



THE HAPPY ECONOMIST

The gloomy real estate market has vaulted Wellesley's Chip Case into the media spotlight. Here's what you probably won't read in *The Wall Street Journal*.

IT'S 9 A.M. ON THE LAST TUESDAY OF THE MONTH, a time anxiously anticipated in the tumultuous world of real estate. This is when the S&P/Case-Shiller index comes out, reporting on changes in the prices of single-family homes in 20 major US markets, including Boston.

While its name may not have the familiar ring of the Consumer Price Index, its release has become headline news in papers across the country. February's announcement made a particularly big splash. It showed that prices fell 8.9 percent in 2007, the largest decline in the index's 20-year history.

While the news was racing around the Internet, the man who scribbled the basis for the index on the back of an envelope two decades ago was playing squash in Wellesley. I caught up with him a short time later at his house on Grove Street, across the way from Dana Hall School. Dressed in gym shorts, a Wellesley College T-shirt, and his Red Sox cap from last year's World Series, Karl (Chip) Case plopped down in his office and told me the story of his life—that is, between fielding calls from *The New York Times*, WBUR, and academic colleagues.

Case has spent 31 of his 61 years as an economics professor at Wellesley, the longest of any current teacher in his department. You might think that a man who has spent half his life steeped in what has been derided as the dismal science, poring over what lately has been the bleakest of data, must make Cassandra seem like Pollyanna. You'd be wrong.

Read his daughter's college application essay about how he used to pick her up from kindergarten on his motorcycle and when she was older sneak her into Celtics games. "My dad had fun," she wrote. "He laughed more than other people's fathers."

Ask Milena Mareva, a senior assistant admissions director at Wellesley, about how her staff hears Case coming because he's always humming and whistling. "He's a happy guy, happy with himself and the world," says Mareva, who had Case as an academic adviser.

Talk to Wellesley volleyball coach Dorothy Webb, who calls him "the best fan of athletics I can imagine for any college."

Or look at the photos from the Prentice Hall sales conference where Case ran around bare-chested to drum up enthusiasm for his economics textbook.

"I've had a great life, a great research topic, and a great place to teach," says Case, who refuses to be sidelined by the Parkinson's he's been living with since 1991. "I rolled so many sevens, how can I bitch about that?" Besides, he says, it's helped his golf swing.

Why Wellesley?

CASE DIDN'T SET OUT TO MAKE HIS NAME AS A RESEARCHER. He pursued a job at Wellesley because "I wanted a place where teaching was taken seriously, and the bar was a little lower for research"—though he liked the college's location near the Boston brain trust.

"Most economists today are not writing about highly significant things," Case says, elaborating on the value of their articles in saltier terms. "I wanted to write stuff that I cared about and make a difference."

n housing, he found a ripe topic, thanks to the Massachusetts Miracle that Michael Dukakis made famous in his run for the White House. “In ’85, my house went up by 40 percent in value,” he recalls. “I said this is a story economists can understand.”

But at the time, they really didn’t. For one thing, housing data were unreliable. Pete Seeger may have sung about “little boxes made of ticky tacky ... little boxes all the same,” but over time these houses get additions or fall into disrepair, and their neighborhoods rise or fall in desirability. In addition, statistics reporting changes in median price could be misleading; if, say, the sale of starter homes surges one year, the median will fall, but “it doesn’t mean prices fell,” Case notes.

So Case decided to build a database that paired data for repeat sales of the same house. The “ah-ha” moment came on an airplane trip. “I figured out on the back of an envelope a way to splice that into a price index,” Case says, turning to his PC and printing out a paper he wrote for the Federal Reserve Bank of Boston in 1986. Flipping through the report, he points to an appendix with a mathematical formula: That “little footnote is my one great contribution to statistical knowledge.”

Case excluded from his data pool properties that had undergone significant changes, such as the addition of a wing, and sales that were not arm’s-length, such as those between relatives. But while he had devised an innovative way to measure changes in prices—a breakthrough that would lead to his famous index—the goal of his research project was to build a model showing what influences the housing market.

Basically, this meant plugging a lot of data into a computer. On one side of the equation were the supply-and-demand factors that affect prices, such as the amount of new housing, construction costs, mortgage rates, demographic shifts, household income, and the jobless rate—and, on the other side, price changes in 10 major cities.

The good news was that Case’s model explained price changes in nine out of the 10 cities. The bad news was that the one anomaly happened to be Boston, where price hikes were off the charts. And since he was conducting this research for the Boston Fed and was counting on its publication to help him become a full professor at Wellesley, Case had a big problem.



A fortunate soldier

BEFORE YOU GET TOO FRETFUL ABOUT CASE, it’s important to know that this guy is resourceful. Let’s go back another 20 years to 1968, when he graduated college and faced three choices: “Go to Canada, go to jail, or go in.” He opted for the last, which left him two new choices: “You could go in with style or you could go in as a grunt” and face a good chance of getting killed.

Case found a way to go in with style. He discovered that college graduates could receive a direct commission if they showed promise as hospital administrators. In August 1970, he was ordered to Vietnam. “It was like *M*A*S*H*,” he says. “I was in hospitals all the time. ... I learned more that year than any year of my life.” He learned about what doctors can and cannot do; about the army and its mentality; and about Third World economics. And he managed to stay out of the line of fire, though he was in the vicinity of occasional shelling.

He even earned a Bronze Star and two Army Commendation medals. “The Bronze Star can be awarded for meritorious service or valor,” he explains. “I did not get it for valor. I did not pull anybody out from behind a burning bush.”

Not so tiny bubbles

NOW, LET’S JUMP BACK TO THE 1980S AND THOSE WACKY BOSTON REAL ESTATE FIGURES. How did he explain that huge jump in prices? “I made up a story—called it a bubble.”

Well, actually, he didn’t make it up. Economists have written about bubbles going back as far as the mania that drove tulip-bulb prices into the stratosphere in 17th-century Holland. But Case didn’t know much about bubbles. At the time, he was working on an introductory economics textbook with a friend at Yale, Ray C. Fair. So he asked Fair to recommend an expert in bubbles. Fair responded: “Mr. Bubble is across the hall.”

Volleyball coach Dorothy Webb calls Case “the best fan of athletics I can imagine for any college.”

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“We were figuring out the right way to think about the housing market,” Case says. “We surveyed home buyers and asked them their expectations. They thought that housing prices would go up forever.”

Massachusetts, with its limited space to build, was ripe for a bubble. “Up here you have 351 fiercely independent cities and towns that won’t zone for ... big tracts.” So while the state’s economy was booming, the supply of housing couldn’t keep up with demand.

“People started believing housing was a great investment,” and, aided by falling interest rates, were willing to pay more and more for it. Case often repeats a line that a colleague told him: “In ’84 or ’85 the only thing dumber than not owning a house was not owning two.”

Case and Shiller went on to establish housing price indices for 87 metropolitan areas and to write numerous papers about the housing market and its impact on the rest of the economy. Five years ago, they sold the indices to Fiserv, which has since licensed the rights to the data on the 20 major markets considered most representative to Standard & Poor's. Case, who still serves in an advisory capacity, says he made "a pretty penny." But it's not the money that matters most to him—that's apparent in the way his eyes light up as we look at the latest figures on the Internet.

“This is our stuff,” he says. “The S&P home price index. It’s the lead story on CNN. It will be the lead story on *The Wall Street Journal*.... I’m pretty proud of this: my idea on the back of an envelope on an airplane.”

A magic number

HERE IS ANOTHER STAT THAT CASE IS PROUD OF—and it has nothing to do with real estate. It is 77, the number of Wellesley graduates who went on to earn their doctorate in economics between 1971 and 2000. Over that time period, more Wellesley graduates obtained PhDs in economics than did women who received their bachelor's from Harvard, Yale, or any of the other members of the Consortium on Financing Higher Education, an elite group of 31 private institutions.

Case credits others in the economics department for incubating many of those economists, pointing to professor emeritus Marshall Goldman and the late Carolyn Shaw Bell, who, Case says, “has done more for women in the economics profession than any other person.”

But Mareva, the admissions officer and former student, says Case “is to a great extent responsible.”

How many econ professors play Janis Joplin and bluegrass (“Uncle Penn” is his cell-phone ringtone) to warm up their classes? But Case is

much more than a showman. He is extraordinarily personable and approachable. "He's everywhere," says Mareva. "He just gets to know people, [and] he is known to give great advice."

That's what prompted her to visit him during her junior year when she was casting about for a summer internship. She was an econ major, but had yet to take a class with him. Case took the time to ask her about her interests, study her resume, and talk with her teachers. "He really takes these things to heart," Mareva says. Shortly afterward, he invited her to join other Wellesley students helping out at a Boston real estate conference, where he introduced her to an executive who got her that internship.

Case is a “great connector,” Mareva says, echoing comments I heard about Case from everyone I interviewed. His friendships range across academic disciplines and party affiliations. He is buddies with Edward P. Lazear, chairman of the president’s Council of Economic Advisers, and with Austan Goolsbee, Barack Obama’s economic adviser. Before coming to Wellesley, Case was head tutor (or director of undergraduate studies) in economics at Harvard University. He gave Federal Reserve chairman Ben S. Bernanke his undergraduate orals and was the go-to guy for such future economic stars as Jeffrey D. Sachs.

Case's drawers bulge with copies of the letters of reference he has written to help along careers. He keeps them all, going back more than three decades, along with copies of comments about student papers. One of the complications of his Parkinson's, he says, is that it now takes him an hour to write a letter of reference that in the past he would have whipped out in 10 minutes.

“A lot of academics are quite introverted, but Chip is always giving of his time to his students and his colleagues,” says Doug Poutasse, who has known Case since he was at Harvard. “When I walked in the college dorm on Sept. 13, 1974, it completely changed my life,” Poutasse says of his first day as a freshman. He met his future wife, and he met Case—“my mentor for my entire career” and “a second father to me.”

Case and his wife, Susan, were house parents at Comstock Hall, where they endeared themselves to the residents by buying a pinball machine and pool and table tennis tables for the basement. Case camped out with students in the White Mountains and outside the old Boston Garden for Celtic playoff tickets.

At Harvard, Case began his long career as a missionary economist. Poutasse, who had intended to major in history, was among his early converts. “He gets people excited about” economics by showing how it matters in the real world, says Poutasse, a Wellesley resident (thanks, in part, to Case) and executive director of the National Council of Real Estate Investment Fiduciaries.

Mareva recalls spending the third class of her Urban Economics course at Wellesley on a bus touring the Boston area, with Case at a mike explaining the history and challenges of different neighborhoods. For a first-hand lesson in real estate, Case sent students out into the market to go through the motions of buying a house.



Case had baseball-type cards made up of himself and other prominent economists to help promote his textbook.

When Elena Rangelova arrived at Wellesley in the early '90s, economics was not part of her game plan. She equated the subject with the failed five-year plans of the communist party in her native Bulgaria. But her math and computer-science major required her to take an economics course, and Case was her teacher. The two clicked. "He's very fast and efficient. He cuts to the chase. I'm also no-nonsense," Rangelova says.



Case with, from left, Semida Munteanu of Romania, one of his many "host daughters" over the years, and Erin Johnson, a star of the 2004-05 Wellesley College basketball season.

Impressed by her mathematical skills, Case urged her to apply them to economics. "No way," she told him. Two years later, she was at Harvard studying for her doctorate in economics and today runs an internal investment strategies group at Goldman Sachs in New York.

Case opened "my eyes to what economics is all about," says Rangelova, recalling how he illustrated an economic principle with an anecdote about buying sports tickets.

His "favorite article of all time," Case tells me, is an op-ed column he wrote in defense of scalping last year for *The Boston Globe*. Here's how it concludes: "On June 12, 1984, the Celtics beat the Lakers 111-102 on the parquet floor for the NBA championship. I was there in section 10. I was also there for the triple overtime against Phoenix in '76 and the double overtime against Milwaukee in '74. ... I don't know whether it was good or bad for society that I was in those seats, but I will never forget those games. I didn't have to discuss where I got the tickets with a government official. Nor should I have to."

Wellesley's No. 1 fan

ALONG WITH THE LATEST Case-Shiller stats and material for a new revision of his textbook, a list of the names of high school students sits on Case's desk. They happen to be not only good students, but good volleyball players; Case plans to chat them up about the virtues of Wellesley.

"He just completely loves and believes in Wellesley," says Dorothy Webb, the college's volleyball coach for the last 15 years. "Nobody can give a better spiel about how good Wellesley is." Case calls himself "the biggest Division III women's athletic fan in America." He thinks nothing of flying off to Wisconsin to watch Wellesley women compete in playoffs. And he joins in all the chants. "He's really loud," Webb says.

The coach calls the National Collegiate Athletic Association's Division III "the last true amateur athletic program." Athletic scholarships are prohibited, and athletic departments receive no special funding or staffing. The division's strict rules got Wellesley into a little hot water—and, no surprise, Case was in the middle of it.

The story, according to an article in *The New York Times*, starts in Tiananmen Square, where Beijing University chemistry major Cai Jinjing was among the students who addressed the huge demonstrations that riveted the world in June 1989 before the military's brutal crackdown. Fearing for her safety, one of Cai's older brothers, a graduate student at Boston University, got then-president John Silber to offer her a \$10,000 scholarship. Case learned about Cai from a Wellesley grad, who told him that besides being an exceptional scholar she was a star basketball player.

Case jumped into action. He arranged for Cai to tour Wellesley and impress the basketball coach with her three-point shots. Then he completed a three-point move of his own, persuading then-Wellesley president Nannerl Keohane to give Cai a full \$20,000 scholarship. That was an offer Cai couldn't refuse.

"It got us investigated by the NCAA," says Case, adding that the college was cleared of wrongdoing. "In my wildest dreams I never imagined us being investigated by the NCAA."

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CASE'S CRYSTAL BALL: WE'RE ABOUT TO HIT BOTTOM

SO HOW IS THE HOUSING CRUNCH HITTING HOME? Wellesley College professor Karl Case offers some glimmers of hope among the gloom as he pores through his indices and other data. Consider:

- Home prices declined in the Boston area 3.4 percent, compared with 17.5 percent in Miami and 15 percent in San Diego. Those figures are drawn from the S&P/Case-Shiller index comparing the last quarter of 2007 with that of 2006 for 20 major metropolitan areas.

- Boston prices have fallen 9.8 percent since peaking in September 2005. But as of the end of last year, prices were still 65 percent higher than they were in 2000.

- Prices for homes in the \$300,000-plus market—which includes much of Metrowest—appear to have started stabilizing a year ago in the Boston area.

- Nationwide, based on previous cycles, the downturn in housing starts is about to hit bottom.

While the good news about hitting bottom is that the numbers can only go up, the bad news is that the nation will endure a recession, if it's not officially in one already. Case's stats show a remarkable correlation between swings in housing construction and the overall state of the economy. That's because a housing boom boosts construction jobs; real estate and mortgage commissions; the building of roads and shopping centers; and the purchase of big-ticket items like refrigerators, washers, and furniture.

Add to that the impact on the economy of the enormous spike in the price of existing housing between 2000 and 2005. Owners have treated their houses like ATM machines, withdrawing cash in the form of equity loans. At the peak of the boom, the value of US residential stock—land and buildings—was \$24 trillion. Of that figure, \$10 trillion was created in five years, half of which represents capital improvements (new building and additions) and the rest appreciation in value. It's as if God came down and added \$5 trillion to the balance sheets of America's home owners, Case says.

While house values have fallen, Case notes that on the upper end prices tend to be sticky. Affluent homeowners can afford to wait out the slump, either leaving their homes on the market for months until they get their price or pulling them off until conditions improve. On a positive note for the economy, Case's research suggests that the decline in home equity has not so far spurred a cutback in consumer spending comparable to the binge that accompanied the bubble.

Meanwhile, the low end of the market has been hit hard, thanks largely to subprime loans issued to buyers who in the past would not have qualified for mortgages. They started out with manageable monthly payments, only to see them dramatically escalate. Had home prices continued to climb, they could have refinanced. But with prices falling, they find they owe more than their houses are worth, and some of them face foreclosure. It's a lesson in economics, says Case, that these homeowners—and the financial institutions that lent them money—"will never forget." —SM



One of the 'bums'

IFYOU HAD KNOWN CASE IN HIGH SCHOOL, you wouldn't have imagined that someday he'd be a regular in the stands rooting for the Wellesley Blue—or, for that matter, be teaching at an elite college. Born in Manhattan in 1946—part of the first crop of baby boomers—he moved to Ohio when he was 13. His dad, who had risen from the mailroom to an executive position at Hanover Bank, decided to return to his home state after a series of corporate consolidations. “Purgatory for eight years” is how Case describes his banishment to the hinterlands. Having just finished eighth grade, he was plunged into a world where “you had to be a cheerleader or football player to be cool, and I was decidedly neither of these.”

Case found his niche hanging “around with the bums.” With a bit of impish pride, he says, “I was a bad boy.” He wasn't one of those menacing hoods in a leather jacket (“I wear one now,” he says), but he played a lot of poker, smoked a lot of cigars, drank a lot of beer, and even managed to get suspended from high school for two days. Case blames that last distinction on a buddy, saying his car just happened to be in the wrong place at the wrong time.

“My one trump card was that I got As. I knew they couldn't mess with me too much,” Case says. Pranks aside, he managed to graduate with the rest of his class and enrolled at Miami University of Ohio. There he majored in economics, served as student body president in 1968—perhaps the most turbulent year in the history of higher education—and fell in love with a member of the homecoming court, Susan. This summer they will celebrate their 39th anniversary.

Harvard mentor

WHILE CASE MAJORED IN ECONOMICS, he knew he could never follow in his father's footsteps and go into banking. “My two best friends' brains had turned to oatmeal working for Wall Street,” Case says. “I wanted to be able to wear blue jeans. ... I didn't want a boss. I didn't want to punch time cards.”

But he “really loved this economics stuff” and pursued his doctorate at Harvard. His mentor was Richard Musgrave, who Case calls “one of the 10 greatest economists ever.” Of the many photos in Case's office—pictures of himself running the Boston marathon, his wife and daughter, mountain-climbing trips, his beloved Red Sox—one of his favorites shows him and Musgrave. The long-time Harvard professor and adviser to governments worldwide “was a doctor-father to a lot of people,” says Case, who has played a similar role in the lives of so many of his own students.

When Case arrived at Harvard in 1971, Musgrave was considered a reactionary “because he thought the Marxists were stupid and told them so.” By the time of the Reagan era, he was viewed as a “big liberal. And he never changed his views,” says Case.

While Musgrave didn't buy the Marxist view that capitalism is all bad,



TOP: Case, fresh from the locker room, in a baseball-themed event in the early 1990s to rally Prentice Hall sales troops in support of *Principles of Economics*, the text he coauthored with Ray C. Fair. AT LEFT: Case served as a captain in Vietnam, earning a Bronze Star for his work with the Army Medical Corps. BELOW: Case and his wife, Susan, in Wyoming's Wind River Range in the mid-1980s.



he did believe that government plays a crucial role in fixing things the market doesn't do well. That's a philosophy reflected in the economics textbook that Case coauthored with Fair. It first presents a perfectly competitive model of the marketplace, next shows the imperfections, and then discusses ways to address them.

“If our kids can't talk about the debate on the role of government, then they don't understand economics,” Case says. “If you believe government can do everything,” that's not realistic. “If you believe the market does everything right, as many people do, there are problems with that,” such as monopolies, income inequality, and harmful externalities like pollution.

“I teach them hard that advertising does great things, and I teach them hard that advertising does bad things. I teach them hard that free trade is good and teach them hard the criticisms of free trade,” Case says. “One of the things I'm proudest of is that when we end the term, and I ask my

kids if I'm a Republican or a Democrat, they split down the line."

So just where does Case stand on the political spectrum? "I'm a fiscal conservative Democrat in the Bill Clinton tradition," he says.

He sounds a bit more to the left in his daughter's college entrance essay. She writes that when she was 7 or 8, he told her: "A Democrat ... is a person who wants to help poor people and give them food to eat. A Republican is someone who wants to use all of our money to make nuclear weapons."

Of wisdom and teeth

CASE'S MANY COLLEAGUES joined together to honor him last fall at a symposium at Harvard, sponsored by the Cambridge-based Lincoln Institute of Land Policy, with which he has long been associated. Some 100 of his colleagues and former students attended a dinner to toast him. Lazear, the president's economic adviser, gave the main address, but perhaps the most moving tribute was given by Ranguelova, the Bulgarian-born economist.

Besides being Case's student, Ranguelova was his house daughter—one of more than two dozen foreign students to whom the Cases have offered a second home. House parents are a Wellesley tradition; they pick up students at the airport, invite them over for dinner or to stay during breaks, and offer advice. Some, like the Cases, even host family at graduation time.

Ranguelova recalled one Christmas when she house sat for the Cases while they visited relatives in Ohio. Before they left, she mentioned to Case that she had a bad toothache. He made an appointment for her to see his family dentist. When she learned that she had to have four wisdom teeth pulled at a cost of \$1,200, she asked the student aid society for a loan. But the society told her its funds were exhausted. Hearing this, Case told Ranguelova that he could arrange for the society to find the money. And, sure enough, the dental bill was paid.

Some time later, Ranguelova was at a wine-tasting party at the Cases' house. (Did I mention that he has a wine cellar with bottles more than a half century old?) "He loves to tell stories about me," Ranguelova says. "Suddenly, he was telling a story of how he paid for my wisdom teeth."

Until that moment, she had assumed that she still owed the aid society. Case had let the secret slip. As she recounted her story at the dinner last fall, Ranguelova says, "I was in tears, and Chip was in tears. And the house was in tears." ■