

An Ethnic Rollercoaster: Disparate Impacts of the Housing Boom and Bust.

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Hispanic households in the US gained a tremendous amount of wealth in the early part of this century, relative to both blacks and non-Hispanic whites; and virtually all of the gains disappeared after 2007. The rise and fall of Hispanic wealth was much more dramatic than the experience of any other racial or ethnic group in this period.

This Hispanic “roller coaster” is closely tied to housing markets. A dramatic and largely synchronized rise and decline in housing prices occurred across multiple real estate markets during the first decade of this century. We provide evidence from the Panel Study of Income Dynamics that this housing boom and bust was experienced by different racial and ethnic groups in sharply different ways. While all groups gained and then lost housing wealth, this effect was especially dramatic for Hispanics.

This phenomenon may be illustrated using the 1999 non-Hispanic white wealth distribution as a benchmark. In 1999, the median Hispanic household and the median black household were both at the 25th percentile of the benchmark distribution, while the median non-Hispanic white household (by definition) was at the 50th percentile. By 2007, the median Hispanic household had climbed 7.5 points in the benchmark distribution, but then quickly dropped 11 points to end up in 2013 about 3.5 percentage points below its starting position. Changes in black and non-Hispanic white positions in the benchmark distribution were much more gradual over this period: the net decline was approximately the same but the interim rise was considerably more muted.

There are at least three possible explanations for the changes in relative wealth that occurred during this decade. One possibility is that Hispanics just happened to live in those regions that, for reasons unrelated to their ethnic composition, experienced especially large fluctuations in home values. An alternative hypothesis is that some process distinctly related to ethnicity was operating so that wealth rose and fell more dramatically in some neighborhoods precisely because they housed a large number of Hispanics. Yet another possibility is that ethnicity mattered even within locations: some process was operating so that the wealth of Hispanics rose and fell more dramatically than it did for their non-Hispanic neighbors.

One way to distinguish between these explanations is to control for regional effects. If Hispanics just happened to be at the right place at the right time – for example, in Phoenix during a housing boom – then controlling for location should remove the specific effects of ethnicity. Since housing market developments can vary substantially across space, indicators of location such as census regions or states are too coarse for this purpose. Accordingly, we control for the confidential county level fixed effects and county level fixed effects interacted with time dummies.

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Once we control for location at this level of geographic detail, we find that racial and ethnic group membership is insignificant in accounting for the gains and losses in absolute wealth experienced by blacks and non-Hispanic whites. But this is not the case for Hispanics – ethnicity remains a significant explanatory factor in accounting for wealth changes. Thus, we reject our naive hypothesis that Hispanics experienced a differential boom in their wealth simply because they were in the right place at the right time. It appears that ethnicity played a direct role in fuelling the rise and decline in housing prices, as has been suggested in some recent ethnographic accounts of the mortgage origination process.

One possible reason for the above finding is that Hispanic family income increased dramatically over the 1999 to 2007 period leading to a rise in wealth and home ownership rates for this group. We find that relative to 1999 non-Hispanic white income distribution, Hispanic family income rose across the entire income distribution (moving a median Hispanic family from 34th percentile of the benchmark distribution to 44th percentile). We find that family income of other groups barely changed during this period. This may account for the fact that wealth and homeownership rates among Hispanics rose especially rapidly during the boom. If these homes were acquired at inflated prices, or with especially high levels of leverage, this could explain the subsequent severity of the decline in wealth.

We propose to investigate further the reasons behind the above findings, and to uncover additional robust empirical regularities. Among other factors, we shall investigate the role of differences across groups in age distributions, location patterns, occupational choices, and educational attainment. For instance, Hispanics in PSID tend to be younger than whites, and thus at different stages of the life-cycle on average. We will explore further the hypothesis that the Hispanic roller coaster is explained by differential house price appreciation and subsequent depreciation, which itself may have been fueled by a positive income effect: the boom in construction could have raised Hispanic incomes, which in turn raised house values in predominantly Hispanic neighborhoods (within counties).

We will then extend the study to SIPP data and SCF data. SIPP has a significantly larger sample size and is more representative of the US population than PSID or SCF but has limited information on wealth than SCF. SCF has a smaller sample size than SIPP and is not a panel, but it has more detail than PSID or SIPP about the components of wealth. Thus, SIPP and the SCF will allow us to validate our findings, and examine whether they are robust or an artefact of the small sample size of PSID.

Proposed Budget for Olga Gorbachev (Assistant Professor, on tenure track):

1. \$2000 for travel expenses – my coauthors are in NYC, and I'd expect to travel from DE to NYC at least 3-4 times in the next year. Ideally each trip will last 2 working days.
2. \$2000 for a new laptop – to replace my obsolete laptop.
3. $\$9600 + \336 (3.5% fringe benefit) = \$9936 for RA salary (32 weeks x 20 hours a week x \$15 an hour) – the RA will be responsible for downloading, cleaning and merging SIPP and SCF data and for running preliminary data analysis.

Total: \$13,936.

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Education:

2007 Ph.D. Economics, Columbia University, New York, NY USA
2004 M.Phil. Economics, Columbia University, New York, NY USA
2003 M.A. Economics, Columbia University, New York, NY USA
1999 B. A. Economics, Brown University, *Magna Cum Laude*, Providence, RI USA

Professional Experience:

2010-present Assistant Professor, University of Delaware, Newark, DE USA
2007- 2010 Lecturer (i.e. Assistant Professor), University of Edinburgh, UK
1999-2001 Assistant Economist, Federal Reserve Bank of New York, NY USA
Summer 1998 Research Assistant, Congressional Budget Office, Washington, DC USA
1997/1998 Research Assistant, Telesis, a Towers Perrin Comp., Providence, RI USA

Research Interests:

Applied Economics, Applied Consumption Theory, Evolution of Volatility and Inequality of Household Income and Consumption, Race, Housing, Liquidity Constraints, Credit Markets, Wealth Inequality, Foreclosure, Homelessness, Panel Data Analysis

Honors:

6/2013 to 5/2014 General University Research Grant, University of Delaware, USA
Summer 2011 Research Grant, Department of Economics, University of Delaware, USA
Summer 2010 Research Grant, the School of Economics, University of Edinburgh, UK
Jan/May 2010 Academic Sabbatical, at Columbia University, New York, NY USA
June 2009 Academic Visitor, Department of Economics, University College London, London, UK
2008/2009 Research Grant, the Management School and Economics, University of Edinburgh, Edinburgh, UK
2008 Development Trust Research Fund, College of Humanities and Social Science, University of Edinburgh, Edinburgh, UK
2004/2005 Wueller Award for Teaching Excellence, Columbia University
2001/2007 GSAS Fellowship, Columbia University
2000 Presidential Award for Excellence, Federal Reserve Bank of New York

Publications:

1. "Did Household Consumption Become More Volatile?" *American Economic Review*, v.101, issue 5, August 2011.
2. "Volatility and Job Creation in the Knowledge Economy" (joint with Graciela Chichilnisky), *Essays in Dynamic General Equilibrium Theory Festschrift for David Cass*. Series: Studies in Economic Theory, Vol. 20, (Eds. Citanna, A.; Donaldson, J.; Polemarchakis, H.; Siconolfi, P.; Spear, S.), p.45-74, 2005.

3. "Volatility in the Knowledge Economy" (joint with Graciela Chichilnisky), *Economic Theory*, v.24 (3), p.531-547, 2004.
4. "To What Extent Does Productivity Drive the Dollar?" (joint with Cédric Tille, Nicolas Stoffels), *Current Issues in Economics and Finance*, v.7(8), August 2001.

Working Papers:

1. "Consumption Volatility, Liquidity Constraints and Household Welfare," with Keshav Dogra
2. "Re-estimating Euler Equations"
3. "A Comprehensive Look at the Credit Card Debt Puzzle" with Maria José Luengo-Prado and Robert Dent
4. "Catching up with the Boys: Trends in Volatility of Labor Earnings and Average Wages"

Work in Progress:

1. "An Ethnic Roller Coaster: Disparage Impacts of the Housing Boom and Bust," with Brendan O'Flaherty and Rajiv Sethi
2. "Neighborhood Sorting and the Racial Savings Enigma," with Brendan O'Flaherty, Rajiv Sethi, and Harold Stolper
3. "The Racial Dimension of Foreclosure: Theory and Evidence," with Brendan O'Flaherty and Rajiv Sethi
4. "The Effect of Change in Female Labor Force Participation on Family's Ability to Smooth Income Shocks"
5. "The Progressivity of Special Claiming Strategies in the Social Security Benefit Structure" with Saul Hoffman and Jeff Miller

Conference Presentations/Attendance:

- CeMENT- CSWEP Mentoring Workshops (Participant), (2014)
- NBER Summer Institute on Aggregate Implications of Microeconomic Consumption Behavior (Participant), Cambridge, MA USA (2008, 2009, 2011, 2013)
- Royal Economics Society 2011 Annual Conference (Presenter), Egham, UK, 2011
- Econometric Society 10th World Congress (Presenter), Shanghai, China (2010)
- 25th Annual Congress of the European Economic Association (Presenter), Glasgow, UK (2010)
- NBER Summer Workshop on the Economics of Household Saving (Participant), Cambridge, MA USA (2011)
- Conference on Intergenerational Mobility (Discussant), Edinburgh, UK (2008)
- NBER Summer Institute on Aggregate Implications of Microeconomic Consumption Behavior (Presenter), Cambridge, MA USA (2007)
- Ford Summer Institute on Race and Wealth (Presenter), Howard University, Washington, DC USA (2007)
- Conference in Honor of David Cass (Participant), University of Pennsylvania, Pennsylvania, PN USA (2004)

Invited Seminar Presentations:

- Federal Reserve Bank of Philadelphia, USA (April 2013)
- Department of Economics, Lafayette College, USA (March 2013)
- Economics Department, Empirical Microeconomics Workshop, Rutgers University, USA (December 2011)

- Federal Reserve Bank of New York, Research Department, New York, USA (2010)
- Labor and Population, RAND, Santa Monica, CA, USA (2010)
- University of Delaware, Department of Economics, Newark, DE (2010)
- Bard College, Department of Economics and Levy Institute, Red Hook, NY (2010)
- School of Economics, University of Edinburgh, Edinburgh, UK (2009, 2008, 2007)
- Department of Monetary and Financial Studies, Bank of Spain, Madrid, Spain (2009)
- Department of Economics, University College London, London, UK (2008)
- School of Management and Languages, Heriot Watt University, Edinburgh, UK (2008)
- Federal Reserve Board of Governors, Washington, DC USA (2007)
- Department of Economics and Finance, Baruch College (CUNY), New York, NY USA (2007)
- Department of Economics, McGill University, Montreal, Canada (2007)
- Department of Economics, Northeastern University, Boston, MA, USA (2007)
- Department of Economics, Vassar College, Poughkeepsie, NY USA (2007)
- Department of Economics, Santa Clara University, Santa Clara, CA USA (2007)
- Quantitative Analysis Group, Lehman Brothers, New York, NY USA (2007)
- Royal Economic Society Job Market Conference, London, UK (2007)
- The World Bank, Young Professionals Program, Washington, DC USA (2006)
- New Economic School, Moscow, Russia (2006)
- Department of Economics, Columbia University, New York, NY USA (2005, 2006, 2007)
- Department of Economics, Brown University, Providence RI USA (2003)

Teaching Experience:

- Graduate level courses:
 - University of Delaware (PhD): Econometric Theory I
 - Columbia University (MPA): Economic Analysis (Teaching Assistant)
- Undergraduate level courses:
 - University of Delaware: Introduction to Macroeconomics (for Honor students), Introduction to Econometrics;
 - University of Edinburgh: Topics in Economic Analysis; Growth Economics; Applications of Econometrics (Panel Data Analysis), Essentials of Econometrics (Tutor), Applications of Economic Analysis (Tutor)
 - Columbia University: Intermediate Microeconomics (Instructor); Global Economy (Teaching Assistant), Globalization and Its Risks (Teaching Assistant); Introduction to Accounting and Finance (Teaching Assistant)
- Executive Education:
 - Columbia University (Executive MPA): Open Economy Macroeconomic Analysis (Teaching Assistant)

Refereeing:

The B.E. Journal of Macroeconomics, The B.E. Journal of Economic Analysis & Policy, Economic Journal, Economic Letters, The Journal of Labor Economics, Journal of Business and Economics Statistics, Scandinavian Journal of Economics,

Professional and Honorary Memberships:

- Consultant to the Center for Homelessness Prevention, funded by National Institute of Mental Health, Columbia University, New York, NY USA (since 2009)
- Professional: American Economic Association, European Economic Association, Econometric Society, Royal Economic Society
- Honorary societies: Phi Beta Kappa and Omicron Delta Epsilon

Other Professional Activities:

Member of Seminar Organization Committee (2013)

Member of Recruiting Committee (2013)

Member of Journal Evaluation Committee (Fall 2012)

Member of Graduate Studies Committee (since Fall 2011)

Member of Committee for Search of New Chairperson (Fall 2011)

Junior Member for the meeting with the AACB visiting committee (Spring 2011)