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HOUSING BILLS TACKLE NON-EXISTENT CRISIS (H.R. 3838, S. 2049)

INTRODUCTION

The House and Senate soon will consider legislation to reauthorize the programs of the U.S. Department of Housing and Urban Development (HUD). The House and Senate bills (H.R. 3838, S. 2049) have been marked up by committee and now will be debated in each chamber. This legislation, however, unfortunately is based on a persistent fiction: that there is a shortage of affordable housing and thus a need for more subsidies to home-buyers and renters.

In reality, America's housing quality and quantity have been improving for decades, something not apparent from the continuing stream of pronouncements from congressional liberals, state and local officials, labor unions, and builders that the nation faces a housing crisis. This notion of a crisis has triggered demands for ever-larger federal outlays and more stringent regulation. The appropriations bill passed last fall for fiscal year 1994, for instance, reserved $25 billion for HUD, an increase of 27 percent over the fiscal 1989 outlay of $19.7 billion when President Bush entered office.[1]

A large portion of this money is subsidizing publicly or privately owned multifamily rental housing. Yet many public projects are in physical disrepair, plagued with corruption and mismanaged by the public housing authorities who would get the money. Moreover, many of the privately owned multifamily rental projects are prime candidates for foreclosure and repossession by HUD. Some are as decayed as any publicly built project.

Some of the information in this *Issue Bulletin* draws upon material in Carl Horowitz, "Washington's Continuing Fiction: A National Housing Shortage," Heritage Foundation *Backgrounder* No. 783, August 22, 1990.

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1 The $25 billion in the appropriations bill is HUD's portion. The bill also set aside funds for the Department of Veterans Affairs and various independent federal agencies.

The House bill, H.R. 3838, introduced in February by Representative Henry Gonzalez (D-TX), Chairman of the House Banking Committee, reauthorizes HUD spending at $31.2 billion in fiscal 1995 and $33.6 billion in fiscal 1996. The Senate version would open the federal purse even more, providing $28.1 billion for fiscal 1995, but jumping to $39.1 billion for fiscal 1996.

The impetus behind the House and Senate bills, which contain many features supported by Secretary Cisneros and other top Clinton Administration officials, is the notion that housing was neglected during the Reagan and Bush years and that this neglect was manifested in massive cutbacks in the HUD budget. Cisneros said of his proposed legislation that it would put HUD "back in the business as a force for positive change in America."[2] Yet this will not be accomplished by increasing HUD spending. HUD outlays during the Reagan years rose from $14.9 billion in FY 1981 to $19.7 billion in FY 1989 and reached $25.2 billion in FY 1993. According to this year's Office of Management and Budget (OMB) projections, they will have risen to $25.5 billion for fiscal 1994 and to more than $28.4 billion in fiscal 1996.

Those who would raise federal spending on housing-related agencies such as HUD, the Department of Veterans Affairs, and the Farmers Home Administration know—even if they do not admit—that spending has risen. That is why they regularly cite statistics purportedly showing that the private sector no longer produces sufficiently affordable housing. As evidence, they refer to the slight decline during the first half of the 1980s in the overall homeownership ratio (which since has been reversed) and to misleadingly high housing cost-to-income ratios of low-income renters.

To be sure, there are housing cost problems. Yet neither the 1990 Cranston-Gonzalez National Affordable Housing Act (P.L. 101-625) nor the current proposals address those problems. Each of these measures fails to recognize that high taxes and overregulation undermine efforts to improve the housing stock and its affordability. Each also fails to recognize that politicizing the distribution of housing raises the likelihood that there is less of it to go around.

To combat the idea that massive subsidies are needed for housing production and consumption, lawmakers need to bear in mind several realities about housing in America:

1) **The supply of America's housing stock has been improving steadily over time in both quality and quantity.**

2) **The demand for additional housing during the 1990s will not be as great as it was during the 1970s and 1980s.**

3) **The cost of housing, in comparison to incomes, has been getting less burdensome over the last several years, especially with interest rates last year dipping to their lowest levels in some 25 years, and now holding steady at about 8.5 percent.**

2 Quoted in Julio Barreto, "Cisneros Unveils Housing Choice and Community Investment Act," *Nation's Cities Weekly*, April 25, 1994.

If HUD officials and Members of Congress really wish to address the nation's housing supply and affordability problems, they should promote greater market efficiency. The reauthorization legislation gives lawmakers the opportunity to make needed changes.

To improve the reauthorization legislation, Congress should take several steps. Among them, lawmakers should:

- ✔ **Eliminate provisions that would raise loan limits on Federal Housing Administration (FHA) single-family mortgages.**
- ✔ **Eliminate the provision that would end the requirement on public housing tenants who obtain a job to continue paying 30 percent of their income in rent.**
- ✔ **Add a provision eliminating the requirement on HUD to subsidize the rents, for at least 15 years, of low-income tenants in foreclosed FHA-insured multifamily rental projects.**
- ✔ **Fund the HOPE program.**
- ✔ **Give HUD the authority to pressure other federal agencies, and state and local agencies, to reduce excessive land and construction regulations that make housing less affordable.**

America is not reeling from an affordable housing crisis and was not in the grip of such a crisis during the Reagan and Bush years. Housing conditions and affordability rarely have been better. What HUD and other federal agencies should be doing is enabling housing markets, especially in inner-city neighborhoods, to function more as markets. At present, they function too much as bureaucratic fiefdoms, a problem exacerbated by high levels of crime. While the House and Senate packages contain potentially beneficial elements and even mention the need for crime control, too much in them represents business as usual under the guise of a "reinvention" of HUD. They would boost HUD spending by about a third without necessarily addressing the real problems.

THE SUPPLY OF HOUSING IN AMERICA

Plenty of Homes. During the past two decades, America has expanded an already plentiful housing stock. According to the most recent American Housing Survey (1991), there were 104.6 million conventional (non-mobile) dwellings in the United States, more than 50 percent greater than the 68.7 million units existing in 1970.[3] Thus, over one-third of all dwellings available in 1991 were built in or after 1970.[4] This ratio, of course, would be higher if one took into account net housing production since 1991.

3 U.S. Bureau of the Census, *1970 Census of Population and Housing*; Current Housing Reports, "American Housing Survey for the United States in 1991" (Washington, D.C.: U.S. Government Printing Office, April 1993). The American Housing Survey (formerly known as the Annual Housing Survey until the early 1980s, previous to which it had been conducted annually, as its name implied) is conducted nationally on a biennial basis by the Census Bureau, with technical assistance from HUD. Separate surveys of several dozen metropolitan areas are conducted on an annual rotating basis. All references in this *Issue Bulletin* to the American Housing Survey, unless otherwise indicated, are to the 1991 survey. In 1991 there were some 7 million mobile homes.

Fewer Deficiencies, More Amenities. Just as the quantity of housing units is important, so is the quality. That, too, has risen with affluence and with advances in homebuilding technology. Early in this century, a three-room cold-water flat was regarded as adequate housing for young urban immigrant families. Today it is considered unacceptable for anyone.

Using American Housing Survey indicators of housing quality, Table 1 indicates how far the U.S. has come in eliminating substandard housing. Only a small portion of dwellings now experience interior problems such as holes in floors, broken plaster or peeling paint, and exposed wiring. Moreover, those problems occur less often in owner-occupied units, which account for almost two-thirds of all occupied dwellings.

Table 1

Selected Interior Housing Deficiencies: 1991

Characteristic	% of Owner-Occupied	% of Renter
Holes in Floors	0.8%	2.0%
Open Cracks or Holes	3.4	8.1
Broken Plaster or Peeling Paint	3.0	6.1
No Electrical Wiring	0.0	0.0
Exposed Wiring	1.1	2.5
Rooms without Electricical Outlets	1.4	2.4
Lacking All or Some Plumbing	2.2	2.9

Source: U.S. Bureau of the Census, "American Housing Survey."

Meanwhile, more new housing than ever before is being built with things once considered luxuries, as Table 2 indicates. To some degree, therefore, rising standards of quality are responsible for rising home prices. The number of newly completed private, single-family homes containing central air conditioning, one or more fireplaces, and 2.5 or more bathrooms each rose during 1970-1992 by anywhere from roughly 80 percent to 200 percent. Median interior area rose from 1,385 to 1,920 square feet, an increase of 38.6 percent.

Homebuilders provide such amenities largely because buyers insist on them. A 1989 survey by the National Association of Home Builders asked: "If you cannot afford to buy the type of home you want, what would you give up to make it more affordable?" Some 36 percent of respondents said they would choose a house with unfinished rooms, and 35 percent would live farther from work or shopping. Only 18 percent would have accepted a smaller house, and only 11 percent would have accepted fewer amenities.[5]

THE DEMAND FOR HOUSING IN AMERICA

Population Growth. During America's baby boom, which spanned the years 1946-1964, there were 20 to 25 live births per 1,000 population. Thereafter the birth rate declined, so much so that in 1975 the rate was 14.6 births per 1,000 population,[6] rising again to the 16-to-17-per-1,000 range in the late 1980s and early 1990s. The aging of the baby boom population has major implications for the demand for housing.

4 Losses of residential units include conversions of a structure from residential to nonresidential use, the combining of two or more separate residences into one, and damage from storms, earthquakes, and other natural phenomena.

5 *What Home Buyers Want* (Washington, D.C.: National Association of Home Builders, 1989).

6 U.S. National Center for Health Statistics, *Vital Statistics of the United States*, issued annually.

According to Census Bureau mid-range projections, the population will increase from a little under 250 million to almost 275 million during 1990-2000, or by some 2.5 million annually. Households in the 35-54 age bracket—mainly the baby boomers—will make up more than 75 percent of this population increase, rising by more than 19 million. By contrast, the number of Americans age 18-34 (the people who are starting households for the first time, usually as renters) will decline from about 70 million to 63.5 million during this period. As a result, the age bracket most heavily in financial need will be smaller, numerically as well as proportionately.

Table 2
Characteristics of New Privately Owned One-Family Homes Completed: 1970-1992

Year	Median Square Feet	Percent w/CAC	Percent w/ One or More Fireplaces	Percent w/ 2.5 or More Bathrooms
1970	1,385	34%	35%	16%
1980	1,595	63	56	25
1984	1,605	71	59	28
1986	1,660	69	63	33
1988	1,810	75	65	42
1990	1,905	76	66	45
1992	1,920	77	64	47
Total Change	**+38.6%**	**+126.5%**	**+82.9%**	**+193.8%**

Source: U.S. Bureau of the Census, *Construction Reports*, Series C-25, issued annually.

Household Growth. This pattern of population growth and age distribution has significant implications for housing demand, in particular the demand for new housing construction in the 1990s. According to the Census Bureau, the total number of households rose by about 1.18 million annually during 1980-1992[7] and will rise by roughly the same rate by the year 2000. However, as with population growth, the age distribution of this shift reveals much. Households headed by persons age 35-54 will account for virtually all of this increase.[8] Yet households headed by persons 34 and under actually will decrease by 1 million. Growth is occurring, therefore, among households headed by adults in their prime years.

Changing Household Composition

The trend toward smaller proportions of married households had been established by 1980 and since then, even with a falling divorce rate,[9] has continued. Table 3 shows that in 1980, 60.8 percent of all households consisted of married couples, fairly evenly divided between those with at least one child present in the household and those without. Yet, by 1992 the cumulative proportion of married households, with and without children, declined to 54.8 percent. Male or female householder families (no spouse present) increased from 12.9 percent to 15.4 percent of the total.[10] Especially marked has been the

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7 U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 467, and earlier reports. *Census of Populaiton: 1980.*

8 U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 986, "Projections of the Number of Households and Families: 1986 to 2000" (Washington, D.C.: U.S. Government Printing Office, 1986).

9 *Vital Statistics.* The rate of divorces per 1,000 population declined during 1980-1990 from 5.2 to 4.7, or by some 10 percent.

10 U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 458, "Households, Families, Marital

blatt, director of surveys for the Mortgage Bankers Association of America.[29] America's homeowners know a good bargain when they see one.

The Harvard Joint Center for Housing Studies data actually provide strong evidence that homeownership is becoming more in reach, not less. Working with the American Housing Survey and other data, the Center's researchers estimated that the annual cost of owning a home (in constant 1989 dollars) fell from $8,885 to $7,077 during 1982-1992. This decline would have been even steeper had expected price appreciation levels not been flat in the last few years.[30] The past decade has been more a buyer's than a seller's market.

Data from Chicago Title and Trust's annual homebuyer survey provide further evidence that rising costs, in and of themselves, mean little.[31] During 1980-1993, repeat buyers saw the median home purchase price increase from $75,750 to $159,600, or by 110.7 percent. During the same period, however, their median incomes increased from $31,820 to $67,500, or by 112.1 percent. For first-time buyers, median prices increased from $61,450 to $121,100 (97.1 percent) while incomes increased from $27,430 to $53,400 (94.7 percent). Thus, incomes kept pace with prices. That incomes were not higher is due largely to the higher ratio of nonmarried households in the first-time and repeat homebuying populations. Indeed, from 1991 to 1993, the proportion of first-time buyers who were single rose from 21.2 percent to 32.3 percent, according to the survey. These households, as Census figures earlier revealed, have lower incomes than married households.

The survey also revealed that although the average mortgage payment as a percentage of income during 1980-1993 rose slightly from 30.3 percent to 30.7 percent for repeat buyers, it fell substantially from 35.6 percent to 32.2 percent for first-time buyers.

The argument that a homebuying affordability crisis exists is refuted most thoroughly by examining figures from the National Association of Realtors' monthly publication, *Home Sales*, which tracks the affordability of existing homes throughout the nation. In 1981, when President Reagan took office, an existing home cost $68,900; in February 1993 it cost $103,600, an increase of 50.4 percent. Yet price rises are not, in fact, cause for alarm in the context of income growth. NAR has a "Housing Affordability Index," which relates home price to buyer income, given a certain down payment ratio. The Index indicates what proportion of the income needed to qualify for a conventional 30-year mortgage on a median-priced home with a 20 percent downpayment would be possessed by a median-income family. Any Index figure above 100 means that a median-income household has more than enough to qualify for a mortgage on a median-priced home.[32]

29 Cited in Marianne Kyriakos, "Mortgage Refinancings Set Record Pace in 1993," *The Washington Post*, January 8, 1994. In 1992, 48 percent of the $894 billion in mortgage originations represented refinancings.

30 *The State of the Nation's Housing 1993*, p. 24. The decline in annual ownership cost, minus the appreciation factor, was from $10,617 to $7,405.

31 *Who's Buying Houses in America, op. cit.*

32 The NAR also calculates an Index for first-time buyers, which is somewhat different than for other buyers. Here, affordability is based on the median price of a "starter" home (85 percent of the price of a median-priced home), and first-time seekers are assumed to need only a 10 percent down payment.

In 1981 the Index for all buyers was 68.9. This meant that a median-income family that year had only 68.9 percent of the income necessary to qualify for the purchase of a median-priced home. During the fourth quarter of 1993, the Index had reached a record-high 141.9. In other words, taking into account the cost of mortgage credit and growth in real income, a typical home in the U.S. has become more than twice as affordable in a little more than a dozen years.[33] For first-time buyers (renters seeking to buy), the Index improved markedly from 49.9 to 92.3 from 1981 through the fourth quarter of 1993.

EXAGGERATED COST BURDENS FOR RENTERS

Renters are less well off than owners. That is why most are not owners in the first place. Yet if the cost of ownership is not preventing today's renters from becoming tomorrow's owners, neither is the cost of renting. Between 1980 and 1991, the median monthly rent (including utilities), according to the American Housing Survey, increased from $243 to $462, or by 90.1 percent. Yet during this period median renter income rose from $10,500 to $20,300, or by 93.3 percent.

Housing activists typically employ a rule of thumb for rental affordability. If rent takes up 30 percent or more of a household's gross (pre-tax) income, the dwelling is "unaffordable." Superficially, Table 4 shows why they have an effective case. According to American Housing Survey data, some 45.9 percent of all renter households and 69.0 percent of below-poverty-line households pay at least 30 percent of their incomes in housing costs. Indeed, 21.0 percent of all renter households and 48.0 percent of poor renter households pay at least 50 percent of their incomes on housing costs.

Using such Census data, liberal research organizations like the Center on Budget and Policy Priorities conclude that rental affordability is slipping from the grasp of the poor.[34]

Table 4

Monthly Rental Costs as a Ratio of Income: 1991

Cost/Income Ratio	All Renter Households	Poor Renter Households
Less than 5%	221,000	14,000
5% to 9%	1,030,000	40,000
10% to 14%	2,735,000	114,000
15% to 19%	4,265,000	219,000
20% to 24%	4,225,000	378,000
25% to 29%	3,906,000	547,000
30% to 34%	2,883,000	467,000
35% to 39%	2,000,000	365,000
40% to 49%	2,669,000	713,000
50% to 59%	1,707,000	637,000
60% to 69%	1,071,000	503,000
70% or more	3,567,000	2,384,000
Zero or Negative income	547,000	490,000
No Cash Rent	2,526,000	968,000
Median Ratio (excluding last two lines)	28%	55%

Source: "American Housing Survey."

Note: The figures in this table are used by advocates of a huge boost in federal rent subsidies. They claim that these figures show that 45.9 percent of all renters, and 69.0 percent of all poor renters (excluding "zero or negative income" and "no cash rent" households)pay at least 30 percent of their income for their dwellings. But the conclusion that most of the poor cannot afford their housing and exist on the precipice of homelessness is wrong. Among other reasons, reported incomes of the poor do not account for enormous amounts from benefits-in-kind, such as Medicaid, food stamps, rent subsidies, and even cash. Including these payments as income would lower the rent burdens of below-poverty line households substantially.

33 Despite an increase in the interest rate used to compute the overall Index from 6.79 percent to 6.91 percent, the Index, according to preliminary NAR data, fell only to 140.9 in the first quarter of 1994 from the fourth quarter of 1993.

34 See, for example, Scott Barancik and Mark Sheft, *A Place to Call Home: The Crisis in Housing for the Poor*

From this, they conclude that only large increases in government support can prevent the crisis from worsening.

Table 5
Average Annual Income and Expenditures of Households Among Persons 14 and Over: 1991

Quintiles of Income	Income Before Taxes	Total Expenditures	Total Housing Expenditures
Lowest 20 percent	$ 5,981	$13,464	$ 4,905
Second 20 percent	14,821	18,986	6,178
Third 20 percent	26,073	26,144	7,975
Fourth 20 percent	40,868	36,151	10,644
Highest 20 percent	81,594	57,597	16,898

Source: U.S. Department of Labor, *Consumer Expenditures in 1991*, (BLS Report 835, December 1992.)

According to the U.S. Department of Labor's Consumer Expenditure Survey, which measures how much the households of different income levels spend on key consumer items (food, housing, etc.),[35] per-household expenditures in 1991 averaged $13,464 among the lowest-quintile-income households, with pre-tax incomes averaging $5,981. In other words, the typical "poor" household, according to the Labor Department's statistics, spends well over $2 for every $1.00 it reports as income. Table 5 shows expenditures of households in the bottom quintile as a percentage of their reported "total income."

Showing housing costs as a proportion of reported income thus gives a grossly misleading impression. Using such methods, one can "prove" that the lowest-income households barely eat since they have spent 82 percent of their "incomes" on housing. Similarly, one could prove that these households have no money to spend on housing and utilities since well over 100 percent of their incomes are spent on other items.[36] Something obviously is wrong with the use of rent-to-income ratios as a basis for estimating rental affordability.

Why do government surveys systematically underestimate "incomes" of low-income households? Because most spending is not counted as income. Of the over $300 billion spent in 1992 by federal, state, and local governments on welfare programs for low-income persons, most was not included as household income by the Census Bureau.[37] Benefits the Census Bureau does not count as income include food stamps, Medicaid, housing subsidies, and various social services.

The second major problem is that government income data fail to include the tens of billions of dollars earned by persons working "off the books" to avoid taxes and regulation. The Department of Labor has put the total value of unreported earnings at about 5 percent of Gross Domestic Product.[38] As long as the government grossly underreports

(Washington, D.C.: Center on Budget and Policy Priorities, June 1991).

35 The Census Bureau numbers are the basis for calculating incomes in studies which show that poor households pay too much for rent.

36 Arguments to show that low-income households pay too much for housing generally are based on data from the American Housing Survey rather than the Consumer Expenditure Survey. But all government surveys have the same problem: they underreport incomes and thus show expenditures as very high relative to income.

37 See Robert Rector, "Combatting Family Disintegration, Crime, and Dependence: Welfare Reform and Beyond," Heritage Foundation *Backgrounder* No. 983, April 8, 1994.

38 See U.S. Department of Labor, *The Underground Economy in the United States*, Occasional Paper No. 2,

the incomes of poor and near-poor households, claims that these households spend too high a share of their incomes on housing are meaningless.

The Growth in Federal Assistance

Housing assistance has become an increasingly significant part of the welfare state. According to an Urban Institute study, about half of all rental subsidies consists of cash welfare payments; the other half is federal housing assistance.[39] American Housing Survey data for 1989 (the most recent year available in such tabulations) indicate that median gross rent (including utilities) for unsubsidized poor renters was $300; for subsidized poor renters it was a little over $150.[40] The Harvard Joint Center for Housing Studies, building on American Housing Survey data, has estimated that almost 40 percent of all households with incomes below 50 percent of the area median receive HUD housing subsidies, up from just under 30 percent in 1989.[41]

Such subsidization is gradually becoming a welfare entitlement, something likely to become more pronounced. For example, according to the General Accounting Office, the cost of renewing contracts between private landlords and public housing authorities under HUD's largest tenant assistance subsidy program, "Section 8," will grow from an estimated $6.3 billion in fiscal 1994 to $15.2 billion in fiscal 1998—a jump of almost 150 percent in just four years.[42] Additionally, HUD spent some $6 billion—a record high—in fiscal 1993 on development, modernization, and operating costs for public housing projects. In 1992, a federal commission recommended $7.5 billion in new HUD spending over ten years on "distressed" public housing, which constitutes about 6 percent of all public housing units and, according to the commission, is "unlivable."[43]

Yet the rental housing stock overall is increasingly affordable. For example, the American Housing Survey for 1987 revealed a median cost-income ratio for poor households of 66 percent; in 1991, as Table 4 indicates, this ratio had dropped to 55 percent. The portion of all renter households spending 30 percent or more of their incomes on rent in 1987 was 48.4 percent; in 1991 it was 45.9 percent.

September 1992, p. 24. For examples of this economy in action, see Jeffrey Tucker, "Notes from the Underground: America's Sprawling Informal Economy," *Policy Review* No. 65 (1993), pp. 76-79.

39 Sandra J. Newman and Ann B. Schnare, *Subsidizing Shelter: The Relationship Between Welfare and Housing Assistance* (Washington, D.C.: Urban Institute Press, May 1988).

40 These figures are for privately owned dwellings only, and thus exclude units covered under the public housing program.

41 *The State of the Nation's Housing 1993*, p. 16; *The State of the Nation's Housing 1992*, p. 19.

42 U.S. General Accounting Office, *Assisted Housing: Evening Out the Growth of the Section 8 Program's Funding Needs*, GAO/RCED-93-54, August 1993.

43 *The Final Report of the National Commission on Severely Distressed Public Housing: A Report to the Congress and the Secretary of Housing and Urban Development* (Washington, D.C.: U.S. Government Printing Office, August 1992).

HOUSING PROBLEMS AND HUD INITIATIVES

The House and Senate housing committees have prepared their versions of an expanded federal presence in the housing market for floor debate. With record-high levels of funding, sponsors of the bills say they want to tackle a crisis in the nation's communities. Part of that crisis, they insist, stems from a large and growing lack of affordable housing.

Yet the data demonstrate that neither homeowners nor renters, as a whole, face such a shortage. The congressional proposals assume far too easily that HUD must supplement or supplant the workings of the housing market. Some activities would put the taxpayer in a state of heightened financial liability for risky projects and loan practices. If Congress and HUD officials really want to promote affordable housing at minimum taxpayer expense, they should focus on eliminating barriers to market efficiency and on expanding opportunities for low-income residents to take greater control over their living environment.

Clinton Administration officials also should use HUD and other relevant federal agencies as "bully pulpits" for eliminating unnecessary state and local regulations that inhibit housing construction, rehabilitation, and maintenance. When Jack Kemp was HUD Secretary, he appointed the Advisory Commission on Regulatory Barriers to Affordable Housing to address these issues. The Commission's final report, released in July 1991, revealed that numerous forms of housing and land use regulation were making housing less affordable without necessarily improving housing quality.[44] It outlined over 30 practical recommendations for government at all levels, often working in conjunction with developers, to reduce unnecessary regulation.

Lawmakers and officials also should expand residential choice among those least able to exercise it: the poor. Secretary Cisneros, on the surface, recognizes this. Yet the substance of what he and congressional housing advocates support would foster greater dependency by low-income households on taxpayer largesse and housing bureaucrats at all levels of government. Rather than pour additional funding into building, maintaining, and modernizing public and subsidized housing projects and restricting opportunities by the private sector to buy and manage such properties, the federal government should be bringing such properties back to the market as quickly as possible. This includes enabling low-income residents themselves to be managers and owners. Such a strategy has turned around Washington, D.C.'s Kenilworth-Parkside, now resident-managed and owned, and other low-income projects. HOPE gives tenants of public and privately built, government-held (usually through foreclosure) projects a chance to bypass public agencies in using federal money.[45] About 500 organizations, representing some 45,000 people, participated in the program at the beginning of this year.[46] Yet under Clinton, the program is all

44 *"Not In My Back Yard": Removing Barriers to Affordable Housing* (Washington, D.C.: Advisory Commission on Regulatory Barriers to Affordable Housing, July 1991). For additional evidence, see articles in *Land Economics*, Vol. 66, No. 3 (August 1990).

45 Under HOPE, public agencies are eligible grantees along with tenant and other nonprofit organizations. The public housing component of HOPE is known as "HOPE 1"; the privately built, publicly held components are called "HOPE 2" (multifamily housing) and "HOPE 3" (single-family housing).

but terminated, with planning grants eliminated from the 1994 budget and implementation grants almost dry. No new funding is contemplated for fiscal 1995.

Government at all levels, however, can take a big step in turning around low-income urban areas by making crime control a top priority. Fear of crime has transformed many urban neighborhoods and housing projects into no-man's lands.[47] Nothing restricts residential choice more than crime. When an area is a zone of fear, rather than a real community, people will not want to live there, no matter what the quality of its housing.

WHAT THE BILLS WOULD DO

The reauthorization bills now before Congress unfortunately ignore the real state of the housing market in America. And although the measures do address some concerns, they include provisions that would add to the problems which do exist while overlooking actions that would tackle these problems.

HELPFUL FEATURES OF THE BILLS

The House and Senate bills do contain some beneficial provisions that would enable HUD programs to be operated in a more efficient manner. To their credit, both bills:

✔ **Modify a provision in the 1987 Housing and Community Development Act that requires public housing authorities (PHAs) to replace, on a 1-to-1 dwelling basis, any obsolete projects they demolish.** This requirement has been tying the hands of PHAs. Authorities cannot raze these largely vacant properties, many of them public eyesores, since they lack funds or suitable alternative sites to build replacement units. The new provision grants PHAs waivers from that stipulation, and thus should result in the demolition of obsolete units and the better use of existing HUD subsidies.

✔ **Broaden HUD's Drug Elimination Program for public housing into a larger Community Partnership Against Crime.** Aside from mismanagement by housing authorities, the number one problem in public housing today is crime. The new program, among other things, would allow a PHA to obtain a record of any prior criminal convictions of a tenant or applicant as a way to help keep projects free of dangerous offenders.

✔ **Consolidate the several programs under the Stewart B. McKinney Homeless Assistance Act of 1987 into a block grant program that would give states, localities, and nonprofit groups more say over how to use existing funds.** Because these grantees are closer to the problems of the homeless than is the federal government, they will be able to reach more of these people.

In addition, the Senate bill rejects a proposal by HUD Secretary Henry Cisneros to allow PHAs to replace obsolete projects by using spending authority to leverage borrowing

46 "HOPE and the 'Reinvention' of Government," *The Empowerment Pioneer*, Vol. 2, No. 1 (February 1994), p. 6. This is a publication of the Alexandria, Virginia-based Empowerment Network Foundation.

47 See Wesley G. Skogan, *Disorder and Decline: Crime and the Spiral of Decay in American Neighborhoods* (New York: Free Press, 1990).

against future HUD modernization funds. If such loans default, which is especially likely in larger, troubled authorities, taxpayers may end up paying a large tab. Even if the loans are paid on schedule, political pressures to build new projects on vacant sites ensure a high program cost. Congress should be more concerned with selling off existing projects than with building new ones.

TROUBLING FEATURES OF THE BILLS

The House and Senate bills, unfortunately, also contain proposals that should not be enacted. The bills, for example, mistakenly would:

✔ **Increase loan limits on Federal Housing Administration (FHA) single-family mortgages.** Since its creation in 1934, FHA has been charged with insuring mortgage lenders against the risk of default in their underwriting. Periodically, to adjust to price rises in the housing market, Congress has raised the limits. But H.R. 3838 goes too far, raising the basic FHA ceiling from $67,500 to $101,575 and the high-cost-area ceiling from $151,725 to $172,675. The Senate bill, by contrast, wisely increases the basic limit only to $77,500 and leaves unchanged the high-cost area cap. Cisneros, aggressively urging passage of the House version, believes FHA will be able to create 2 million new homeowners over the long run. More likely, given FHA's recent history and the fact that private mortgage insurers account for most mortgage insurance issued, the House version would help young households who eventually would be able to buy anyway, and heighten an already high risk of default.

✔ **Eliminate the requirement that public housing residents who have or acquire a job, or who undergo job training, must pay 30 percent of their incomes toward rent.** While motivated by a desire to transform public housing into a more stable living environment, this measure would leave housing authorities with less rent-derived income with which to operate. The taxpayers would have to prop them up even more than is now the case.

PROVISIONS THE BILLS SHOULD INCLUDE

In addition, both bills are significant for some essential provisions they omit. The bills should:

✔ **Eliminate the requirement that HUD subsidize rents of low-income residents of foreclosed FHA-insured multifamily rental projects for at least 15 years.** Some of these projects, especially in Texas, are eyesores. This provision has contributed toward HUD's slow property disposition process and this year alone is costing taxpayers some $450 million in "preservation" rent subsidies.

✔ **Fund the Homeownership and Opportunity for People for Everywhere program, or HOPE, to enable low-income residents to manage and ultimately to own public housing (HOPE 1) and both privately built, publicly held multifamily (HOPE 2), and privately built, publicly held single-family (HOPE 3) projects.** This program, enacted in 1990 at the strong urging of Cisneros's predecessor at HUD, Jack Kemp, is an innovative anti-poverty program that bypasses local housing bureaucracies to reach the poor. Cisneros, however, has chosen to cancel the program, and Congress has eliminated fiscal 1994 funding for HOPE planning grants, a necessary precondition for rehabilitation and property transfer. Without a vigorous reversal, the program appears dead.

✔ **Give HUD authority to pressure other federal agencies and state and local agencies, to reduce excessive regulatory requirements on land use and housing construction.** A HUD-sponsored commission three years ago concluded that over-regulation has been imposing serious costs on building and rehabilitating housing and that HUD could play a key role in alleviating the problem. Yet neither Congress nor Secretary Cisneros sees a real need to follow through on such efforts.

CONCLUSION

Despite what has become conventional wisdom, America is not reeling from a nationwide housing shortage. Today's mortgage interest rates alone render such an argument specious, if not absurd. Cost barriers do exist, especially in California and Northeast metropolitan markets; clearly, finding good, affordable housing in Boston or Los Angeles is more difficult than finding it in Cincinnati or Atlanta. But even the most expensive areas have become more affordable in the 1990s as prices and rents alike have exhibited slow rises. Super-luxury homes in Southern California have stood vacant for months, even years, something unthinkable for most of the 1980s.

Unfortunately, the temptation continues for Congress to boost federal housing subsidies. The Cranston-Gonzalez legislation of 1990, for example, all but locked the federal government into subsidizing permanently the rents of some 360,000 multifamily rental dwellings whose project owners are eligible to prepay their 40-year mortgages after 20 years. HUD's mounting inventory of FHA-foreclosed privately built apartment projects, some of them vacant eyesores, is incurring needless costs of hundreds of millions of dollars annually in subsidized maintenance and debt service, thanks to excessively strict resale requirements (although Congress last year eased these requirements somewhat).[48]

The Clinton Administration should acknowledge that real housing problems exist but that they have more to do with the absence of market incentives and the lack of work-derived income among the poor than with the supposed "neglect" of these problems by the federal government. The bills before Congress contain items of merit. Too much in them, however, merely pours old wine into new bottles. Even under the guise of "choice" and "investment," expanding subsidy programs would invite more, not fewer, problems at HUD.

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48 See Carl Horowitz, "Another Big Government Loan Bailout?" *Investor's Business Daily*, July 15, 1993; U.S. General Accounting Office, *Multifamily Housing: Information on Selected Properties Owned by HUD*, GAO/RCED-94-163F3, April 1994.