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# Principles To Guide Housing Policy at the Beginning of the Millennium

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The 1990s were a tumultuous time for Federal housing policy. The decade began with deep divisions in the housing community over how to deliver housing assistance. For the first time in recent history, Federal budget cuts in the mid-1990s essentially froze the number of households that received housing assistance. At roughly the same time, the continuing existence of the U.S. Department of Housing and Urban Development (HUD) was itself in doubt, and in 1995 the *New York Times Magazine* published a lead article with the title “The Year That Housing Died.”

However, as the new millennium begins, the situation has changed dramatically. Not only is Congress no longer seriously questioning whether to disband HUD, but, in response to a record-setting economic expansion and internal reforms within the agency, Congress also has substantially increased HUD’s budget. In marked contrast to the beginning of the past decade, remarkable consensus exists among housing policymakers and analysts about the future direction of housing policy. In this article, we explore this emerging consensus and set forth our views regarding the principles that should guide housing policy over the next decade.

## Principle 1: Housing Policy Must Be Linked to Other Social Policies

In recent years, we have made significant progress in breaking through the parochialism of housing policy and returning it to its roots. Housing policy, as we currently think about it, can trace its parentage to the Progressive era. At that time, housing reformers saw housing as providing not simply physical shelter but also they believed that better housing would have a more general positive impact on its occupants and their communities. For example, much of the debate leading to the passage of New York City’s pathbreaking Tenement Housing Law of 1901 revolved around issues of health and morals (Lubove, 1962).

This emphasis on housing as a tool for human betterment is resurgent today. Partly as a result of welfare reform, housing policy is increasingly seen as part of a holistic strategy to build human capital and promote economic mobility. Focusing on residents approaching the 5-year time limits of the new Temporary Assistance for

Needy Families block grant, many housing providers have made new and innovative job training and placement services available to their residents. For example, several public housing authorities (PHAs) throughout the Nation are participating in the Jobs-Plus Initiative, which provides residents of public housing with saturated social services and job training opportunities (Bloom and Blank, 2000). Other PHAs are participating in the Welfare to Work Voucher Program, which targets housing vouchers to families attempting to make the transition from welfare to work, and the Family Self-Sufficiency program, which promotes work and asset-building through the use of escrow accounts and the coordination of social services. The Neighborhood Networks and Campus of Learners programs provide low-income families in both private subsidized housing and public housing with access to computers and computer training. In addition, many community development corporations have responded to the challenges of welfare reform by investing in computer training facilities, job placement programs, and educational initiatives (Nathan et al., 2001).

Housing assistance also can provide people living in inner-city neighborhoods with the means to move to areas of greater economic opportunity and neighborhood amenities. For example, as a result of the Gautreaux litigation in Chicago, several thousand families were issued housing vouchers to live in suburban communities. Studies by Rosenbaum and Popkin (1991) showed that children who moved to these neighborhoods had improved educational outcomes compared with those who remained in the inner city. In addition, mothers who moved to the suburbs were more likely to be employed and less likely to receive public assistance (Rosenbaum and DeLuca, 2000).

A more recent Federal initiative to promote geographic mobility is the Moving to Opportunity demonstration. Under this program, which operates in Baltimore, Boston, Chicago, Los Angeles, and New York, families in public housing or privately owned assisted housing meeting income eligibility requirements are randomly assigned to three groups. One group receives Section 8 certificates or vouchers that can be used only in low-poverty areas; a second group receives geographically unrestricted Section 8 certificates or vouchers; and the third receives no tenant-based rental assistance. Early results from Boston suggest that the first two groups experienced significantly increased safety, improved health, and far fewer behavior problems among boys compared with the third group. The suburban mover households also were far less likely to be victims of crime or experience asthma attacks. No effect, however, was measured in the first 3 years in employment,

earnings, or welfare receipt (Katz et al., 2000). Additional studies have shown higher educational attainment, lower probabilities of arrest, lower rates of welfare receipt, and better neighborhood quality among the suburban mover households (Ludwig et al., 2000a and 2001; Rosenbaum and Harris, 2000).

Housing policy also can help low- and moderate-income families build wealth and achieve stability. In recent years, research has indicated that focusing on differences in income does not fully capture the socioeconomic disparities between the families of racial and ethnic minorities and White families. For example, research by Oliver and Shapiro (1995) indicates that the disparity in assets among White and African-American families is much wider than differences in incomes between the two groups. This disparity in assets may explain at least a portion of the persistent inequality between African-American and Latino households and White households (Conley, 1999; Oliver and Shapiro, 1995).

Homeownership is one area in which the disparity among White and African-American families is most stark. In 2000, 67.7 percent of all U.S. households were homeowners, but among non-White households the homeownership rate was only 48.2 percent (U.S. Department of Housing and Urban Development, 2000d). In recent years, the Federal Government has met with some success in increasing the rate among non-White households. For example, HUD, the regulator of government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac, has raised the GSEs' goals for loans to low- and moderate-income households and areas. Greater attention by HUD and the U.S. Department of Justice to discrimination among mortgage originators and insurance companies also has promoted access to homeownership. Further efforts to expand homeownership by the Federal Housing Administration (FHA) have made homeownership a reality for many Americans.

Like many other Federal housing policies, initiatives to expand homeownership serve multiple objectives. Families that become homeowners gain the opportunity to increase their wealth as property values appreciate. They also benefit from enhanced control over housing costs, security of tenure, and the ability to deduct mortgage interest and property tax payments from their Federal income taxes. But the benefits of homeownership also extend to the neighborhoods in which low- and moderate-income families live. Research suggests that neighborhoods with increased levels of homeownership tend to enjoy better upkeep, city services, and community involvement.

## **Principle 2: Housing Policy Must Fix the Mistakes of the Past and “Do No Harm” in the Future**

Just as housing policy can improve the physical, social, and economic condition of city residents when done right, it can destroy people and places when implemented poorly. For example, up until the mid-1960s, the FHA used underwriting criteria that discriminated against inner-city neighborhoods, particularly those occupied by racial minorities. Guidelines discouraged underwriting loans in crowded neighborhoods and older properties, both of which were more prevalent in cities than in the newly forming suburbs (Jackson, 1980). In addition, FHA appraisal manuals instructed loan originators to steer clear of areas with “inharmonious racial groups” and recommended that municipalities enact racially restrictive zoning ordinances as well as covenants running with the land that prohibited African-American owners (Orfield, 1975). The result of these policies—the redlining of inner-city neighborhoods—reduced property values, denied homeowners the capital to maintain their homes, and provided an incentive for development in the suburbs, triggering the postwar decline of central cities.

Perhaps nowhere have we seen a more dramatic example of the harm wrongheaded housing policy can wreak on cities than in the public housing program (Schill, 1993; Schill and Wachter, 1995). In many, but certainly not all cities,<sup>1</sup> public housing, rather than helping to solve urban problems, has come to symbolize them. City governments, often impelled by discriminatory motives, located racially segregated public housing projects in undesirable locations. Frequently, HUD built these developments at extremely high densities because of the high cost of urban land. Suburbs often built no public housing whatsoever because of the program’s voluntary nature. Projects often were poorly constructed and badly managed. Indeed, PHAs in cities such as Chicago and Philadelphia existed to serve the patronage needs of local politicians as much as the housing needs of low- and moderate-income families.

Congress added to the problems of public housing by requiring that the tenants be overwhelmingly the poorest of the poor. This admission requirement, together with income-based rents and persistent underfunding of operating expenses, caused many developments to experience severe physical and social distress. As buildings began to crumble and crime rates soared, households with resources fled. Intense concentrations of poverty within the walls of public housing harmed tenants as well

as surrounding neighborhoods. Children growing up surrounded by concentrated poverty developed tenuous links to the labor market and middle-class values (Wilson, 1987). Surrounding neighborhoods were blighted by the presence of half-vacant, deteriorating, crime-ridden housing developments (Massey and Kanaiaupuni, 1993; Schill and Wachter, 1998).

For years, Congress and the President were either unwilling or unable to solve the problems created by the public housing program. Occasional efforts to clean up local PHAs, such as the Federal takeover of the Philadelphia Housing Authority in 1992, often were ineffectual. Nevertheless, during the mid- to late 1990s, Congress and HUD began to address seriously past problems with public housing, most noticeably through changes in income-targeting requirements as well as the HOPE VI program, which provides grants to replace distressed public housing with attractive mixed-income and lower density public housing developments. In 1995 Congress repealed the one-for-one replacement rule, which had made it difficult for some PHAs to demolish even abandoned and dangerous public housing developments.<sup>2</sup> Since these programs and reforms were enacted, 96,000 units of severely distressed public housing have been approved for demolition (U.S. Department of Housing and Urban Development, 2000a). In some instances, tenants have been relocated to the private housing market with Section 8 vouchers or certificates. In other cases, tenants were relocated to vacant units in other public housing developments, and in still other cases, new mixed-income public housing developments have been constructed through the HOPE VI program.

In 1998 Congress passed, and the President signed, the Quality Housing and Work Responsibility Act (QHWRA), a law that changed many of the ground rules under which public housing operates. The law seeks to deconcentrate public housing by enabling PHAs to admit more working families and, through the use of ceiling rents, retain them as tenants. The law also has several provisions that enable authorities to screen out lawbreakers and make eviction easier. In addition, QHWRA sets up a mechanism to take housing away from PHAs that persistently are poorly run.

HUD also has acted administratively to reform public housing. For example, in 1995, HUD took over the Chicago Housing Authority, perhaps the Nation's worst-run PHA. Under Federal oversight, administrative reforms were instituted and plans were put into place to redevelop some of the worst public housing in the Nation, such as the infamous Robert Taylor Homes. HUD also has begun to confront the legacy of

decades of discriminatory actions by PHAs. HUD has entered into a number of consent decrees that include remedies such as unified housing authority waiting lists, demolition of developments, construction of scattered-site housing, Section 8 vouchers and certificates, mobility counseling, and modernization. HUD also has taken steps to improve its monitoring of public housing. Although some technical details and differences with PHAs still need to be worked out, a new system, the Public Housing Assessment System, should provide more up-to-date information about and accountability among the Nation's PHAs.

Just as the Federal Government must continue to remedy past mistakes, so must it avoid future errors. The history of housing policy in the United States is replete with examples of well-intentioned interventions that have had unintended and negative consequences. In some instances, the difficulties have been made worse by financial scandal, corruption, and incompetent administration and oversight (Welfeld, 1992). In addition to harming neighborhoods and the people who live in them and wasting scarce public resources, housing policies that go awry call into question both the ability of HUD to manage programs and the wisdom of Congress in allocating funds for these programs.

HUD has made several significant efforts to improve its management structure and oversight capabilities. In 1997 HUD adopted the 2020 Management Reform Plan, which included a number of initiatives that centralized assessment and enforcement functions and sought to improve budgeting and financial operations. Several independent analyses of the implementation of the 2020 Management Reform Plan suggest that HUD has made progress (Public Strategies Group, Inc., 2000; U.S. General Accounting Office, 2000b), although considerable work remains.<sup>3</sup>

Federal oversight over housing expenditures requires up-to-date information about the quality and financial condition of housing built with Federal subsidies. An integral element of HUD's management initiative is the Real Estate Assessment Center (REAC), which was created to obtain, for the first time, consistent information from property inspections of all public and multifamily assisted housing. The assessment system evaluates public housing based on four factors: physical condition, financial health, management operations, and resident operations; for multifamily assisted housing, only the first two factors are evaluated. A recent evaluation of REAC by the U.S. General Accounting Office (2000a) praised HUD for instituting quality controls but found that gaps or weaknesses in some of its

procedures substantially limited inspection regimens. In particular, the evaluation found that REAC did not have procedures for ensuring that reviews of inspections were performed systematically. HUD has responded to the evaluation by agreeing to implement all of its major recommendations.

Although HUD must be sensitive about creating red tape and disincentives for its public and private partners to participate in Federal housing programs, enhanced oversight and evaluation are clear prerequisites for avoiding future scandals. In crafting programs, HUD must ensure that its initiatives do not hurt the people they are designed to help. Homeownership may not always be advisable for everyone. For years the Federal Government has promoted homeownership among low- and moderate-income families. Programs such as FHA mortgage insurance and HOPE VI, enforcement of laws such as the Community Reinvestment Act and the Fair Housing Act, and Federal tax incentives for homeownership have succeeded in raising the homeownership rate to an all-time high. Although disparities between White and non-White homeownership rates continue to exist, racial and ethnic minorities have experienced some of the most impressive increases in ownership.

Although the benefits of homeownership are well established, we must bear in mind that, without appropriate safeguards, homeownership ultimately may not be in everyone's best interest. The loss of a home can devastate a family; large numbers of foreclosed homes on a block can similarly devastate a community. HUD, together with States, localities, and the large secondary mortgage market agencies such as Fannie Mae and Freddie Mac, needs to ensure that those who are unprepared to become homeowners do not buy houses. If the current economic expansion slows or reverses, HUD will need to be vigilant in forestalling defaults and foreclosures. Homeowner counseling, both pre- and postpurchase, is a promising way to avoid these problems. Additional initiatives, including financial assistance for defaulting owners, also may be desirable.

### **Principle 3: To the Greatest Extent Possible, Housing Programs Should Work With the Market Rather Than Against It**

The need for housing assistance in the United States substantially outstrips the supply of subsidies. A recent report by HUD (U.S. Department of Housing and Urban Development, 2000b) estimates that in 1997, 5.4 million unassisted very low-income renter households paid more than one-half of their income for housing or lived in

severely inadequate housing. In light of this unmet need, it is imperative that scarce resources be used as efficiently as possible and that private resources be leveraged whenever possible. In this regard, Section 539 of the QHWRA is promising. It authorizes PHAs to own, operate, or invest in mixed-finance developments. Under the statute, the proportion of public housing units to total units must be equal to the ratio of public housing financial commitments to total financial commitments. Section 539 should further several different objectives. PHAs will be able to promote economic integration of low- and very low-income households by leasing, purchasing, or investing in mixed-income developments. In addition, housing authorities will be able to stimulate the production of housing for all income groups by either investing money or contributing other resources such as land to the projects.

Thus far, the bulk of investment capital leveraged by PHAs has been in the context of the HOPE VI program. HOPE VI was created by Congress to spur redevelopment of distressed public housing, typically through the demolition of existing projects and the reconstruction of mixed-income developments. The typical development involves a partnership with private entities. Beyond the extension of loans and the purchase of tax credits, however, the extent of private investment in below-market-rate housing has been extremely limited (Salama, 1999).

Market-oriented principles underlie other provisions of the 1998 housing legislation. The rules governing housing vouchers—the quintessential market-oriented housing program—were changed to make the program as transparent as possible. In some parts of the Nation, only a limited number of potentially eligible landlords rent to Section 8 certificate and voucher recipients. To make the program more attractive to landlords, QHWRA enacted several provisions. One of these provisions is the permanent repeal of the take one, take all rule, which stated that landlords who rented to one Section 8 tenant could not discriminate against future participants in the Section 8 program. The repeal was intended to encourage landlords to experiment with the Section 8 program without the disincentive of permanent participation. QHWRA also made the relationship between Section 8 tenants and landlords more like a traditional landlord/tenant relationship. Under previous law, leases with Section 8 recipients were for indefinite periods; under the new law, such leases must generally extend for only 1 year unless the prevailing practice in the area is different.



## **Principle 4: Housing Vouchers Should Be the Primary Source of Incremental Housing Assistance in the Future**

Since the mid-1980s, tenant-based housing subsidies such as housing vouchers and certificates have been the primary source of incremental housing assistance provided by the Federal Government. Housing vouchers have earned their place as the foundation of our housing assistance program. Vouchers have several advantages over alternatives such as supply-oriented programs. First, virtually every careful study of vouchers has found that vouchers are less costly than production programs (Weicher, 1990; Shroder and Reiger, 2000). Delivering housing subsidies through vouchers rather than through other types of assistance programs promotes efficiency and enables more people to receive some form of assistance.

Second, vouchers may be less susceptible to abuse. Because voucher holders can choose their landlord, they can move out of units administered by poor landlords. In theory, at least, the ability of recipients to move and take their vouchers with them provides a form of market discipline that other housing programs lack (Schill, 1993). To realize the full potential of this discipline, however, voucher holders need to have a meaningful range of choices (which may be difficult in some markets) and transaction costs such as moving expenses need to be minimized.

Third, and perhaps most important, vouchers resolve the tension present in all supply-oriented programs between efficient targeting and concentrations of poverty. Principles of vertical equity suggest that those who have the greatest need for housing assistance should receive subsidies before more affluent households do. However, with most supply-oriented programs, strictly adhering to this principle would lead to the concentrations of poverty that have proved so devastating in many American cities. Vouchers, on the other hand, can be targeted to the poorest of the poor and still promote deconcentration, because poor families with vouchers can move into private-market rental housing and neighborhoods occupied by households with higher incomes. Indeed, this insight informs the income-targeting provisions of QHWA. Under the law, rules for targeting public housing assistance were relaxed to promote mixed-income developments while rules for targeting tenant-based Section 8 assistance were kept fairly stringent.<sup>4</sup>

Although studies show that voucher recipients typically live in less economically deprived and racially segregated neighborhoods than public housing residents

(Newman and Schnare, 1997), concentration issues have developed in some cities. HUD research shows that approximately 45 percent of all families receiving Section 8 tenant-based assistance rent homes in approximately 20 percent of the tracts where affordable housing exists (U.S. Department of Housing and Urban Development, 2000c).

There are several reasons why such concentration occurs. Many Section 8 households choose to either stay in place or move to nearby locations. This may be due to the desire to remain near friends, family, childcare networks, and other neighborhood institutions such as churches and schools. Some worry about housing discrimination, and others are concerned about the lack of public transportation in the suburbs. Other households may wish to move to areas with relatively low levels of poverty but are impeded by a lack of information about housing in low-poverty areas, a shortage of landlords who accept Section 8 vouchers in those areas, discrimination in the housing market, and rents that are too high to be affordable with housing vouchers. Federal, State, and local policymakers should take seriously the issue of Section 8 concentration. To the extent that households are not able to move to the neighborhoods they desire, Section 8 recipients may be deprived of some of the principal benefits of the program (such as good schools, racial and economic integration, and lower crime rates). In addition, purported concentrations of Section 8 recipients and a few anecdotes of community discontent have been used unfairly by some journalists to scapegoat one of our most successful housing programs (Husock, 2000).<sup>5</sup> The Section 8 program, which over the years has earned acceptance by all parts of the housing community, could be in danger of political repudiation if efforts are not made to avoid this type of controversy in the future. A HUD-funded study nearing completion will provide guidance on the reasons for such controversies and how they can be anticipated and avoided in the future.

Indeed, Congress and HUD have already taken some steps to improve mobility among Section 8 recipients. As described earlier in this article, the 1998 housing legislation included several provisions to encourage landlords to participate in the program such as ending the take one, take all rule and the endless lease. In addition, HUD recently raised the fair market rents and authorized the use of higher payment standards in many expensive jurisdictions. Other efforts should be made to encourage landlords to rent to Section 8 tenants such as initial bonuses for program enrollment, modest loans to encourage owners to bring their homes into compliance with Section 8 quality requirements, and streamlined administrative procedures.

Section 8 recipients should also receive help in locating affordable housing outside of low- and moderate-income neighborhoods. Initial evidence from the recent Moving to Opportunity demonstration suggests that housing counseling is a successful way to help voucher recipients obtain housing in unfamiliar locations. Additional efforts to help low-income households become good neighbors also may be useful.<sup>6</sup> In addition, thought should be given to taking the administration of the Section 8 program away from local PHAs and vesting it in agencies with a metropolitan or regional scope (Katz and Turner, 2000).

### **Principle 5: Production Subsidies Should Be Used Only When Special Justifications Exist, Such as Barriers to Supply or the Desire To Promote Neighborhood Redevelopment**

Although housing vouchers can be relied on to house low- and moderate-income households in most parts of the Nation, production subsidies may be useful under certain special conditions. In some housing markets, for example, sudden increases in demand or barriers to the supply of new housing may exist. Under these circumstances, relying solely on housing vouchers may, at least in theory, generate rent inflation.<sup>7</sup> At least temporarily, production programs that seek to increase supply directly may be useful.<sup>8</sup>

Investments in housing—homeownership programs or rental housing programs—have the potential to generate benefits that can affect entire communities rather than just the people who live under the roofs of the buildings created. Because it is durable and tied to location, housing can generate both positive and negative externalities. Deteriorated or abandoned housing may reduce property values in a neighborhood and lead neighboring owners to invest too little in housing upkeep. Correspondingly, investing in housing maintenance and rehabilitation may increase the value of housing on a block and stimulate investment by others. Because the benefits of housing investments are not enjoyed solely by the owners who pay for them, there may be insufficient investment by the private sector. Thus, government should play a role in subsidizing the production or rehabilitation of housing if that investment is designed to be part of a coordinated local community development strategy.

Housing has the potential to create order out of disorder, combat crime, and create neighborhood stability.<sup>9</sup> Indeed, in New York City, many people believe that the dramatic reductions in crime experienced during the 1990s were attributable, at least

in part, to the city's unprecedented investment of \$5 billion in housing (New York City Department of Housing Preservation and Development, 2000). This 10-year capital program led to the construction or rehabilitation of more than 150,000 housing units (Schwartz, 1999). Housing was integral to the transformation of once-barren landscapes such as the South Bronx into thriving, albeit still low- and moderate-income, communities. Although only one econometric study has been done examining the effect of this new housing development, the results of some studies suggest that the improved housing may be correlated with reduced crime (Braconi and Morse, 1998; Schwartz, 1999). Research indicates that the prices of homes sold near subsidized homeownership projects are higher than they would have been in the absence of the developments.

In much the same way, housing also can be used to spur economic and community development. The development of housing in a neighborhood may provide jobs for unemployed residents, although the potential for providing such jobs is seldom fully realized. In addition, the repopulation of neighborhoods that formerly had large numbers of abandoned or vacant buildings can create a customer base for local retail stores and services. Indeed, in the Bronx, once-abandoned shopping districts today are among the liveliest in the city (New York City Department of Housing Preservation and Development, 2000).

The very process of building housing also may promote community development objectives. As Wilson (1987) and others have suggested, one of the most devastating things to happen to inner-city neighborhoods in the 1970s and 1980s was the loss of the middle class. The social fabric of many neighborhoods collapsed as the people who were most likely to participate in the parent-teacher association or serve as church deacons moved elsewhere. In many cities, however, community-based organizations have stepped in to fill the void. These nonprofit community development organizations have sought to mobilize neighborhoods and empower residents, usually through the development of housing and economic development initiatives. Although little research examines whether the transformative impact of community development corporations is worth the subsidies spent, anecdotal evidence suggests that important positive effects can be generated (Briggs and Mueller, 1997).

A final area in which production subsidies may be useful is supportive housing. In many cities throughout the Nation, certain groups such as the elderly and those who

are mentally or physically disabled require supportive services as well as housing. Locating these households together and providing enriched services onsite may be the most effective way to promote the independence of these special needs populations.

### **Principle 6: Housing Policy Cannot Adopt a “One Size Fits All” Model**

Housing problems vary dramatically across the United States. In cities such as New York and Los Angeles, where immigration is fueling growth, the major housing problems are affordability and the inability of the private sector to produce enough housing to keep up with the increasing demand. On the other hand, in some older cities such as Philadelphia and Baltimore, housing is abundant. Indeed, because of the population losses these cities have experienced over the past several decades, there is too much housing, which has led to abandonment and decay. Federal housing policy must be flexible enough to adapt to these different problems. Whereas in fast-growing cities a production program may make sense under certain circumstances, such a program might actually increase the problems of cities with soft housing markets.

Housing vouchers can be expected to work in most housing markets regardless of demand. However, even a program as simple as housing vouchers must be flexible enough to adapt to local realities. As discussed earlier, in tight markets higher payment standards, such as the ones recently implemented by HUD, may be necessary in addition to outreach and counseling. In markets with large amounts of deteriorated housing, subsidies that permit owners to bring otherwise eligible properties up to code may be desirable.

In the event that Congress creates a new production program, it is vital that the program be adaptable to local needs and be coordinated with local objectives. As stated earlier, production programs may be justified to achieve neighborhood redevelopment objectives. However, to be effective the program should be part of a comprehensive strategy to improve communities. Thus the Federal program should be complemented by city-sponsored efforts to improve site conditions and city services. A failure to coordinate with cities and a rigid set of program rules will reduce the program's impact and waste public resources.

Just as all places are not the same, we also must bear in mind that not all people have the same housing needs. The main problem for most low- and moderate-income households is a high rent-to-income burden. Thus, in most American cities, housing vouchers would provide all of the assistance required. However, some groups such as the elderly and those with mental or physical disabilities have more particular needs. For these households, supportive services may be necessary. Without these services, many would be unable to maintain their homes and their independence. Federal programs must allow localities to craft innovative programs that meet the special needs of their residents.

### **Principle 7: Regional Solutions Are Necessary and Require That States and Localities Become Responsible Partners in Removing Regulatory Barriers**

Although municipalities need autonomy to craft solutions customized for their individual problems, too much autonomy can be problematic. Increasingly, we are seeing that municipal fragmentation and lack of coordination threaten the quality of life in many of our Nation's metropolitan areas. In some metropolitan areas, uncoordinated leapfrog development and insufficient attention to transportation infrastructure have led to traffic and environmental problems. Under the banner of smart growth, local governments increasingly are considering efforts to limit development, particularly at the periphery.

The current debate over smart growth highlights the necessity of approaching issues of urban policy from a metropolitan perspective. This idea is hardly new. Although a decentralized, local government is economically efficient, the American political system has not been able to limit effectively the negative externalities generated by our system of self-government. For example, for more than three decades, the courts and policy analysts have decried the exclusionary policies of suburbs in the area of land use regulation, yet, through large-lot zoning and expensive subdivision regulations, suburbs have been able to limit the construction of affordable housing within their borders. These practices have contributed to concentrations of poverty in central cities and enormous fiscal and service inequities among jurisdictions.

The Federal Government has an interest in having States and localities remove regulatory barriers in the housing market that drive up the cost of housing (Schill, 1992). Recent proposals and legislation that require Federal agencies to assess the

effect of regulations on housing affordability or establish a regulatory barrier clearinghouse are, simply too little, too late. In the early 1990s, the Advisory Commission on Regulatory Barriers to Affordable Housing (1991) issued a report in which it recommended measures to provide incentives to States and municipalities that eliminated these barriers and disincentives to those that did not. Consistent with the principles of our Federal system, the commission's approach focused on influencing the States to rationalize their municipalities. Unfortunately, the Commission's recommendations, like those of so many other blue-ribbon panels, were not implemented.

The Federal Government, together with States and localities, must revisit the issue of regulatory barriers to housing development. Each year, the Federal Government spends billions of dollars to promote low- and moderate-income housing, and each year, municipalities around the Nation act in ways that significantly limit the effect of these expenditures. The current debate over smart growth has reinvigorated the issue of municipal autonomy. As part of that debate and the policies that flow from it, however, it is important to avoid new roadblocks to affordable housing in the suburbs and clear existing barriers.

## Conclusion

Five years can make a world of difference. In 1995 an assessment of housing policy would have looked much different from the one provided in this article. Instead of discussing the emerging consensus surrounding housing policy, this article would have asked whether there was a role for the Federal Government at all. Today, debates over housing are more likely to concern allocations to a particular HUD program than the future of the agency itself. Nevertheless, we must not forget that millions of unassisted low- and moderate-income households pay one-half of their incomes in rent or live in severely inadequate housing. Challenges abound; HUD will be judged in the future by how well it deals with them today.

## Endnotes

<sup>1</sup> A recent study of public housing suggests that the overwhelming majority of developments are in good or fair quality. According to the Public Housing Assessment System ratings of 14,000 public housing developments, 80 percent were

in good to excellent condition (U.S. Department of Housing and Urban Development, 2000a).

<sup>2</sup> The one-for-one replacement requirement mandated that before a PHA could demolish a unit of public housing, it had to replace that unit. In most instances, the replacement could not be achieved with a housing voucher. In many cities, this rule effectively stopped authorities from demolishing deteriorated public housing because of a lack of funding or sites for replacement housing (Schill, 1993).

<sup>3</sup> Some analysts (Gaffney, 2000; Thomas, 2000), including HUD's Inspector General, are less sanguine about the progress HUD has made in improving management. The United States General Accounting Office (2000b) has included the agency on its "high risk" list since 1994 because of weak internal controls, inadequate information and financial systems, an ineffective organizational structure, and an insufficient mix of staff with proper skills.

<sup>4</sup> QHWRRA states that PHAs must reserve 40 percent of new public housing admissions for families at or below 30 percent of the area median income. PHAs must reserve at least 75 percent of new Section 8 admissions for families at or below 30 percent of the area median income.

<sup>5</sup> Relatively little research has been done to document the concentration of Section 8 households in metropolitan areas, to understand the locations of and causes behind these concentrations, and to examine their effect on neighborhoods. One recent study (Galster et al., 1999), however, finds evidence that, at least with respect to census tracts in Baltimore County with low and moderate house values, concentrations of Section 8 tenants can have an adverse effect on property values. This effect was attributed in part to bad management and maintenance practices. Press reports have attributed certain problems, such as increased levels of crime, to Section 8 housing.

<sup>6</sup> For an excellent compendium of strategies to promote deconcentration through vouchers, see Turner et al. (2000).

<sup>7</sup> There is virtually no evidence to suggest that housing vouchers contribute to inflation in the housing market. This finding, first established by the Experimental Housing Allowance Program 30 years ago, has never been refuted (Lowry, 1983; Weicher, 1990). For a recent study that suggests a price effect, however, see Susin (1999).

<sup>8</sup> Of course, a more direct approach, such as reducing regulatory barriers, may be more effective (Advisory Commission on Regulatory Barriers to Affordable Housing, 1991; Salama et al., 1999).



<sup>9</sup> Of course, poorly implemented housing policies also have the potential to do great harm. For a discussion of the negative impact of public housing on some central cities, see the discussion under Principle 2.

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