US HOUSING POLICY AT THE CROSSROADS: Rebuilding the Housing Constituency

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ABSTRACT: *Federal housing policy faces an uncertain future and a weak fragmented political constituency. The Republican controlled Congress may dramatically downsize the U.S. Department of Housing and Urban Development. Some even want to eliminate the agency altogether. In response, the Clinton administration has promised to reinvent and streamline HUD. Neither approach, however, addresses the nation's housing problems or the totality of federal housing programs in any comprehensive way. The authors analyze the factors contributing to HUD's vulnerability, review the various proposals to reorganize the agency, and propose an alternative and more comprehensive policy that has the potential to expand the political constituency for federal housing policy.*

At least one million Americans, including an increasing number of children and working adults, are homeless at some point each year. Most young families, many with middle class incomes, cannot afford the America dream of homeownership, yet both President Clinton and the new Congress (including former Senator Robert Dole) favor dismantling long-standing housing programs and some in Congress want to eliminate the U.S. Department of Housing and Urban Development (HUD) altogether.

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The moment of truth for federal housing policy has arrived. Housing policy promises to be one of the key battlegrounds in the great clash between the forces of reform and counterrevolution in Washington today.

These days, hardly anyone can be found to defend HUD. "Politically, HUD is about as popular as smallpox" (Gugliotta, 1995) reported the *Washington Post*. Secretary Henry Cisneros observed that he had inherited an agency "characterized by slavish loyalty to nonperforming programs." Indeed, HUD is an easy target. It is typically identified with public housing projects, big cities, and the welfare poor. In fact, public housing often is used as a metaphor for the failure of activist government. Under Reagan and Bush, HUD also became identified with mismanagement and corruption. As a result, most people now believe that federal low income housing programs reward a combination of government bureaucrats, politically connected developers, and people who engage in antisocial or self-destructive behavior.

In fact, HUD constitutes only a small part of the federal government's housing policies. The United States currently devotes $113 billion a year to housing subsidies, less than one-quarter of it through HUD. The Departments of Agriculture and Health and Human Services provide housing subsidies as well, but none contribute as much as our phantom housing agency, the Internal Revenue Service, through deductions or home mortgage interest and property taxes, as well as tax breaks to investors in rental housing and mortgage revenue bonds. Much of it is spent wastefully and inefficiently.

The $113 billion figure includes the following: U.S. Department of Housing and Urban Development, $26 billion, mostly to public housing agencies, private developers, and private landlords to house some of the poor; U.S. Department of Agriculture's Farmers Home Administration, $3 billion, primarily for loans and direct subsidies to landlords, renters, and homeowners in rural areas; U.S. Department of Health and Human Services AFDC payments for housing costs, $7 billion; mortgage interest deductions for homeowners, $51.3 billion; property tax deductions for homeowners, $14.8 billion; and tax breaks for investors in rental housing and mortgage revenue bonds, $10.5 billion. The figure for AFDC payments for housing costs come from Newman and Schnare (1994), who estimate that roughly 30% of the federal government's $22 billion AFDC expenditure represents the housing component of welfare grants. Other figures, for FY 1996, come from Analytic Perspectives (1995).

The $113 billion figure excludes the Department of Defense's housing subsidies to military families on and off US military bases, which total about $10 billion annually. It also excludes the housing program of the Resolution Trust Corporation and the Federal Deposit Insurance Corporation, two government agencies that dispose of the assets of failed commercial banks and S&Ls. It also excludes the Veterans Administration (which insures mortgages for veterans), Fannie Mae, the Federal Reserve System, and the Federal Home Loan Bank System.

HUD is fighting for its life. Unfortunately, many housing advocates (inside and outside the Beltway) do not know how to respond to the attacks on federal housing programs, so conservatives get to look like good-government reformers even as they throw out the housing baby with the HUD bathwater.

The progressive alternative is not a reflexive defense of existing programs but a reformed housing policy that targets federal support to those who need it, promotes homeownership, relies less on bureaucratic programs, and emphasizes the role of nonprofit and community organizations in building, owning, and managing housing for poor and working class families. An alternative policy based on these principles is outlined later.

TURNING POINTS

Among Western democracies, the US relies most heavily on private market forces to house its population. This does not mean that the government is not involved in housing matters but that US policy emphasizes bolstering market forces and minimizing assistance for the poor.

Government's role dates primarily from two major turning points in our housing history. At the turn of the century, tenement reform laws set the precedent that local government would set standards and regulate housing safety. During the 1930s, the public housing program and banking reforms established the federal role in expanding homeownership and providing subsidies to the poor.

Until the Depression, housing reformers were a lonely voice in the political wilderness. The Depression convinced reformers that the private market and private philanthropy could not solve the economic and housing problems of the poor. Some of the earlier Progressive Era housing reformers like Edith Wood, joined by a younger generation of activists like Catherine Bauer, pushed for a strong government led response to housing problems (Lubove, 1962; Marcuse, 1986; Oberlander & Newbrun, 1995; Wright, 1981). Along with the labor union movement, they lobbied for a public housing program, union-sponsored cooperative housing, and new communities guided by cooperative principles.

In one way or another, all housing policy since then has been a variation of these themes. Each turning point triggered a broad housing reform movement that brought poor and middle class forces together, even if it was only out of political necessity. From the New Deal to the late 1970s, national housing policy was based on the belief that the federal government could help solve the nation's housing problems. Conservatives, liberals, and radicals debated how much the government should spend and how much it should regulate lenders, landlords, and real estate agents, but they agreed on the basic premise that Washington had a key role to play. For example, Senator Robert Taft (R-Ohio), a leading conservative, was cosponsor of the 1949 Housing Act that pledged to guarantee every American decent housing.

In those years, the federal government played a much expanded role in housing. Federal policies stabilized the banking industry, giving lenders greater incentives to make long-term loans to homebuyers. Washington also provided subsidies to local public housing authorities and private developers for low income and moderate income housing. In addition to providing various housing subsidies, the federal government has also sought to monitor and reduce housing discrimination beginning with the Fair Housing Act of 1968. Every President between FDR and Jimmy Carter, Democrats and Republicans, increased federal housing assistance.

It appears we may now be at a third turning point. The Reagan administration started to dismantle the federal role in housing; the Clinton administration and the new Republican majority in Congress appear to be ready to finish the job. In December 1994, in response to Congressional threats to eliminate HUD altogether, President Clinton and HUD Secretary

Henry Cisneros unveiled a plan to reinvent HUD. It would streamline and consolidate HUD's crazy quilt programs and hand the funds over to states and cities. It also called for a dramatic cutback of HUD's mission by virtually eliminating federal funding for existing subsidized housing developments for about three million low income apartments (U.S. HUD 1995a, 1995b; Vanhorenbeck, 1995).

In truth, change is needed. Much of what is under attack should be cut. HUD is too topheavy, inflexible, and bureaucratic. Its programs often are poorly run. Some HUD policies promote the concentration of poor people in urban ghettos. HUD has had many success stories that warrant continuation and expansion. If housing programs are simply cut, rather than transformed, then the trends toward increased homelessness and declining homeownership will only get worse. Equally important, we should recognize that, given the magnitude of federal housing subsidies, reform of the nation's housing policy must go beyond reforming HUD.

AMERICA'S HOUSING REALITIES

For 30 years after World War II, Americans made steady progress toward broader homeownership and improved housing. Thanks to rising incomes and federally backed mortgages, homeownership expanded dramatically. By the late 1970s, two out of every three US households owned their own dwelling. The size and quality of much middle class housing improved significantly. The quality of housing for most poor families increased, too. The proportion of dwellings without plumbing, electricity, and other basic amenities plummeted dramatically. Many poor people still lived in slums, but the major housing problem confronting the poor and the middle class became affordability, how much of their income they needed to pay to keep a roof over their heads. Since the early 1980s, incomes have not kept pace with housing costs, leading to a growing squeeze for renters and homeowners alike (Apgar, 1990; Salins, 1986).

Soon after Ronald Reagan entered the White House, he set up a task force to examine federal housing policy. Dominated by bankers and developers, the task force concluded that Washington was too involved with housing regulations and subsidies and called for a new approach based on free and deregulated markets. During the next 12 years the Reagan and Bush administrations sought, with partial success, to follow this privatization blueprint. The Reagan administration slashed the HUD budget from $30 billion to $9 billion, deregulated the savings and loan industry, and did little to enforce laws against discrimination in housing and lending. High officials in the Reagan administration also used political favoritism to allocate some HUD funds, activities which later led to the conviction of several top officials. When the press uncovered the HUD scandal in 1989, Congressman Newt Gingrich, the *New Republic*, and others called for abolishing the agency entirely, but the Democratic Congress stymied GOP efforts to decimate HUD even further, to sell off more than a handful of public housing projects, and to punish cities with rent control.

Since the 1980s, our housing situation has gotten worse, not only for the poor, but also for the middle class. Indicators of this trend are declining homeownership, rising rent-to-income ratios, rising homelessness, and persistent racial segregation.

Declining Homeownership

In the postwar era, the homeownership rate increased steadily, from 43.6% in 1940, to 55% in 1950 to 65.6% in 1980. In the 1980s, it fell, reaching 63.9% in 1989. For those between 30 and 34, the rate fell from 57.1% to 53.2% during the decade (Callis, 1990; Joint Center for Housing Studies 1994, 1995). Homeownership rates stabilized and inched up slightly in the 1990s, but the American dream is still beyond the reach of many young families, not only those who live in areas with rising home prices, but also those living in areas where housing prices (along with income and employment) are declining (Joint Center for Housing Studies, 1994, 1995; Myers, Peiser, Schwann, & Pitkin, 1992). A census bureau study found that in 1991 91.2% of renter households (including 86.7% of married couples) could not afford to buy the median price house in the region where they live (Fronczek & Savage, 1993). These calculations assume a conventional fixed rate 30-year mortgage loan with a 9.51% interest rate (the average for that year). Interest rates have declined since 1991.

Rent Squeeze

Nearly one-fifth of all renters (and half of all low income renters) devote more than half their income to meet housing costs. In 1995, at least two out of five renters in every state could not afford market-level rents for a two-bedroom apartment. In 15 states, market rents were beyond the reach of more than half of renter households (Dolbeare, 1995).

For the middle class, this means they cannot save enough money to put a downpayment on even a small bungalow. For the poor, it means living in substandard or overcrowded apartments, often in troubled neighborhoods. Measured in 1993 dollars, the median monthly gross rents paid by poor households living in unsubsidized housing jumped from $366 in 1974 to $408 in 1993 (Lazere, 1995). Meanwhile, the number of low cost apartments has dwindled, many lost to the urban renewal bulldozer, condominium conversion, and gentrification. Between 1973 and 1983, the number of unsubsidized low rent apartments ($300/month in 1993 dollars) fell from 5.1 million to 3.6 million. Ten years later, the number had fallen to 2.9 million. At the same time, the number of families in poverty increased significantly. The number of new subsidized apartments did not fill the gap. In fact, the gap widened (Joint Center for Housing Studies, 1994; Lazere, 1995; Lazere, Dolbeare, Leonard, Zigas, 1991).

Rising Homelessness

The homeless are the most tragic victims of these trends. By moderate accounts, the ranks of the homeless have swollen to 600,000 on any given night and 1.2 million over the course of a year (Burt, 1992). Demand for emergency shelter services has increased by about 20% a year during the past decade. Since the early 1980s, however, the composition of the homeless population changed from the initial stereotype of an alcoholic or mentally ill middle aged man or "bag lady", to include families, even many with young children. A recent U.S. Conference of Mayors survey found that almost one-quarter of the homeless work (Appelbaum, Dreier, & Gilderbloom, 1991; Blau, 1992; Interagency Council on the

Homeless, 1994; Link, Susser, Stueve, Phelan, Moore, & Struening, 1994; Office of the Speaker, 1993; U.S. Conference of Mayors, 1993).

Widening Segregation

Housing market forces (lenders, realtors, developers, and landlords) segregate communities by race and income. Among non-Hispanic blacks, 62% live in blocks that are 60% or more black and 30% in neighborhoods that are 90% or more black. Among Hispanics, 40% live in blocks that are 60% or more Hispanic. At least two out of three white Americans live in essentially all-white neighborhoods. In most major US cities, more than 70% of the population would have to move to achieve full integration (Gillmor & Doig, 1992; Massey & Denton 1993).

Economic factors account for much of our nation's segregation and racial disparities, but recent studies document that minorities experience discrimination regardless of incomes. Poor blacks and (to a lesser extent) poor Hispanics, but not poor whites, tend to live in ghettoes or barrios with high concentrations of the poor. In fact, the concentration of poor blacks in high poverty neighborhoods increased during the 1980s (Kasarda, 1993). According to him, the number of extreme poverty census tracts (those with at least 20% of residents in poverty) in the 100 largest cities increased from 4,713 in 1980 to 5,596 in 1990. The percentage of all non-Hispanic blacks living in these tracts increased from 19.9% to 24.2% during that period (Kasarda, 1993).

Realtors continue to steer black families who want to rent an apartment or buy a home to segregated areas. Banks continue to redline minority neighborhoods. Middle income black and Hispanic families applying for mortgages are rejected much more often that middle income white families, even when income and credit worthiness are considered (Browne & Tootell, 1995; Hunter & Walker, 1995; Munnell, Browne, McEneaney, & Tootell, 1992; Turner, Struyk, & Yinger, 1991; Turner, 1992).

HOUSING POLICIES: THE TILT TOWARD HOMEOWNERSHIP

Taking the long view of US housing policy, there has been one constant: It has been dominated by efforts to expand homeownership. The housing industry (homebuilders, bankers, and realtors) has considerable political clout at all levels of government. Homebuilding and mortgage lending are seen as key components of the economy with important multiplier effects. Housing assistance to the poor, on the other hand, is often viewed as a form of social welfare, a drain on the economy. Finally, housing in the United States is symbolized by the freestanding single family home. Opinion surveys consistently confirm strong preference for homeownership (Myers, 1981; Fannie Mae, 1995). In a country where homeownership is virtually regarded as a birthright, rental housing is seen as the illegitimate stepchild.

Government support for homeownership has taken two basic paths. First, federal policy stabilized the banking system. Starting in the Depression, the federal government created several institutions (Fannie Mae, the Federal Deposit Insurance Corporation, and the Federal Housing Administration) that made the flow of mortgage funds more dependable, created a national market for mortgages, and insured individual depositors' accounts from bank failures. In combination, these policies allowed lenders to make long-term (typically

30-year) mortgage loans with a relatively low (3% to 10%) downpayment. After World War II, Federal Housing Administration and Veterans Administration mortgage insurance, along with federal highway programs, increased homeownership and suburbanization, especially among white middle class families. In contrast, the deregulation of the banking system during the Reagan/Bush era played havoc with the homebuying market, exacerbating the decline in homeownership that began in the 1980s. It also led to the S&L scandal.

Second, federal policy provides tax breaks to homeowners. Interest on mortgage debt (up to $1 million) and all local property taxes are fully deductible on federal tax returns. These deductions cost the federal government $64 billion 1994. This tax subsidy goes primarily to the affluent. Those with the highest incomes and the most expensive homes (including second homes) get the largest subsidy. The regressive mortgage interest subsidy accounted for $51 billion tax subsidies in FY 1994. Almost half (44%) of the mortgage subsidy went to the 5.2% of taxpayers who have incomes above $100,000 and 16.5% went to the wealthiest 1% of taxpayers, those with incomes above $200,000. Wealthy households are most likely to own homes and to itemize deductions. Half of all homeowners do not claim deductions at all. Tenants, of course, do not quality. As a result, 71% of households with incomes above $200,000 received a homeowner tax break, averaging $8,457 in 1994. In contrast, 2.8% of households below $30,000 received this subsidy, averaging $486 (See Table 1). Contrary to the rhetoric of the real state industry, these deductions are not the salvation of the middle class. Only one-fifth of the 28 million households with incomes between $30,000 and $50,000 received any homeowner subsidy (Dreier & Atlas, 1992, 1994; Follain, Ling & McGill, 1993; Ling & McGill, 1992; Joint Committee on Taxation, 1994).

TABLE 1

Distribution of Tax Benefits for Mortgage Interest, 1994

Income (Thousands)	Number of Returns (Thousands)	Percentage of All Returns	Number of Returns Taking Mortgage Interest Deduction (Thousands)	Percentage of All Returns in Income Category (Thousands)	Value of Morgage Interest Deductions (Millions)	Percentage of Value of All Mortgage Interest Deductions	Average Value per Return for Those Taking Mortgage Interest Deduction
Under $10	24,145	18.45	31	–	$8	–	$258
$10-20	25,012	19.11	452	1.8	186	–	411
$20-30	20,784	15.88	1,520	7.3	781	1.52	514
$30-40	16,698	12.75	2,687	16.1	1,938	3.78	721
$40-50	11,941	9.12	3,403	28.5	3,213	6.28	944
$50-75	18,006	13.76	8,883	49.3	11,245	21.97	1,265
$75-100	7,486	5.72	5,130	68.5	11,201	21.89	2,183
$100-200	5,377	4.10	4,024	74.8	14,131	27.62	3,511
$200 and over	1,417	1.08	1,013	71.5	8,457	16.53	8,348
Total	130,866		27,142		51,161		

Source: Calculated by the authors from data provided in "Estimates of Federal Tax Expenditures for Fiscal Years 1995-1999", Washington, D.C.: Joint Committee on Taxation, U.S. Congress, November 9, 1994.

HUD AND THE 'HOOD

Do we have HUD to help house the poor?

Indeed, when Americans talk about federal housing subsidies, they typically mean housing assistance for the poor as opposed to subsidies to upper income households that are provided through the tax system. Housing assistance for the poor is not an entitlement. The FY 1995 HUD budget, most of which is targeted for the poor, accounted for only $25.6 billion, 1.7% of the overall federal budget. With these funds, less than one-third of the nation's poor renters received federal housing subsidy. Out of 14.5 million low income renter households eligible for federal housing assistance, only 4.1 million (28%) received it (Congressional Budget Office, 1994; Casey, 1992; Joint Center for Housing Studies, 1995; Newman & Schnare, 1994). Of these, 1.36 million lived in public housing units, 1.65 million lived in private government subsidized developments, and 1.06 million received housing certificates or vouchers (Casey, 1992).

That leaves about ten million poor households to fend for themselves in the private marketplace. Among this group, HUD identified 5.1 million households with "worst case" housing problems: those who pay more than half their incomes for housing and/or live in seriously substandard apartments (U.S. HUD, 1994).

When it started in 1965, HUD inherited two major programs: public housing and the Federal Housing Administration, both begun in the 1930s. Since then, HUD has added a patchwork of programs to accommodate its various narrow constituencies. This makes it a cumbersome bureaucracy that is ripe for mismanagement and corruption.

HUD's first major effort was the Model Cities program, a comprehensive effort to revitalize distressed neighborhoods. Political controversy led to its elimination within a few years. Since then, HUD programs have been less ambitious and have become increasingly narrow and balkanized.

HUD has dozens of different pockets of money to help public housing agencies and an almost equal number of distinct programs for private owners of HUD subsidized developments. HUD also has two programs allocated by formulas to municipal governments, the Community Development Block Grant and HOME, both of which have various strings attached.

There are separate programs to house the elderly, Native Americans, rural populations, people with AIDS, and homeless people. As the visibility of homelessness increased in the 1980s, both Reagan and Bush argued that the homeless problem was best solved by local governments and private charity (thousand points of light) but in 1987 Congressional Democrats, aided by pressure from homeless advocacy groups, particularly among churches, big city mayors, and media coverage, prevailed in getting the Stewart B. McKinney Homeless Assistance Act funded and expanded each subsequent year. HUD created a variety of programs to address the various subpopulations of the homeless. Separate programs were created to help homeless families, homeless veterans, homeless people with AIDS, and the elderly homeless, and to create single room occupancy apartments (rooming houses), transitional housing for women and children, and shelters as well as health care clinics for homeless persons.

There are distinct programs for new housing construction, for moderate rehabilitation, and for major rehabilitation. HUD has two housing allowance programs, vouchers and certificates, that have different standards. HUD is also in the fair housing business, monitoring (often through contracts with community-based groups) discrimination by landlords, lenders, and local governments. Most HUD funds go directly to cities and towns, but some circumvent local governments and go to community groups and owners of HUD assisted projects (Bratt & Keating, 1993; Schussheim, 1994).

Through the FHA, HUD also insures mortgages for individual homebuyers and developers of subsidized low income housing. Because it helps many working and middle class families, the single family mortgage insurance program is probably HUD's most popular program. In fact, 1994 was the FHA's best year in its 60 year history. It insured 1.3 million loans, 450,000 mortgages for first-time buyers. As a result, the overall homeownership rate has inched upward, but many people do not identify FHA as part of HUD or view its activities as a government subsidy.

Where federal policy has bolstered rental housing, it has done so primarily to promote the profitability of lenders, developers, and landlords. Even the public housing program, which began in 1937, reflects the political influence of the private housing industry. During the Depression, public housing advocates, like their European counterparts, initially envisioned it for the middle class as well as the poor but the real estate industry, warning about the specter of socialism, successfully lobbied to limit public housing to the poor. Public housing, owned by local governments, barely got started before it was sabotaged (Friedman, 1968; Wright, 1981). To this day only 1.3 million units have been built.

The biggest secret about public housing is that most of it is well managed and the majority of units are in small and midsize developments (U.S. HUD, 1995b). Many older projects in the big cities are physically isolated high rise ghettos, underfunded and poorly maintained. About 86,000 public housing units are, according to a report by the Bush administration, severely distressed, many of them vacant because of the lack of funds for ongoing maintenance and repairs (National Commission on Severely Distressed Public Housing, 1992).

Once targeted to the working poor, public housing has increasingly become home to the extremely poor. Today, the median household income in public housing is only $5,850, 19% of the national median income. Only about 40% of its nonelderly households have a wage earner. There are about 900,000 families on the waiting lists for the nation's public housing apartments while about 1.4 million poor households are on waiting lists for housing subsidies for privately owned housing (Lazere, 1995). This is true even though many local housing authories have closed their waiting lists because it takes several years (or longer) to get into an apartment, evidence that public housing is, in the eyes of many clients, a preferred option to the private rental market (Council of Large Public Housing Authorities, 1995; National Commission on Severely Distressed Public Housing, 1992; Stegman, 1990; Vale, 1993).

Greater public resources have been targeted to privately owned rental housing, most of it targeted for the poor. Beginning in the mid-1960s, HUD began giving private developers low interest mortgages, tax breaks, and rental subsidies to construct or rehabilitate rental housing for the poor. About 20,000 privately owned projects with almost two million units of privately owned subsidized housing were built. These programs have been criticized as expensive bribes to lenders and developers. In many cases, their construction and operating costs exceeded the per unit costs of public housing. Moreover, the federal programs gave the owners of many of these developments an option to withdraw after 20 years. As this ticking time bomb began to explode in the late 1980s, Congress passed legislation allowing HUD to entice owners to keep their projects as subsidized housing but at a huge additional cost to taxpayers.

Keeping the successful projects in the inventory of subsidized projects has raised one set of problems. Addressing the problems of unsuccessful projects posed another set of dilemmas. Some developments were lost when owners walked away or withdrew from the subsidy program. Many others are currently at risk of default. By the early 1990s, about 13,000 developments, with about 1.5 million units, remained in the inventory, exposing the FHA insurance fund to more than $34 billion in insurance obligations (Pedone, 1991; Sternlieb & Hughes, 1991; Vandell, 1995; Wallace, 1994). According to the General Accounting Office, at least 15% of this inventory has severe physical problems that threaten tenants' health and safety and that would require at least $1 billion to correct (England-Joseph, 1995).

Most HUD subsidized projects, public and private, are well run, but quite a few have been mismanaged by incompetent public housing agency bureaucrats and private landlords who took the subsidies but failed to maintain their properties. Over the years, HUD has used little leverage to make these inept or unfit landlords (whether public or private) toe the line. In some cases landlords milked these properties for their tax breaks and then walked away from the buildings, leaving HUD to foreclose and become owner of ghetto slum housing. HUD estimates that it could lose over $10 billion as a result of future defaults on its loans to private owners of FHA insured multifamily developments. This amount would be even higher if HUD's Section 8 project-based subsidies were withdrawn (England-Joseph, 1995).

Moreover, most HUD subsidized projects were sited in segregated neighborhoods, compounding the image of HUD housing as a major factor in creating isolated ghettos (Goering, Kamely, & Richardson, 1994; Massey & Denton, 1993; Schill & Wachter, 1995a, 1995b). Local housing agencies and landlords argue, with some justification, that HUD rules requiring them to house only the very poor are responsible for some of the problems. Many HUD subsidized projects have, in fact, become ghettoes filled with troubled families some of whom engage in crime, join gangs, participate in the underground drug economy, and live on welfare and food stamps (Keyes, 1992). These distressed projects, as HUD calls them, cast a shadow on the entire HUD enterprise, stigmatizing government housing as housing of last resort.

Over the years, people from across the political spectrum have urged HUD to either repair troubled projects or demolish them. Conservatives had opposed fixing them up on the ground that it is pouring good money after bad. As a result, modernization of HUD subsided projects has proceeded slowly, with some dramatic successes, but with insufficient funds to make a major dent in the troubled inventory.

Liberals have generally opposed tearing down even the worst projects. They fought to force HUD and local housing agencies to repair them, but they have also argued that with the scarcity of low cost housing, living in even the most distressed projects was a better alternative than private slum housing or the streets. Liberals also fought to require public housing agencies and private landlords with HUD grants to give priority to the poorest tenants and used the courts to expand renters' rights, making it difficult to evict difficult tenants (Atlas & Dreier, 1992).

As a Congressman and as Bush's HUD Secretary, Jack Kemp tried to appeal to both constituencies. Empower the poor, he said, by helping the residents of HUD subsidized projects (both public housing developments and privately owned buildings) become managers and homeowners. Kemp's idea sounded fine in theory. After all, it had worked in England where Margaret Thatcher gained considerable blue collar support for selling public housing to tenants at reduced prices. Many middle class families lived in England's public housing which were in reasonably good physical condition (Dreier, 1986; Roistacher, 1984; Silver, 1990).

The plan did not make much sense on this side of the Atlantic where the public housing stock is older and in much worse physical condition. In the US, tenants in subsidized housing are too poor to pay for routine operating expenses (utilities, routine maintenance, property taxes), much less property taxes. The Kemp program also did not include funds to cover the cost of major repairs, including basic systems, elevators, roofs, etc., required in many older and rundown buildings. Despite warnings from HUD staff, Kemp plunged ahead with this Homeownership Opportunities for People Everywhere (HOPE) program, but few tenants wanted to buy their buildings under those conditions. Only a few thousand units have been sold (Peterman, 1993; Rohe & Stegman, 1993; Silver, 1990)

POLITICS OF HOUSING

At various times since the November 1994 elections, Republican leaders called for the complete dismantling of HUD. House Speaker Newt Gingrich said, "You could abolish HUD tomorrow morning and improve life in most of America" (Cooper, 1994, p. A1). Senate Majority Leader Robert Dole called public housing the "one of the last bastions of socialism in the world" ("Dole Would Axe", 1995, p. 1). Senator Lauch Faircloth of North Carolina, the new chairman of the HUD oversight subcommittee, filed legislation to eliminate the agency, asserting, "I think we need to put this department to rest" ("Adm'n Wins", 1995, pp. 1-2). Gingrich was candid about the reasons for HUD's vulnerability. Its "weak political constituency", he told the *Washington Post* in December 1994, "makes it a prime candidate for cuts" (Cooper, 1994, p. A1). In May 1995, the Republican controlled Congress rescinded $6.3 billion from the already authorized FY 1995 HUD budget, one-quarter of the agency's funds. Funds for existing public housing projects and Section 8 subsidized developments took the brunt of the cutbacks. The FY 1996 budget provided only $19 billion for HUD, a reduction of more than one-quarter of its budget. Only HUD's long-term subsidy contracts keep Congress from slashing more. Indeed, many GOP leaders in Congress viewed this as the first phase of an eventual dismantling of the agency.

This was not always the case. After World War II, federal housing policy had a broad political constituency: young families who wanted to buy homes, developers who wanted to build them, brokers and lenders who wanted to help them buy, and labor unions whose members wanted to buy homes and construct them. So long as federal policy helped the blue collar working class achieve the middle class dream of homeownership, it was politically acceptable for Washington to build public housing for the poor as a temporary waystation on the road to upward mobility (Hays, 1995; Wright, 1981).

HUD's fate has reflected the shifting political winds, particularly regarding cities and the poor. President Johnson created HUD in 1965 in response to pressure from civil rights activists, big city mayors, labor unions, and private developers who wanted a piece of the subsidy action, all key Democratic party constituencies. By the late 1960s, the New Deal and Great Society political coalition began to unravel in response to urban riots, white flight and suburbanization, and conflict over spending priorities between Vietnam and domestic matters. By the 1970s, this fracturing was exacerbated by declining middle class incomes and resentments over race. During the 1980s, the ideological assault on the notion of government activism (by conservative politicians, think tanks, and the media) helped undermine support for housing programs for the urban poor (Edsall & Edsall, 1991).

Despite growing housing problems, including the continuing increase in homelessness and the decline of homeownership, why was housing not a significant issue in the 1992, 1994, or 1996 elections?

A major reason is that the organized constituencies for HUD have narrowed dramatically. Since at least the mid-1970s, when incomes for the middle class began to stagnate and the political backlash against the antipoverty agenda emerged, the constituency for low income housing policy has been seriously weakened. It has been especially disorganized and ineffective in the past decade. Except for the FHA insurance program, the powerful real estate industry groups (homebuilders, bankers, realtors) pay little attention to federal housing policy for the poor. They focus their energies on protecting tax breaks for homeowners and developers, influencing fiscal and monetary policy, and fighting local zoning regulations and rent control. Unions are no longer a major voice for federal housing policy even though the AFL-CIO recently began investing some of its pension fund into HUD subsidized projects. Business leaders in some cities have participated in public/private/community partnerships (Boston Housing Partnership and the Community Preservation Corporation in New York City) to help expand low income housing by expanding the capacity of community-based agencies (Dreier, Schwartz, & Greiner, 1988). At the national level, mainstream business groups (the U.S. Chamber of Commerce, the Business Roundtable, trade associations, and others) sit on the sidelines when it comes to HUD and housing policy. With some exceptions (Committee for Economic Development, 1995), few business leaders view housing as a key component of a healthy business climate (Dreier, Schwartz, & Greiner, 1988).

As a result, HUD's current constituency is composed primarily of those who have a direct stake in housing the poor: big city mayors and local government housing bureaucrats, private housing developers, landlords and speculators, and poor people and their advocacy organizations. These groups are politically weak, fragmented, and generally viewed unfavorably.

The mayors and housing bureaucrats depend on HUD funding and programs. Their lobby groups include the National Association of Housing and Redevelopment officials, the Council of Large Public Housing Authorities, the National League of Cities, and the U.S. Conference of Mayors. This urban lobby has been losing clout for years as cities come to represent a smaller portion of the overall electorate and national PACs replace city-based political machines as the keys to winning urban seats in Congress (Dreier, 1995a).

The private sector constituency for HUD includes the landlords, developers, real estate lawyers, and others who own and manage the existing inventory of HUD assisted housing. Their lobby groups include the National Leased Housing Association, the National Multi Housing Council, National Housing Partnership, National Association of HUD Management Agents, and the National Housing Conference. Since HUD began, politically connected developers have fed at its trough of lucrative subsidies and mortgage insurance. The Reagan administration was simply more blatant about it and abused the system. The HUD scandals have confirmed the public's skepticism about federal housing programs as rip-offs. After Reagan cut the HUD budget for new housing production, private developers no longer had a stake in protecting the agency. (Private developers who own existing HUD subsidized projects lobby to preserve these federal housing funds, but they are few in number.)

The public interest advocacy groups, including organizations like the National Coalition for the Homeless, the National Low-Income Housing Coalition, the National Community Reinvestment Coalition, the Local Initiatives Support Corporation, and the Center for Community Change, are often referred to as the housing movement by their friends and "do gooders" (or worse) by skeptics and enemies. Funded primarily by liberal foundations, these public interest organizations occassionally activate their loose networks of local housing activists (tenant groups, homeless shelters, community and church organizations, nonprofit developers) to protect or expand federal housing programs for the poor. A few networks, like ACORN, National People's Action, and the Industrial Areas Foundation, are tighter national federations with the capacity to mobilize their member groups around local and national issues. These groups have had some success in protecting and improving HUD programs, but they mostly put their fingers in the dike. They do not add up to a strong force for progressive housing because there is little grassroots mobilization to provide these "lobbyists for the people" with adequate support to put their issues on the agenda and get them passed in Congress (Dreier, 1996).

Moreover, the various segments of the housing constituency often work at cross-purposes, lobbying for their own specific piece of the HUD pie, weakening the overall impact of their efforts, and undermining the likelihood of building broad support for federal housing programs.

CLINTON PLAN TO REINVENT HUD

In retrospect, Reagan's most important housing policy legacies are the ballooning federal deficit and the HUD scandal, legacies which led directly to the Clinton administration's plan to drastically reduce the federal government's commitment to low income housing. Ironically, Clinton proposed to implement aspects of the Reagan/Bush/Kemp agenda of privatizing housing programs and relying on market forces to house the nation. Where the Reaganites did so out of a strong ideological belief in free markets, the Clintonians are reluctant privatizers, pushed by the Republican victory in November 1994 and Clinton's need to cut spending rather than raise taxes or reduce subsidies to big business and the affluent.

Housing advocates had high hopes for new HUD Secretary Henry Cisneros, former mayor of San Antonio and a seasoned politico. His subcabinet appointments included many of the nation's leading urban policy scholars and activists, people who had been chomping at the bit for over a decade, waiting for a chance to put their ideas into action.

Faced with a huge budget deficit and a Congress unwilling to pass even a modest stimulus package, Clinton confronted severe constraints in expanding resources for a domestic policy agenda. In this political climate, the Clinton administration could do little more than tinker with housing policy. Almost the entire HUD budget is targeted for prior commitments, i.e., existing contracts for public and other subsidized housing. During its first two years, these commitments left the Clinton administration with almost no funding for new HUD programs. Moreover, the Democratically-controlled Congress stymied several of Cisneros' innovative initiatives, frustrating his attempts to reinvigorate HUD after more than a decade of Republican mismanagement and downsizing.

Soon after the November 1994 elections, the chickens came home to roost. When Clinton looked for a Cabinet agency to eliminate, HUD quickly came to mind. Faced with the possibility that his entire department would be killed, Cisneros quickly presented Clinton with a plan to reinvent HUD. Clinton accepted and announced it in December 1994. The Cisneros plan seems to follow the logic of the US military in Vietnam, who argued that they had to burn villages in order to save them.

The Cisneros blueprint included two major features. The first key feature was administrative: to streamline HUD and devolve housing programs. The original plan called for HUD to consolidate 60 narrow programs into three broad ones. Instead of having many small housing and community development programs targeted to specific groups (people with AIDS, the homeless, the elderly, etc.), and micromanaging how these funds are spent, HUD would send funds to the states and cities and let them decide how to use them, with only a few strings attached.

The second and most dramatic change was financial. The proposal called for eventually eliminating federal funds for almost all subsidized housing projects and replacing them with housing vouchers. These projects include the 1.3 million units of public housing and the roughly 1.5 million units of subsidized projects owned by private landlords and developers and insured by FHA. In HUD's jargon, these are project-based subsidies, as opposed to tenant-based rent vouchers and certificates.

Currently, tenants in public and private subsidized projects pay 30% of their income for rent and HUD pays the rest of the operating subsidies (utilities, maintenance and repairs, local taxes, etc). Because many of these projects were built 30 and 40 years ago, and often poorly constructed, HUD has typically paid for the renovation (called modernization) of these projects after they have deteriorated.

The original Cisneros blueprint called for privatizing almost the entire inventory of HUD assisted projects, about three million units in all. (HUD would maintain oversight over the worst 100 of the nation's 3400 local housing authorities.) The plan called for HUD to provide local housing authorities and the private HUD assisted developers with funds to renovate their projects. Once the projects were renovated, the public and private owners would be on their own. HUD would also restructure its FHA insured mortgages on private apartment projects in order to lower rent levels. HUD would eliminate the routine operating subsidies used to maintain the buildings and help low income residents pay the rent. These public housing agencies and private landlords then would be required to compete in the private housing market (Vanhorenbeck, 1995).

If this blueprint were implemented, what would happen to the three million families and elderly tenants who now live in these buildings? They would be given vouchers to help pay rents in private apartment buildings. If they want to, they could stay provided the landlord wants to keep them and the vouchers cover the rents. Otherwise, they could use their vouchers to find an apartment anywhere they want, including outside inner city neighborhoods or in the suburbs.

Housing activists expressed concern that, under the Clinton/Cisneros plan, the three million families now living in subsidized projects would get vouchers good for only three years. They worried that it would look like Clinton' original welfare reform plan: three years and out. It was unclear if HUD would renew the vouchers after three years. Moreover, housing activists realized that tenants with temporary vouchers would be difficult to mobilize and would not be a strong lobby to pressure Congress to maintain the funds.

Under Cisneros' original plan, HUD would no longer have to monitor thousands of public housing agencies and landlords to make sure they comply with HUD's income guidelines, building maintenance, and other regulations, a task HUD was never good at. Instead, HUD's job would be to provide poor tenants with housing vouchers and wish them luck finding apartments.

During the year following the original announcement (January 1996), HUD revised the plan several times in response to pressure from various constituency groups and Congress. No sweeping HUD reform occurred in 1995 or 1996, but the issue is not likely to disappear. Meanwhile, Republicans (and some Democrats) in Congress continued to attack HUD as a wasteful bureaucracy, a symbol of big government gone awry. The Republicans also sought to end the Low-Income Housing Tax Credit, a $2.26 billion (FY 1995) tax expenditure. In December 1995, President Clinton vetoed the reconciliation bill that included the termination provision, but Congressman Bill Archer, chair of the House Ways and Means Committee, pledged to try again (*Housing Affairs Letter*, December 8, 1995). In the midst of this tug-of-war, housing advocacy groups and HUD's friends in Congress had a difficult time finding any moral or political high ground to defend HUD.

PROGRESSIVE HOUSING PLAN

The clash over housing policy in general, and HUD in particular, is more than a dispute over means. It reflects wide differences over ends: the goals of government, the role of the private market, the responsibility of individuals and communities. Proponents of activist government do themselves no favors by defending the status quo because it is a better alternative than wholesale dismantling of existing programs. Moreover, even if it would pass some test of efficiency, HUD would still be in trouble because it has lost much of its political support.

Can the political constituency for federal housing policy be expanded? Is there an alternative to the indefensible status quo and the know-nothing call to dismantle HUD? A progressive housing policy should accomplish three things.

First, it should help house the poor and almost-poor and provide them with housing choices besides living in high poverty areas. Economic globalization has transformed the US economy and produced growing economic inequality and deepening poverty. Some form of government support is necessary to make housing economically viable for the poor, as well as for growing segments of the troubled middle class.

Second, it should help rebuild the social and economic fabric (the social capital) of troubled neighborhoods overwhelmed by unemployment, concentrated poverty, crime, drugs, abandoned buildings, and hopelessness. A key part of doing this is giving residents opportunities to mobilize on their own behalf to expand the self-help capacity of poor neighborhoods.

Third, it should stimulate homebuilding and homebuying, particularly for the middle class, a strategy whose multiplier effects are well known. In so doing, it should target government help to those who could not otherwise achieve the American dream.

The federal government currently spends about $113 billion a year for housing subsidies. Federal housing subsidies are an entitlement only for the well-off, but help few of the struggling middle class or the desperately poor. The Clinton/Cisneros plan, and certainly the Republican proposals, do not look at housing from this larger perspective. Instead, they seek to cut housing subsidies for the most vulnerable. What is the alternative?

In the plan proposed here, the HUD bureaucracy will be cut dramatically within ten years. HUD will be out of the income assistance business. Instead, HHS will administer housing vouchers for the poor. HUD will not run our proposed progressive tax credit for homeownership. It will be responsible primarily for upgrading and gradually selling off the inventory of subsidized projects to residents and community groups. Its major ongoing responsibilities will be overseeing new production and rehabilitation of housing by nonprofits and monitoring discrimination by lenders, landlords, and realtors.

For the same $113 billion we spend now, but spending it more wisely and efficiently, we can solve our nation's housing crisis.

GRADUATED HOMEOWNER TAX CREDIT: $50 BILLION (IRS)

Most young families are shut out of the homebuying market. To expand homeownership for the middle class, we should scrap the homeowner deduction entirely and replace it with a refundable progressive homeowner tax credit.

The tax credit would be available to all families each year, including those moderate income households that do not itemize their deductions. Tying the credit progressively to income would limit subsidies for the wealthy but preserve them for the middle class. It would also add a large number of families who currently do not benefit. Its mechanics would be similar to the earned income tax credit for low wage earners, but reach a much broader income range. The credit could be adjusted for regional housing costs in order to avoid penalizing homebuyers and homeowners in high cost areas.

A tax credit would be much more efficient, and more fair, than the current approach. By turning the mortgage interest deduction into a progressive tax credit, the same $50 billion would help a lot more families become (and remain) homeowners. The wealthy would continue to purchase homes with or without a tax subsidy. Because housing demand is more elastic at the bottom and middle parts of the economy, a $50 billion annual homeowner tax credit could make the difference between renting and owning for millions of working families. It also involves no bureaucracy.

The FHA, whether a part of HUD or a semipublic agency, must continue to provide mortgage insurance for working and middle class homeowners to help lower the required downpayments and closing fees.

This plan should eventually be able to gain the support of the housing industry lobby. By increasing the demand for homes, it would increase homeownership, catalyze homebuilding (helping builders, brokers, the lenders), generate jobs, help stimulate economic growth,

and add to local tax bases. The housing industry, particularly the National Association of Home Builders and the National Association of Realtors, has vigorously resisted any reform of the homeowner subsidy, but now it is under assault from across the political spectrum.

Occassionally, political leaders have challenged the orthodoxy, but each time they have retreated quickly. In 1963 the Kennedy administration proposed limiting all personal deductions, including interest on home mortgages but, in the face of intense industry lobbying in Congress, soon backed off before it could come to public hearings. In October 1969, HUD Secretary George Romney discarded a prepared speech and proposed repealing the homeowner deductions and channeling the revenue "to meet the problems of the slums" (Herbers, 1969). The Nixon Administration, and then Romney himself, soon turned its back on the idea.

In 1984, at a question and answer session before the National Association of Realtors, President Reagan said that everything, including the homeowner deduction, was on the table as his administration pursued a complete overhaul of the tax system. (In fact, Charles E. McLure Jr., an economist who designed the Reagan administration tax reform policy, observed that, "[e]ven if one grants the case for substantial tax preferences for owner-occupied housing, it is impossible to justify this distributional pattern of benefits" (McLure, 1986). Under intense pressure from the real estate lobby, especially during an election year, Reagan backed away the very next day, affirming his support for the homeowner deduction.

Soon after taking office, President Bush, speaking at a realtors convention, vowed to defend the existing homeowner subsidy. In October 1994, Alice Revlin, Clinton's budget chief, included reform on the mortgage interest deduction in her controversial memo to the President proposing options to reduce the deficit, but this idea was rejected. Early in 1995, in a speech outlining his proposal for middle class tax breaks, President Clinton argued for giving families tax breaks to help pay college tuition, "just as we made mortgage interest income deductible because we want people to own homes." In December 1994, the Bipartisan Commission on Entitlement and Tax Reform, cochaired by Senators Bob Kerrey (D-Nebraska) and John Danforth (R-Missouri), adopted the CBO's call to lower the ceiling on mortgage interest to $300,000. *USA Today* endorsed the idea in a lead editorial entitled, "Quit giving outrageous tax break to the wealthy." During the past several years, progressive reform of the mortgage interest deduction has been the subject of editorials and news articles in a wide range of mainstream media, including the *Washington Post, New York Times, U.S. News & World Report, Boston Globe, Wall Street Journal, Buffalo News, New Republic, and Dallas Morning News*.

The idea of capping, rather than eliminating, the mortgage interest deduction (recommended by the Congressional Budget Office (1995) for a decade) has found growing support. The housing industry got a big scare in 1986, when Congress limited the deduction to mortgage interest on just two homes. The next year, it capped the subsidy at $1 million of principal eligible for the mortgage interest deduction. These moves frightened the housing industry, which mounted a major campaign to protect the homeowner tax break from further tampering by Congress. The real estate lobby groups made the homeowner deduction the litmus test for their support. The debate over the federal deficit in the early 1990s triggered renewed interest in some kind of reform. During his 1992 campaign, candidate Ross Perot proposed limiting the homeowner tax break to help reduce the federal deficit. The Progressive Policy Institute (PPI), an arm of the middle-of-the-road Democratic Leadership Council and the Concord Coalition (CC), headed by ex-Senators Paul Tsongas and Warren Rudman, have issued reports calling for reform of the mortgage interest tax break to reduce the deficit. Senator Paul Simon (D-Illinois), a leading liberal, echoed the same theme.

The Republican victory in November 1994 intensified the pressure for tax reform. House Majority Leader Dick Armey's proposal for a 10% flat tax received considerable media attention. Following Armey's lead, former HUD Secretary Jack Kemp formed a task force to promote a flat tax. These initiatives lit a fire under the housing industry which responded with a number of studies and a concerted lobbying effort to protect the existing deduction. Even the Democrat's more progressive tax plan, released by Minority Leader Dick Gephardt in July 1995, kept the current deduction in place (Dreier & Atlas, 1995; Gephardt, 1995).

In 1995, Sen. Robert Packwood, then Senate Finance Committee chair, joined the growing chorus of public officials who wanted to limit the mortgage deduction in order to reduce the deficit. A *Time*/CNN national poll, conducted by Yankelovich Partners on May 10-11, 1995, found that 68% of Americans favored substantial reform of the mortgage interest deduction, specifically, limiting the deduction to $300,000 in mortgage principal, which would affect "only 1.2 million of the wealthiest taxpayers". The chief economist (Seiders, 1995, p. 38) of the National Association of Home Builders noted, in his trade association's magazine, that "frankly, it's possible to find countries with homeownership rates comparable to those of the United States without deductions." He acknowledged that "it's also hard to defend the deduction in terms of equality or fairness." The housing industry and housing activists could find common cause in supporting this progressive reform.

HOUSING VOUCHERS: $50 BILLION (HHS)

The Clinton/Cisneros plan proposed turning subsidized projects into private market rate apartments buildings, then giving tenants vouchers. Like food stamps and AFDC, housing vouchers are essentially income supplements for the poor. Unlike these two programs, they are not entitlements. A universal housing voucher for eligible low income households would cost about $50 billion a year. Although most poor families would use vouchers to rent apartments, it could also be flexible enough to help them purchase a home.

A housing voucher program should be administered by HHS, which already has broad income assistance responsibilities. It should be available to the working poor as well as the welfare poor. Housing is by far the largest expense in the budgets of poor households, whether they earn their income on the job, through AFDC, or both. It is also the most variable expense, given the big differences in housing costs in different parts of the country. A universal housing allowance, with rent levels pegged to local housing markets (as Section 8 currently is), would be the most sensible version of welfare reform because current AFDC benefit levels bear little or no relationship to local housing costs (Dolbeare, 1995). It would help guarantee that poor children would at least have a roof over their heads and that families would not have to scrimp on food or heat in order to pay the rent. Alternatively, the poor could get a housing tax credit as proposed above.

Simply giving all low income families a housing voucher or credit will not solve the problem. Since 1974, we have had experience with different variants of "demand side" voucher programs, called Section 8. More than one million families now have HUD vouchers of some kind. From this experience we know that vouchers work only when there are enough apartments. Otherwise, it is like giving food stamps when supermarket shelves are empty. In loose markets, vouchers work well, but in tight markets, problems emerge (Goering, Stebbins, & Siewert, 1995). During the mid-1980s, for example, half of all tenants with Section 8 certificates in Boston could not find apartments because of the tight market and high rents. We need to increase the overall supply of housing.

Even with a universal voucher, other obstacles remain. Racial minorities have trouble finding apartments with vouchers, even in markets with many vacancies (Finkel & Kennedy, 1992). (Landlords who do not have to accept families with vouchers often discriminate). That is why Section 8 ghettoes exist in many cities. A study by Paul Fischer (n.d.) of Lake Forest College found that over half the Section 8 families in suburban Chicago live in seven suburban communities, six of them in nearby south suburbs.

Large families and the elderly also have trouble finding apartments they can afford. There are few private market apartment buildings with three- and four-bedroom units, even fewer that accommodate the handicapped and the elderly. HUD typically required large apartments and some handicapped accessible apartments in subsidized projects. Private developers are unlikely to build apartments for large families, even if they have vouchers.

A possible byproduct of a universal voucher program would be to help relieve the increasing concentration of the poor in high poverty neighborhoods (Kasarda, 1993). For example, Chicago's Gautreaux program, run by a metropolitanwide nonprofit agency, provides support to Section 8 certificate holders to help them find apartments in the area's suburbs. Because the program is small and relatively invisible (about 4500 participating families in almost 20 years), it has been successful and relatively uncontroversial (Dreier & Moberg, 1995; Peterson & Williams, 1994; Polikoff, 1995; Rosenbaum, 1995; Rosenbaum, Fishman, Brett, & Meaden 1993). However, when HUD tried to replicate this success with a small "Moving to Opportunity" program in five cities in 1994, opposition from one area, Baltimore's inner ring suburbs, led Congress to cancel it after the first round (Carson, 1994; Dreier & Moberg, 1995; Mariano, 1994; Waldron, 1994).

Suburban snob zoning, which keeps out apartment buildings (and the poor and minorities), compounds the overall housing shortage and the geographic concentration of the poor (Downs, 1991; Schill & Wachter, 1995a, 1995b). Some suburban communities have adopted inclusionary zoning policies to address this problem (Mallach, 1984; Peterson & Williams, 1994), but unless the federal government uses some carrots and sticks to address snob zoning and increases enforcement of laws against landlords' discriminatory practices, these problems will not go away. If HUD is not going to do this, who will?

COMMUNITY DEVELOPERS: $5 BILLION (HUD)

HUD should be in the housing development and neighborhood improvement business, not the voucher (income support) business. It should only do business with nonprofit community-based organizations. During the past decade, it has demonstrated its growing capacity to build and rehabilitate housing for families that private developers and landlords do not serve. HUD should target about $5 billion a year for housing development and repair sponsored by community-based nonprofit groups. That translates into about 200,000 to 300,000 new (and rehabilitated) homes and apartments a year.

Without subsidies, it simply is not profitable to build housing for the poor. When HUD's production subsidies dried up in the 1980s, private developers walked away from inner cities. Into the vacuum stepped a new generation of housing reformers with deep roots in these neighborhoods. Indeed, perhaps the only silver lining in the dark cloud of the Reagan and Bush administrations' housing cuts was the emergence of many community-based nonprofit housing developers in cities across the country. Today, there are at least 2,000 such groups sponsored by neighborhood associations, churches, social agencies, tenant groups, and unions. They have found increasing support from foundations, local governments, and business partnerships (Bratt, Keyes, Schwartz, & Vidal, 1994; Dreier & Hulchanski, 1993; Goetz, 1993; Harrison, Weiss & Grant, 1995; Mayer, 1990; Pierce & Steinbach, 1990; Rubin, 1994; Schill, 1994; Steinback, 1995; Urban Institute, 1994; Sullivan, 1993; Vidal, 1992, 1995; Walker, 1993). In most other industrial nations, the social sector plays a key role in the provision of housing and human services (Dreier & Hulchanski, 1993; Salamon, 1995; Schill, 1994). CDCs are the kind of intermediary institutions that conservatives and liberals both extol.

The first generation of CDCs in the 1960s and 1970s included many well-intentioned but naive (even incompetent) reformers. The new generation is more savvy and entrepreneurial. These groups have already overcome enormous challenges and obstacles. They operate in the most troubled neighborhoods, working against overwhelming odds. They do so with few resources and considerable opposition from the powers-that-be. Despite this, and without underestimating the uneven capacity of this sector, they have accomplished a great deal on a variety of fronts, although these successes are typically unheralded in the mainstream media (Dreier & Dubro, 1991).

In the past few years, an increasing proportion of the major federal programs have been allocated to nonprofit housing groups. HUD should make the nonprofit sector the major delivery system for the creation of affordable housing. In fact, a recent report by the business sponsored Committee for Economic Development (1995) recommended focusing national urban policy on these nonprofit community groups. Whether its funds go to states or cities, or directly to community developers, HUD needs to attach some important strings.

First, the nonprofit sponsors should either create limited equity, resident owned cooperative housing developments or, if rental, provide residents with a strong voice in management.

Second, whether new construction or rehabilitation, all HUD assisted developments should be mixed income and small enough to blend into existing neighborhoods. Current housing policy (such as the Low Income Housing Tax Credit) makes it almost impossible to create mixed income developments or turn existing low income projects into more liveable mixed income developments. Canada has done this successfully on a large scale, as did England's council housing (Dreier & Hulchanski, 1993). HUD should limit the percentage of poor persons in each development to no more than half, preferably less.

Experience indicates that nonprofit groups should be able to compete effectively with for-profit landlords for both middle class and low income tenants. For example, at Boston's

Leighton Court development, built in the late 1980s by a nonprofit groups, one-quarter of the 269 units are targeted for market rate renters, one half for moderate income tenants, and one-quarter for the very poor. Well designed and well managed, there has been no difficulty filling the units.

Third, the HUD subsidies should be targeted only for acquisition of land and buildings and for up-front development costs. The nonprofits should have to compete to attract low income tenants with vouchers.

Fourth, HUD funds for new housing construction should not be limited to inner city neighborhoods. Some money should be used to help revitalize troubled blue collar suburbs as well as encourage mixed income housing in more affluent suburban areas. We need to build political alliances between central cities and inner ring suburbs, many of which have become urbanized and have similar problems: poverty, fiscal troubles, physical decay, job loss, homelessness, and crime. For example, in 1990, 42.4% of the poverty population lived in central cities, 30.5% lived in suburbs, and 27% lived in nonmetropolitan areas (Danziger & Weinberg, 1994).

COOPERATIVE HOUSING PROJECTS: $7 BILLION (HUD)

The original Clinton plan called for privatizing the nation's three million units of HUD subsidized housing projects by eliminating all operating subsidies and making these complexes compete in the private rental market. This is a recipe for disaster.

Most subsidized housing projects are in urban neighborhoods. They suffer from years of deferred maintenance. Many were poorly constructed and quite a few are badly designed ugly warehouses for the poor. If HUD withdraws its insurance and project-based subsidies, some private owners will simply walk away from their projects. (Indeed, many already have.) Privatizing these projects will work only if they are fixed up and redesigned so that people with choices will want to live in them. Otherwise, they will be eyesores, deteriorating slums, and blights on neighborhoods, contributing to further urban decay.

HUD projects (restricted to low income residents) concentrate and segregate the poor in ghettos. The goal should be to turn these projects into mixed income developments owned by public housing authorities, nonprofit groups, and resident cooperatives. HUD should adopt a two-part strategy.

First, it should continue to provide operating subsidies to successful well-managed public housing agencies to enable them to stay in business, at least one-half the current units. HUD should follow some simple principles: Loosen the rules to allow working class families to live there and give resident organizations the authority to set standards for eviction in order to make projects work as viable communities. Link residents to job training, child care, and other services. Operating subsidies and social services for half the inventory comes to about $3 billion.

Second, HUD should turn over troubled public housing developments and privately owned subsidized projects to nonprofit groups and resident owned cooperatives. This will require some continuation of HUD oversight, but with a ten-year goal of "cooperatizing" (not just privatizing) these taxpayer funded housing developments. This is not possible if (as in the original plan) the goal is to unload most of the three million units within five years. The financing and operating costs of these mixed income developments will be covered by the housing subsidies outlined earlier. Low income residents will be able to use their housing vouchers to pay rent or to purchase shares in the cooperative mortgage. Working class residents could use the homeowner tax credit to help cover their share in cooperative mortgages.

This cannot happen overnight. In the past decade, HUD has had some success with buy-out of subsidized projects by resident organizations and nonprofit community groups (Peterman, 1993), but it takes time to organize and educate the tenants, build leadership, and create effective organizations. Most need to start with short-term goals, such as improving security and services in their developments. Resident groups should get technical and financial assistance to organize. ACORN is doing this in public housing with success. Other groups are doing this with private Section 8 housing.

Unlike Kemp's HOPE program, this does not mean turning over the keys of existing projects to the tenants or nonprofit developers. It requires HUD to provide funds to repair them. About $40 billion ($4 billion a year for ten years) is needed to modernize, redesign, and repair the inventory of HUD assisted projects, recognizing that some developments should be torn down, others reconfigured, and others brought up to basic standards.

COMMUNITY EMPOWERMENT AND SELF-HELP: $1 BILLION (HUD)

Community empowerment is consistent with the aims of conservatives and liberals to use voluntary intermediary community institutions to help rebuild the social fabric, or social capital, of troubled neighborhoods (Putnam, 1993, 1995a, 1995b: Kretzmann & McKnight, 1993). HUD should encourage residents of troubled neighborhoods to organize self-help efforts to improve their communities. This support should come in two forms: support for resident run organizations in rental housing developments and support for community revitalization efforts around housing code enforcement and economic reinvestment.

Tenants who wish to organize to improve living and safety conditions in their communities should have the right to do so. The federal government should enact legislation to provide residents in public housing developments, HUD assisted developments, and private housing with a vehicle similar to the National Labor Relations Act, in effect, a National Tenant-Landlord Relations Act.

To become recognized as the legitimate voice of the residents, a tenants' group would have to win a majority of the votes of the residents in a development. An election would be held by secret ballot. HUD, or some third party (such as the American Arbitration Association or the League of Women Voters), would supervise the elections, similar to the NLRB's role in labor management relations. The law could exempt owners and tenants in buildings or complexes with fewer than, say, 20 apartments.

Once a tenant organization wins a supervised election, it becomes the recognized group vis-à-vis the local housing authority or the owner of the development. Both the tenants organization and the owner (PHA or private) would be subject to certain rights and responsibilities in terms of the process of solving problems, in terms of management, budgets, tenant selection and eviction, and so on, including the steps leading to resident management and ownership. (Some elements of this process are already in place in the new regulations regarding resident councils and tenant management corporations in subsidized developments.) Experience in public housing shows, for example, that when tenant groups have responsibility for developing standards for eviction and tenant selection, they are often much more effective than the housing authority (Peterman, 1993).

In public and subsidized housing developments, tenant associations that win elections and become the official voice of the residents in the development should receive funding from HUD on a per capita or per unit basis, in essence, a dues check-off. This funding would be used to hire staff and consultants, buy equipment, rent office space, and operate the tenant association. In addition to setting this funding floor, HUD can encourage tenant associations to raise additional funds through grassroots fundraising by providing matching funds based on some formula. In private apartment buildings, tenants would have to raise their own funds to maintain the organization.

Some HUD money also should go to encourage grassroots community organizing around such issues as crime watches, code enforcement, and bank and insurance industry redlining. Much of the success of the nonprofit sector has been due to banks' willingness to make mortgage and construction loans in marginal neighborhoods in order to comply with the federal Community Reinvestment Act. Thanks to grassroots community groups and national networks like ACORN, National People's Action, and the Center for Community Change, community reinvestment has been one of the real success stories of the past decade (Dreier, 1991, 1993, 1995a, 1995b, 1995c; Fishbein, 1992).

Unlike his predecessors, Clinton has supported antiredlining strategies, despite opposition from the banking industry, Alan Greenspan, and the Federal Reserve, and (with some exceptions) his own bank regulators (Cushman, 1993; Greenhouse, 1993; Labaton, 1993). Enforcement of fair housing and community reinvestment laws should remain a key part of HUD's agenda. (Clearly, the bank regulators do not want to do it.) HUD has several successful programs to encourage grassroots enforcement of the CRA and other fair lending laws, such as testing efforts by local organizations. These should be expanded.

BROADENING THE HOUSING CONSTITUENCY

To summarize, the $113 billion progressive housing plan includes the following:

- $50 billion a year in tax credits to help working class and middle class families become (or remain) homeowners.
- $50 billion a year to provide vouchers (or tax credits) for every poor person.
- $5 billion a year to help community-based developers build and repair mixed income developments in troubled neighborhoods.
- $7 billion a year (for ten years only) to preserve well-run public housing and upgrade troubled HUD subsidized housing projects so they can be turned over to resident groups and nonprofit groups to compete in the marketplace.
- $1 billion a year to facilitate community empowerment in rental housing complexes and poor neighborhoods.

The key to solving our nation's housing crisis is to expand and strengthen the constituency for a progressive national housing policy that can link the needs of the poor and the concerns of the middle class. Doing so requires strengthening the organizations that can mobilize their constituencies and, equally important, coordinating these organizational efforts into a coherent strategy that can make an impact on public opinion and public policy.

The policy approach outlined here would help rebuild the political constituency for federal housing policy. The housing agenda has always made the most headway when the concerns of the poor and the middle class were joined. In the Progressive era that meant improving health standards for tenements for immigrant workers in the teeming slums as well as building apartment houses for the middle class. In the Depression and the postwar years, it meant building subsidized housing for the working class and shoring up homeownership for the middle class.

Today it means rebuilding communities, not just housing, and restoring of the dream of a home of their own for millions of Americans who can longer afford one. This involves changing the way we talk about housing, changing the narrow way we target federal housing subsidies, and changing the way we organize politically.

The root causes of our current urban crisis are directly tied to federal policy during the past half century. The flight of industry and the rise of a low wage US economy, the suburbanization of housing, the siting of Pentagon facilities and contracts, and redlining by banks and insurance companies can all be traced to federal policy choices, not simply market forces or consumer preferences. Urban programs have been swimming against the larger tide of federal policy that has promoted suburbanization and urban decline. Federal aid to cities (whether to revitalize downtowns, attract private business and jobs to inner cities, stabilize and improve poor and working class neighborhoods, or provide fiscal assistance to local governments) has served, in effect, to clean up the problems created by federally assisted disinvestment. During the past half century, federal subsidies to help our cities were a drop in the bucket compared to those that promoted suburbanization. It was hardly a fair fight. Federal urban programs were overwhelmed by federal subsidies that undermined the economic, social, and political health of the nation's cities.

Today, the vitality of our nation depends on rebuilding our troubled cities and older suburbs. To do this, we must persuade the majority of Americans that they have a stake in this enterprise (Dreier, 1995c). Otherwise, urban policy in general, and HUD in particular, will continue to be an easy target for those who want to reduce the deficit by penalizing the poor and the working class.

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THE UNCERTAIN FUTURE OF US HOUSING POLICY, a Reply to Peter Dreier and John Atlas

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John Atlas and Peter Dreier have been ardent and prolific critics of US housing policy for more than a decade. They have been particularly eloquent in carrying forward Cushing Dolbeare's campaign against the biggest and most regressive housing subsidy program the nation has ever had, the homeowner tax benefits, which they have characterized as the "mansion subsidy".

Atlas and Dreier were members of the Institute for Policy Studies Working Group on Housing (as was I) in the mid-80s, which developed a comprehensive, progressive national housing program that was introduced into Congress by Representative Ronald Dellums and published as *The Right to Housing: A Blueprint for Housing the Nation* (Institute for Policy Studies, 1987; 1989a; 1989b).

In recent years, however, they seem to have felt the need to dissociate themselves from that endeavor. On the one hand, they have continued to promote some aspects of the program, such as community-based, nonprofit development and conversion of HUD subsidized developments into permanently affordable resident or community controlled housing, but without acknowledging the earlier work. On the other hand, there are some aspects that they apparently no longer support, such as increasing use of capital grant rather than debt financing for housing production and acquisition, conversion of a substantial portion of unsubsidized rental housing into nonspeculative ownership, and the linkage of homeowner benefits to limited equity resale restrictions, but without discussion or argument. This is unfortunate, for while the proposals in their paper are presented as responses to current circumstances, it would be appropriate to set their ideas into the broader context of progressive housing initiatives and debates (Stone, 1993; Davis, 1995).

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CONTEXT FOR HOUSING POLICY

While there is much that I agree with in the paper by Dreier and Atlas, there are aspects of their analysis and proposals that I feel are inadequate or flawed in some way. To begin with, in contrast with them, I contend that since the late 1960s the housing system in the US has undergone transformations as great as those at the turn of the century and during the 1930s and that adequate and appropriate policies requires fuller attention to these changes (Stone, 1993).

First, the responses of business and the government to the weakening international position of the US and associated squeeze on corporate profitability have produced widening income inequality. Those at the bottom have experienced declining real incomes, while those in the middle have barely kept up with inflation, and those at the top have very substantially improved their standard of living. The housing affordability situation of most Americans has been affected as much by lagging incomes as by housing price inflation and problematical housing policies.

During the 1970s the number of households receiving direct housing subsidies grew by 2.2 million, nearly tripling. Yet by the end of the decade, even before the worst recession since the Depression and before the election of Ronald Reagan, the expansion of subsidized housing had failed to offset the rising tide of shelter poverty. From 1970 through 1979 the number of shelter poor households grew by four million, a 21% increase. Among renters the increase was 28% (Stone, 1993).

During the 1980s, while net new budget authority for assisted housing decreased by more than 80% (in inflation adjusted dollars), funds already in the pipeline resulted in about a million more households receiving rental subsidies, but only half the rate of increase as the 1970s. From 1979 through 1989 the number of shelter poor households increased by another 3.4 million, less than the increase during the 1970s. From 1989 through 1993 shelter poverty increased by more than three million more in response to the recession and to the virtual halt to new housing subsidies (Stone, 1993, and unpublished calculations).

Second, and as part of the same dynamic, inherent weaknesses in the system of housing finance led to government-sponsored expansion of secondary mortgage markets and financial deregulation. Dreier and Atlas have overlooked the transformation and expansion of the federal role in mortgage lending that began in the late 60s and 70s. Two government-sponsored enterprises, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), together with an agency of HUD, the Government National Mortgage Association (Ginnie Mae), are by far the largest residential mortgage institutions, together accounting for about half of all home mortgages and enforcing industrywide standards.

Housing finance became integrated into the global capital markets, contributing to higher interest rates, inflation, and an explosion of debt far faster than the ability to repay it. These problems interacted with speculative investment in existing housing and shifts in housing production toward luxury housing, pushing housing costs and mortgage debt up to outrageous levels, thereby adding to the forces bringing about the collapse of lending institutions.

The prior generation's triumph of middle class affordability withered and turned sour as the promise of homeownership became no more than a dream for many who could not buy and a nightmare for others who took on unsustainable burdens of debt. Not only has homeownership become harder to achieve, as we all know and Atlas and Dreier point out, many who stretched themselves to buy a home have ended up losing their savings and their dreams. During the 1980s residential foreclosures climbed to their highest since the Great Depression of the 1930s and have remained at this high plateau during the 1990s.

Third, when the cabinet-level Department of Housing and Urban Development was established in 1965, federal assistance for low and moderate income housing was shifting from modest public resources for public housing (and to a limited degree for nonprofit housing under the Section 202 program) to increasing public resources for private, for-profit rental housing. Thus, the real estate industry captured the one remaining area of federal housing policy not already primarily directed toward its benefit. Guaranteed rental subsidies plus generous investor tax benefits generated a flurry of profitable subsidized housing development from the late 1960s to the early 1980s while rental assistance certificates provided landlords of existing apartments with assured rental profits. This is the one aspect of the altered context that Dreier and Atlas do allude to in their paper, critically evaluating the flaws and current consequences of subsidized housing programs, as well as the impacts of the HUD cuts, program changes, and scandals of the 1980s and 1990s. For the most part, however, their discussion overlooks the broader dynamics of affordability.

PROGRESSIVE HOUSING PLAN

Based on their estimate that the US currently spends about $113 billion for housing subsidies through direct spending plus tax benefits, Dreier and Atlas offer an ambitious program for redirecting this stream more equitably. While I fully agree that a program of this magnitude is needed to address the nation's housing problems and that the resources exist to do so, I do not believe that their program adequately addresses the underlying sources of the problem, nor is it the most cost-effective way of using the resources potentially available.

First, no solution to the housing affordability problem is fiscally sound unless it addresses high housing costs driven by the mortgage system and unrestricted speculative resale of houses. A central feature of a progressive housing policy should be substantial expansion of the amount of housing under various forms of nonprofit and nonspeculative resident and community ownership (Stone, 1993). The proposals of Dreier and Atlas for $5 billion a year for community-based developers and $7 billion to preserve and improve existing subsidized housing for resident or nonprofit ownership are important elements of such a strategy. They fail, however, to recognize the need and opportunity for moving substantial amounts of private rental housing into resident and community ownership through financial and legal incentives (Stone, 1993).

In the same vein, their proposal for "$50 billion [a year in tax credits] would help a lot more families become (and remain) homeowners" would be a terrific idea if and only if the credits were tied explicitly to limited equity resale restrictions. There is no justification for public resources being used to support private windfalls and inflated house prices. That is, housing policy should facilitate more affordable homeownership in the present while simultaneously contributing to community stability and housing affordability over the long term.

In terms of financing, the production, acquisition, and upgrading of housing by nonprofit, community-based developers, and public agencies should be through direct public capital grants rather than debt to reduce the affordability burden of mortgage payments and the instability of the financial system. The limited amounts of new public housing and 202 elderly/handicapped housing produced over the past decade have been financed with capital grants and other modest direct grant possibilities have been tried (Stone, 1993). Perhaps Dreier and Atlas would agree that the $12 billion they propose for community-based developers and upgrading of assisted housing should be financed with capital grants, but the advantages of this mode of financing need greater attention.

Nonetheless, to deal more fully with the problems of housing finance will require real reform of the financial system to deflate the credit bubble, reduce speculative uses of credit, and assure an adequate supply of inexpensive credit for housing as well as other public investment needs. All private capital market participants should be required to make either nonrefundable contributions or below market set-asides to housing and community development trust funds. A tax of one-quarter of 1% on all credit market instruments held by private financial institutions (including security brokers and dealers) would generate $25-30 billion a year. This amount of money would finance 400,000 to 500,000 housing units a year at an average cost of $60,000 a unit, producing construction jobs about equal to the number of units and indirect jobs of about the same magnitude. Credit allocation authority and incentives should be used to steer private savings to community development loan funds, state housing finance agencies, and mutually owned thrift institutions.

Speaking of jobs, there is no realistic prospect of solving the nation's housing problems without dealing with incomes at the same time as housing costs and availability. As a form of income support, Dreier and Atlas propose spending $50 billion a year for housing vouchers (or tax credits) to every poor person to obtain housing in any part of the market. While one cannot quarrel with the goals of increasing choice and helping relieve geographical concentrations of poverty, I submit that their figure is too low by at least half and that such an approach is neither cost-effective nor politically viable. I have estimated that, if every low income household were to be subsidized in low cost, debt free nonprofit housing, the cost would have been about $50 billion in 1990 (Stone, 1993). Because mortgage payments alone account for half to two-thirds of the cost of private market housing, one can readily see that the Dreier-Atlas approach would be much more expensive than they indicate, apart from market inflation resulting from the voucher demand effect.

Furthermore, politically and socially, the most appropriate strategy for dealing with the income side of the housing affordability problem is through gainful employment at decent wages for all those able to participate in the paid labor force. Appropriate income supports, including direct affordability assistance, should be made to the extent that households cannot obtain adequate incomes through employment. While the initial cost of such support might not be much less than Dreier and Atlas propose for vouchers, it is wiser to consider such supports as the backup to a responsible employment policy. Housing policy alone cannot be expected to overcome the full burden of economic problems affecting housing, but neither can more equitable and secure incomes overcome the flaws in the housing system.

A RIGHT TO HOUSING

Our society has experienced a historic pattern of housing problems: indigenous peoples driven from their ancestral homes, displacement of tenant farmers from colonial times to the 20th century, tenement conditions and discrimination faced by wave after wave of immigrants from the Irish in the 1840s to Latino and Asian immigrants today, massive foreclosures and dislocations (rural and urban) of the Great Depression of the 1930s, urban (disproportionately black) removal of the 1950s and 1960s, abandonment, arson, and displacement in the 1960s and 1970s, and the homelessness, shelter poverty, mortgage foreclosures, and denied housing opportunities of the 1980s and 1990s.

In each era, the housing problems have brought public concern, community outcries, government responses, but generally responses have been ad hoc piecemeal reactions, designed to preserve and restore social peace, prop up and profit the established institutions, and reinforce the prevailing ideology of acquisitive individualism.

In the generation since the late 1960s, housing issues, rooted mostly in affordability, equal opportunity, and community control, have spawned an amazing amount of organizing, advocacy, and experimentation. Never coalescing into a coherent, sustained, and effective national movement with a comprehensive program and strategy, these struggles nonetheless have involved large numbers of people in political action around housing. So far, the successes have been modest, most often defensive but increasingly affirmative, demanding and beginning to implement new concepts of housing provision under the banner of the right to housing.

The right to housing is an idea that resonates with what we take to be our social values. It is rooted in accessible religious traditions and political-legal traditions of the rights and obligations of citizenship. It is an idea that builds upon the tradition of the "commonwealth" in which personal advancement is not at the expense of the community and in which there is a social obligation to assure all people of the necessities of life. It builds as well upon recognition that the political rights and civil rights for which we have struggled and continue to struggle have little practical meaning or utility for those among us whose material existence is precarious (Institute for Policy Studies, 1989a, 1989b; National Housing Law Project, 1995).

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HOUSING POLICY CROSSROADS, a Reply to Peter Dreier and John Atlas

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Dreier and Atlas set out to present a progressive housing policy that has the potential to expand the political constituency for federal housing policy. I applaud this attempt for two reasons. First, fundamental change is needed in federal housing policy. Dreier and Atlas identify many of the problems with current policy including: the regressive nature of the mortgage interest tax deduction, the relative lack of funding for low and moderate income housing, the over reliance on the private sector (which has led to the expiring use problem we now face), the balkanization of HUD programs, and the role of public housing in concentrating poverty and in casting "a shadow on the entire HUD enterprise." To this litany I would add the lack of coordination with social services and the presence of incentives that work against economic self-sufficiency.

Assuming that an important goal of housing and social service programs is to assist recipients achieve self-sufficiency (and I am well aware that not everyone agrees with this), the lack of coordination between housing and social services has limited the effectiveness of each program (Bryson & Youmans, 1991; Newman & Schnare, 1992; Rohe 1995a). It is difficult for persons to stick with job training programs, for example, if they do not have secure housing and it is difficult for those who receive housing subsidies to increase their incomes if they do not have access to job training, day care, and other services. Thus, the lack of coordination between housing and social service programs has seriously hampered the individual improvement efforts of the recipients.

The methods of determining rents and benefit payments under the federal rental assistance and income support programs also have acted as disincentives to work effort. Some households have been made monetarily worse off by household members going to work or increasing their incomes (Welfare Simplification and Coordination Committee, 1994).

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Federal programs should encourage not penalize work effort. The Earned Income Tax Credit is a good example of how work effort can be rewarded.

The second laudable aspect of the task Dreier and Atlas set out to accomplish is that they recognize the need for a political constituency. To have any chance of being adopted, a new housing policy will need to appeal to and garner the support of a wide political constituency. This constituency must include a substantial proportion of the electorate, key components of the housing industry (including mortgage lenders, home builders, and realtors), local government associations, and housing advocacy groups. To be taken seriously, proposals for the reform of federal housing policy must address how proposed new policy will attract the support of those key constituencies. In an ideal world, ethical or moral arguments alone would be enough for the adoption of a new housing policy, but this rarely happens in the realm of political decisionmaking. Rather, potential constituents will be looking at proposals for policy reform and asking "what's in it for me or for those I represent?" Thus, to have a realistic chance of being adopted, a relatively broad political constituency must be convinced that any new housing policy will be beneficial to them. Dreier and Atlas recognize this and it leads them to include programs that have the potential for garnering such political support, such as the homeownership tax credit, in their housing reform package.

According to the authors, their progressive housing policy "targets federal support to those who need it, promotes homeownership, relies less on bureaucratic programs, and emphasizes the role of nonprofit organizations in building, owning, and managing housing for poor and working class families." All those are worthy objectives. The policy itself includes five major components: (1) a graduated homeowner tax credit to expand homeownership, (2) a housing voucher for renters, (3) a housing production program that would only support housing produced by nonprofit organiztions, (4) a program to turn government owned and subsidized units over to cooperatives and nonprofit organizations, and (5) a community empowerment program that would give tenants of all rental developments the right to organize and participate in management decisions and support grassroots neighborhood organizing.

I support the general ideas behind most of these policy elements. Certainly we need to find a way to make the mortgage interest tax deduction more progressive and target the subsidies to those who need them most. We also need to find a way to expand rental assistance to needy renters and to better support the efforts of CDCs. The major problem I see with the Dreier-Atlas proposals as presented, however, is the lack of detail. The proposals lack the detail necessary for a serious analysis of who would be affected by these programs and in what ways.

For example, what would be the maximum tax credit offered? At what income would the credit be phased out? Would the credit be based on income or would family size be considered as well? Without such basic information, it is impossible to analyze the distributional impacts of the program and, thus, impossible to assess either their progressivity or their likely degree of political support. Dreier and Atlas state but provide no support for their claim that the tax credit, or any of the other aspects of their proposal, would be supported by the current housing constituency, let alone attract a broader constituency. Without the details it is also impossible to assess the horizontal equity implications of these proposals.

Would, for example, a renter household with an income of $20,000 a year receive the same benefit as a homeowning household with the same income? It is impossible to tell.

To have the maximum likelihood of adoption, Dreier and Atlas also need to anticipate the arguments against their proposals and be ready with a vigorous defense. There is every reason to believe that important elements within the current housing industry would be greatly threatened by their proposals and would vigorously fight them. In a recent book, for example, Jim Johnson (1996), Chairman of Fannie Mae, argues that changing the mortgage interest tax deduction would result in a sharp drop in real estate values because the tax benefit of the deduction has been capitalized into the price of existing homes. This prospect could scare potential supporters away from the Dreier-Atlas tax credit. One way to minimize this prospect would be to phase out the mortgage interest tax deduction over time and phase in the tax credit. The point is, the likely criticisms of the proposed policy need to be anticipated and addressed up front so that the proposal is not "dead on arrival". To do this, careful analysis of the proposal is needed.

A final general point concerns the presentation of their policy. The authors have a tendency to exaggerate at times and this detracts from their arguments and is likely to alienate some who otherwise might be persuaded. They, for example, talk about the Clinton administration and the new Republican majority finishing the job of dismantling "the federal role in housing." They talk of HUD's reinvention as "virtually eliminating federal funding for existing subsidized housing developments" and of providing "poor tenants with housing vouchers and wishing them luck finding apartments." I do not think these are accurate characterizations of HUD's proposals and they detract from the important ideas presented in the paper.

Let me now turn to the specific elements of the Dreier-Atlas proposal. I like the idea of creating a progressive tax benefit for homeowners. I fully support the goal of increasing the homeownership rate because there is convincing evidence that homeownership has postive benefits for individuals and society (Rohe & Stegman, 1994a, 1994b; Rohe & Stewart, 1996). I see two problems, however, with their proposal for a homeownership tax credit.

First, research shows that the lack of savings for down payments and closing costs is the most frequent obstacle to homeownership and that poor credit ratings are also a significant barrier (Joint Center for Housing Studies, 1993). The Drier-Atlas tax credit proposal does not directly address these obstacles. The addition of a pretax savings plan (similar to an IRA but dedicated to saving for homeownership) and support for credit counseling programs would address these concerns and the authors might consider including them in their scheme.

Second, as suggested earlier, there will be considerable opposition from some very powerful constituencies with vested interests in the status quo. The notion of a voucher progran that would cover all those who currently qualify for housing assistance is attractive. I do not think, however, that such a program would do much to relieve the concentration of the poor in high poverty areas. As the authors point out, the Gautreaux program has been somewhat successful because it is relatively small and relatively invisible. Imagine what would happen if 7.5 million additional vouchers were suddenly handed out! Existing voucher holders already have difficulty finding owners who will participate in the program. A method of administering the program in a way that does not require direct owner participation would need to be developed. Such a large number of vouchers may create a backlash like that recently seen in the suburbs around Baltimore over the city's participation in the Move to Opportunity Program. In addition, such a large influx of rental subsidy may lead to inflation in rents, pushing the costs of the program even higher. Again, it would be wise to gradually phase in the expansion of the voucher program to avoid these potential consequences.

The proposal for a program to support the construction and rehabilitation of affordable housing by nonprofit organizations is attractive in that it has the potential to avoid the expiring use problems that have resulted from programs that involve private sector owners. This proposal also has potential problems that must be addressed. First, most of the federal funds that CDCs currently use to subsidize the construction and rehabilitation of affordable housing are channeled through state and local governments. The Dreier-Atlas proposal seems to bypass them and fund CDCs directly, although they are not exactly clear on this point. If this is indeed what they intend, it raises important questions about the prioritization and coordination of development activities at the local level. The current system of channeling support for nonprofits through local governments allows them to work with the range of persons and organizations interested in affordable housing and to devise comprehensive housing strategies. These strategies have been important in assessing housing needs, prioritizing those needs, and coordinating the range of affordable housing and redevelopment activities in the locality. It also ensures at least a modicum of local accountability that may not exist if nonprofits were funded directly.

Second, Dreier and Atlas have a tendancy to idealize CDCs. Not all have "deep roots" in their neighborhoods and not all are effective providers of affordable housing. Half of the CDCs produce ten or fewer units a year (Urban Institute, 1995a). In addition, we know very little about the efficiency of CDCs in the areas of housing production and housing management (Rohe, forthcoming). A recent study of housing managed by CDCs, for example, found many developments to be undercapitalized and lacking in appropriate reserves (Bratt, Keyes, Schwartz, & Vidal, 1994, p.17). They conclude that, "without attention to management problems, which are very much on the horizon, the promise and potential of the nonprofit affordable housing movement could be in jeopardy." Moreover, the concentration of CDCs in larger cities in the East and Far West regions of the country means that other areas of the nation would be at a distinct disadvantage (Urban Institute, 1995a).

Third, cutting out local governments and the private sector would undermine political support. Local government officials constitute an important lobby group. Remember that the lack of support of many big city mayors was a major factor in the downfall of the Community Action program. Similarly, not all private developers have "walked away" from the inner cities. To totally exclude them from the program is unjustified and unwise because they have been an important part of the traditional constituency for federal housing policy. Various turnkey arrangements can be developed where private companies build housing and then turn it over to public or nonprofit entities at prearranged prices.

Fourth, the infusion of $5 billion a year into the nonprofit sector would likely overwhelm it and there may be significant unintended conseqeunces. One of the often reported keys to the success of CDCs is gradual growth (Mayer, 1984). Organizations that grow very rapidly run a high risk of collapse because their organizational capacity cannot keep up with the number, size, and/or type of projects they undertake. The last thing we want is to have a large number of defaults among nonprofit housing providers. In addition, easy access to federal funding is likely to cause CDCs to become more dependent on federal support and hence more vulnerable to changes in federal policy. It may weaken the ties between CDCs and their local communities because they would not be as dependent on local sources of support.

The basic goal of providing CDCs with additional support to construct affordable housing is a good one. The current crazy quilt of financing in typical nonprofit housing development is clearly inefficient. None of the potential problems mentioned are insurmountable. Ways of involving local governments and private companies could be worked out, funding to support and expand the capacity of the nonprofit sector could be provided, and the program could be phased in over a period of time to avoid the potential for rapid expansion and an ensuing collapse.

Turning to the proposal to "cooperatize" housing projects, I am much less sanguine about the potential for converting existing public and assisted housing developments into cooperatives and about our ability to create successful mixed income developments. The studies of limited equity cooperatives have raised serious questions about their long-term feasibility (Heskin, 1991; Rohe, 1995b; Rohe & Stegman, 1993). In a study I recently conducted of three cooperatives created from former public housing developments, I found the benefits of cooperative living were modest at best and there was serious conflict between the members of the cooperatives and their boards (Rohe, 1995b). I agree with Monte (1989) when he argues that tenant ownership initiatives are not likely to be successful unless the impetus comes from the tenants rather than from government programs. Most renters would rather live in well managed rental units than take on the hassels of managing a cooperative.

Dreier and Atlas also sugges' that all HUD assisted developments should be mixed income. The problem here is that we know very little about how to create successful mixed income housing. Yes, we can point to a handful of successful mixed income developments but we do not know the circumstances under which they will work, particularly over the long run. What does it take to attract and retain middle income residents? What ratios of low, modest, and middle income households are workable? How deep is the demand for mixed income housing among middle income households? What sort of conflicts are likely to arise due to income mixing and how can they be addressed? Possibly most important of all, what are the actual benefits of mixed income housing? Without better answers to these questions, it seems unwise to require all HUD assisted developments to be mixed income.

The last element of the Dreier-Atlas proposal concerns community empowerment and self-help. A major aspect of this proposal involves the passage of a National Tenant Landlord Relations Act, similar to the National Labor Relations Act, that would give tenants in all rental housing developments of 20 units or more the right to organize and would give them certain unspecified "rights and responsibilites in terms of the process of solving problems". Dreier and Atlas do not justify the need for adopting such an act and the large bureaucracy it would create. It is not at all clear that there is a demand among tenants for such an act. Tenants have organized when they have felt the need and they have had some notable successses in changing state and local statutes controlling tenant-landlord relations. To change this in favor of a large federal bureaucracy that would supervise elections and negotiations in potentially hundreds of thousands of rental developments across the country would require a compelling argument. Moreover, this proposal goes against the tide of reduced federal involvement and is the least likely of all the proposals to attract political support. I recommend that they drop this component of their proposal.

A final comment on the Dreier-Atlas proposal is that it fails to address two important considerations. First, no provision is made for funding the types of public infrastructure improvements that are typically needed in neighborhood revitalization projects, such as water and sewer improvements, road and sidewalk repair, and the like. Traditionally, these improvements have been funded through the Community Development Block Grant (CDBG), which Dreier and Atlas fail to include in their proposals. The CDBG program is very popular with local government officials and has been shown to be well targeted to low and moderate income areas (Urban Institute, 1995b). Dreier and Atlas would be wise to include the CDBG or some similar program in their proposal. Second, the Dreier-Atlas proposal does not address the important linkages among housing, social welfare, and economic development programs. Too often, programs in one area are designed without considering how they will interact with programs in other areas. Some attention should be paid, for example, to linking housing subsidies to job training and other support services so that able bodied families can move up the economic ladder and graduate from housing subsidies.

In conclusion, I believe that Dreier and Atlas are on the right track with their general principles for a new federal housing policy and with most of the specific elements of the housing policy they propose. To be taken seriously by those in a position to implement such a policy, however, they will have to do three things. First, they will have to provide a lot more detail as to how each element of the proposal will work. Without those details, it is impossible to guage either the progressivity of the policy or the likely political support for it. Second, they will have to provide more supporting evidence and analysis for the potential effectiveness of each component of their policy. As part of this, they will need to anticipate the criticisms that will be leveled at their policy from those with vested interests in the status quo and will need to address them directly. Finally, they will need to solicit the support of a range of key constituencies if they hope to see their policy implemented. Once the proposals are further detailed, they would be well advised to hold a series of discussions with representatives of various interest groups to assess their reactions and use this information to make revisions in the policy. I truly hope Dreier and Atlas take these additional steps and that their efforts lead to a federal housing policy that is more efficient and equitable.

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US HOUSING POLICY, a Rejoinder

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Bill Rohe and Mike Stone are two housing policy experts whose research we admire and draw upon in our work. Both generally like our analysis and proposals, Rohe thinks that our agenda is too radical, while Stone thinks our agenda is not radical enough. To the extent that Rohe, Stone, and we disagree, our differences are primarily about means, not ends. We all want to guarantee decent housing for all Americans and we think the federal government has a responsibility to do so. Our differences are fundamentally political, how we read the nation's mood: Americans' appetite for government activism and the potential for building a coalition for reform.

We appreciate Bill Rohe's thoughtful critique of our proposal. He raises three kinds of concerns.

First, he asks us to provide more detail for our proposals. He is correct that it is difficult to evaluate policy suggestions without specifying the particulars. We tried to provide as much detail as space would allow, but obviously each aspect of our plan must pass a more rigorous test of precision. In fact, we are currently working with several economists to put flesh on the bones of our homeowner tax credit proposal. Utilizing a sensitivity analysis, we expect to be able to show that there will be many more winners (not only new homeowners, but also the housing industry) than losers.

Second, Rohe warns us to look out for political land mines and avoid alienating some key potential allies. His advice is well-taken. Indeed, our plan was devised to build as broad a political constituency as possible for progressive housing reform. Rohe worries that "the current housing industry would be greatly threatened" by our proposal to reform

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the mortgage interest deduction. As we indicated in our paper and above, we expect to be able to co-opt support and/or neutralize opposition from the housing industry by demonstrating that a homeowner tax credit will generate more home sales, more homebuilding, and more mortgage loans than the current arrangement. Although we favor CDCs as potentially the most effective vehicle for creating and preserving subsidized housing, we do not seek to cut out the private sector as Rohe suggests we do. CDCs rely on private for-profit firms for construction, architecture, management, and other services. Indeed, we hope our plan keeps contractors, architects, and management companies quite busy. (Some of this can be accomplished through the turnkey arrangements that Rohe recommends.) Further, our homeowner tax credit and voucher plans will depend on private homebuilders and landlords.

Rohe also suggests that we revise our plan to channel federal funds to CDCs through local governments in order to co-opt support from mayors and other local officials. We recognize the importance of community-based organizations building alliances with local government even if they are simply marriages of convenience. We know, of course, that not all local government officials look kindly on CDCs, especially those that also engage in community organizing. In reality, local CDC and government partnerships do not work unless the CDCs have done their political homework to win support (zoning approvals, funding, tax credits, etc.) for their efforts. Indeed, the wide variety of local public-private-community partnerships that support CDC networks is evidence for Rohe's view (Goetz, 1993; Dreier, 1996).

Third, Rohe cautions us to phase in various elements of our plan in order to avoid overwhelming the housing system whether that means too many vouchers chasing too few apartments or some CDCs scrambling to undertake housing and other projects before they have developed the organizational capacity to do so competently. Here, too, Rohe's ideas are well-taken.

The one part of our plan that Rohe takes issue with involves what to do with existing subsidized housing developments. We strongly favor resident management and resident ownership, particularly by transforming housing projects into limited equity cooperatives (Atlas & Dreier, 1992). In raising questions about the potential benefits of this approach, drawing on his own research on the federal HOPE program, Rohe argues that "tenant ownership initiatives are not likely to be successful unless the impetus comes from the tenants rather than from government programs. Most renters would rather live in well managed rental units than take on the hassles of managing a cooperative." We agree. In fact, we said that resident ownership cannot happen overnight. We noted that "it takes time to organize and educate the tenants, build leadership, and create effective organizations. Most need to start with short-term goals, such as improving security and services in their developments."

Thus, it baffles us why Rohe opposes our proposal for a National Tenant Landlord Relations Act (NTLRA) that would give tenants the right to organize and specify the rights and responsibilities of renters and landlords similar to what the National Labor Relations Act does for workers and managers. We agree with Rohe that the impetus should come from tenants, but reform of federal law could help level the playing field, just like the NLRB did for workers and their unions. Rohe need not worry that this would create a large federal bureaucracy to supervise elections. The National Labor Relations Board is hardly a monstrous bureaucracy. A NTLRA would help grassroots tenants organizations build strong resident organizations. Residents could decide whether they use this power to improve building conditions, gain a voice in management, or seek various forms of ownership.

We substantially agree with Mike Stone's overall analysis of what is wrong with our housing finance system and with the allocation of federal subsidies, but we differ on what to do. Stone calls our proposal for reforming federal housing policy an ambitious program but then argues that it is not ambitious enough. Stone wants to socialize, or "decommodify", as much of the existing housing stock as possible to create a growing inventory of permanently affordable housing. As our paper suggests, we are strong supporters of what some call "social" or "third sector" housing (Davis, 1994; Dreier & Hulchanki, 1993), but our goal was not to offer a utopian socialist housing plan. We tried to suggest a policy agenda that could help rebuild the political constituency for a progressive federal housing policy. That involves pushing the limits of what is possible, not designing a wish list.

For example, we agree with Stone that a key cause of our housing crisis is the failure of our economy to provide decent jobs at decent wages. We believe that the United States should enact policies that promote full employment at decent wages and provide universal social insurance (health care, child care, old age pensions). If we came close to these goals, our housing problems would be dramatically less severe. In our view, achieving these goals would require at least the following: (a) requiring the Federal Reserve Bank to change its definition of "full employment" from 6% to 3% unemployment so that it could lower interest rates to promote economic growth and jobs; (b) reforming our federal tax structure to return to a more progressive system, especially by raising tax rates on large corporations and wealthy individuals; (c) investing in a major public works program, similar to the New Deal WPA, to rebuild our crumbling infrastructure of roads, sewers, bridges, public schools, and playgrounds; (d) raising the minimum wage to at least the poverty level, and (e) enacting a universal health insurance program and regulating the cost of medical care.

Which one of these goals does Stone think is likely to pass Congress in the current political climate? What world is he living in?

Stone is correct to note the increasing integration of housing finance into global capital markets, but he is wrong to blame this for the "explosion of mortgage debt" and the "collapse of lending institutions". In the 1980s, under political pressure from lenders, Congress deregulated the savings-and-loan industry which led to an orgy of speculation and later the expensive S&L bail-out. While some lending institutions failed, it was not due to high rates of foreclosures on ordinary homeowners, but rather because of risky loans for commercial real estate, like see-through office towers and shopping malls.

Stone has been predicting the imminent collapse of the private mortgage system and widespread mortgage foreclosures for over 20 years. Perhaps if he looked out his window, he might see that this has not occurred. In fact, the financial services industry emerged more economically concentrated, profitable, and politically powerful than ever. For the past few years, community activists have been fighting a defensive battle to protect the antiredlining Community Reinvestment Act from the banking industry's attack (Dreier, 1991; Squires, 1992; Evanoff & Segal, 1996).

Indeed, Stone acknowledges that despite the "amazing amount of organizing, advocacy and experimentation" that has taken place around housing since the 1960s, the "successes have been modest" in part because they "never coalesc[ed] into a coherent, sustained, and effective national movement with a comprehensive program and strategy." Like Stone, we have been on the front lines of the housing struggle for more than 20 years, but perhaps we draw different political lessons from our experiences. Most political activists and organizers recognize the importance of winning reform victories that serve as stepping stones to more substantial change. (Stone might recall that Eugene Debs called for the 8-hour day, not the abolition of wage labor.)

We developed our plan with several purposes in mind. We want to build on housing reformers' recent good work by institutionalizing successful models and pilot projects into federal policy. We want to help change the public debate over housing policy by broadening the discussion beyond HUD and beyond the "housing subsidies-as-welfare" paradigm. We want to provide an agenda around which housing activists can find common ground. We want to encourage housing activists to broaden the constituency for housing policy and forge alliances with key sectors of society with whom they currently have few or fragile ties.

Our nation has the resources to provide every American with decent and affordable housing. Currently, however, we lack the political will to do so. Perhaps we will not be able to overcome the current political gridlock, and the disproportionate power of big money, until we enact campaign finance reform and labor law reform to level the political playing field and give ordinary people, their community organizations, unions, and other movements a stronger voice in our democracy (Dreier, 1995). Ultimately, all the policy proposals in the world will not help unless we can forge a progressive political coalition to change our nation's priorities. We hope this exchange helps move us in that direction.

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