), the federal anti-redlining law that has primarily been used by community groups to pressure banks to provide more home mortgage loans to working-class families. Under the CRA, federal regulators can punish a bank that persists in mortgage discrimination. But unions could push to expand the CRA into new areas— for example, by looking at whether banks make loans to corporations that use sweatshops or export jobs overseas.

In 1948, President Harry Truman made addressing the postwar housing shortage a key part of his come-from-behind re-election campaign. He declared that the Republicans should update their slogan of "two cars in every garage" to "two families in every garage." "There is nothing more un-American than a slum," he proclaimed in a typical campaign speech. "How can we expect to sell democracy to Europe until we prove that within the democratic system we can provide decent homes for our people?"

Once again America faces a serious housing crisis. But we can't expect Truman's style of leadership without well-organized grassroots pressure. Organized labor has a crucial role in rebuilding the political coalition that can fight for decent housing for all Americans.
