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Creating New High-Paid Jobs: The Solution to All Economic Problems?

Across much of Western Montana and a good part of the Mountain West, home prices have skyrocketed over the last decade or more. Even as the speculative real estate bubble has burst and home prices have plummeted in many areas across the nation, home prices in Western Montana, so far, have remained stubbornly high.

Given that wages have not risen anywhere near as rapidly as home prices, this has put a serious financial squeeze on low and moderate income families. More and more of their income has to go just for housing, forcing hard choices on what previous consumption expenditures will have to be abandoned.

One “solution” to this local affordable housing crisis offered by many commentators is for our local governments to work to attract “good, high paying jobs” to the region. That way, it is supposed, people who cannot afford a home right now would earn the income to do so in the future.

Obviously, the problem of affordability applies primarily to residents of limited means. Housing prices are high in Western Montana not because nobody can afford to pay them; if that were the case, with no buyers, housing prices would fall. Prices are as high as they are because there are lots of people who find them attractive and affordable. It is the **demand** for housing from these folks that has driven up home prices and forced families with lower incomes out of the market. So there appears to be some economic logic to the proposed solution: bring in high paying jobs, raise the incomes of the poorest residents, allow them to enter the market as buyers, and all will be well.

But will that really work? Probably not.

For one thing, it is not at all clear that local governments can actually do much to attract high paying jobs, or any jobs for that matter. Which firms choose to do business in Western Montana is largely determined by economic considerations beyond the control of local governments. Fortunately, we do not have local economic tsars who can call the shots. But even if we were successful in luring in firms with good jobs and high pay, there's not much that can prevent the ancillary growth of other jobs, in retail trade for example, that are nowhere near as desirable. As the people with high paid jobs spend that high pay, multiple people are put to work in lower paid retail and service jobs. Where will those people live? What homes will they be able to afford?

Western Montana has experienced a lot of job growth in recent years – some, like that in medical care, quite well paid, and some much less so – and our local governments have had little impact on what that job mix looked like.

But even supposing that our local governments could do something to increase the relative number of available high paying jobs, there's no guarantee at all that it will be the poorest residents--those who can't afford a home--who will get those jobs. On the contrary: most people who are poor are poor because something – lack of education and training, bad health, dysfunctional families, racial and gender discrimination – keeps them from getting good jobs. It's not that the jobs aren't there; it's that the poor face obstacles to getting and holding them.

But now suppose that even those obstacles could be overcome. With all of these lower income families now able to afford to buy homes, the result would be that the demand for housing would rise even more spectacularly than it has in the past decade or

so. That would drive housing prices still higher, and, in the end, somebody – maybe a lot of people – would be priced out of the market and the affordability problem would still be with us.

This is pretty straightforward. If thirty thousand families want to buy a house in a particular area and there are only twenty-five thousand houses to be had, prices are going to rise to the point at which five thousand families are priced out of the market and find housing unaffordable. The solution is not to boost the demand for housing but to build more houses. Simply creating new jobs and bringing more people to Western Montana is only going to boost demand and make the affordable housing problem worse.

Of course this logical solution to the housing crunch, “building more houses,” raises a whole set of other controversial issues: neighborhood infill, greater urban housing density or, in the alternative, urban, suburban, and exurban sprawl and the loss of open space and wildlife habitat. But let’s not kid ourselves: Home ownership is out of the reach of many residents of Western Montana because of the growth of population and demand for living places has outpaced the building of homes. The worst possible thing we can do – if we are seriously concerned about the problem of housing affordability – is to engender even more growth by promoting “job creation.” Two of the primary controls on how many people ultimately settle in Western Montana are the availability of jobs and the level of pay associated with those jobs. The relative scarcity of attractive “high paid jobs,” limits the rate of population growth to those willing to sacrifice a significant amount of income. The affordable housing problem, like an

increasing number of other social and environmental problems, is not one that we can simply grow our way out of.

[Note: Richard N. Barrett prepared a first draft of this commentary. Confusion added after that is entirely the responsibility of T. M. Power]