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A Decent Home: Housing Policy in Perspective

Government policies directed specifically toward urban areas are certainly not a new idea. Indeed, two thousand years ago Caesar Augustus decreed a set of physical restrictions on Roman buildings and public infrastructure that affected the form and development of the city and whose effects are visible even today. Sets of policies intended to improve living conditions in the big cities were widely adopted in Europe during the latter half of the nineteenth century; the British Public Health Acts and the Salisbury Acts are but two well-known examples.

Urban affairs were, of course, a concern of the states and the cities they sanctioned since the beginning of this Republic. It was only after World War II and the end of the Great Depression, however, that direct urban policies were articulated by the federal government. The Housing Act of 1949 espoused the goal of "a decent home and a suitable living environment" for all Americans and provided the rationale for an ambitious program of urban renewal and slum clearance begun in the 1950s. The factors that ultimately led to the passage of the Housing Act included a severe nationwide housing shortage that continued long after the wartime victory. This shortage reflected the cumulative effects of the Great Depression, the explicit limitations on residential construction during the war, the postwar shortages of construction material, and the massive internal migration to the cities that had taken place during the war.

This paper reviews and analyzes American housing and urban development policy emanating from the landmark housing act enacted a half century ago.

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Current U.S. policies and programs are directly descended from the 1949 Housing Act. From a broader viewpoint, housing and urban development is the most basic and durable aspect of national urban policy, and provides the spatial context within which other policies operate. The intra-urban distribution of population, the concentration of the poor, the distribution of work sites, housing quality, and tax bases are all directly affected by the substantial resources devoted to housing and urban development policy. These spatial relationships in turn have a profound effect on the economic health of the urban economy.

Other policies that entail substantial central government expenditures may also have important consequences for urban areas. For example, the federal tax code in its treatment of owner-occupied housing may substantially influence urban spatial structure, and the recent changes in welfare entitlements will surely affect the incomes and opportunities of the poor who live in central cities.[1] Yet neither of these policies is designed to pay attention to its distinctly metropolitan or urban impacts. Metropolitan areas are large, so most national policies do shape urban life in some way. Housing and urban development policies are directly intended to affect the residents of urban areas—and they do so in significant ways.

For the most part, this paper is an exercise in positive economics, indicating the course of urban policies, their economic rationale, and their economic consequences. Nevertheless, the paper also examines some normative issues and offers some evaluations.

Federal Housing Programs for Low-Income Households

The history of housing programs for low-income Americans in the United States can be divided into four phases. During the first phase, from the founding of the Republic to 1937, the national government provided no support at all for low-income housing. Many crucial policy decisions about housing were taken under the new income tax law in 1913 and with the establishment of the Federal Housing Administration (FHA) in 1934. By increasing the demand for owner-occupied housing, both policies had important consequences for urban form. Neither these nor other national housing policies, however, were directed specifically toward those with low incomes. During the second phase, from 1937 to 1962, a single federal housing program subsidized poor house-

1. Gyourko and Voith (1999).

holds: low-rent public housing owned and operated by government agencies. The third phase, from 1962 to 1974, saw the first encouragement of private entities in the provision of federally subsidized housing for the poor. It was not until the fourth phase, beginning in 1974, that the link between the new construction of dwellings and the subsidy of low-income households was first broken.

Economists are quick to point out that public resources spent on low-income housing are small compared to the forgone revenues arising from the treatment of housing under the Internal Revenue Code. The imputed income an owner receives from an investment in owner-occupied housing has always escaped taxation. After passage of the Tax Reform Act of 1986 (TRA86), however, the treatment of imputed rent, local property taxes, and mortgage interest payments for homeowners has contrasted even more starkly with the tax treatment of other investment returns, other taxes, and other interest payments.[2]

Of course, most of these "subsidies" embedded in the tax code accrue to the wealthiest of households. It is estimated that these asymmetries in the tax code reduce federal revenues by almost $100 billion ($93.8 billion for fiscal year 1998), and that two-thirds of the benefits accrue to households in the top quintile of the income distribution.[3]

For the analysis of programs in each of the four phases, two important economic characteristics are salient: the *identities* of the owners and managers, and the *form* of the subsidy. For government housing programs, identity and form have been intimately interconnected. Each aspect matters in evaluating the economic incentives in these programs.

2. The treatment of investment in rental housing also contrasts more starkly with investment in owner-occupied housing after TRA86. The 1986 change in tax laws lengthened the depreciation schedule, required that a straight-line depreciation profile be used (instead of the more favorable Accelerated Cost Recovery System), increased the capital gains rate to 28 percent, eliminated passive loss deductions completely, and decreed a phaseout of existing programs within four years. These had the net effect of increasing the breakeven rents charged by landlords and reducing the profitability of rental housing.

3. The largest component of this total arises from the failure to tax the gross implicit rental income of owner occupants. The U.S. Congressional Budget Office (1996) estimates that federal tax revenues would increase by $40 to $50 billion if the mortgage interest deduction were eliminated, but this is surely a large overestimate since many owner occupants would simply reduce their reliance on mortgage debt finance in response to changes in the price of debt. See Follain and Melamed (1998). Federal efforts to increase homeownership through the FHA have been rationalized, in part, as a means to help lower-income households qualify for federal tax "subsidies."

Public Housing: Government Ownership and Management

For twenty-five years, beginning in 1937, low-rent public housing was the only federal program providing housing assistance to the poor. Indeed, it is still true that public housing provides shelter for more than 1.3 million U.S. households. Waiting lists for public housing accommodation are long—eleven months on average in U.S. metropolitan areas.[4] For the largest public housing authorities, current waiting times average almost three years.[5] Despite much criticism of public housing, there has always been excess demand at prevailing prices.

The first salient characteristic to consider is the *identity* of the ownership of public housing. For the first twenty-eight years of the program, all federally subsidized housing units were designed, built, and managed with direct oversight by local housing authorities. These housing authorities are established by local governments to operate within a single political jurisdiction or in groups of cities and counties. The local authorities issue long-term tax-exempt debt whose interest and amortization is guaranteed by an annual contributions contract with the U.S. Department of Housing and Urban Development (HUD). The proceeds are used to finance HUD-approved public housing projects.

The second salient characteristic to consider is the *form* of the subsidy. For the first thirty-three years of the program, essentially all the capital costs of public housing were borne by the federal government. Conversely, after the construction of public housing, local authorities were required to meet all subsequent operating expenses out of current rental income.

These two characteristics of the public housing program had far-reaching consequences. Control by local authorities meant that decisions about public housing were responsive to the political processes buffeting small units of government. Local governments, fearful that the availability of public housing would encourage an influx of the poor, could opt to not establish housing authorities, thereby preventing the building of public housing within their borders. The 1949 Housing Act, extending the public housing program originally enacted in 1937, included a requirement that local authorities' applications for funding be approved by local government. Moreover, any locality in which public housing was to be built needed a locally approved "workable program" for community development. This requirement was in force until 1969.

Local governments, fearful of neighborhood reaction to public housing, can also intervene in decisions about the design and location of facilities serv-

4. U.S. Department of Housing and Urban Development (1999c, p. 1).
5. Painter (1997).

ing low-income residents. Because public housing concentrates low-income households geographically, the program has been subject to intense political opposition.

The requirement that housing authorities cover operating costs from rent revenues, while the federal government finances all capital costs, led to predictable results still visible in the urban skyline of many cities. Subsidizing only capital costs made it economically rational for local authorities to design housing requiring additional capital up front as long as the design reduced subsequent operation and maintenance costs. High-rise structures, smaller windows, and smaller common areas were all predictable economic implications of the form of the public subsidy. The subsidy also increased the spatial concentration of program beneficiaries, typically the poorest households in the urban area. The federal government began contributing to operating costs in 1970, but the legacy of excessively capital-intensive design persists.

The efficiency costs of subsidizing input prices rather than output quantities is also worth pointing out. Even with very elastic substitution of capital for operating inputs in response to prices, this feature of program design ensures that the cost of the program to taxpayers exceeds the value of the additional housing produced. It is estimated that, as a result of the form of this subsidy program, taxpayer costs for public housing were about 40 percent greater than the value of housing produced.[6]

The requirement that operating costs be covered out of current revenues gave local authorities a Hobson's choice: to help those families most in need or to ensure the fiscal solvency of the agency itself. The Brooke Amendments of 1969 limited rents to 25 percent of income (this was increased to 30 percent in 1981), reducing wide disparities in rent burdens among public-housing tenants in different geographic areas. The amendments provided operating subsidies to local authorities and thus gave them greater incentives to serve a poorer clientele. But during the 1970s and 1980s, as local authorities permitted greater access to public housing for the very poor, rent revenues accruing to the agencies necessarily declined, and consequently the need for federal operating subsidies increased substantially. The solution to the Hobson's choice facing local authorities involved limiting the exposure to cost increases of local authorities but removing previous limits on the financial exposure of the federal government.

Some of the spatial and geographical problems encountered by local authorities, and tenants as well, were ameliorated by the Leased Housing (Section

6. Muth (1973).

23) program and the Turnkey program, both introduced as modifications to public housing in 1965. The Section 23 program provided more flexibility to local authorities, permitting them to rent privately owned dwelling units for occupancy as public housing. It reduced middle-class opposition to the geographical dispersion of public housing units, since public housing recipients could be anonymous renters whose bills were paid by local authorities. The anonymity of the program also benefited tenants, who were less easily identified as being "from the projects." The Section 23 program also helped to reduce the geographical concentration of public housing recipients.

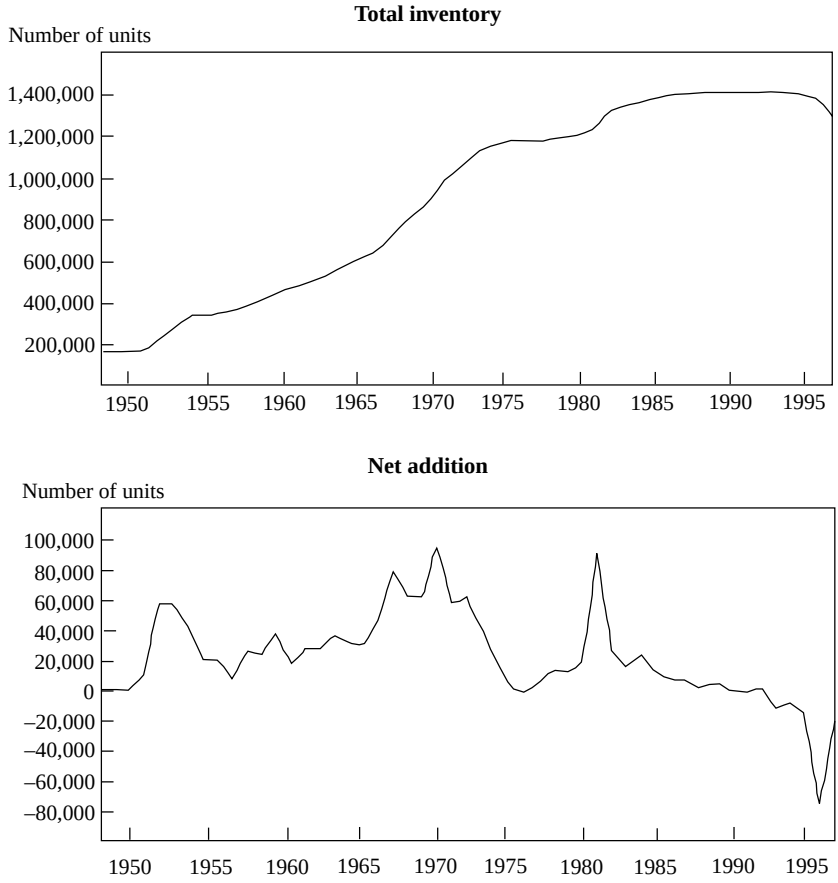
The Turnkey program enabled private developers to propose construction of additional public housing with a particular design and price tag at a specific location. Choosing among locations proposed by others proved to be less politically contentious for local housing authorities than proposing them on their own initiatives.

Figure 1 summarizes the course of the public housing program during the postwar period. The program began with a substantial financial commitment, which was quickly scaled back with the outbreak of the Korean War. By the late 1960s, the program had been restored to the level contemplated in the original act. From a total of 830,000 units under public management in 1970, the number increased to almost 1.2 million by 1980. During the past two decades the size of the public housing program has scarcely grown. In 1998, there were just under 1.3 million units in the public housing inventory, down from a high of 1.4 million units in 1991. Since the early 1970s, half or more of the units added to the public housing stock have come from the leasing of existing units rather than the construction of new public housing projects.

With the aging of the public housing stock came the increasing need for substantial expenditures for rehabilitation and modernization. From 1980 to 1992, funds for modernization were allocated to local authorities as conditional grants (under the Comprehensive Improvement Assistance program). Beginning in 1992, this program was supplemented by disbursements under a formula taking structural conditions and management into account (the Comprehensive Grant program).

The Housing and Community Development Act of 1992 also authorized HUD to set aside up to 20 percent of development funds for major reconstruction of obsolete public housing projects. This assistance also comes in the form of conditional grants (under the Major Reconstruction of Obsolete Projects program).

Figure 1. Summary of Public Housing Program, Fiscal Years 1949–98[a]



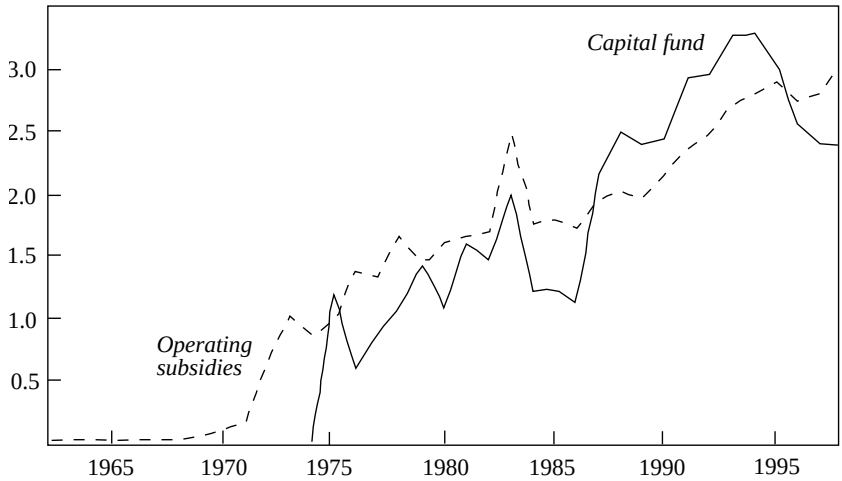
Sources: For FY1957–FY1998, U.S. Department of Housing and Urban Development, Office of Budget, "Annotated Tables for the 1998 Budget Process"; and Congressional Budget Office tabulations based on Congressional Justifications for the Department of Housing and Urban and Development. For FY1939–FY1956, National Association of Housing and Redevelopment Officials, *Housing and Community Development: A 50-Year Perspective.* (1985)

a. Units are number of subsidies outstanding at end of each fiscal year. FY1976 reflects subsidies outstanding at the end of the "transition quarter" (that is, September 30, 1976). Net additions for FY1998 are estimates only.

Since 1993, other HUD programs have provided grants and regulatory flexibility to local authorities to revitalize severely distressed public housing. For example, the HOPE VI program has funded planning, revitalization implementation, and demolition-only grants for public housing. Local authorities administer the program and can use these grants in conjunction with mod-

Figure 2. HUD Expenditures on Operating Subsidies and Capital Fund, Fiscal Years 1962–98[a]

Real expenditures (billions of 1997 dollars)



Source: U.S. Department of Housing and Urban Development, Office of Budget, "Annotated Tables for the 1998 Budget Process."
a. FY1976 includes outlays during the "transition quarter" from July 1, 1976, to September 30, 1976, annualized to reflect the experience of four quarters only.

ernization funds or other HUD funds. They can commingle these funds with municipal and state contributions, public and private. Figure 2 summarizes information about HUD funds expended on operating costs and the rehabilitation of public housing projects. HUD currently spends about $3 billion annually in operating subsidies and another $3 billion in rehabilitation (in 1997 dollars).

The most recent public housing programs are those encouraging private ownership of individual dwellings. Enacted as part of the Cranston-Gonzalez National Affordable Housing Act of 1990, the HOPE program provides funds that nonprofit organizations, resident groups, and other eligible grantees can use to develop and implement homeownership programs for the residents of public housing units.

The endgame of the public housing program is not a pleasant sight. In the new millennium no one would countenance the construction of high-density, overcapitalized buildings, which would concentrate the most deprived households in particular urban neighborhoods. Yet the overhang from a half century of public housing is a large stock of such buildings. Moreover, these buildings are deteriorating and many of them are functionally obsolete. There are

limits to the possibilities of converting this stock to mixed-use or home-ownership units, and the costs of rehabilitation are exorbitant.[7]

Yet it is worth emphasizing: this stock of public housing provides higher quality housing services to the lowest-income households than they could afford on the open market. At rents of 30 percent of household income, there is substantial excess demand by the poor for public housing.

Private Suppliers

The 1960s saw the first efforts to subsidize low-income housing units that were not owned by an agency of government. As noted above, the Section 23 leased-housing program of 1965 allowed local authorities to contract with private-sector owners for units of public housing to be managed by the public sector.

At about the same time, beginning in 1961, a series of programs was initiated that invited greater participation by nonprofit and limited-dividend corporations, and ultimately by private profit-maximizing landlords.

These programs, including those with such colorful names as BIMR Section 221(d)3, Section 235, and Section 236, were short-lived in some cases. Several contained perverse incentives that led to escalating expenses and invited waste and fraud. Here are two examples:

The Section 236 Rental Assistance Act originally provided subsidies equaling the difference between one-fourth of tenant incomes and the amortization of construction costs for new low-income housing over forty years at market interest rates. In a period of rising interest rates, amortization costs increase much more than proportionately with interest-rate increases. Thus the annual subsidy due under the Section 236 program could simply explode.

The Section 235 Homeowner Assistance program required participants to pay a fixed percentage of their incomes for home purchase regardless of the selling price of the house they purchased (as long as it was appraised within general guidelines). Thus buyers had no real incentive to negotiate for lower prices or better terms, and honest appraisers had incentives to report the high-

7. Despite HUD's annual expenditures of roughly $6 billion on operations and maintenance, it is estimated that more than a million units of public housing are in jeopardy due to depreciation and undermaintenance. Stuart Gabriel reports that about 15 percent of all public housing units are in need of renovations costing $20,000 or more; more than $15 billion would be required to put the public housing stock in an "acceptable" physical condition. HUD currently reports that a fifth of all publicly subsidized units are not in "good condition." See Schnare (1991); Gabriel (1996); U.S. Department of Housing and Urban Development (1999a).

est value that could be justified. Dishonest appraisers had strong incentives to collude with sellers and report even higher values.

Table 1 provides a summary of the major HUD housing programs developed during the period of the Great Society.[8] With the exception of Section 235 and Section 312, these programs involved federal subsidies paid to private entities for the construction of rental housing for occupancy by low-income renters. By 1975, about 400,000 dwellings were subsidized under Section 236, and another 165,000 were subsidized by the rent-supplement program (which augmented the rental payments of households living in designated newly constructed dwellings).

Despite many problems in subsidy design, the new programs of the 1960s were real innovations in the course of U.S. housing policy. For the first time, federal government provision of low-income housing relied on units supplied by the private as well as the public sector. The owners and managers of units under these programs were private entities who would reap some of the benefits of increased productive efficiency.

These programs also freed subsidized housing provision for low-income populations from the threat of veto by local governments. By removing the requirement of a locally sanctioned "workable program" for community involvement, these programs increased the potential for some dispersion of low-income populations among urban communities. The liberalization of the "workable program" requirement did not come until 1969, however, and the programs—below-interest mortgages (BIMR), homeownership (Section 235), rental assistance (Section 236), and rent supplements—floundered well before President Nixon announced a moratorium on new obligations under these programs in his State of the Union Address in January 1973.

Existing Housing

Section 8 of the Housing and Community Development Act of 1974 opened the way for greater participation by private entities in the provision of housing for the poor. The act proposed federal funds for the "new construction or substantial rehabilitation" of dwellings for occupancy by low-income households. This project-based assistance was a logical extension of the rental programs introduced in the 1960s. HUD entered into

8. The table reports little information about subsidies under the short-lived BIMR Section 221(d)3 program, passed in 1961 but effectively scuttled when government accountants ruled that the present value of the program had to be charged as a public expense in advance of the housing services provided over the life of the project.

Table 1. Summary of HUD Housing Assistance Programs, Fiscal Years 1967–98 (Excluding Section 8)[a]

	Total units			*Net addition*		
Fiscal year	*235*[b]	*236*	*Rent supplement*	*235*	*236*	*Rent supplement*
1967			930			1,801
1968			2,731	3,454		9,568
1969	3,454		12,299	62,200	5,437	18,505
1970	65,654	5,437	30,804	139,178	26,885	26,982
1971	204,832	32,322	57,786	139,531	66,377	34,284
1972	344,363	98,699	92,070	67,307	92,562	26,114
1973	411,670	191,261	118,184	7,235	102,570	29,663
1974	418,905	293,831	147,847	–9,990	106,529	17,479
1975	408,915	400,360	165,326	–78,131	46,766	9,013
1976[c]	330,784	447,126	174,339	–37,970	96,234	5,569
1977	292,814	543,360	179,908	–30,948	1,155	–8,310
1978	261,866	544,515	171,598	–26,679	–3,055	7,293
1979	235,187	541,460	178,891	–15,705	–3,175	–13,899
1980	219,482	538,285	164,992	21,057	–1,079	–7,213
1981	240,539	537,206	157,779	1,388	–675	–4,424
1982	241,927	536,531	153,355	–12,155	–3,062	–76,436
1983	229,772	533,469	76,919	–20,042	–2,734	–21,313
1984	209,730	530,735	55,606	–9,259	–2,757	–9,995
1985	200,471	527,978	45,611	–18,203	1,143	–11,235
1986	182,268	529,121	34,376	–22,889	–947	–10,889
1987	159,379	528,174	23,487	–11,493	0	–11
1988	147,886	528,174	23,476	–6,922	–174	–3,476
1989	140,964	528,000	20,000	–10,939	2,625	0
1990	130,025	530,625	20,000	–5,195	–2,510	0
1991	124,830	528,115	20,000	–27,286	–17,673	0
1992	97,544	510,442	20,000	–2,281	–337	–730
1993	95,263	510,105	19,270	–15,921	–5,139	–462
1994	79,342	504,966	18,808	–4,220	3,387	2,052
1995	75,122	508,353	20,860	–6,649	–3,048	0
1996	68,473	505,305	20,860	–7,663	–11,184	0
1997	60,810	494,121	20,860	–8,097	–17,670	0
1998	52,713	476,451	20,860	–9,189	–29,793	0

Sources: U.S. Department of Housing and Urban Development, Office of Budget, "Annotated Tables for the 1998 Budget Process"; Congressional Budget Office tabulations based on Congressional Justifications for the Department of Housing and Urban Development; U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Annual Report on National Housing Goals*, 1972, 1975.

a. Entries represent the number of subsidies outstanding at end of the fiscal year.

b. Section 235 includes subsidies under original, revised, and restructured programs. Under the original program, lower–income households contribute at least 20 percent of their adjusted monthly income toward mortgage payments, with federal assistance payments making up the balance. Subsidies are not to exceed the difference between required payments and payments on a 1 percent interest rate mortgage. New contract approvals under the original program were discontinued in 1973. However, a 1975 court order mandated that the unused balance of contract authority under the original program be obligated for new commitments. Thus the program resumed in FY1975 in a revised form. In the revised program, participants contribute 20 percent of their adjusted income toward mortgage payments in addition to a downpayment of 3 percent of the cost of acquisition for a newly constructed or substantially rehabilitated unit. The assistance payment is based on the difference between the FHA maximum interest rate and the subsidy floor at the time of insurance endorsement. The Housing and Urban–Rural Recovery Act of 1983 authorized a restructured Section 235 program based on a ten–year interest reduction subsidy. Under the program, homeowners are required to contribute 28 percent of adjusted monthly income toward mortgage payments. Payments are based on the difference between the FHA maximum interest rate and the subsidy floor at the time of insurance endorsement.

c. FY1976 entry represents subsidies outstanding at the end of the "transition quarter" on September 30, 1976.

housing-assistance payments contracts for up to forty years with private suppliers, guaranteeing a stream of rental payments for the dwellings. Income-eligible households paid 25 percent of their incomes in rent (the portion is now 30 percent), and the difference between tenant payments and the contractual rate was made up by direct federal payments. Landlords received a reliable source of payment at an agreed-upon rule. (For newly constructed or rehabilitated units, agreements about the rental stream included provisions for its escalation during the contract period.) Moreover, landlords were able to shift the cost and risk of vacancies to the government. This program continued the advantages of the 1960s programs over the traditional public housing program. Section 8 involved private enterprise—nonprofit organizations and syndicates but also for-profit firms—in the building and management of low-income housing, and the program reduced the historical incentives for concentration of the poor in large projects.

In addition, a crucial modification to housing policy was introduced in Section 8: the restriction that subsidies be paid only to owners of new or rehabilitated dwellings was removed. An equally important modification permitted payments to landlords on behalf of a specific tenant rather than by a long-term contract with the landlord. Through these modifications, the project-based assistance program authorized under Section 8 came to be dominated by the tenant-based assistance program authorized under the same section. Under the tenant-based subsidies, HUD enters into an annual contributions contract with local authorities for program administration. Local authorities ensure that the low-income households assisted by Section 8 are income-eligible and that the housing units selected by assisted households meet minimum quality standards. Households receiving tenant-based assistance use the resources provided by HUD's annual contribution to lease dwellings from landlords of their choice (as long as the dwelling selected meets HUD standards and the owner agrees to participate in the program). Landlords receive HUD's currently published fair market rent (FMR) for the unit (FMRs are calculated by survey to be the fortieth percentile of the rent distribution).

The Housing Act of 1974 also set comprehensive income limits on eligibility for housing assistance across all federal programs. These limits were set at 80 percent of area median income. (This made almost 40 percent of the entire U.S. population eligible for assistance.) Other factors, however, made the effective targeting of public assistance somewhat narrower, with the low-

est-income households residing in public housing and those with somewhat more resources residing in other programs.[9]

The targeting of federal housing assistance was again strengthened in the 1981 Omnibus Budget Reconciliation Act, which established eligibility for those entering federal housing programs at 50 percent of area median income, subject to a variety of exceptions.

Figure 3 summarizes the new units supplied by project-based assistance under Section 8 as well as the number of households assisted by the tenant-based demand-side program. As the table indicates, during the first few years of the program, the number of project-based subsidies (that is, units provided in newly constructed or rehabilitated dwellings) was about the same as the number of tenant-based subsidies (that is, the number of certificates outstanding). During the early 1980s, there was increased emphasis on new construction. By 1990 this had been completely reversed. There are now about 1.6 million households subsidized through Section 8 vouchers and certificates, while 1.4 million households are subsidized through the project-based program.

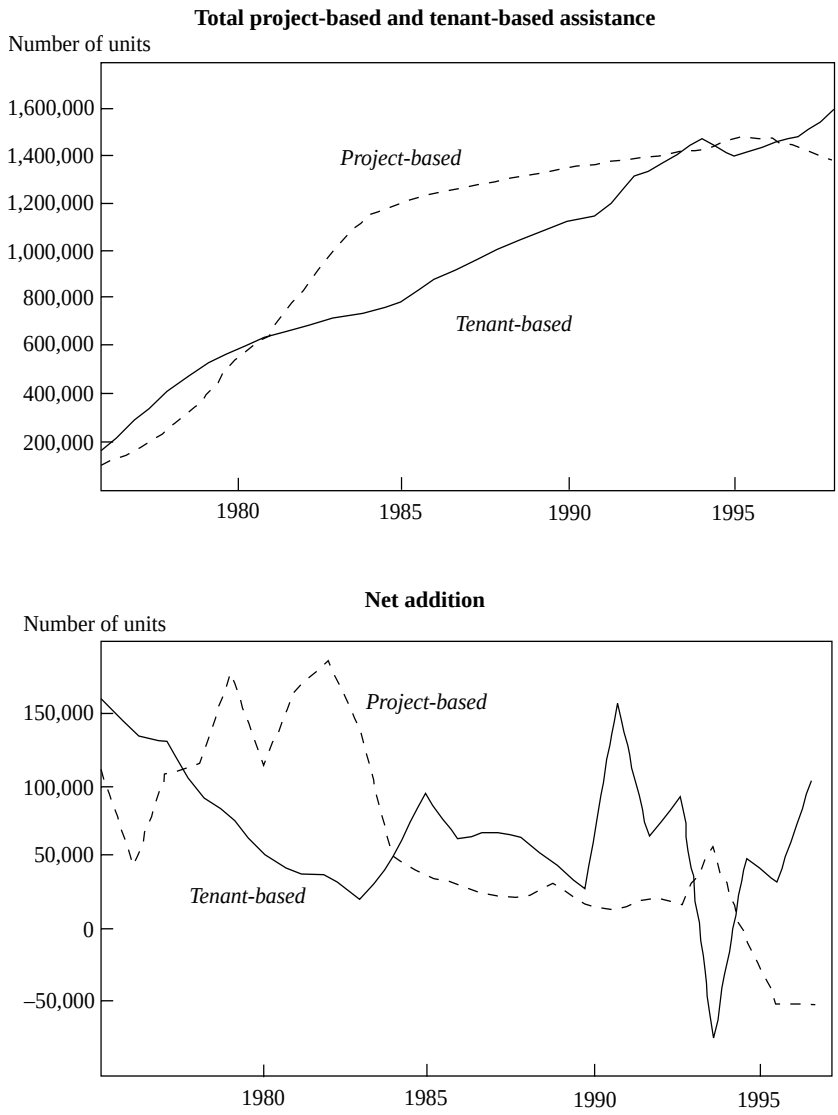
Note that the certificate program suffers from the same incentive problem as the Section 235 Homeowner Assistance program. Since the recipient pays a constant amount toward housing, and since the recipient is far better off with the certificate than searching for unsubsidized housing on the private market, he or she has little incentive to bargain for a lower price as long as the unit rents below FMR.

These incentives were changed by the more flexible "voucher" program introduced in 1987. Under this program, households in possession of a voucher may choose to pay more than the fair market rent computed by HUD for a particular dwelling, making up the difference themselves; they may also pocket the difference if they can rent a HUD-approved dwelling for less than the FMR.

In 1998, legislation made vouchers and certificates "portable," thereby increasing household choice and facilitating movement to other regions where employment opportunities may be greater. Also in 1998, the voucher and certificate programs were essentially merged; local authorities were permitted to vary their payment standards from 90 to 110 percent of FMR. The 1998

9. Indeed, several observers have cited the geographic isolation and unpleasant surroundings of public housing as factors "helping" to target assistance by discouraging all but the most desperate households from applying for assistance under the program. See Nelson and Khadduri (1992); Mayer (1995).

Figure 3. Summary of Section 8 Housing Assistance, Fiscal Years 1976–98[a]



Source: Congressional Budget Office tabulations based on Congressional Justifications for the Department of Housing and Urban Development and on unpublished data.

a. Entries represent number of units eligible for HUD-assisted housing payments at end of fiscal year. FY1976 entry represents subsidies outstanding at the end of the "transition quarter" on September 30, 1976. Totals include Section 236 units also receiving Section 8 subsidies.

changes (in the Quality Housing and Work Responsibility Act) also sharpened the targeting of housing assistance. Three-quarters of all new vouchers had to be issued to those whose incomes are below 30 percent of local median incomes. All new vouchers were to go to recipients with incomes below 80 percent of the median income of the area.

With the unwillingness to appropriate new funding for public housing or for new construction under Section 8, additions to the stock of subsidized housing must rely almost entirely on used dwellings.[10] The cost advantage in producing low-income housing from the existing stock rather than by new construction is enormous. (This is something private suppliers of low-income housing have always known.)

Table 2 reports trends in new commitments by the federal government for rental assistance (across all programs) through new construction and through the existing stock of housing. Two trends are apparent in this summary. First, the distribution of newly subsidized units between newly constructed units and existing dwellings has changed markedly. In 1977, 66 percent of the newly subsidized units were newly constructed. By 1997, 72 percent of new federal commitments were made to existing dwellings. Second, the net number of new federal commitments for housing has plummeted. During 1977–79, the number of new commitments averaged 350,000 a year. During 1995–97, the number of new commitments averaged 48,500—a decline of 86 percent.

One way to illustrate the downward trend in incremental housing subsidies is to compare HUD's outlays and budget authority. Figure 4 presents trends in outlays and budget authority, in real terms, during the past two decades. Current outlays (that is, checks written on the U.S. Treasury in any year to subsidize tenants) are incurred as a result of budget authority previously or contemporaneously granted. Thus the sharp downward trend in budget authority is a reduction in the stock of funds that can be used to subsidize households in the future.[11]

The legacy of previous program commitments, of course, means that the current mix of housing subsidies includes a larger fraction of dwellings that were originally constructed for occupancy by subsidized low-income households. Table 3 reports these trends. During the last two decades, subsidized

10. The principal programmatic exception, the Low Income Housing Tax Credit (LIHTC), is discussed below.

11. This is subject to qualification; the accounting issues are somewhat more arcane but do not affect the point of the comparison. See U.S. Congressional Budget Office (1994) for a detailed discussion.

Table 2. Net New Commitments Appropriated for Rental Assistance for All HUD Programs, Fiscal Years 1977–97[a]
Numbers of units

Fiscal year	*New construction*	*Existing housing*	*Total*
1977	247,667	127,581	375,248
1978	214,503	126,472	340,975
1979	231,156	102,669	333,825
1980	155,001	58,402	213,403
1981	94,914	83,520	178,434
1982	48,157	37,818	85,975
1983	23,861	54,071	77,932
1984	36,719	78,648	115,367
1985	42,667	85,741	128,408
1986	34,375	85,476	119,851
1987	37,247	72,788	110,035
1988	36,456	65,295	101,751
1989	30,049	68,858	98,907
1990	23,491	61,309	84,800
1991	28,478	55,900	84,378
1992	38,324	62,595	100,919
1993	34,065	50,593	84,658
1994	29,194	66,907	96,101
1995	19,440	25,822	45,262
1996	16,259	33,696	49,955
1997[b]	14,027	36,134	50,161

Source: U.S. House of Representatives Committee on Ways and Means, *Green Book 1998*; table 15-25. U.S. Department of Housing and Urban Development; and Farmers' Home Administration.

a. Net new commitments for renters represent net additions to the available pool of rental aid and are defined as the total number of commitments for which new funds are appropriated in any year. To avoid double-counting, these numbers are adjusted for the number of commitments for which such funds are deobligated or canceled that year (except where noted otherwise); the number of commitments for units converted from one type of assistance to another; in the FmHA section 515 program, the number of units that receive more than one subsidy; starting in 1985, the number of commitments specifically designed to replace those lost because private owners of assisted housing opt out of the programs or because public housing units are demolished; and, starting in 1989, the number of commitments for units whose Section 8 contracts expire.

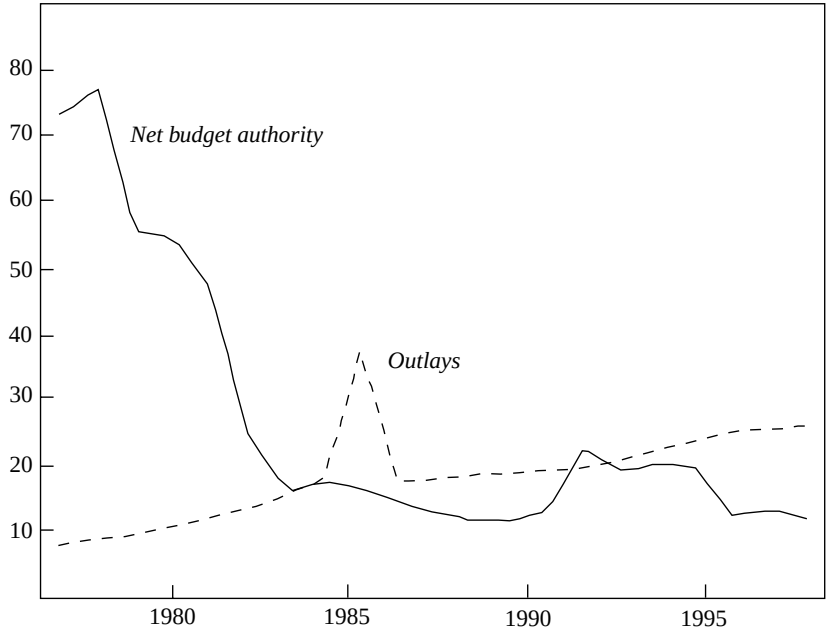
b. Figures for FY1997 are estimates only.

units involving existing housing have increased almost tenfold, from 268,000 to 2.05 million. Subsidized units involving new construction have increased from 1.825 million to 3.3 million. By 1997, 40 percent of the dwellings subsidized by HUD for low-income renters made use of the existing stock of housing. Sixty percent involved new construction at the time of their initial occupancy.

The construction of new housing for low-income households has simply atrophied since the early 1980s, when the federal government curtailed the expansion of conventional public housing and new construction under Section 8. During this period, state and local governments continued several subsidy programs that relied on federal tax expenditures. State housing finance

Figure 4. Outlays and Net Budget Authority for All Housing Aid Administered by HUD, Fiscal Years 1977–97[a]

Billions of 1997 dollars



Source: U.S. House of Representatives Committee on Ways and Means, *Green Book 1998*; tables 15-27, 28, and 29.

a. All figures are net of funding rescissions, exclude reappropriations of funds, but include supplemental appropriations. Totals include funds appropriated for various public housing programs, including modernization of operating subsidies, drug elimination, and severely distressed public housing. Excludes budget authority for HUD's Section 202 loan fund and for programs administered by FmHA. Appropriations include $99 million, $1,164 million, $8,814 million, $7,585 million, $6,926 million, $5,202 million, $2,197 million, $4,008 million, and $3,550 million for renewing expiring section 8 contracts in 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, and 1997 respectively. The bulge in outlays in 1985 is caused by a change in the method of financing public housing, which generated close to $14 billion in one-time expenditures. This amount paid off—all at once— the capital cost of public housing construction and modernization activities undertaken between 1974 and 1985, which otherwise would have been paid off over periods of up to forty years. Because of this one-time expenditure, however, outlays for public housing since that time have been lower than they would have been otherwise. Without this change, outlays per unit would have amounted to around $2,860. Figures have been adjusted to account for $1.2 billion of advance spending that occurred in 1995 but that should have occurred in 1996. FY1997 figures are estimates. FY1976 includes outlays during the "transition quarter" from July 1, 1976, to September 30, 1976, annualized to reflect the experience of four quarters only.

agencies, and in many cases local governments as well, issued tax-exempt bonds and used the proceeds for housing subsidies. These programs (and a variety of other private-purpose bond programs) were severely curtailed by the Tax Reform Act of 1986. As indicated previously, other provisions of TRA86 made investment in rental housing less profitable. TRA86 replaced these provisions, as well as the unlimited right of states to issue tax-exempt debt for housing subsidies, with a flat per capita tax credit for new low-income housing allocated to each state. These credits are administered by state agen-

Table 3. Renter Households Receiving HUD Housing Assistance by Type of Subsidy, Fiscal Years 1977–97[a]
Thousands of households

Fiscal year	Existing housing: Household-based	Existing housing: Project-based	Existing housing: Total	New construction	Total assisted renters[b]
1977	162	105	268	1,825	2,092
1978	297	126	423	1,977	2,400
1979	427	175	602	2,052	2,654
1980	521	185	707	2,189	2,895
1981	599	221	820	2,379	3,012
1982	651	194	844	2,559	3,210
1983	691	265	955	2,702	3,443
1984	728	357	1,086	2,836	3,700
1985	749	431	1,180	2,931	3,887
1986	797	456	1,253	2,986	3,998
1987	893	473	1,366	3,047	4,175
1988	956	490	1,446	3,085	4,296
1989	1,025	509	1,534	3,117	4,402
1990	1,090	527	1,616	3,141	4,515
1991	1,137	540	1,678	3,180	4,613
1992	1,166	554	1,721	3,204	4,680
1993	1,326	574	1,900	3,196	4,851
1994	1,392	593	1,985	3,213	4,962
1995	1,487	595	2,081	3,242	5,087
1996	1,413	608	2,021	3,293	5,079
1997[c]	1,465	586	2,051	3,305	5,120

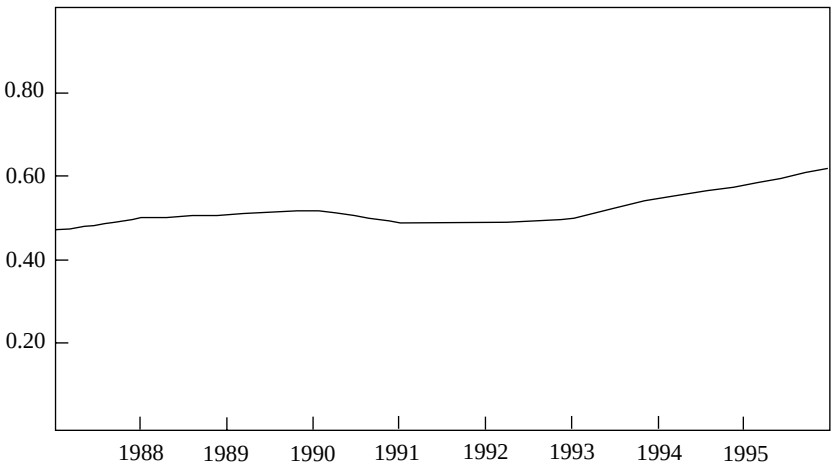
Source: U.S. House of Representatives Committee on Ways and Means, *Green Book 1998*, table 15-26.
a. Data are for beginning of fiscal year.
b. Figures for total assisted renters have been adjusted since 1980 to avoid double-counting households receiving more than one subsidy.
c. FY1997 figures are estimates only.

cies (typically state housing finance agencies), which distribute credits among projects proposed by developers. Project eligibility requires that the rents charged for subsidized dwellings be no more than 30 percent of the incomes of households at 60 percent of local median income.[12]

These Low Income Housing Tax Credits (LIHTC) are used by developers in partnership with individuals and firms willing to invest capital in low-income housing in return for federal credits. Some of the investor capital is applied to "syndication costs," those costs required to make the business connection between investors and developers. The competitive returns required by investors are higher than treasury borrowing rates (since there is always some danger that a given project will fail, or that it will fail to qualify for tax credits).

12. See Wallace (1995).

Figure 5. Economic Efficiency of the Low-Income Housing Tax Credit, Fiscal Years 1987–96



Source: Cummings and DiPasquale (1998, p. 46).

So in present-value terms, the tax credits represent more in lost federal revenue than an equivalent investment in housing through direct federal government appropriations. Estimates by Michael Stegman after the first few years of LIHTC experience suggested that the increased housing investment generated by the tax credit was only about half of its cost to the federal treasury.[13]

Recent research by Jean L. Cummings and Denise DiPasquale provides a somewhat more optimistic assessment.[14] Cummings and DiPasquale evaluated some 2,500 projects funded by the LIHTC during its first decade, confirming Stegman's estimates for the early years but also indicating an upward trend in the value of housing output per dollar of tax credit expended. Figure 5 reports their results, suggesting that the market for these credits has become far more competitive during the past decade. Still, in 1996, the evidence showed that a dollar of federal subsidy produced only about 62 cents in housing output.[15] The economic efficiency of the LIHTC is roughly the same as the public housing program.

13. Stegman (1991).

14. Cummings and DiPasquale (1998).

15. The figures reported by Cummings and DiPasquale represent the value of housing produced divided by the sum of the stream of tax credits incurred, rather than the present value of the stream. Thus they represent a slight underestimate of program efficiency. See Cummings and DiPasquale (1999).

The Low Income Housing Tax Credit appears to be a small program. The aggregate tax credit was set at $1.25 per capita each year and has been unchanged since the program was established in 1986. But each dollar of the tax credit represents a ten-year commitment of tax expenditures. This means that the annual cost of the program to the Treasury is about $3 billion.

Summary

During the period since the explicit recognition of the goal of a "decent home" for all Americans, four important economic trends have emerged in housing subsidy programs. First, the locus of subsidy has changed from the dwelling unit to the household occupying the dwelling unit. Second, the type of property subsidized has changed from newly constructed dwellings to used dwellings that were originally constructed for higher-income households. Third, the ownership of subsidized dwellings has changed from agencies of the government to private nonprofit agencies, and increasingly to for-profit landlords. Fourth, there has been a downsizing of the relative commitment to housing programs in comparison to other objects of federal government expenditure.

During the 1970s, the Experimental Housing Allowance Program (EHAP), still the most expensive social experiment in history, provided subsidies based on a formula analogous to the current Section 8 rent subsidy rule. These subsidies were offered to all low-income households in two medium-sized metropolitan areas: Green Bay, Wisconsin, and South Bend, Indiana. EHAP also provided subsidies to a small number of households in Phoenix and Pittsburgh through a variety of more complicated formulas. These were intended to elicit the housing demands of low-income renters. The central findings of the experiments were that, first, income transfers and housing price reductions had modest but inelastic effects on the housing consumption of low-income households,[16] and second, marketwide subsidy programs had no perceptible effects on the price of housing suitable for low-income households.[17]

Almost two decades later, it appears that U.S. housing subsidies have grown to resemble more closely the modal experimental program evaluated by EHAP. Eligible households are offered the difference between the market price of "just standard" housing and 30 percent of income. To qualify, recipients must live in dwellings that pass a minimum standard. The one significant difference between the experimental housing allowance program as evaluated in the early 1980s and current policy is the extent of coverage. Under current

16. Hanushek and Quigley (1981).
17. Bradbury and Downs (1981).

Table 4. Summary of Renter Households and Housing Market Needs, Fiscal Years 1973–97[a]
Thousands

Fiscal year	*Renter households*	*Households in severely inadequate housing*	*Households paying 30–50% income*	*Households paying >50% income*	*Households in poverty*	*Total subsidized renters[b]*
1973	24,425			n.a.	4,828	1,356
1974	24,943			n.a.	4,922	1,551
1975	25,462	2,832	4,099	n.a.	5,450	1,717
1976	25,897	2,886	4,359	n.a.	5,311	2,067
1977	26,324	2,840	4,655	n.a.	5,311	2,092
1978	26,810	1,677	4,765	3,661	5,280	2,400
1979	27,174	2,621	4,790	4,620	5,461	2,654
1980	27,415	2,589	4,961	4,935	6,217	2,895
1981	28,709	2,882	5,399	5,455	6,851	3,012
1983	29,894	1,617	5,661	5,481	7,647	3,443
1985	31,736	1,108	6,739	6,128	7,223	3,887
1987	33,320	859	7,675	6,991	7,005	4,175
1989	33,734	1,587	6,983	5,187	6,784	4,402
1991	34,242	1,347	6,938	5,426	7,712	4,613
1993	35,184	910	7,163	5,948	8,393	4,851
1995	35,246	849	7,385	6,187	7,532	5,087
1997	35,059	1,072	7,264	7,359	7,324	5,120

Sources: U.S. Department of Housing and Urban Development, Office of Budget, "Annotated Tables for the 1998 Budget Process"; Congressional Budget Office tabulations based on Congressional Justifications for the Department of Housing and Urban Development; U.S. Department of Housing and Urban Development, Office of Policy Development and Research, tabulations of American Housing Surveys; American Housing Survey, Series H-150, various years; Housing Vacancy Survey, Series H-111, various years; March Current Population Survey, various years; U.S. General Accounting Office, Changes in Rent Burdens and Housing Conditions of Lower Income Households (Government Printing Office, 1985).

a. Prior to 1978, the American Housing Survey (AHS) did not report rent-to-income ratios beyond the 35+ percent category. Data on rent burdens and inadequate housing units prior to 1981 are taken from GAO (1985) and represent only households with less than 80 percent of median area incomes. AHS survey design and definitions of severe and moderate problems changed in 1985 so caution should be used in interpreting trends. Subsidized households include those in Public Housing, Section 8, Section 236, and Rent Supplement programs.

b. Number of subsidized households after FY 1980 reflects subtraction of units receiving more than one subsidy (that is, Section 236 projects that also receive either Rent Supplement or Section 8 subsidies).

housing policy, subsidies are given to only a fraction of qualifying households, and housing subsidies are rationed by queues.[18] For example, as reported in table 4, in 1997 there were about 7.3 million poverty households among the 35.1 million renter households in the United States. About 14.6 million households paid in excess of 30 percent of their incomes for rent, and about 7.4 million paid more than half of their incomes for rent. At the same time, about 5.1 million renter households received assistance under HUD programs. About 10 to 15 percent of the assisted households were not poor.

18. The effectiveness of the allocation of certificates and vouchers among metropolitan areas has recently been criticized by Scott Susin (1999), who argues that rents for low-income housing have risen more rapidly in cities with larger allocations of certificates.

In 1978 there were about 3.7 million renter households spending more than half of their incomes on rent. This was 1.5 times the number of subsidized rental households. In 1997 there were 7.4 million renter households paying more than half of their incomes on rent, about 1.4 times the number of subsidized rental households. In 1978 there were 2.2 households in poverty for each subsidized renter household; by 1997 there were 1.4 poor households for each subsidized renter household.

The limiting factor in improving the housing condition of most poor households is the federal budget devoted to existing programs. The economic effects of these programs are fairly well known and their costs can be fairly well calculated. There now seems to be consensus among professional economists and housing policy officials that a flexible shelter allowance program should be the backbone of housing assistance programs. This consensus was not achieved quickly. And, to be sure, the consensus does not yet extend to powerful congressional constituencies.

Finally, as indicated in table 4, deficiencies in the physical adequacy of rental accommodations have declined quite substantially, even in recent years. In 1978, it was estimated that 1.68 million renters, more than 6 percent of rental households, lived in severely inadequate housing. By 1995, the estimate was less than 850,000 households. Less than 2.5 percent of U.S. renters resided in severely inadequate housing (as conventionally measured by the U.S. Census Bureau). Increasingly, housing problems are those of rent burdens, not physical condition. Problems of rent burden are best addressed by the transfer of resources to those so burdened.

Urban Development and Intergovernmental Fiscal Relations

As with housing programs, it is possible to distinguish four historical phases in postwar federal policies and programs for urban development, although the timing of these phases is less distinct. These phases are distinguished by the objectives of federal programs, the economic incentives provided to lower levels of government, the overall level of financial commitment, and the flexibility provided to localities. These four phases are the period of slum clearance (1949–62), the Great Society (1962–70), the New Federalism (1970–90), and the New Flexibility (1990 forward).

Slum Clearance

The ambitious program of housing investment contained in the 1949 Housing Act included the template for a federal-local partnership for urban

development—later termed *urban renewal*—and successively expanded in scope through the 1950s and 1960s. "Urban development" as envisioned in the 1949 act was quite clearly directed toward housing rather than some broader definition of development. The act authorized financial assistance from the federal government to a local agency for a "project," consisting of site assembly, clearance, site preparation, and final disposition for uses specified in an approved redevelopment plan. A "project" was defined to include an area that was "predominantly residential" either before or after redevelopment, and the project could not include construction or improvements of nonresidential buildings. The basic program was one of *slum clearance,* in which the federal government paid two-thirds of the net project costs as a matching grant to the local government. Indeed, the 1949 Act *required* the removal of one unit of slum housing for each unit of public housing constructed.

The slum-clearance aspects of the conditional matching grant program were weakened slightly when the name *urban renewal* was adopted in the 1954 version of housing act. The 1954 revision permitted 10 percent of federal capital grants to be used for nonresidential projects. However, these projects were eligible only if they contained substantial numbers of deteriorated dwellings or if the projects removed other substandard living conditions. By 1959 this exception had grown to 20 percent, and the requirement that a project area contain a substantial number of substandard dwellings was abandoned. It was not until 1969 that the act stipulated that a federally financed urban renewal project *could not* reduce the supply of low-income housing. During much of the heyday of urban renewal, it operated, by design, to remove units of low-cost housing from the inventory.

The inherent contradictions in programs aimed at destroying low-income housing and replacing it with housing that the previous residents could not afford were not well understood, at least initially. Ashley Foard and Hilbert Fefferman attribute the "predominantly residential" requirement in urban renewal legislation to the dominance of physical planners rather than social scientists among the early advocates of urban policy.[19]

By the early 1960s, it was clear that these urban investments would not be sufficient to attract back to the central city the white middle-class households that had been suburbanizing at a rapid rate during the postwar period. By this time, there was also fairly coherent theory suggesting that attracting large num-

19. Foard and Fefferman (1966).

bers of suburban households back to the city was infeasible without large and recurrent subsidies.[20]

The Great Society

The first of the Great Society antipoverty programs, the Economic Opportunity Act (EOA) of 1964, included the Urban and Rural Community Action program (Title II) among a broad panoply of new initiatives.[21] With the establishment of the Department of Housing and Urban Development a year later, the concept of community action was expanded to the Model Cities program. As originally envisioned, a half dozen large urban centers would be chosen for intensive investment of public resources.[22] A task force appointed by President Johnson increased the demonstration tenfold to sixty-six cities. By the time legislation passed Congress (the Demonstration Cities and Metropolitan Development Act of 1966), a total of 150 cities had been chosen for the Model Cities program.

Cities chose to participate in the program through their elected officials, who promised that citizen participation would be widespread, that renewal projects would be comprehensive, and that coordination of public and private resources would be enforced. HUD committed funds for planning and subsequently for implementation in each city. HUD maintained overall supervision of the federal commitment to testing "whether we have the capacity to understand the causes of human and physical blight [and] the skills and the commitment to restore quality to older neighborhoods."[23] The model cities program survived for less than two and a half years before the newly elected president, Richard Nixon, began to dismantle it.

Although the ambitious urban development programs of the Johnson administration did not survive long enough to produce results that could be evaluated, the programs begun under the Great Society changed the nature of federal-local fiscal relations in a fundamental way. The 1960s witnessed a substantial reorientation of the system of fiscal federalism in the United States. Intergovernmental transfers and federal grants to state and local governments increased substantially. As figure 6 indicates, between 1960 and 1969 federal grants to lower levels of government more than doubled, increasing from

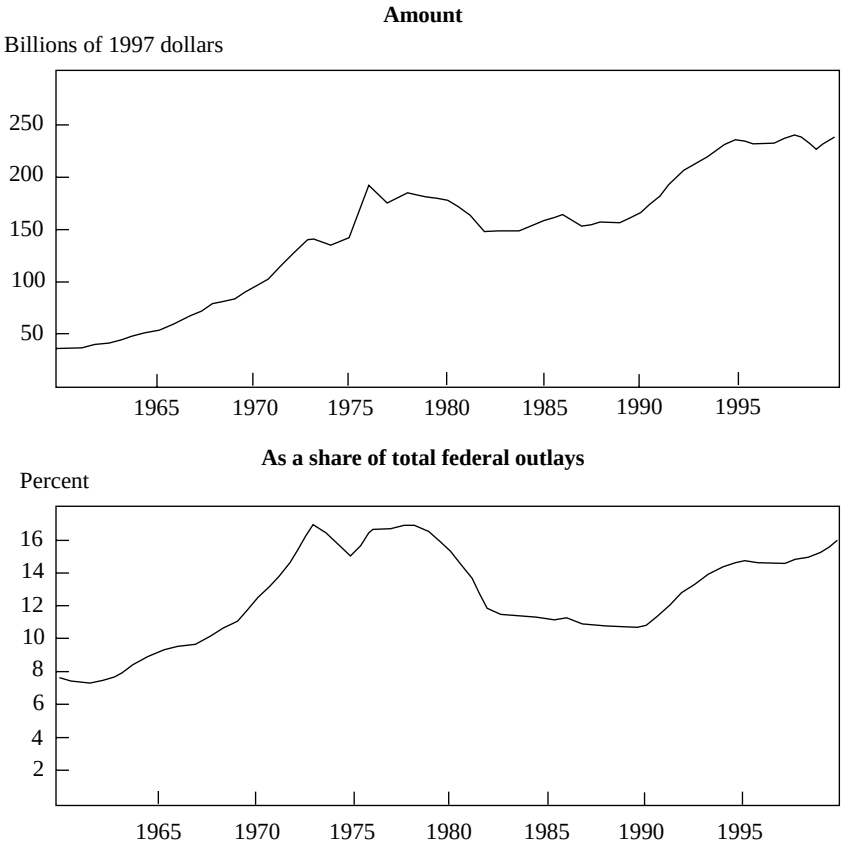
20. Alonso (1964).

21. The EOA Act included, for example, titles fostering small-business development, adult education, VISTA (the domestic Peace Corps), and, inevitably, a Rural Action program.

22. Haar (1975).

23. U.S. Department of Housing and Urban Development (1966, p. ii).

Figure 6. Federal Outlays for Grants to State and Local Governments, Fiscal Years 1960–2000[a]



Source: U.S. Office of Management and Budget, "FY2000 Historical Tables," table 12.1.
a. FY1976 includes outlays during the "transition quarter" from July 1, 1976, to September 30, 1976, annualized to reflect the experience of four quarters only.

$35.0 billion to $82.1 billion (in 1997 dollars). The expansion of federal grants continued apace until the "new federalism" initiatives of the Nixon administration were adopted in 1974. Between 1960 and 1974 intergovernmental grants increased from 7.6 percent of federal government outlays to 17 percent of federal outlays—while at the same time the Vietnam War was consuming major federal resources. During the period of "creative federalism" of the Johnson administration, the number of grant programs to local governments increased enormously. A total of 240 new categorical programs were enacted,

including 109 separate grant programs in 1965 alone.[24] During this period, grant programs for urban development were created that bypassed state governments and local officials and established direct fiscal contact with community and neighborhood groups. For example, the EOA encouraged the formation of 850 community-action organizations to promote maximum feasible citizen input in deciding on expenditures for urban development and housing rehabilitation.

The explosion in the system of grants was predicated on three arguments. First, it was suggested that the objects of many expenditures by lower-level governments, particularly in metropolitan areas, have substantial spillovers. These expenditures may include transportation, environmental protection, and even expenditures on local schools.[25] A system of grants to urban governments thus had efficiency-enhancing motives.

Second, it was argued that vertical fiscal imbalance was more or less chronic in the U.S. federal system. A generally progressive federal tax system contrasts with the more regressive structure of state and local taxes, while the intrametropolitan mobility of taxpayers depresses the tax rates that can be imposed by urban governments. A program transferring federally raised revenue to city governments is one solution to the imbalance.[26]

Third, existing fiscal disparities among urban governments meant that wealthy communities were able to buy high-quality public services at low tax rates. Thus one object of equity was a reduction in the variation in the tax price required to produce a given quality of public services. (Models of this process were produced by Richard Musgrave as early as 1961; the *Serrano-Priest* school finance lawsuit, directly on this point, was filed in 1968.)[27] George Break claimed that "one of the strongest forces behind the rapid growth in intergovernmental grants" in the 1960s was simply the desire to assist low-income groups, expounding the proposition that a variety of local government programs should be thought of as merit goods, particularly those serving low-income groups.[28]

24. U.S. Department of the Treasury (1985, p. xxi).

25. George Break (1980) reviews many of the spillover arguments put forward in the 1960s by proponents of an expanded system of grants.

26. Heller and Pechman (1967).

27. Musgrave (1961).

28. Break (1980), p. 86.

The New Federalism

After the election of Richard Nixon in 1968, the grant program, which had expanded so rapidly during the previous eight years, was increasingly called into question. The explicit and implicit incentives of categorical grants, seemingly capricious restrictions on the uses of grant funds, and the set of regulations governing federal grants were increasingly thought to have affected the behavior of recipients in arbitrary ways.

For example, the theory of fiscal federalism that had been developing over this period showed that matching grants from higher levels of government to lower levels were sufficient to internalize interjurisdictional spillovers in service provision in urban areas.[29] But, of course, the efficiency gains of these grants were dependent on the informed choice of a matching rate that correctly calibrated the spillovers of benefits associated with local spending. On this there was little evidence. There was even less evidence that the congressional sponsors of legislation (or their staffs) considered these issues in their choice of matching rates. Examples arose in which the same local expenditure on urban development could be justified under several grant programs at different matching rates.

The availability of categorical grants for some functions but not for others is premised on the theory that the federal government transfers resources in pursuit of its own national objectives. These objectives were questioned by many who also observed that local decisionmakers have better information about local costs and efficient production than federal grantors. Increasingly, a system of grants for some narrow and specific functions but not for others was questioned, as were federal preferences for capital spending rather than program operations.[30] Finally, the administrative difficulties in processing grant applications from nearly 40,000 units of general-purpose government were thought to encourage waste at the federal level and inordinate local attention to "grantsmanship."

The proposed solution to these inefficiencies was the program of General Revenue Sharing embedded in the State and Local Fiscal Assistance Act of 1972, followed soon after by the Community Development Block Grant pro-

29. See Oates (1972) for the definitive statement.

30. In much the same way as the original public housing program was criticized for encouraging the use of too much capital, so too were federal programs supporting mass transit criticized for encouraging overcapitalization of the transportation sector. The budgetary rationale for these capital subsidy programs was the same as that implicit in housing programs. Operating subsidies opened the way to increased federal liability in a way that capital subsidies did not.

gram (CDBG), Title I of the Housing Act of 1974. Like revenue sharing, CDBG grants were transfers of fixed resources to eligible jurisdictions (cities and suburbs with 50,000 or more people, and all urban counties) where the level of the transfer was determined by a congressional formula.[31] Recipient governments retained a high degree of discretion over the disposition of CDBG funds.

As enacted, the CDBG program replaced eight Great Society categorical programs that had been funded on a competitive basis, including the urban renewal and model cities programs; the open space, historic preservation, and urban beautification programs; and water and sewage treatment grants.

The CDBG funds are intended to foster "viable urban communities, by providing decent housing and suitable living environments and expanding economic opportunities principally for persons of low and moderate income."[32] Appropriated funds are intended to be used on local projects in which "maximum feasible priority" is given to the "benefit of low- and moderate-income families or in the prevention or elimination of slums or blight."

The program is thus the lineal descendant of the urban renewal program originally authorized in the 1949 Housing Act. However, the 1974 program differed enormously from the original urban renewal program in the discretion afforded recipient governments in planning their own expenditures.[33]

The CDBG program began with appropriations of $2.5 billion (in 1975 dollars), which increased steadily during the Ford and Carter administrations. (See table 5 and appendix table A-1.) In large part, these expenditures were financed by reductions in other federal grant programs. As reported in figure 6, aggregate grants in aid to state and local governments were declining during the mid- and late 1970s, in real terms. As a fraction of federal outlays, grant programs plummeted.

In any event, increases in funding for the CDBG program itself came to an abrupt halt with the inauguration of Ronald Reagan. During the Reagan administration, real expenditures on Community Development Block Grants declined

31. Some thirty percent of CDBG funds are distributed to smaller rural jurisdictions on a competitive basis, not by formula.

32. Connerly and Liou (1998), p. 64.

33. While retaining much local discretion, entitlement jurisdictions were required to make formal application for CDBG funds, justifying their proposed budgets until 1981. The Ford and Carter administrations differed somewhat in their interpretations of the congressional mandate. The former was more sympathetic to the expenditure of CDBG funds by local governments to protect their middle-class tax bases. See Peterson and others (1986, pp. 87–93). The latter increased HUD monitoring and oversight in attempts to target benefits to low- and moderate-income households.

Table 5. Average Annual Growth in Community Development Block Grant Appropriations

Administration	*Years*	*Average real growth (percent)*
Ford	1975–77	4.1
Carter	1977–81	5.1
Reagan	1981–89	–6.5
Bush	1989–92	0.6

Source: Urban Institute, *Federal Funds, Local Choices* (Washington, November, 1994), pp. 2–4.

by more than 6.5 percent per year (and the Revenue Sharing program was eliminated altogether in 1985). CDBG funding remained stable during the Bush administration and has recently increased slightly. Urban development activities that are routinely funded by CDBGs include the acquisition and disposition of real property; the rehabilitation of residential and nonresidential structures; social service delivery systems; public works projects; and assistance to private businesses. Charles E. Connerly and Y. Thomas Liou report that the distribution of CDBG allocations across entitlement communities has stabilized, with about 40 percent of transfers spent by local governments for housing and housing rehabilitation.[34] The fraction spent on public works projects has declined to about 20 percent, while economic development and public services consume, respectively, about 13 percent and 10 percent of available funding. Evaluations by the Urban Institute suggest that the fraction of funds devoted to housing is somewhat larger. Statistical analyses of the funding choices made by grant recipients suggest that older central cities with larger populations and those with higher levels of urban "distress" spend considerably more of their urban development funds on housing and housing rehabilitation.[35] It is also reported that the geographic targeting of expenditures has declined over time, within recipient jurisdictions (as the locations in which expenditures are made have diffused) and across jurisdictions (as more communities have been made eligible for CDBG entitlements).[36]

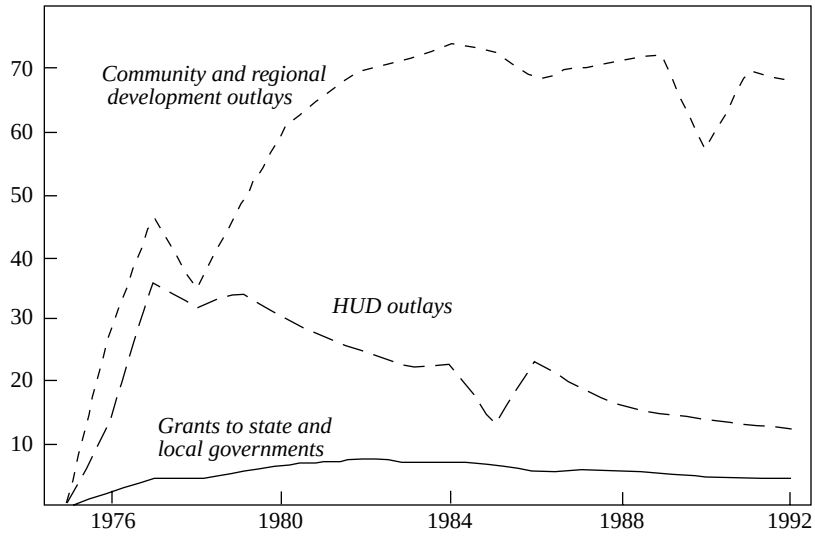
34. Connerly and Liou (1998).

35. See Urban Institute (1994, ch. 4).

36. See Urban Institute (1994, pp. 2–7); Reischauer (1975). During the first two decades of the program, for example, the number of entitlement jurisdictions increased by almost 50 percent. There is surely a general lesson about the realistic possibilities for targeting expenditures in the U.S. political system. A program that began with six demonstration cities expanded to cover 150 cities authorized under the 1966 Model Cities Act. Similarly, 594 entitlement jurisdictions under the CDBG program grew to 889 over two decades. Note finally that the Senate and the House of Representatives never could agree on a common disbursement formula for General Revenue Sharing funds. Targeting is politically very difficult.

Figure 7. Relative Importance of Community Development Block Grant Program, Fiscal Years 1975–92

Percent[a]



Source: Urban Institute (1994).
a. CDBG outlays as pecentage of outlays of a given type.

Over time, the relative size of these block grants as a fraction of HUD outlays has declined, from more than 30 percent in the 1980s to less than 15 percent in the 1990s. As indicated in figure 7 and appendix table A-1, however, CDBG funds are still the backbone of all federal expenditures on urban and regional development activities, constituting more than half of all these expenditures. As a fraction of all grants-in-aid to governments, CDBG appropriations are not large, and never constituted as much as 8 percent of the total.

The New Flexibility

As noted previously, federal grants as a percentage of total outlays declined precipitously during the Reagan years. The number of federal grant programs declined from 534 to 478 during the 1981–89 period. The decline was substantial in both project-based and formula-based grants. Since 1989, there has been a substantial increase in the number of discretionary grant programs, some of which serve urban development objectives.[37]

37. Appendix table A-1 provides more detail on the course of community development funding relative to other federal government expenditures.

The most important of these new programs are the Stewart B. McKinney Emergency Program, the HOME investment partnership program, and the HOPE VI program for public housing. Under the McKinney Act, funds are provided for emergency shelter, supportive housing, the rehabilitation of single-room-occupancy dwellings, and other programs benefiting the homeless. The HOPE VI program provides funds to local housing authorities to "transform" distressed public housing projects. As an operational matter, this typically involves the demolition of obsolete structures.

The HOME program provides formula grants to local governments and also provides lines of credit to participating jurisdictions. The program also disburses funds to each state government. Applications for assistance typically include proposals for site acquisition and improvement, demolition, and rehabilitation of public and privately owned housing. As a part of the HOME program, the Home Investment Partnership is designed exclusively to create or preserve low-income housing. Local jurisdictions must provide a 25 percent match for these block grants and must earmark 15 percent of program proceeds for nonprofit community housing development organizations.

The hallmarks of these programs are flexibility and local responsibility. Federal funds can be commingled with state and local resources, and can be used in partnership with not-for-profit participants. Increasingly, McKinney Act funds are used to contract with nonprofit providers of emergency services and shelter. HOME Act funds are used to provide incentives for nonprofit developers to provide housing affordable to those of low income. Units are often owned, developed, or sponsored by community-based nonprofit groups.

The increased flexibility is enhanced by the possibilities for coordination with the LIHTC program. In many states, the state portion of the HOME block grant is distributed by the same agency that distributes tax credits. Increasingly, projects for new affordable housing that involve tax credits also include gap financing using HOME funds and local contributions using CDBG grant funds. The remarkable thing about this increased flexibility is the extent to which program priorities and decisions are made by local rather than HUD officials and by members of nonprofit community organizations.

Table 6 indicates the funding for these grant programs sponsoring housing and urban development. Note that the HOME program is funded at about $1.2 billion per year. For completeness, the table also documents expenditures on the Urban Development Action Grant program.[38]

38. The UDAG program included only a modest housing component. It was principally focused on business development and rehabilitation or reuse of hotels or business property. See Rich (1992) for an extensive evaluation.

Table 6. Summary of Grants Programs for Housing and Community Development, Fiscal Years 1979–98
Millions of 1997 dollars

Fiscal year	*Urban Development Action Grants (UDAG)*	*Stewart B. McKinney emergency programs*[a]	*Revitalization of severely distressed public housing (HOPE VI)*	*HOME Investment Partnerships Program*
1979	158	…	…	…
1980	439	…	…	…
1981	661	…	…	…
1982	651	…	…	…
1983	727	…	…	…
1984	701	…	…	…
1985	741	…	…	…
1986	675	…	…	…
1987	500	…	…	…
1988	293	…	…	…
1989	313	…	…	…
1990	257	…	…	…
1991	151	…	…	…
1992	59	86	…	3
1993	57	89	…	235
1994	36	94	1	847
1995	21	163	33	1,242
1996	28	312	113	1,234
1997	30	429	205	1,211
1998	6	574	233	1,266

Source: U.S. Office of Management and Budget, "FY2000 Historical Tables," table 12.3.
a. Stewart B. McKinney Programs include the emergency shelter grants program, supplemental assistance for facilities for the homeless, shelter plus care, Section 8 moderate rehabilitation single-room-occupancy program, and the innovative homeless initiatives demonstration program.

Conclusion

During the half century since the passage of the 1949 Housing Act espousing the goal of a "decent home and a suitable living environment for all Americans," the shape of housing and urban development policy has changed radically. Programs in which the public sector owns and operates housing have been reduced in relative importance, and recently in absolute number (by 116,000 during the Clinton administration alone). The locus of responsibility for urban development activities, and for choices between housing and other development activities, has been returned to local decisionmakers. Many economists and policy analysts would applaud these directions.

The mix between project-based and tenant-based housing assistance projects has been changed to favor the latter. Many of the long-term contracts for

project-based assistance entered into between HUD and the developers of new housing early in the Section 8 program will soon expire. Current monthly payments to landlords plus tenant contributions under these housing assistance payment contracts typically exceed HUD's estimates of fair market rents in the metropolitan areas in which these units are located.[39] Thus there is room for expanding the number of households served for the same program expenditure by shifting subsidies to tenant-based vouchers as project-based contracts lapse.

But there are other reasons for favoring the substitution of tenant-based for project-based subsidies wherever possible. For example, it is far simpler to phase out subsidies for those whose incomes have risen if these households are not required to vacate project-based dwellings to make room for other households. The subsidy can be transferred without incurring a residential move.

Even more important than this, however, is the greater possibility for dispersion of the poor throughout urban areas if poor households are subsidized regardless of their residential location choices. Careful research suggests that demand-side subsidies have only modest effects in decentralizing the urban poor.[40] Other research, however, indicates that there are substantial social benefits to even modest deconcentrations of urban poverty in big cities.[41]

These changes in program emphasis would make the existing housing subsidy program for low-income households approximate more closely the housing allowance experiments and demonstrations of the late 1970s. The only difference—and it is a major difference—is the universality of the program. A more effective program for assisting low-income households by substituting tenant-based subsidies for project-based subsidies under the Section 8 program would still be highly inequitable. Fifty years after the landmark Housing Act of 1949, the "housing problem" in the United States has been converted to an "affordability problem": at unsubsidized market prices, many poor households must spend large fractions of their low incomes on shelter. Few economists would prefer to subsidize landlords or to distort market rents in order to improve the lot of poor households—not when deserving households can be subsidized directly. It is clear, however, that a housing allowance for only *some* of the poor would be highly inequitable. A universal and fair program would require a much stronger political commitment than we have seen up to the present.

39. This is because it is far more expensive to create low-income housing through new construction than through depreciation. It also arises because rent escalation clauses favorable to landlords were negotiated ab initio.

40. See, for example, Straszheim (1981).

41. Summarized, for example, by O'Regan and Quigley (1999).

Table A-1. Federal Outlays for Grants to State and Local Governments by Function, Fiscal Years 1958–98
Millions of 1997 dollars

		Community and regional development					*General government*	
Fiscal year	*Transportation*	*Total*	*Community Development Block Grants*	*Education, training, employment, and social services*	*Health*	*Income security*	*Total*	*General revenue sharing*
1958	7,984	271	…	1,891	930	11,516	654	…
1959	13,566	432	…	2,214	1,128	12,683	676	…
1960	14,948	543	…	2,617	1,067	13,134	822	…
1961	13,275	756	…	2,800	1,294	13,729	849	…
1962	13,902	905	…	3,220	1,786	14,944	900	…
1963	14,831	1,186	…	3,340	2,169	15,568	1,041	…
1964	17,698	2,462	…	4,020	2,567	16,550	1,195	…
1965	19,241	3,018	…	4,928	2,928	16,482	1,061	…
1966	18,567	2,622	…	11,778	5,312	16,324	1,204	…
1967	18,283	2,573	…	18,415	7,393	16,077	1,322	…
1968	18,477	3,670	…	22,010	11,520	17,830	1,439	…
1969	17,956	4,273	…	20,714	13,048	19,578	1,613	…
1970	17,873	6,917	…	24,938	14,958	22,521	1,861	…
1971	18,318	7,962	…	27,281	16,735	26,343	1,922	…
1972	18,309	9,120	…	34,262	21,725	32,678	2,111	…
1973	18,189	8,919	…	32,294	20,433	30,169	24,830	22,565
1974	16,325	8,356	…	28,899	22,643	26,697	21,103	18,883
1975	16,747	8,116	109	34,650	25,160	26,708	20,197	17,506
1976[a]	21,588	9,660	3,311	39,043	29,474	29,698	20,019	17,786
1977	21,076	11,418	5,305	40,006	30,739	32,158	24,306	17,162
1978	21,012	16,830	5,859	48,880	30,257	32,771	23,034	16,224
1979	23,708	14,404	6,856	48,256	31,183	31,970	18,293	14,853
1980	25,395	12,649	7,610	42,635	30,731	36,069	16,803	13,318
1981	23,877	10,909	7,200	38,253	33,659	37,432	12,323	9,151

1982	20,331	9,031	6,366	27,851	31,628	36,818	11,079	7,671
1983	21,271	7,996	5,727	25,985	32,590	39,896	10,540	7,435
1984	23,153	7,966	5,899	25,750	33,733	39,666	10,580	7,055
1985	25,371	7,788	5,694	26,576	36,472	40,502	10,200	6,838
1986	26,825	7,119	4,871	27,755	39,280	42,571	10,484	7,489
1987	23,839	5,983	4,192	26,360	41,631	42,346	2,826	107
1988	24,479	5,788	4,138	26,974	44,210	42,899	2,646	[b]
1989	23,526	5,273	3,816	28,459	47,476	42,096	2,853	[b]
1990	23,546	6,097	3,461	28,685	53,897	43,212	2,835	…
1991	23,363	5,035	3,507	31,306	65,735	45,798	2,621	…
1992	23,516	5,193	3,535	32,941	81,698	49,747	2,601	…
1993	24,760	6,293	3,552	33,500	88,486	52,194	2,367	…
1994	25,594	8,435	3,954	35,462	93,425	55,809	2,272	…
1995	27,158	7,614	4,563	35,939	98,561	58,052	2,287	…
1996	26,553	8,030	4,649	34,815	99,891	54,600	2,111	…
1997	26,846	8,161	4,517	34,735	98,974	54,965	2,153	…
1998	25,743	7,536	4,550	35,908	104,210	57,967	2,204	…

Source: U.S. Office of Management and Budget, “FY2000 Historical Tables,” table 12.2.

a. FY1976 includes outlays during the "transition quarter" from July 1, 1976, to September 30, 1976, annualized to reflect the experience of four quarters only.

b. Indicates $500 thousand or less.

Table A-2. Comparison of HUD Outlays with Total Assisted Housing Payments and Total Federal Outlays, Fiscal Years 1962–98
Millions of 1997 dollars

Fiscal year	*HUD outlays on assisted housing*[a]	*Total HUD outlays*	*Assisted housing outlays as a percentage of HUD total*	*Total federal outlays*	*Total HUD outlays as a percentage of total federal outlays*
1962	795	4,042	19.7	522,706	0.8
1963	840	–2,935	(28.6)	536,523	–0.5
1964	689	348	198.3	564,503	0.1
1965	1,055	2,309	45.7	554,842	0.4
1966	1,057	11,317	9.3	613,420	1.8
1967	1,153	13,676	8.4	696,225	2.0
1968	1,219	15,867	7.7	758,369	2.1
1969	1,405	2,904	48.4	748,077	0.4
1970	1,733	9,451	18.3	760,331	1.2
1971	2,567	10,412	24.7	782,659	1.3
1972	3,418	13,014	26.3	833,881	1.6
1973	4,454	12,174	36.6	835,508	1.5
1974	4,676	14,785	31.6	832,989	1.8
1975	4,990	21,453	23.3	949,098	2.3
1976[b]	5,348	18,129	29.5	1,011,133	1.9
1977	6,162	14,750	41.8	1,039,232	1.4
1978	6,934	18,190	38.1	1,090,796	1.7
1979	7,717	19,997	38.6	1,093,205	1.8
1980	8,833	24,836	35.6	1,152,454	2.2
1981	10,237	26,507	38.6	1,208,202	2.2
1982	11,551	25,573	45.2	1,252,026	2.0
1983	12,547	25,483	49.2	1,302,661	2.0
1984	13,554	25,740	52.7	1,315,936	2.0
1985	14,907	42,840	34.8	1,411,718	3.0
1986	14,704	20,705	71.0	1,450,446	1.4
1987	13,826	21,877	63.2	1,418,676	1.5
1988	14,981	25,694	58.3	1,444,214	1.8
1989	15,836	25,473	62.2	1,480,316	1.7
1990	16,624	24,765	67.1	1,538,888	1.6
1991	17,290	26,810	64.5	1,560,692	1.7
1992	18,217	27,993	65.1	1,580,612	1.8
1993	19,756	27,969	70.6	1,565,474	1.8
1994	20,990	27,990	75.0	1,583,049	1.8
1995	23,336	30,588	76.3	1,596,289	1.9
1996	21,546	25,815	83.5	1,596,317	1.6
1997	21,531	27,527	78.2	1,601,232	1.7
1998	20,429	29,763	68.6	1,627,206	1.8

Source: U.S. Department of Housing and Urban Development Office of Budget, "Annotated Tables for the 1998 Budget Process." U.S. Office of Management and Budget, "FY2000 Historical Tables," table 4.1.

a. HUD outlays on assisted housing includes outlays for public housing, Section 8, college housing grants, rent supplements, section 235, and rental housing assistance, and excludes rental housing development grant and rental rehabilitation grant outlays until FY1994. These programs covered FY1994 through FY1998.

b. FY1976 includes outlays during the "transition quarter" from July 1, 1976, to September 30, 1976, annualized to reflect the experience of four quarters only.

Comments

Michael A. Stegman: John Quigley frames his historical analysis of American housing and urban policy in terms of the landmark Housing Act of 1949. He argues that this is an appropriate lens through which to view national urban policy because housing "is the most basic and durable aspect of national urban policy, and provides the spatial context within which other policies operate." I think this framework is too narrow. From the beginning, national urban policy has had much broader concerns than the programs that have emanated from the 1949 Housing Act. Robert C. Weaver, HUD's first secretary, argued that urban policy should focus on the problems of poverty and race by "putting a floor under income (especially for those with incomes too low even for our subsidized programs), breaking segregated residential patterns, increasing the citizen's role in decision-making, developing more effective instruments of local government, providing tax-sharing, or some other form of substantial financial aid to local governments." These, said Weaver, "are some of the major issues that the nation must tackle."[1]

An emphasis on race, space, and the spatial distribution of economic opportunities continues to preoccupy urban policymakers. For example, in his letter transmitting HUD's 1995 national urban policy report to the president, HUD Secretary Henry G. Cisneros says that "the polarization of urban communities—isolating the poor from the well-off, the unemployed from those who work, and minorities from whites—frays the fabric of our civic culture, and acts as a drag on the national economy. If we fail to address the problems of our cities, connecting residents of distressed neighborhoods with the jobs and opportunities of their metropolitan economy, we will not be able to compete and win in the global economy."[2]

1. Quoted in Zisch, Douglas, and Weaver, eds. (1969, pp. 87–88).

2. Transmittal letter from Henry G. Cisneros to the President, "Empowerment: A New Covenant with America's Communities, President Clinton's National Urban Policy Report," July 26, 1999.

Quigley's housing-centered analyses could have been better connected to urban policy had he chosen to examine the links between housing and other federal policy initiatives that affect cities, such as welfare reform. Because it has no explicit spatial concerns, Quigley chose to ignore welfare reform, but it is often the implicit spatial impacts of "nonurban" policies that have significant urban impacts. A recent report from the Brookings Institution Center on Urban and Metropolitan Policy, for example, indicates that many cities are having a harder time reducing welfare caseloads than other communities in their states, and that the greater the city's poverty and concentrated poverty, the slower the city's caseload decline relative to the state's.[3]

The housing-welfare nexus also illustrates why it is important for economists to pay careful attention to policy interdependencies. For example, according to Sandra Newman, about half of all families in assisted housing also receive welfare, and about a third of all welfare recipients also receive housing assistance.[4] Therefore it is virtually impossible to discuss low-income housing policy without taking account of welfare reform. Economists could help policymakers anticipate the implications of a time-limited cash assistance program's ramming headlong into a housing assistance system that remains a virtual lifetime entitlement for those who are fortunate enough to receive a housing subsidy. Economists who are evaluating the effectiveness of work incentives and liberalized asset limits on state efforts to move families from welfare to work could also help the housing community find cost-effective ways to eliminate the work disincentives built into the public and assisted-housing programs that cause rents to rise when unemployed residents go to work.

Even through a housing-policy lens, Quigley could have addressed the growing self-sufficiency movement within the assisted-housing realm, and whether the form of housing subsidy one receives might affect the likelihood of assisted household members finding work or increasing their work effort. For example, research in California by Paul Ong reveals that "residents with tenant-based Section 8 work considerably more than do those renting in the private market or residing in public housing. This finding holds after controlling for observable personal characteristics and accounting for income effects." Ong suggests that rather than being a statistical artifact or an effect caused by programmatic self-selection among applicants, the results are more likely the effects of Section 8's offering residential choice and mobility that improves opportunities for employment.[5]

3. Katz and Carnevale (1998, p. 1).
4. Newman (1999, p. 8).
5. Ong (1998, p. 775).

Quigley also understates the importance of recent changes in national housing policy by condensing his discussion of them into a very brief concluding section on "the new flexibility." While he touches upon the problem of expiring subsidy contracts, he fails to grasp the full significance of the fact that, according to HUD, "during the next five years, fully two-thirds of all project-based Section 8 will expire, totaling almost 14,000 properties containing 1 million subsidized housing units." As expirations increase, so does the risk of losing affordable housing. According to HUD, in 1998 more than 17,000 subsidized units in more than 300 properties left the project-based Section 8 program, more than three times the total from the year before.[6] Generally, owners who opt out can do so because they have good properties in good neighborhoods. The latest data show that 90 percent of subsidized units in properties whose owners say they will likely opt out are located in low-poverty neighborhoods, where good housing also brings better opportunity—more jobs, better schools, less crime.[7] I believe the spillovers from expiring contracts will dominate the housing policy debate for the next decade or more.

By lumping it into a brief section on "the new flexibility," Quigley understates the importance of the HOPE VI program, which was created in 1992 to radically transform the most severely distressed and obsolete public housing into dynamic mixed-income communities. Since its inception, Congress has appropriated more than $5 billion for HOPE VI, including $575 million in fiscal year 2000. When properly leveraged, HOPE VI becomes far more than just another public housing modernization program. "Used wisely," according to neighborhood developer Patrick Clancey, "a $25 million HOPE VI award can leverage another $75 million in private financing, equity investment, and local funds to spark comprehensive neighborhood revitalization."[8]

By limiting much of his analysis to matters that emanate from the 1949 Housing Act, Quigley fails to mention two critically important housing-policy-related developments. The first is the Community Reinvestment Act (CRA), passed in 1977, which requires regulated financial institutions to help meet the credit needs of their local communities.[9] Over time, the CRA has nurtured the creation of a new community-development lending industry that now features "a rich array of affordable lending programs that determine creditworthiness by nontraditional means—techniques that measure the cir-

6. U.S. Department of Housing and Urban Development (1999b, p. iii).

7. U.S. Department of Housing and Urban Development (1999b, p. vi).

8. Clancy (1999, p. 20).

9. "How Well Is CRA Doing?" National Community Reinvestment Coalition (www.ncrc.org/cra/how_dpoing.html. [December 22, 1999]).

cumstances of underserved households more appropriately than established standards."[10] According to the National Community Reinvestment Coalition, since 1977 the CRA has encouraged banks and community organizations to enter into more than 370 agreements worth more than $1.05 trillion in reinvestment dollars for traditionally underserved populations.[11] The CRA has also helped create and sustain a national network of community-based housing development organizations that have become the backbone of the contemporary affordable-housing delivery system. It is this affordable-housing infrastructure, rather than that built in response to the 1949 Housing Act, that represents the future.

Quigley also ignores important policy developments in the secondary mortgage market that are critical to affordable housing. In 1992 Congress gave HUD the responsibility of regulating Fannie Mae and Freddie Mac, the two Government Sponsored Enterprises (GSEs) that help channel billions of dollars a year to the mainstream mortgage market. Through a new system of affordable-housing goals set by HUD, the legislation requires these financial giants to extend the benefits of the secondary mortgage market to tens of millions of low- and moderate-income families, first-time home buyers, and residents of underserved communities, who might not otherwise be able to buy a home.[12]

In late 1999 HUD raised the required percentage of mortgage loans for low- and moderate-income families that the GSEs must buy from the current 42 percent of their total purchases to a new high of 50 percent—a 19 percent increase—in the year 2001. Under the higher goals, Fannie Mae and Freddie Mac will buy an additional $488.3 billion in mortgages that will be used to provide affordable housing for 7 million more low- and moderate-income families over the next ten years, above and beyond the $1.9 trillion in mortgages for 21.1 million families that would have been generated if the current goals had been retained.[13]

10. Stegman (1999, p. 184).

11. "How Well Is CRA Doing?" National Community Reinvestment Coalition (www.ncrc.org/cra/how_dpoing.html. [December 22, 1999]).

12. U.S. Department of Housing and Urban Development, Press Release 99-131, "Cuomo Announces Action to Provide $2.4 Trillion in Mortgages for Affordable Housing for 28.1 Million Families," July 29, 1999, p. 2. This press release can be accessed at (www.hud.gov/pressrel/pr99-131.html).

13. U.S. Department of Housing and Urban Development, Press Release 99-131, "Cuomo Announces Action to Provide $2.4 Trillion in Mortgages for Affordable Housing for 28.1 Million Families," July 29, 1999, p. 1.

Community development finance has also been advanced through secondary market innovations. Recently, a number of securities backed by CRA mortgages have been brought to market by Wall Street investment-banking firms.[14] Though still a trickle, the securitization of affordable mortgage loans, made possible by developments in information technology that allow a more accurate pricing of credit risk, promises to increase home buying opportunities to even lower-income home buyers than those who benefit from mainstream GSE mortgage products. In short, with a decline in federal housing subsidies, it will fall to the secondary market and other private market institutions, in partnership with government, to meet the growing demand for affordable housing.

Quigley concludes his paper with a ringing endorsement of housing vouchers, a policy with which I generally agree. There are some problems with vouchers, however, that should concern housing and urban economists. One of them is the voucher utilization rates. HUD data suggest that around 15 percent of all households who receive vouchers return them to the housing authority unused because they cannot find housing that meets program standards in the time available to them.[15] Because a voucher can be a ticket out of a ghetto into a middle-class neighborhood with better schools and services, we should be concerned about the 15 percent of families who cannot use their voucher to find acceptable housing in the private sector. Research also suggests that success in using a voucher is not necessarily tied to market conditions or to the personal efforts of voucher holders, and that there exists something akin to a Section 8 submarket, in which landlords restrict the number of units available to voucher holders.[16]

It may be that problems with vouchers, combined with the prospect of continued hemorrhaging of Section 8 project-based units from the affordable housing inventory, make this an appropriate time to revisit the production issue.

William C. Wheaton: John Quigley's excellent paper on the history of U.S. housing policies characterizes the evolution of such policies as moving from a focus on projects to a focus on tenants. While this is undeniably true, I would characterize this same evolution more as a shift from a focus on places to a focus on people. I would further argue, in the tradition of political economy,

14. See, for example, Stegman (1999, pp. 184, 193–194).

15. U.S. Department of Housing and Urban Development (1995, p. 2).

16. Brian Maney and Sheila Crowley, "Scarcity and Success: Perspectives on Assisted Housing," draft paper prepared for presentation at annual conference of the National Low Income Housing Coalition, April 1999, p. 38.

that early U.S. housing policy probably was designed less to assist low-income people than it was to assist U.S. urban central cities. This is because it emerged in reaction to a *political* rather than *economic* need. Over time, the shift in policies toward people occurred not only because the original place-based policies were failing but also because of realignments in political forces. What I would like to do in this brief discussion is to outline the place-versus-people dilemma in U.S. housing policy and then compare this with the same issue in another policy arena, that of U.S. transportation policy.

Housing policy: the evolution from place to people. In theory, person-based policies are aimed at assisting selected categories of individuals—regardless of location. Hence they are "urban" in focus only indirectly, as the targeted group happens to live primarily in urban areas. From the 1930s through 1960, the majority of officially defined "substandard" U.S. housing actually existed in America's *rural* areas. If the housing acts of 1949 and 1954 were truly housing- or person-based, they would have targeted this category of residents equally with those in central cities. This was clearly not the case. Very few smaller impoverished cities had housing authorities, and almost no rural areas did. No: the acts probably had cities as their focus and simply chose housing as the primary object within cities to emphasize.

That cities mattered more than housing can also be seen in the timing of the subsequent CDBG programs. As public housing increasingly became an embarrassment and Washington shifted its focus toward tenant-based policies, it developed the CDBG program as a substitute (but still place-based) policy. Washington hoped that by broadening the focus of its policies to include other capital investments and public services, it could generate some success stories for its urban political constituency.

Why places? To understand the origins of U.S. housing policy, one need only remember that in the 1940s the vast majority of America's urban residents actually lived in central-city political jurisdictions. Furthermore, these jurisdictions had enormous political influence. It was not until 1980, for example, that the Illinois state legislature was finally controlled by a coalition of rural and suburban representatives rather than by those from the city of Chicago. How many national political elections prior to 1960 were strongly influenced by America's major central-city mayors?

As urban central cities increasingly developed social and fiscal problems such as white flight, suburban competition, and decaying infrastructure, they petitioned Washington to help them—first as places—and only secondarily as clusters of people. The emergence of U.S. housing policy resulted from this

political need rather than from an articulated *economic* need by lower-income households.

Perhaps not surprisingly, American housing policy began shifting toward a more person-oriented approach at just about the same time that American suburbs began to wrest political power away from the central cities. Presuming that rural and suburban jurisdictions also supported the idea of a "decent home," they began to see not only that place-based policies were failing but also that a person-oriented approach was more likely to benefit their own residents as well. Washington needed to develop not only successful policies but also policies that were now more spatially neutral.

The consequences of place- versus people-based housing policies. Place-based housing policies focused largely on where problems were occurring and not as much on the processes that were creating them. In much of the early discussion surrounding the 1949 and 1954 housing acts, the belief was expressed that by building better housing a whole host of urban social problems, from crime to poverty, would be eradicated. The record, however, shows that most place- or project-based U.S. housing policies might actually have exacerbated these urban social problems.

Current research, including some of the work at this conference, suggests that the clustering of low-income residents, particularly in housing projects, may have increased not only current social problems but also the intergenerational transmission of these problems as well. In this sense, place-based policies created negative externalities that the later person-based policies have at least been trying to address. Early writing by British sociologists in the 1930s also suggested this, but it fell on deaf ears at the time of the creation of the U.S. housing acts. Large housing projects were what America's urban mayors wanted.

Politics as a process is inherently organized by geography (places) rather than by people or interest groups. Perhaps it is only natural that place-based policies emerged at a time when there was little political organization by lower-income social groups.

Transportation policy: the evolution from people to place! Housing is not the only sector to be subject to the dilemma of place- or person-based policies. I would argue that in transportation the evolution of policy occurred in the reverse order. In the early twentieth century, state and federal transportation policies largely involved the treatment of automobiles. It was decided to minimally tax both cars and gasoline (unlike policies in Europe) and to separately earmark these tax funds to build and maintain roads. In this regard,

transportation policy was spatially ubiquitous or neutral. Highways were to be built wherever the population wanted to settle. Citizens in all locations were clamoring for more roads. This is why I would characterize U.S. highway planning as people- rather than place-oriented. Highways emerged more from an *economic* need by the citizenry and less from the *political* need of jurisdictions.

Over the years, transportation planning has been remarkably free of political influence. Not that roads do not occasionally get built in certain districts, but the civil engineering profession has kept quite tight control over highway development. Partly as a consequence of this technical focus, highway planning has *served* development—rather than being used as a tool to shape and *guide* development. The latter, of course, would be intrinsically very political. In this regard, highway planning never took on any *direct* spatial focus. To be sure, *indirectly* the policy of spatially ubiquitous roads did encourage suburban sprawl, assist rural areas, and hurt central cities.

By the 1970s the urban political lobbyists began to successfully plead their case, and the first clearly directed place-based transportation policy emerged: urban mass transit development. From 1880 to 1920 the early subway systems were largely developed and financed locally, but now the federal government has earmarked a large portion of the highway trust fund for the development of new rail transit systems. All these systems target central-business-district travel, are enormously expensive, and by and large have been significant failures in terms of ridership. Yet they continue to be planned and built in cities where there is little likelihood of economic success. Like early housing policies, the current round of transit funding has emerged to serve a political rather than economic need.

In the case of transportation policy, it has been argued that perhaps place-based policies *should* have emerged earlier. If a better mix of transit and highway infrastructure had more consciously tried to shape America's cities throughout the twentieth century, the externalities of congestion and air pollution might have been better controlled.

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