

# Policy Analysis

## THE INHERENT FLAWS OF HUD

by Howard Husock

### Executive Summary

The temptation when discussing the Department of Housing and Urban Development is to focus on its scandals and inefficiency or, as Washington puts it, waste, fraud, and abuse. And, indeed, there have been many such problems throughout the history of the department. They have ranged from flawed home appraisal procedures, which emerged only two years after the agency began its work in earnest, to the influence peddling of the 1980s, which saw a former cabinet secretary convicted of steering HUD contracts to those paying his lobbying fees. Clearly, the department has been troubled in what public management observers call the "implementation phase" of its work. It is with such matters in mind, coupled with budget constraints, that pressures have mounted to "reinvent" HUD. Those who would reinvent HUD seek to streamline its sprawling bureaucracy, improve the oversight of grants to housing authorities, and curtail corruption.

But such discussion begs more fundamental questions about the central goals of HUD. HUD was established to (1) upgrade specific neighborhoods, particularly "black ghettos," (2) support the construction of better housing for lower-income households, and (3) limit so-called suburban sprawl by supporting planning measures that force new development in older portions of cities.

As worthy as those purposes may sound, each is fundamentally flawed. First, black Americans have joined the march toward the suburbs, without public assistance. Second, subsidized housing has proven difficult to maintain and has created perverse incentives that undermine the formation of healthy neighborhoods. And third, suburban sprawl is an issue for local, not federal, government. As a result of its misguided goals, HUD has become a conduit for expensive, counterproductive programs that do not justify a cabinet-level agency.

### Origins of HUD

To examine the issue of why the Department of Housing and Urban Development was established, one must first recall the social and political climate of 1965. At the height of the Johnson administration's popularity, Congress approved legislation casting a variety of existing agencies in a new light. Chief among those agencies was the Housing and Home Finance Agency, a New Deal-era agency and HUD precursor established to direct credit toward the home mortgage market. The Department of Housing and Urban Development was intended to be a mechanism through which federal grants, low-interest loans, and individual rent subsidies would be channeled to subsidize specific building and rebuilding projects. What Bernard Frieden and Marshall Kaplan said of HUD's Model Cities program applies to the agency as a whole: "Like most Great Society innovations of the late 1960s . . . [HUD] was both a response to the special conditions of that turbulent period and the product of a long lineage of prior federal actions."<sup>1</sup>

Although HUD had a broad mandate to improve urban life generally, there was no doubt where its chief focus lay. "The first challenge," Lyndon Johnson stated, was "to attack the problem of rebuilding the slums."<sup>2</sup> It was the era of the affluent society, when the U.S. economy was viewed not only as a powerful but perhaps even as an unstoppable engine of economic growth--an engine that was allegedly leaving a few groups behind. The most prominent group was the blacks whose emigration from the rural south had peaked after World War II. That poor, formerly rural group was living in older housing vacated by more affluent whites who were moving up and out to the expanding suburbs. The racial contrast was heightened by the 1964 and 1965 summer riots in Watts and Harlem. The older urban residential neighborhoods to which blacks were suddenly moving took on a collective national name: the inner city. Its existence was viewed as a rebuke to American prosperity. At the same time, the headlong rush of the middle class to the expanding suburbs was dramatically diminishing the cities' populations and tax bases. A sense of national crisis emerged and was dramatically reflected in works such as Cities in a Race with Time.<sup>3</sup>

It would be HUD's mission not only to respond to what sociologist Kenneth Clark termed the "dark ghetto"--in other words, poor, black, urban neighborhoods--but, at the same time, to "save" cities. In that context, HUD's mission was

designed by its early leaders, including Robert Weaver, the former head of the Housing and Home Finance Agency, who became the first HUD secretary (and, in keeping with HUD's focus on black neighborhoods, the first black cabinet secretary in any department), and Robert Wood, the former head of the Massachusetts Institute of Technology's Political Science Department, who became under secretary. Their views and assumptions, as well as those of their colleagues and allies, are well worth reexamining both as founding principles and in light of their effects.<sup>4</sup>

### Were American Cities in Crisis?

"Our most critical domestic problem," wrote Weaver, "is improving the quality of urban life for all Americans. . . . It is our goal to reconstruct the physical and social fabric of the American urban environment."<sup>5</sup> That must be regarded, in retrospect, as a vast amplification of perceived problems. Although it is true that cities, if defined strictly by their historical incorporation limits--that is, the city limits--were losing population, their commercial downtown centers continued serving as the financial hubs for the expanding metropolitan areas. Rather than there being a generalized "urban crisis," something far more limited was occurring. People were leaving older, inner-ring residential neighborhoods (in effect, the first "suburban" residential areas outside the center city) that had been incorporated into cities during the Progressive Era. Those neighborhoods were found in various medium- and large-sized cities from Paterson, New Jersey, and Rochester, New York, to Oakland, California. Specific examples include Boston's Roxbury, Chicago's South Side, and the north side of Philadelphia neighborhoods.

Upwardly mobile families were choosing to leave behind the multifamily homes and apartment buildings of such areas in favor of newer suburbs with detached homes and yards. Left behind were neighborhoods, which now had smaller total populations, whose replacement populations (in many cases, made up of southern-born black "immigrants") were less prosperous. The result was, predictably, a group of inner-ring residential areas shabbier than the surrounding, rapidly expanding metropolitan area. The perceived problem, which was assumed to be long-term, lay in the cities' "gray," or inner-ring residential, areas.

It was certainly a difficult proposition for Americans. Except perhaps for ghost towns and other small jurisdictions that had outlived their economic reason for being, Americans were more or less accustomed to the idea that cities should become bigger and better. Instead, Americans were seeing the less-than-pleasant sight of neighborhoods in apparent decline, at least compared with their middle-class origins. Grand apartment buildings were being subdivided or, in some cases, simply abandoned because of lack of demand. Ironically, that could well have been viewed as a great and fortuitous opportunity. Cheap, often well built, used housing was becoming available when significant numbers of immigrants were arriving in town. Housing economists have termed that phenomenon "filtering"--that is, passing down housing from the upwardly mobile to the next wave of aspirants.

If there was no overall urban crisis and no sudden collapse of the economies of our cities, why did Secretary Weaver cast his role as broadly addressing such a crisis? Perhaps he did so out of fear that casting the mission more narrowly, as improving the black ghetto, would have had less political appeal. Indeed, it is striking that at a time of robust economic growth, at a level for which we yearn today, Weaver justified HUD as an agency that was necessary to "contribute toward a better life for all income levels, all age levels, and all racial characteristics or religious beliefs."<sup>6</sup> Other HUD officials, however, were often more candid about the targeted nature of their mission. Under Secretary Robert Wood told the National Association of Social Workers in 1966, "The impacted urban ghetto has, in a comparatively short period of time, become the most explosive social problem of our day."<sup>7</sup> This was the essence of HUD: a massive intervention in poor black neighborhoods to fix up the buildings there, despite the fact that residents themselves could not pay for such improvements. Thus, "ghetto" housing would remain inexpensive and would also be "decent and sanitary," in the language of the National Housing Act of 1937. But why was that necessary? What was wrong with new urbanites' using older housing until they could afford better? To understand HUD's intervention, one must look at the nation's essentially pessimistic and, arguably, patronizing view of the prospects of the black poor.

**Was the "Black Ghetto" Permanent?**

Even if one accepted the concept of filtering--the view that less-than-ideal housing conditions were a stage of development, not its end point--the 1960s would have been a politically difficult period in which to defend such gradualism. As did conditions in the Appalachian mining towns, which had attracted attention during the 1960 presidential primary campaign, conditions in black, urban neighborhoods contrasted so strikingly with those in new subdivisions that the call for political action was almost inevitable. Poverty, as Gertrude Himmelfarb has observed, is a relative concept.<sup>8</sup> The presence of poverty amidst affluence creates momentum for redistribution.

But HUD's founding fathers' view was not simply that society could not wait until the rising tide of affluence lifted blacks as it had others; it was far more pessimistic. Although Wood acknowledged that previous groups of urban newcomers had followed what he repeatedly called the "long tenement trail to relative affluence and acceptance in American society," he did not believe blacks would follow in their footsteps. "The historic role of the city has deteriorated badly," observed Wood. "In some city neighborhoods, blight and poverty have gone hand-in-hand for generations, and the slum is no longer a way station." Moreover, wrote Wood, "the bus has stopped running to the suburbs and the urban poor are increasingly insulated from the larger society."<sup>9</sup> It is crucial to note that, in retrospect, we have learned that Wood's assertion was exactly the opposite of what was occurring. At the very moment when the designers of HUD were asserting that the process of upward economic mobility would not lift blacks out of poverty, it was doing so at a rate greater than that for whites.<sup>10</sup>

In light of HUD's assertions, one might have expected actions such as the 1968 federal Fair Housing Law to be the centerpiece of its agenda to improve the housing situation of blacks. Although HUD officials would mention the importance of fair housing and the agency would become part of the enforcement mechanism of "equal housing lending," the thrust of the HUD mission was in another direction: rebuilding the ghetto to middle-class standards. Secretary Weaver envisioned "massive housing rehabilitation efforts. . . . Successful rehabilitation can help achieve our goal of adequate housing for all families in less time, with less need for new land sites and, hopefully, at lower cost, than through the provision of new housing for all who do not have standard housing." It was the concept of a massive inter-

vention, first known as the Demonstration Cities concept, later as the Model Cities program, upon which HUD was created and which justified its first years of existence.<sup>11</sup>

One cannot discount the role played in the development of this policy and subsequent legislation not only by social reformers but also by self-interested developers.<sup>12</sup> Just as the original public housing program was inspired, in part, by Franklin Roosevelt's debt to construction unions and hard-pressed Depression-era builders, so were HUD rehabilitation subsidy programs influenced by a range of financial interests. In Boston, for instance, the CEO of the parent company to Boston Gas headed up a syndicate of investors to renovate more than 2,000 apartments in the city's Roxbury ghetto, all of which were, in that heavily subsidized process, converted from oil heat to gas.<sup>13</sup>

The impulse to renovate was flawed in a number of key ways. First, the impulse to rehabilitate older housing in poor neighborhoods incorrectly presumed that, despite the lower incomes of inner-city residents, federal intervention could permanently bring older apartment buildings back to their original, middle-class standards. Incentives, such as low-interest mortgages, made renovating or constructing buildings more attractive than maintaining them. Thus, many HUD-financed renovations turned out to be shoddy and short-lived. The agency quickly became the owner of many buildings left behind by owners who, though they had been lured by up-front incentives, could not realize long-run profits from operating the structures as rental properties. For example, by 1978, 10 years after HUD began a large-scale subsidized renovation in older inner-city Boston, it had been forced to foreclose on or assume ownership of 47 of 115 projects.<sup>14</sup> As Irving Welfeld wrote, "Showcase projects had become jungles."<sup>15</sup> The fact that projects were privately owned should not confuse us into thinking that they were market driven. Profit-making owner-managers had simply become the subsidized agents of government.

Second, HUD's approach ignored the historic dynamics of what Wood had called "the tenement trail," which had been a path of gradual upward mobility. One of the great forces of socialization of poor immigrants is the impulse toward self-improvement, an impulse to improve one's physical surroundings and to move to a better neighborhood. The plan to rebuild the ghetto to middle-class standards reflected a doubt that blacks could make that journey and offered,

instead, the dubious reward of better accommodations that had not been realized through the slow process of increasing one's own income.

Gradualism is important, in part, because it is based on the idea that it is best for an individual to earn his way up the economic ladder. It is also important because it recognizes that the social structure of neighborhoods is formed in effect when residents move, over time, from lower- to higher-quality housing, individually and together, and maintain their properties and effectively create neighborhoods. For instance, in their classic 1914 study of Boston immigrant neighborhoods, pioneer sociologists Robert Woods and Albert Kennedy observed that the ownership of modest properties--properties that the middle classes of the day looked down upon--is crucial to the development of "zones of emergence," places where the immigrant poor join the economic mainstream. They wrote,

Nearly 50 percent of the small dwellings and three-family tenements are in the hands of one-time immigrant families in relatively humble circumstances. This real estate is mortgaged in a large share of its value but it stands as a symbol that the newcomers are "taking possession of the land." Ownership of property is one of the surest indications that emergence is emergence, indeed.<sup>16</sup>

The housing situation of families is dynamic--simply taking a snapshot and pronouncing a situation "substandard" dismisses the prospect of incremental improvement. Housing and neighborhoods exist on a sort of ladder. Different housing types, from the single room to the mansion, by way of the duplex, bungalow, row house, or three-level house, constitute rungs on the ladder that families climb. HUD's failure to understand that is apparent in its apartment renovation projects wherein tenant rents are subsidized, and in its home ownership programs in which poor families are encouraged (often with down payments as low as \$200) to buy older homes being sold by owners bound for the suburbs. Because the new owners had not gone through the incremental steps to prepare themselves for ownership, and because of programmatic flaws, such as inspection and appraisal procedures, the home ownership program led to massive foreclosure and housing abandonment, not stable home ownership.<sup>17</sup>

Good neighborhoods cannot be created by fixing up

specific buildings or by selling them cheaply to willing buyers. They are forged, in a lasting way, only when residents gradually become better off and make improvements themselves. Public funds cannot long sustain neighborhoods for which there is little private demand and in which there is little individual investment of money, labor, and love. It is the struggle to maintain and improve neighborhoods in which residents have an ownership stake--even in relatively modest housing--that helps forge a social structure. In an effort to provide social structure in inner-city neighborhoods, HUD sought to foster "citizen participation" through elected community councils, which were to influence how federal money was spent and to pressure local governments to make their own contributions.<sup>18</sup> Those citizens' councils, although they may have influenced spending patterns, did not have the desired effect of generally helping to hold neighborhoods together; rather, they tended to devolve into insular power bases.<sup>19</sup>

Given those flaws, it is not surprising that the HUD vision of demonstration neighborhoods, which massive federal investment would sustain, did not come to pass. In addition to foreclosure on and abandonment of HUD-financed projects, the gradual exodus of able, former ghetto residents to better neighborhoods both within the boundaries of cities and in the suburbs continued. The overall percentage of black families living in suburbs rose from 23 percent in 1970 to 32 percent in 1990, while many other black families moved to relatively affluent in-city neighborhoods.<sup>20</sup> For instance, per capita income in the New York City borough of Queens is higher for black families than for white. William Frey of the Population Studies Center at the University of Michigan found that throughout the 1980s there was a "widespread pervasiveness of minority increases within suburban populations. The vast majority [265] of 314 metropolitan suburbs increased their minority percentages. . . . Black suburban gains are also more evident in metropolitan areas that are recipients of new black migration streams."<sup>21</sup>

### **Rebuilding Neighborhoods to Save Cities**

HUD assumed that rebuilding neighborhoods would be good not only for the neighborhoods themselves but for whole municipalities. It is tempting to believe that, if a city is in generally good condition but has some sections that are dilapidated and occupied by the poor, the city as a

whole would be better off if such neighborhoods were fixed up to look more like middle-class neighborhoods. Moreover, political obstacles emerge for local elected officials when neighborhoods decline. Mayors can hardly take pride in the fact that their metropolitan areas are generally thriving when some city neighborhoods are losing population and property values are declining. Moreover, abandonment and declining home prices mean a loss in property tax revenue for city governments.

Secretary Weaver crystalized the view that public intervention was necessary to stop the downward trend. "Residents and city administrations find themselves in a spiral," wrote Weaver. "The cities need to provide required services and the residents to pay the increased taxes. There is a need for more housing, particularly to serve the lower end of the income scale, more and better quality schools, more recreation facilities, more hospitals and sewage and water facilities."<sup>22</sup>

Implicitly, Weaver was arguing that specific neighborhoods had to be saved to save cities generally. In other words, HUD wanted both to help the poor by rebuilding apartments and to help the cities generally by salvaging the areas in which the poor lived. That contrasted with the urban renewal movement of the 1950s, which sought to rebuild central city commercial and residential areas to attract the middle class. Thus government, the new logic of the 1960s would dictate, must prevent the abandonment of structures and restore dilapidated structures to their previous condition while simultaneously earmarking them as residences for the poor.

There is a good case to be made, however, especially in light of the history of the past 30 years, that an entirely different sort of urban policy approach would lend itself to greater economic vigor in cities. It is akin to what Sen. Daniel Moynihan (D-N.Y.), frustrated with the meager results of social programs, termed "benign neglect." It is a case for allowing neighborhoods to find their real level of value so as to set the stage for their long-term, sustainable renewal. All cities experience long-term real estate demand cycles. Cities can be thought of as urban ecosystems, in which various districts and residential neighborhoods fill a variety of niches and play a variety of roles. Jane Jacobs, author of The Death and Life of Great American Cities, who is generally viewed as our era's most insightful observer of

the urban life cycle, has noted that "new ideas need old buildings" to take root and grow.<sup>23</sup> That is to say that new businesses or entrepreneurs need the inexpensive real estate and property that can be found in neighborhoods that have outlived their utility for other purposes. Vacant lots, cheap loft space, and abandoned factory buildings can become the kindling for the sparks of new economic ideas. On the contrary, the HUD approach can have the effect of suppressing that cycle of growth, decline, and spontaneous renewal. If poorer neighborhoods are not allowed to fall in value to their true market level, but instead are artificially sustained, the opportunities for their reuse can never be realized.

That is not to say that government cannot, or should not, make underused land or buildings more easily adaptable to new uses. There are countless ways in which local government can aid market forces that help to renew cities, such as demolishing dangerous buildings to create developable lots and improving streets and infrastructure. But policies that actively try to deny or suppress the market, such as the attempt to maintain buildings at standards for which there is no long-term income stream, cannot long be sustained. To the extent that HUD is based on the premise that older neighborhoods should be restored to what they were, it is built on a foundation of sand.

The failure of the first generation of HUD programs to accomplish their twin purposes of lifting up the poor and saving specific neighborhoods has not dulled the agency's zeal to tilt at the same windmill again. In language strikingly reminiscent of that of HUD's founding fathers, former HUD assistant secretary Michael Stegman asserts that "many American cities are in deep trouble. Our great urban centers, which once generated unparalleled social and economic opportunity, now act to isolate the poor--and especially the minority poor--from those opportunities, perpetuating inequality and despair."<sup>24</sup> The latest incarnation of the Model Cities program is called the Empowerment Zone program and is meant to direct funds toward 105 cities. Elements of that program may have merit, but the core concept--that government must act to ensure that capital is directed toward specific locations and that such direction can lead to a sustainable prosperity in those locations--is economically unsound.

Even contemporary liberal observers strongly sympathet-

ic to government interventions have taken a jaundiced view of central planning. In his influential essay, "The Myth of Community Development," Nicholas Lemann notes that community development and urban renewal of poor neighborhoods have proven ineffective because of the effects of suburban migration and that, although presidents since Truman have tried to spur economic growth of inner-city neighborhoods, none has succeeded.<sup>25</sup>

### Planning through Metropolitanization

The original HUD portfolio also included the goal of "metropolitanization"--that is, the encouragement of planning, and even the development of new governmental jurisdictions, which would transcend old city boundaries. That impulse had two chief aspects. One was redistributational. If poor inner-city neighborhoods could be joined politically with more affluent suburban neighborhoods, public goods, whether in the form of public schools or recreational facilities, would be more equally distributed. As Weaver put it, "Planning for area-wide development can help us achieve an appropriate balance of viable functions in cities and suburbs."<sup>26</sup> But the goal of metropolitan planning had deeper roots than that. It also stemmed from a long-standing belief that American cities, even while growing, were sprawling in ways that would have deleterious long-term consequences. That view was captured by Carter McFarland, a ranking HUD official who had served under six presidents by the time he published his 1978 book The Federal Government and Urban Problems.

As everyone knows, our urban areas have grown at a staggering rate since World War I. . . . The growth was inevitable. The character of that growth was not. The shape, or lack of shape, of suburbia, and its sheer size have produced some unpleasant and ominous results. One of these is "strip development," consisting of streets with a melange of automobile dealers, used car lots, various quick food establishments, gasoline stations and other assorted commercial establishments. Most are embellished with glaring lights, gaudy signs, and billboards, which many tolerate but few admire. Commerce is important to any human settlement. It provides jobs and essential services. But the form it too often takes unnec-

essarily demeans the environment.<sup>27</sup>

McFarland went on to deplore the speculative purchase of land for potential development, which he thought stretched the central city farther and farther from its core and forced otherwise unnecessary public investments in extending water and sewer lines and highways. McFarland placed the need to control growth in the context of a long-unrealized agenda that he dated to the quintessential Progressive Era indictment of slum conditions, the 1894 publication of How the Other Half Lives by Jacob Riis. About a presidential study commission that was convened by Theodore Roosevelt not long after, McFarland wrote, "Like the reports of many presidential study commissions before and after, it produced no action." The clear implication: cities have long been growing helter-skelter, with ominous consequences.

The concern about sprawl was linked to the concern about the inner city. In his introduction to McFarland's book, Paul Ylvisaker, dean of the Harvard Graduate School of Education and an architect of the Ford Foundation's efforts in the early 1960s to intervene in the "gray areas" of cities, promoted the idea that HUD was needed to fight sprawl and make cities aesthetically pleasing. Ylvisaker contended that HUD, by directing capital where it would not otherwise go, could constrain the majority's settlement patterns.

McFarland and Ylvisaker saw metropolitan government and central planning as the solution for the cities' problems, which is arguable at best. There is, first, an obvious and powerful dose of aesthetic elitism, a presumption that "glaring lights, gaudy signs" and other trappings of commerce should offend everyone. Such views are part of a tradition of reformist disdain for newly developing middle-class and blue-collar neighborhoods; in their day, the row houses and two- and three-family homes in immigrant zones of emergence were denigrated by reformers who conceived public housing projects in their stead. Beyond such aesthetic views, however, is the implicit assumption that racial minorities will not want to partake in the "majoritarian settlement pattern" and, further, that it is proper for government to attempt to suppress what most Americans want.

It is fascinating, however, to note that "majoritarian settlement patterns" are not set in stone. As commuting has become more difficult and as some people have begun to express a preference for 19th-century housing patterns of

smaller homes closer to stores, private developers have begun to respond. The new urbanism movement promises, if not to remake the entire settlement pattern of the United States, at least to offer denser new development for those who prefer it.<sup>28</sup> Private developers have launched ambitious plans, without government support, to develop "neotraditional" communities, including Playa Vista, California, which will be developed by a group headed by film director Steven Spielberg, and Celebration, Florida, which is being developed by the Disney Corporation.

In addition to such new, upper-middle-class communities, there is increasing evidence of a market-driven trend to make new use of the older urban neighborhoods that HUD was charged with restoring. Inexpensive land in older cities such as Detroit, Cleveland, and Chicago has enticed developers to build new, suburban-style homes on once-vacant lots and on the sites of homes that have been abandoned.<sup>29</sup> The point is that, as land and property values hit "bottom," enterprising developers and buyers will find new uses for them. The cycle must be allowed to run its course. Propping up neighborhoods with government dollars prevents them from hitting "bottom" and in turn prevents the infusion of real capital investments that would otherwise lead to real, sustainable growth.

More broadly, encouraging capital investments in certain neighborhoods while denying them in others flies in the face of the spontaneous, decentralized decisionmaking on which cities and economic growth are actually built. It was Jane Jacobs who saw, behind the benign mask of such planning, a harsh, even authoritarian paternalism, what she termed "monopoly planning" or "the suppression of all plans but the planners'."<sup>30</sup> The helter-skelter development of cities has always offended the reform sensibility, which attempts to impose order on chaos. That impulse, descended from the views of such thinkers as Ebenezer Howard (creator of what he called the garden city concept) and urban critic Lewis Mumford, sought somehow to compartmentalize and otherwise order urban life. Without doubt, steps can be taken to ameliorate the problems of traffic and unsafe construction that can accompany economic growth. But attempts to ordain where certain types of development should go, and attempts to use the financial power of the federal government to enforce such decisions, fly in the face of the quirky, individualized character of the economic decisionmaking that builds cities.

The American body politic has consistently rebelled at attempts to address byproducts of growth, such as sprawl and traffic congestion, with draconian planning measures. Recently, for instance, the same impulse that underlay the founding of HUD found expression in a plan developed by the Southern California Association of Governments, which, in the name of clean air, attempted to mandate a complex planning scheme to ensure what it called "jobs-housing balance." It would have guaranteed that new businesses and new residences would be close together. The plan, which was never adopted, prompted a public backlash.<sup>31</sup>

The American public has made clear its distaste for central planning at the federal and metropolitan levels--pointing to another weak cornerstone of HUD's foundation. The dream of metropolitan government, with strong land-use planning powers, has foundered. Although the many small units of American government cooperate in the delivery of some public services, such as drinking water, fire protection, and vocational education, metropolitan government, with rare exceptions, has not been adopted. That is no coincidence; there are powerful reasons why metropolitan government has been resisted. As Alan Altshuler, a political scientist at Harvard University, wrote,

Where some see policy gridlock in the American system of land use governance, many others see commendable deference to private preferences and property rights. Where some see administrative weakness and incoherence, many others see commendable flexibility--a system with many centralizing options but geared toward preserving local prerogatives insofar as possible. Where some despair at government inaction in the face of growing suburban-central city disparities, many others take comfort in the traditions of market deference and neighborhood-scale democracy that enable such inaction to persist.<sup>32</sup>

### **After the Early Years**

Of course, the fact that its initial premises were flawed does not necessarily keep an agency from learning from its mistakes and going forward. But latter-day HUD initiatives pose problems as well.

In many ways, 1973 was a watershed for HUD. It was the year that President Nixon, having surveyed the problems that had surfaced in the first generation of HUD projects, declared a moratorium on new, subsidized construction. The Nixon administration moved instead on two of its own initiatives. Section 8 of the National Housing Act of 1974 would become the vehicle for providing rent subsidies to individual tenants, in some cases tied to specific projects and in others to "vouchers" that tenants could spend themselves. Nixon also inaugurated the community development bloc grant, a vehicle for directing federal monies to low- and moderate-income neighborhoods wherever they may have been, not only in the central cities.

### **Community Development Funds**

Funding for community development programs may be the least objectionable of HUD's spending, although it is by no means clear that it justifies the existence of HUD as a federal agency. (HUD merely develops a distribution formula and spending guidelines and forwards the funds to local bodies to spend.) Bloc grant monies reflect the American belief that, even in the poorest neighborhoods, some sorts of public goods must be provided. Thus, we do not let the street and sewer systems decay in neighborhoods that are or become poor. Much of such infrastructure will have a useful life no matter the ultimate fate of the neighborhood; for instance, water and sewer lines may serve older housing stock but can also serve new industrial or residential structures if the market demand in a particular locale changes.

Because such improvements are otherwise funded at the local level through property taxes, such infrastructure can be hard to renew or replace if a jurisdiction must rely on a declining tax base. Thus, a case may be made for some level of redistribution to support such infrastructure. (In its 1995 budget, HUD was authorized to spend \$4.4 billion on community development bloc grants.) It is by no means clear, however, that the federal government should perform that redistributive function. It is arguably both unconstitutional and inefficient for the federal government to do so. The Tenth Amendment was appended to the Constitution as a reminder that the powers that are not delegated to the federal government are reserved to the states or to the people. Whether or not state and local governments should

be involved in urban planning, the Constitution certainly does not authorize the federal government to be involved in that activity.<sup>33</sup> On a practical level, HUD's redistributive function is notoriously inefficient; tax dollars are filtered through a federal administrative layer, which includes both Washington and regional offices, only to return to the municipalities from whence they came. There is no reason that such community development cannot be funded through traditional state and local bonding for capital projects.

### **Rent Subsidies and Vouchers**

HUD currently spends on rent subsidies some \$6 billion annually, an amount divided between subsidies tied to specific projects (that is, the housing units themselves come with a rent subsidy) and portable vouchers, which tenants can use to pay rent to landlords who will accept them. Vouchers, at least, have the virtue of not necessitating the construction of large, new subsidized housing complexes, with all the financial and management implications they pose for government. Because vouchers contrast so sharply with public housing and rely on private ownership, they have become popular with many conservatives. Indeed, it is difficult to exaggerate the ills of public housing that have, in turn, led to support for vouchers. A 1988 study estimated that making necessary repairs and improvements to the nation's public housing stock would cost no less than \$30 billion.<sup>34</sup> Moreover, social maladies--crime, drug abuse, and teen pregnancy--are concentrated in public housing. A 1993 study found that crime in Los Angeles's housing projects, for instance, was three times greater than crime in surrounding high-crime neighborhoods.<sup>35</sup>

But vouchers pose their own dangerous, even perverse, incentives. In effect, they offer tenants a chance to move to higher-income or at least less poor neighborhoods without having actually earned higher incomes. By rewarding need, not achievement, vouchers send the wrong message to those they subsidize; they generate resentment among those who have worked hard to achieve a better level of housing; and they threaten to introduce social problems to the neighborhoods into which voucher-holders move. One study of a blue-collar neighborhood in Boston to which many voucher-holders were suddenly introduced found widespread public concern that the Section 8 tenant-based assistance program and neglected absentee-landlord-owned properties were destabil-

izing whole streets and neighborhoods.<sup>36</sup>

Although there is widespread reluctance to acknowledge it, there is an obvious link between personal responsibility and behavior and the ability to move to a "better" neighborhood. To buy a house--absent a rent subsidy--requires one to be regularly employed, to save money, and to defer other types of gratification. In that way, the poor can form slightly less poor neighborhoods that represent higher rungs on the housing and neighborhood ladders. Vouchers are insensitive to that social dynamic, as has been HUD, both historically and today. HUD officials continue to endorse, for instance, the idea of using vouchers to disperse the poor throughout suburban locales. They term this "demand-side" rental assistance that empowers lower-income families to seek housing in the metropolitan marketplace, notwithstanding the fact that those households have not had to engage in the sort of personal discipline that their neighbors have relied upon to reach the same neighborhood.<sup>37</sup>

Such programs have also caused particular problems when they have been used as a vehicle to foster racial integration. In his ill-fated Moving to Opportunity program, former HUD secretary Henry Cisneros sought to use rent subsidies to place low-income, inner-city residents in middle-class suburbs. Cisneros believed that such a move offered the best way for such residents to find better neighborhoods and better public goods, such as schools for their children. Not surprisingly, announcements of such intentions (e.g., in Baltimore) caused widespread backlash.<sup>38</sup> Such resistance is often glibly ascribed to the alleged racism of lower-middle-class white communities who are asked to host the lower-income black newcomers. But working-class blacks are also vociferous in their opposition to social engineering that places subsidized tenants, including those on public assistance, in so-called mixed-income buildings. The Chicago Housing Authority has faced objections by black developers who assert that public housing tenants placed in mixed-income buildings have vandalized the premises and alienated nonsubsidized neighbors through their behavior.<sup>39</sup> Thus, the gains and achievements of blue-collar families who strive and save to attain improved

housing in better neighborhoods are undermined by placing subsidized tenants in their midst.

The fact is that by placing lower-income, usually nonworking, tenants in middle-class communities, HUD's efforts will likely inspire resentment regardless of the color of the subsidized tenants. Geographer Philip Rees, author of Residential Patterns in American Cities, found that people of similar incomes and educational backgrounds choose overwhelmingly to live together. Wrote Rees, "Socio-economic status is a universal sorting principle in American cities."<sup>40</sup> The surest way for racial divisions to blur over time is to achieve racial integration through the diffusion of blacks into communities in which they can afford to live while steadfastly enforcing nondiscrimination laws.<sup>41</sup> And one does not need a cabinet-level federal agency (in addition to the Department of Justice) to enforce such laws.

Apart from the racial and economic politics of such uses of vouchers, there is also an unacknowledged arbitrary quality to such assistance. Only 28 percent of families currently eligible for some sort of housing assistance--whether public housing, rent-subsidized apartment, or portable rent subsidy (voucher)--receive such aid. A wholesale expansion of such assistance would imply a major new entitlement program ("housing stamps"). Given current federal budget constraints, such an expansion is unlikely and calls into question the logic of a voucher program.

Far better than rent subsidies to disperse the poor would be the construction of modest low-cost homes, built on cheap urban land and marketed to the upwardly mobile poor. It is certainly true that large groups of the poor will rely on used housing, inherited from the middle class. Historically, however, the working poor have also had access to modest new structures as well. Efforts such as the privately financed Habitat for Humanity program, which uses volunteer labor and materials, in part, to offer two- to three-bedroom homes for less than \$50,000, point the way toward a new generation of such modest structures, as does the potential for manufactured housing.

Furthermore, relaxing regulations such as zoning and building codes can help clear the way for such structures, which would stand in the tradition of row houses, bungalows, and other privately built housing that was affordable for those of low income by virtue of their low cost and rela-

tively high density.<sup>42</sup> Before widespread use of regulatory mandates and zoning ordinances, private markets generally provided housing for the poor. During the period from 1890 to 1930, for instance, truly vast amounts of new working-class housing were built in American cities. In Philadelphia during that period, for instance, some 299,000 brick row homes were built--many of which have stayed in use. Data from the period show that a significant percentage of residents of poor neighborhoods lived, not in tenements owned by rapacious absentee landlords, but in small homes that they either owned themselves or in which the owners also lived, renting out one or more units in addition to that in which they lived.

As early as 1894, more than a third of residents in the poorest neighborhoods of Chicago lived in their own homes or rented homes of which the owner was also an occupant. By 1930, census data for 23 poor Chicago neighborhoods showed that the percentage of homes owned by their occupants was fully double that of 1894. It is noteworthy that, by 1940, Chicago had more than twice as many housing units in two-, three-, and four-family houses (382,028) as it had single-family homes (164,920). In contrast to the public housing that would be built largely after World War II, the world of modest, owner-occupied residential structures can be said to imply a struggle-based vision of housing improvement. One could rent an apartment or even a room (reformers called that "the lodger evil"). One could save money to buy a modest "workingman's cottage" (small single-family home) or small tenement (two to four units), improve it (perhaps helping to pay for it through rental income), then sell it and move up to a better home in a slightly more affluent neighborhood. Thus were built new and better neighborhoods, such as those described by Woods and Kennedy, as "zones of emergence" into the mainstream of American economic life.<sup>43</sup>

### **Public Housing Modernization**

Public housing is HUD's inheritance from the housing reform movement--part of the Progressive movement whose supporters believed that the private housing market was so fatally flawed that it had to be replaced by public ownership. Housing reformers like Catherine Bauer believed that as many as two-thirds of all families would not be adequately served by private residential builders.<sup>44</sup>

It is a profound irony, of course, that public housing, designed with utopian ideals in mind, has become the locus of some of the country's worst social problems. HUD, however, was not originally intended to have much involvement with public housing. Historically, local authorities built and managed public housing projects, taking advantage of a U.S. housing authority that agreed to purchase locally floated construction bonds. Public housing, except for that financing aid, was intended to be self-supporting, using local funds and rents as its income. But the long-term exodus of working-class families from public housing, along with a rent cap imposed by Congress in 1969, has made local housing authorities dependent on federal operating and repair subsidies administered by HUD. Operating subsidies have risen from \$6.5 million in 1969 to more than \$2.5 billion today. HUD also spent an additional \$2.8 billion in 1995 to "modernize" what it calls "severely distressed" public housing.

Part of HUD's original mandate was to coordinate disparate federal urban aid and housing programs or, as Robert Weaver called it, "achieving maximum coordination for federal activities with an effect on urban, suburban or metropolitan development."<sup>45</sup> The much-enlarged public housing portion of its portfolio, however, raises both administrative and policy questions. If we are to finance public housing repairs from general tax revenues, is it necessary to involve a cabinet-level agency in such transactions? Or, as with infrastructure improvements financed by community development bloc grants, could such activity be handled through the traditional state and local bonding process?

Legislation proposed by Rep. Rick Lazio (R-N.Y.) and passed by the House proposes to increase the number of middle-income residents in public housing projects. But if public housing is to become simply another apartment complex, why should it be owned and operated by the government? Do we really want to lure working-class families into public dependence? Is there any assurance that once public housing complexes have been renovated, public housing authorities will do the job any better than before?

### **Alternatives to HUD**

Among the great ironies of urban policy in the past 10 years is the fact that even people who continue to endorse

the original policy ideals on which HUD was based no longer look to it as their primary vehicle. Since 1986, with the passage of the Low-Income Housing Tax Credit, a generation of community development corporations (CDCs) has used that tax law to raise corporate capital to renovate inner-city buildings and to build new housing complexes for lower-income individuals. The scale of that enterprise has been significant. The National Congress for Community Economic Development estimates that there are some 2,000 CDCs operating in the United States and that in just the four-year period from 1987 to 1991 such groups built or renovated 87,000 housing units. They did so largely without direct federal appropriations. Projects undertaken by the groups rely on the sale of tax credits to corporate donors and are touted as public-private partnerships. The sale of credits and assistance with project financing often are arranged through two national intermediary groups: the Local Initiatives Support Corporation, a Ford Foundation spin-off, and the Enterprise Foundation.

There are reasons to be suspicious of the long-term prognosis for the efforts of such groups. Early analyses have already found maintenance problems, for instance, in relatively new developments.<sup>46</sup> The Congressional Budget Office also has been critical of the low-income housing tax credit as a financing vehicle.<sup>47</sup> The point is that even if one believes in the Model Cities ideal or thinks that it is a good idea to locate community residents who will oversee the management of older apartment buildings or that such plans can lead to economic development, a significant effort toward those ends is now under way and has essentially bypassed the central HUD bureaucracy.

### Conclusion

There is grave reason to doubt the need for the Department of Housing and Urban Development--not merely because it is expensive, or because many of its programs have been marred by scandal, or because much of the housing it has supported has been poorly managed and is in poor repair. Rather, there is reason to be skeptical about the need for HUD because it has, from its inception, been based on suspect premises:

- HUD Premise: Cities are and have been, since World War II, in a state of crisis and decline.

- Rejoinder: Select residential areas in cities have declined because of shifts in demand and population. Cities as a whole--defined realistically as metropolitan areas rather than those neighborhoods that happen to fall within historically defined "city limits"--are healthy.
- HUD Premise: Run-down, lower-income areas of cities can be "saved" through public investment in housing construction and renovation, combined with social service programs.
- Rejoinder: Such efforts, whether known as "model cities," "community development," or "empowerment zones," fight against a powerful tide that has lifted both whites and blacks into higher-income urban and suburban neighborhoods. Government must do what it can to make all residential neighborhoods safe for residents, but neighborhoods cannot be propped up by public investment over the long term. It is far better to allow local government to manage their transition, helping to steer them toward new uses in which the market wants to invest.
- HUD Premise: Metropolitan government and regional land-use planning are goals toward which the United States should strive.
- Rejoinder: Although regional cooperation does occur in the provision of some services, that ideal has been effectively rejected by the body politic. That is particularly true in the older northeastern and northwestern cities that HUD had a mandate to renew.<sup>48</sup> As Alan Altshuler has pointed out, Americans clearly want planning to remain a local function.<sup>49</sup>
- HUD Premise: The agency has a core mission to provide "affordable housing"--whether in the form of public housing or rent-subsidized units.
- Rejoinder: Historically, both HUD and its predecessors in the housing reform movement have failed to understand the important distinction between low-income housing and low-cost housing. Low-income or "affordable" housing--defined as housing that low-income residents could not afford absent government construction or rental subsidies--is difficult to maintain over the

long term and causes political complications. Low-cost housing--modest structures built in low-cost neighborhoods--is the way in which the market accommodates those of modest means. Government can clear the way for additional low-cost housing by examining its zoning and building regulations at the local level. Among other things, it should build housing codes on a more minimalist approach. What is so crucial to health and safety that it must be in the code? Limiting aesthetic requirements and health-related mandates that may be overkill would limit renovation costs.

There is good reason to question the need for HUD. That is not to say that abolition would be simple. HUD is financially intertwined with local governments, with the private mortgage market, and with numerous private property owners. The Federal Housing Administration, for instance, which predates HUD, has guaranteed millions of private mortgages as part of a national policy to direct capital toward the home-buying market. Finding the best way to sort out such complications is a difficult but possible task. That does not, however, diminish the fact that HUD is an agency whose establishment was unnecessary, whose purview is of questionable constitutionality, and whose goals can be better met through the private housing industry.

#### Notes

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chairman of Kaiser Industries.

5. Robert C. Weaver, "Goals of the Department of Housing and Urban Development," Urban Affairs Quarterly 2, no. 2 (December 1966), p. 3.

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12. See, for example, Leonard Downie, Mortgage on America (New York: Praeger, 1974), particularly the chapter entitled "Federal Housing Programs: Bankers and Builders Relief."

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24. Michael Stegman, "Federal Urban Policy and the Budget," Address to the Center for Urban Policy Research at Rutgers University, February 28, 1996.

25. Nicholas Lemann, "The Myth of Community Development," New York Times Magazine, January 9, 1994.

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29. Meredith, p. 1.

30. Jacobs, p. 251.

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32. Alan Altshuler, "The Ideo-Logics of Urban Land Use Policy," in Dilemmas of Scale in American Democracy, ed. Martha Derthick (Washington: Woodrow Wilson Center Press, forthcoming).

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