Economic Segregation in the Housing Market: Examining the Effects of the Mount Laurel Decision in New Jersey

Jacqueline Hall
The College of New Jersey
April 25, 2003

I. Introduction

Housing policy in the United States has long aroused public debate at the national, state, and local levels. The debate can trace its roots back to the Progressive era, when housing was first viewed not only as bricks and mortar, but also as a means of improving the morals, health, and quality of life of American citizens (Lubove, 1962). A home is often the largest cost a family bears, and a house and the neighborhood it is in are important indicators of status in American society and are essential in the allocation of opportunity in urban areas. This is because homeownership is the basic source of the net worth of a family, and also serves as credit for investments that can lead to advancement, such as college education for children (Orfield and Ashkinaze, 1991).

Location is also an integral part of homeownership. Because the neighborhood and environment a house is located in provides distinct social connections and educational opportunities for children, a home and its neighborhood are critical indicators of wealth, success, poverty and failure, and are strongly connected to education and job opportunities, safety, and crime. However, since housing is such an essential part of society, it is only natural that it can also provide "the framework for many forms of inequality in metropolitan America." Residential segregation has become one way in which society can publicly and legally offer unequal opportunities to those of varying economic means (Orfield and Ashkinaze, 2002).

However, this nation was founded on the concept of an open society in which all people are afforded an opportunity to climb the economic and social ladder. Contained in this ideal is the belief that social mixing, or having contact with a variety of people from different economic and social backgrounds, is inextricable from social mobility (Orfield, 2002).

Affordable housing does not stand to benefit only those wishing to move up in society and economic status. Low-income housing is something that should concern middle and upper-class households as well. Schill and Wachter (2001) indicate that neighborhoods with increased low- and moderate- income families owning homes experience increased upkeep, better city services, and more community involvement. This is because families given the opportunity to become homeowners experience increased wealth as property values appreciate, and can also benefit from more control over housing costs and security of tenure. They can also benefit both themselves and their neighborhoods by utilizing the tax deductions for mortgage interest and property taxes. In addition to building communities, research by Oliver and Shapiro (1995) indicates that providing more housing opportunities for lower-income households can even help alleviate the disparity in assets among black and white families. This is because a disproportionate number of black people comprise the group of people currently living in low-income housing, where diminished educational opportunities exist, thus creating a self-perpetuating cycle of unequal opportunities.

In reality, however, social mobility is often hampered by the inability of citizens to move out of poverty- ridden areas and into the suburbs, due to a shortage of affordable housing in typically middle-class areas. Under the phrase “smart growth,” local governments have been actively attempting to limit development, often through exclusionary policies aimed at making housing for the low-income sector virtually impossible to obtain. Although the Federal Government spends billions of dollars each year to encourage low- and even moderate-income housing, many municipalities continue to hamper development in this sector (Schill and Wachter, 2001). This is largely done through zoning provisions, environmental regulations, development agreements, and development practices instituted by individual communities. Zoning codes restrict mobility through lot sizes, minimum room sizes, fees and development time tables, all which serve to increase costs and discourage the building of affordable housing. Development agreements tack on additional costs and delays, and informal local development practices impose even more barriers.

Research by the Minnesota State Planning study and by the Center for Urban and Regional Affairs examined exclusionary zoning patterns and found that large lot sizes, minimum floor areas, and development fees all imposed substantial barriers to affordable housing (Orfield, 2001). According to the National Low Income Housing Coalition, such constraints on affordable housing cause people to crowd into available housing, giving birth to slums (21). Therefore, moving out of isolated inner-city neighborhoods is not an option for many of those currently residing there.

To overcome the barriers to economic integration, the New Jersey Supreme Court declared in 1975 that each New Jersey municipality must provide for its "fair share" of the surrounding regions' need for lower-income housing.[1] The controversial decision led to no obvious significant change in housing patterns. Instead, it served to create a lot of litigation. Consequently, the New Jersey Supreme Court addressed the issue again in 1980, in a decision referred to as Mount Laurel II.[2] The 150- page opinion attempted to

[1] Southern Burlington County N.A.A.C.P. v. Township of Mount Laurel, 67 N.J. 151 (1975) (i.e., Mount Laurel I).
[2] Southern Burlington County N.A.A.C.P. v. Township of Mount Laurel, 92 N.J. 158 (1983).

create an enforcement mechanism, and expressed a preference for legislation to set up an administrative process for handling Mount Laurel complaints outside of the courts. Thus, the New Jersey Fair Housing Act came into being to assure Mount Laurel II would be more effective than the original Mount Laurel decision.

Mount Laurel II stated that every municipality was required to provide its "fair share" of the surrounding regions' affordable housing needs. Interestingly enough, "fair share" is never defined in the opinion; rather, it is left to be determined in trial court based on expert testimony. Not only are the present needs to be provided for, but prospective needs are also required to be met, both within the borders of individual towns and in the immediate region. An exception is allowed for municipalities in which the low-income housing needs exceed those in the region. Through a complex means of administration and enforcement, Mount Laurel II seeks to improve various housing market issues (Chall, 1985-86).

Aside from complying with the State Constitution, the decision supports the policy that poor people should live in adequate houses. It also advocated statewide comprehensive planning and the fulfillment of state and federal land-use policies. A more controversial aspect is the forced provision of social goods over neutral market forces by giving municipalities the responsibility of mitigating the effects of economic segregation. Finally, another goal of Mount Laurel II concerns the role of the decision as an income distribution policy. The opinion details the extreme gap between the well-off suburbanites and the urban poor, and implicitly states that the remedy is to mandate housing of a certain quality at prices well below cost. The purpose of this paper is to examine the effects of that mandate in decreasing economic segregation in New Jersey.

In order to do this, the standard deviation of median family incomes and the standard deviations of the percentage of families living below the poverty level were examined in three New Jersey counties, where the Mount Laurel decision applies, and three Pennsylvania counties, where no legislation aimed at reducing economic segregation is has been enacted to date. The six counties are geographically adjacent to one another and are separated only by a river that effectively serves as the state line. Data from the 1960 Census through the 2000 Census was obtained at the tract level for Burlington, Camden, and Mercer Counties in New Jersey, and Bucks, Montgomery, and Philadelphia Counties in Pennsylvania.

The data were then compared over time and across states to see if any significant differences could be attributed to the Mount Laurel decision. The results of the analysis indicate that the Mount Laurel decision may have had the desired effect of reducing economic segregation in New Jersey, specifically by decreasing the standard deviation of median family income in New Jersey, beginning with data from the 1980 Census. However, the analysis of the percentage of families living below the poverty rate suggests that the Mount Laurel decision may have had little affect on economic segregation as measured by the dispersion of people below the poverty line across census tracts.

II. Background

Lack of affordable housing in suburbs and other desirable areas creates social separation, the ills of which apply mostly to people economically confined to poverty-rich communities. As unemployment, racial segregation, and the number of single-parent families increases in an area, the quality of life erodes there and property values drop.

Additional declines occur as the middle-class and businesses flee. Low property values make it difficult to afford housing in any other areas, and when the factors of poor education and employment opportunities are added in, it is easy to see how lack of affordable housing can make moving up the social and economic ladder almost impossible.

Consequently, researchers have analyzed the determinants of homeownership and residential location decisions. The subsequent debates over the value of policies intended to reduce undesirable economic segregation in housing are largely rooted in competing views of fairness or equity. Some feel equity is expressed solely as income distribution. Housing is therefore just one of the bundles of goods purchased by households. Proponents of this view feel low housing consumption attracts attention only because it is a visible manifestation of low income. Because the government is concerned with the distribution of income, housing policies are "inefficient and inequitable as means to fairer distribution of income (Aaron and von Furstenberg,1971). The opposing view holds that not only is there a concern with the fairness of income distribution, but also a "specific egalitarianism," or a concern that everyone has at least a minimum level of goods, such as housing. Society can therefore tolerate some level of income inequality, provided there is a minimum standard and opportunity to obtain a minimum standard of certain goods, including housing (Smith, Rosen, and Fallis, 1988).

The issue of income distribution related to affordable housing policies is dynamic. State and local governments offer numerous policies and solutions that vary greatly. Smith et al. state that the government and institutional arrangements providing for the best execution of housing programs and the explanations of why certain programs were enacted have not been investigated extensively, leaving many to wonder what, if anything, the government can do to ameliorate the problem of housing market segregation. This paper argues that an already enacted housing policy, the Mount Laurel decision, has had a significant effect in decreasing economic segregation in New Jersey.

III. Results

To investigate the impact of the Mount Laurel Doctrine on economic segregation, data on median family income were collected from the 1960 to the 2000 Census and data on the percentage of families living below the poverty level were collected from the 1970 to the 2000 Census. The sample included Burlington, Camden, and Mercer Counties in New Jersey, and the Counties of Bucks, Montgomery, and Philadelphia in Pennsylvania. The Pennsylvania and New Jersey Counties are contiguous and separated only by a river that effectively serves as the state line (see Chart 1). These counties, containing both cities and suburbs, were analyzed so that income segregation between city and suburb could be examined as well as income segregation among suburbs.

Statistics on families were used because they are a more useful measure in this study concerning the housing market than statistics on the individual. Information was collected by tract as opposed to by municipality to avoid giving equal weight to populous cities and small towns. Each census tract has a population between 1000 and 8000, with the ideal tract size being 4000. The standard deviations of both median income and percentage of families living below poverty level for the total of the three New Jersey counties and for the total of the three Pennsylvania counties were then computed based on a sample of about 160 - 700 tracts in each state. The number of census tracts rises over time in each state because the population of the counties included in the sample also rises. Higher standard deviations would indicate greater variation in income across census tracts and thus more economic segregation. The aim was to see the general trend in economic segregation and if the standard deviations were significantly different between the states after the Mount Laurel decision was enacted in 1975.

Exhibit 1 and Table 1 show the standard deviations of the median family income by census tract from 1960 to 2000. In 1970, the New Jersey counties showed a much greater deviation than the Pennsylvania counties. However, by 1980, five years after the Mount Laurel decision was enacted, the deviation for the Pennsylvania counties rose above the deviation for the New Jersey counties, and remains there as of the most current (2000) census data. An F-test was then performed to test whether the differences in the standard deviations were significant. All of the standard deviations are significant at the .01 level, save 2000, which is significant at the .05 level. This significant reversal suggests that economic segregation in the New Jersey counties was less than the Pennsylvania counties. Even though the Mount Laurel II opinion and the New Jersey Fair Housing Act were not effectively enforced until after 1980, the very fact that the original Mount Laurel mandate had been passed in 1975 could have incited towns to start taking measures to address housing market inequality, and thus could have impacted the results.

Because the means of the median incomes are not exactly the same in New Jersey and Pennsylvania for each decade and because standard deviations rise with increases in the mean, the coefficient of variation (i.e., the ratio of the standard deviation to the mean) is also examined. Given the rising median incomes in both Pennsylvania and New Jersey over from 1960- 2000, we expect a rising standard deviation. Consequently, changes in the standard deviation are not an accurate measure of the changes in economic segregation over time. Exhibit 2 shows the relative measure of variation for each state over time, with the same trend as the standard deviations of median income over time. The data show a slight rise in economic segregation over time in Pennsylvania. In New Jersey, an abrupt reversal in the trend occurs after 1970.

The same analysis was then performed on the standard deviation of the percentage of families living below the poverty level from 1970 through 2000. No data was available for 1960. The data here provide somewhat less support for the thesis that the Mount Laurel decision reduced economic segregation. Exhibit 3 shows that the deviation in New Jersey was less than Pennsylvania in each decade, and Table 2 shows that the results were again significant at all levels. Although there are significant differences between the standard deviations, the differences can hardly be attributed to the Mount Laurel decision because no noticeable change in the patterns is observed after 1980.

IV. Conclusion

The significantly greater standard deviation of median family income in Pennsylvania beginning in 1980 Census data indicates the Mount Laurel decision may have had the desired effect of reducing economic segregation in New Jersey. The decrease in the New Jersey counties' standard deviations that allowed the level of deviation to fall below that of the Pennsylvania counties and occurred between 1970 and 1980 indicates increased economic integration that can possibly be attributed to the mandate in the Mount Laurel decision requiring municipalities to bear their "fair share" of affordable housing. The lower levels of standard deviation from the mean of the median family income in New Jersey in the following two decades also shows that the positive effects of the Mount Laurel decision may have been sustained over time. The coefficient of variation data in Exhibit 2 shows that although segregation may have risen from the 1960 level for both states, New Jersey still has shown less segregation than Pennsylvania since 1980.

The data for the percentage of families living below the poverty level is not quite as conclusive, however. Since the standard deviation of the poverty rate across census tracts for the counties in Pennsylvania has been significantly greater than that of the New Jersey counties from 1970 to 2000. Whether the Mount Laurel decision affected the data since its enactment in 1975 is not clear.

If the results of this study do in fact provide support for the policy of mandating affordable housing in order to successfully contribute to economic desegregation, the implications for housing policy in the United States are considerable. Because it is widely recognized that economic segregation is a detriment to society, the success of New Jersey's solution may cause other states to adopt legislation similar to that of the Mount Laurel decision.

References

Aaron, Henry, and von Furstenberg, George. "The Inefficiency of Transfers in Kind: The Case of Housing Assistance." Western Economic Journal. June 1971.

Chall, Daniel E. "Housing Reform in New Jersey: The Mount Laurel Decision." FRBNYQuarterly Review. Winter 1985-86.

Lubove, Roy. The Progressives and the Slums. Westport: Greenwood Press, 1962.

Orfield, Gary, and Carole Ashkinaze. The Closing Door: Conservative Policy and Black Opportunity. The University of Chicago Press: Chicago, 1991.

Orfield, Myron. Metropolitics: A Regional Agenda for Community and Stability. Brookings Institution Press: Washington, D.C., 1997.

Orfield, Myron. American Metropolitics: The New Suburban Reality. Brookings Institution Press: Washington, D.C., 2002.

Schill, Michael H., and Susan M. Wachter. "Principles to Guide Housing Policy at the Beginning of the Millennium." Cityscape: A Journal of Policy Developments and Research. Vol. 5, No.2 (2001).

Smith, Lawrence B., et al. "Recent Developments in Economic Models of Housing Markets." Journal of Economic Literature. Vol. 26, No. 1 (March 1988), pp. 29-64.

Southern Burlington County N.A.A.C.P. v. Township of Mount Laurel, 67 N.J. 151 (1975) (*Mount Laurel I)*.

Southern Burlington County N.A.A.C.P. v. Township of Mount Laurel, 92 N.J. 158 (1983) (*Mount Laurel II)*.

Chart 1- Philadelphia and Surrounding Counties

Table 1

Median Family Income by Census Tract

New Jersey

	n	mean	st. dev.	coeff of var	F- Test (NJ v. PA)
1960	167	6516.832	1386.154	21.27	2.33
1970	248	11856.91	8752.008	73.81	4.403
1980	295	19746.39	6944.08	35.17	1.379
1990	286	44880.95	15387.204	34.28	1.579
2000	324	63342.18	23937.156	37.79	1.296

Pennsylvania

	n	mean	st. dev.	coeff of var
1960	476	6654.128	2115.592	31.79
1970	622	10620.27	4170.941	39.27
1980	668	18456.03	8155.893	44.19
1990	682	41715.74	19332.412	46.34
2000	711	56293.94	27254.101	48.41

Table 2

Poverty Rate by Census Tract

New Jersey

	n	mean	st. dev.	F-Test (NJ v. PA)
1970	248	6.578629	6.341	2.065
1980	295	8.375932	10.674	1.42
1990	286	6.441554	10.156	1.877
2000	324	7.021319	10.724	1.55

Pennsylvania

	n	mean	st. dev
1970	622	7.996302	9.113
1980	668	10.65912	12.717
1990	682	9.773857	13.913
2000	711	11.14148	13.353

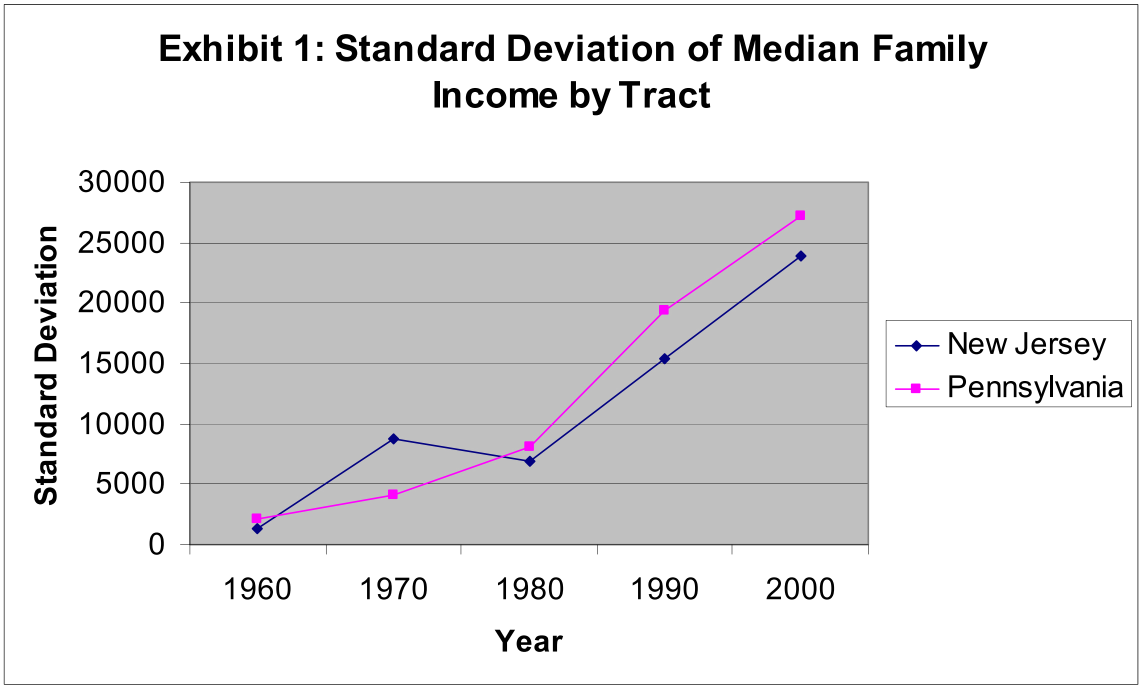
Exhibit 1: Standard Deviation of Median Family Income by Tract
Standard Deviation
30000
25000
20000
15000
10000
5000
0
1960
1970
1980
1990
2000
Year
New Jersey
Pennsylvania

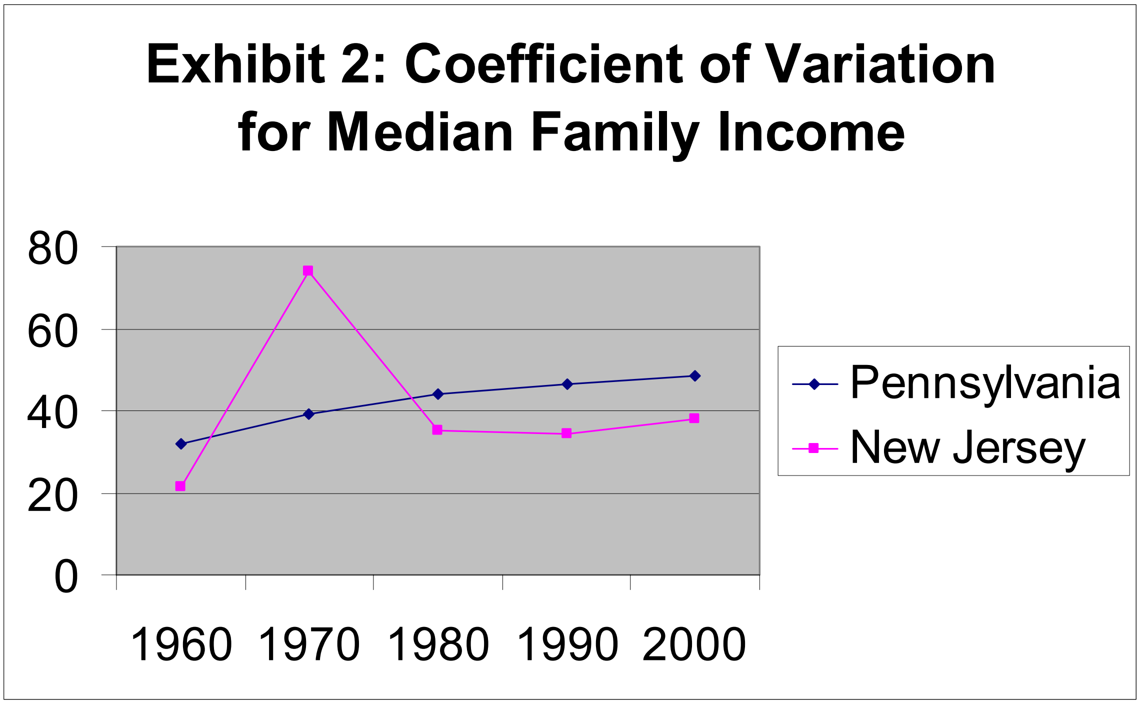
Exhibit 2: Coefficient of Variation
for Median Family Income
80
60
40
20
0
1960 1970 1980 1990 2000
Pennsylvania
New Jersey

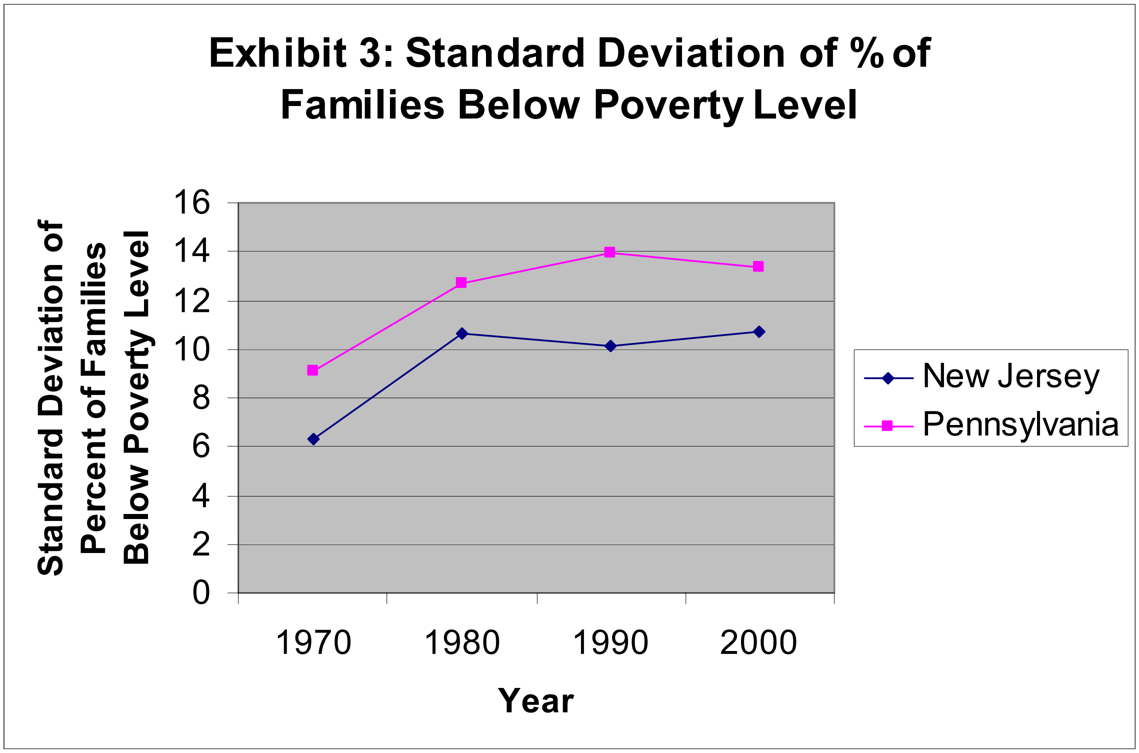
Exhibit 3: Standard Deviation of % of
Families Below Poverty Level
Standard Deviation of Percent of Families Below Poverty Level
16
14
12
10
8
6
4
2
0
1970
1980
1990
2000
Year
New Jersey
Pennsylvania