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Public housing for sale.

## PRIVATE PROJECT

**E**ARLIER THIS year Merrian and Mary Snyder bought the two-story house they had been renting in McKeesport, Pennsylvania, a troubled industrial city outside Pittsburgh. Stories about the new homeowners appeared on the "Today" show and in newspapers across the country. "This is a second chance for us," said the 56-year-old Mrs. Snyder. "I never dreamed of owning a home."

The Snyders' purchase was no ordinary real estate transaction. They bought their house from the McKeesport Housing Authority, the public housing agency that had been their landlord for 17 years. They are the first public housing tenants in the nation to become homeowners as part of a Reagan administration "demonstration program" to sell tenants 1,600 public housing units owned by 18 local housing authorities. If successful, the administration plans to expand the program and "privatize" much of the nation's 1.3 million public housing units.

But the Reagan plan is unworkable. The vast majority of America's public housing tenants are too poor to purchase their units without substantial federal subsidies—which are emphatically not part of the final program. The Snyders' family income is over \$20,000—more than three times the average income of public housing tenants. Some buyers might benefit from the program. Most, however, would be unable to keep up with the costs of homeownership. Virtually all public housing tenants would continue to live in apartments where rents have been raised and funds for maintenance and repairs have been cut. And the many families on public housing waiting lists are out of luck. With congressional approval, Reagan has stopped funding for any additional public housing.

The plan to sell public housing is a British import. Under Margaret Thatcher, more than half a million units of public "council housing" have been sold to renters. The program has been very popular, helping the government gain support among traditional Labour voters. In the early 1980s, American conservatives—led by the Heritage Foundation—proposed bringing Thatcher's program here. The President's Commission on Housing—composed primarily of private developers and bankers—endorsed the idea in its 1982 report. Without waiting for the results of the Reagan demonstration program, Representative Jack Kemp introduced legislation in 1984 that would provide all public housing tenants with the "right to buy" their units. President Reagan embraced the plan in his 1985 State of the Union address: "It is time that all public housing residents have that opportunity of ownership." Kemp's expanded proposal recently passed in the House. A similar bill is under consideration in the Senate.

Supporters all say that the British experience proves the program's feasibility. But there is a vast difference between American and British public housing (as staff mem-

bers at HUD futilely attempted to point out). In Britain it represents one-third of the nation's entire housing stock, and its residents represent a broad spectrum of the population. In 40 percent of the units, there are two or more wage earners; only 29 percent of council housing units—primarily for the elderly—have no earner. And local public housing agencies do not evict families, as agencies do here, when their incomes rise above the original selection standards. American public housing represents only 1.3 percent of the nation's housing—the lowest by far of any industrial nation. Its occupants are primarily very poor; 62 percent are minorities and 46 percent are elderly. A 1979 survey (the latest figures HUD has) reported an average household income of \$5,033; only 30 percent depended primarily on wages and salaries for income.

In Britain public housing is predominantly for single families; less than one-quarter consists of apartments. In the United States, only 20 percent of public housing is single-family; most residents live in apartment buildings. Moreover, British public housing is much newer and in better physical condition than the nation's private housing stock. In the United States—where public housing is older and lacks enough funds to provide adequate maintenance—buildings are often in poor physical shape.

One of the major goals of Reagan's program is to get rid of the worst units, which require the deepest subsidies. But the British found, not surprisingly, that the best units sell, and that the tenants most likely to buy are those with the highest incomes. This leaves the worst units, housing the poorest tenants, in the public housing inventory.

**R**EAGAN'S "demonstration program" is designed to prove the critics wrong. Like many experiments, it is rigged to get the desired results. For example, 77 percent of the units offered for sale in the demonstration program were single-family homes. These houses are newer, need fewer repairs, and are generally located in attractive residential areas. The tenants selected have higher incomes than their counterparts still in public housing. And HUD is currently offering them substantial subsidies, including dramatically reduced mortgages, down payments, and sales prices.

Under the demonstration program, the homeowners' monthly costs will range from \$150 to \$575. The Snyders paid \$25,000 for their home with no down payment; their monthly payments will be \$410. Using the government's yardstick of paying 30 percent of household income for housing, this is more than twice what the typical public housing tenant can afford. And that measure doesn't leave low-income tenants much to pay for food, transportation, clothing, and other necessities. Those who do buy are likely to fall behind on their payments. Within a few years, we can expect a wave of foreclosures among these new homeowners.

There are over 3,000 local public housing agencies across the country, but only 35 applied to participate in the demonstration program. Lowell, Massachusetts, one of the 18 cities selected, withdrew after a consultant's study found that the tenants could not afford \$350 a month, even if they had to

pay only a token purchase price and if their property taxes were abated. The St. Louis Housing Authority did not even bother to apply. With more than 5,000 low-income people on its waiting list, Michael Jones, the authority's director, testified in April at a congressional hearing on the program: "It is incumbent upon us to increase the number of rental units, not decrease them. Every unit placed in any homeownership program is no longer available to rent to other low-income Americans."

Democratic Representative Barney Frank of Massachusetts, who held the hearing, points out that the Reagan program provides no guarantee that once the units are sold to low-income tenants they will remain available to the poor. Without long-term controls of the resale prices, the new owners could sell their new homes at a much higher price to wealthier buyers—in what Frank refers to as a government-subsidized "windfall profit."

**P**ART OF THE appeal of Reagan's plan springs from widespread perceptions about the failure of public housing programs. They are, indeed, a mixed bag. Most Americans associate public housing with the most visible "projects"—overcrowded high-rises plagued with crime, drugs, graffiti, and related social problems. Yet today most public housing developments are well-managed and serve the poor well, and most projects built in the last decade are duplexes and town houses. The major difficulty for local administrators of public housing is inadequate funding. Above all, public housing's problems are not, as conservatives have said, the result of too much government interference in the private market. On the contrary, they stem from too much private-sector interference in public housing policy.

Public housing was first introduced in 1937, promoted primarily as a public works jobs program. The private real estate and banking industries, fearing competition and claiming that public housing was an opening wedge for socialism, successfully pressured Congress to limit the program to the poor. Private realtors and businessmen dominated local housing authorities, determining whether, where, and how public housing got built.

Before World War II, the public housing program was small, mainly serving white families severely hurt by the Depression. During the war, it was expanded to house defense workers, many of whom remained afterward. By the 1950s, however, the composition began to change. Many of the veterans were either evicted (because their incomes had risen) or had moved to take advantage of federal homeownership programs, sponsored by the Federal Housing Administration and the Veterans Administration. The new public housing residents were increasingly those low-income folks displaced by the federal urban renewal program. Many were black slum-dwellers or recent arrivals from the South.

Following the ghetto revolts of the 1960s, the federal government initiated several rent and ownership programs as alternatives to public housing for the poor. The programs resulted in another 2.5 million units but primarily benefited the lenders, developers, landlords, and specu-

lators, who took advantage of government-insured low-interest mortgages, generous rent subsidies, and substantial tax breaks.

These federal programs have been a small safety valve to relieve some of the pressure on a private housing system that cannot provide adequate housing for the poor. But during the 1980s, despite growing waiting lists and rapidly increasing numbers of homeless Americans, the Reagan administration has made severe cutbacks in low-income housing programs. In 1981 the federal government allocated \$30 billion for low-income housing. In 1986 Reagan asked for \$500 million. He requested no new funds for 1987.

Since Reagan took office, housing assistance for the rich (primarily tax subsidies) has climbed, while housing subsidies for the poor (such as public housing) have declined sharply. Because these low-income subsidies are more visible than the hidden (tax) subsidies to the rich, few Americans worry about getting the rich off "welfare." The poor actually receive the tiniest part of government housing subsidies. The largest, which allows homeowners to deduct all property taxes and mortgage interest payments from federal income taxes, will cost the government an estimated \$38 billion in lost revenues this year alone (compared to \$23 billion in 1980). This is almost four times the entire HUD annual budget. About three-quarters of these regressive benefits go to the richest 20 percent of taxpayers, and one-quarter to the wealthiest seven percent of households. Most homeowners benefit minimally from such deductions; half do not claim them at all. Tenants are not eligible.

For many years, the National Low-Income Housing Coalition has called for spreading the benefits to low- and moderate-income owners. It proposes a ceiling on homeowner tax benefits, or a tax credit based on income, as well as eliminating the benefits for second and third homes. Two years ago, Reagan considered abolishing the homeowner deduction as part of his tax reform package, but pressure from the real estate industry led to a hasty retreat.

**I**F THERE IS a lesson to be learned from Europe, it is not to sell off public housing. The success of Europe's post-war housing experience is its insistence that the government help provide housing for the middle class as well as the poor. Public and social (non-profit) housing is less costly to build and maintain because it is done through direct grants rather than by subsidizing lenders and builders. It enjoys widespread public support because it is not stigmatized as "poor people's housing" and is designed to resemble privately built housing. The only comparable American program is the 450,000 units of family housing constructed by the U.S. military. It is financed and operated almost entirely by direct capital grants appropriated by Congress—eliminating both credit and speculative resales that drive up the cost of private housing.

If some public housing is to be sold, it should be transformed into resident-owned limited-equity cooperatives. This is a midpoint between renting and owning. It gives occupants greater control over their homes, and by restrict-

ing the resale prices it keeps them affordable over the long run. But to make it work, the government would have to provide residents with substantial subsidies. These would include help to repair the long-neglected projects, funds to help residents pay the monthly costs of ownership and maintenance, and adequate training to give owner-residents the tools to manage the co-ops. Any way you approach it, government support is needed to house the poor, to fill the gap between what it costs to build housing and what low-income renters and owners can afford to pay.

The Reagan administration claims that its housing plan both illustrates an ongoing commitment to the free market and a vigorous new approach to the problems of the underclass. In fact, the plan will simply hasten the already drastic decline in the housing standards of the poor. When its eight years are complete, someone will write a book on the Reagan housing legacy. Suggested title: *Future Shack*.

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