



# The Housing Policy Revolution

By David Erickson

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## **Revolutionary Change in Housing Policy, 1964–2006**

In the public imagination, the idea of government-subsidized housing conjures up thoughts of a hopelessly inefficient Department of Housing and Urban Development (HUD) or high-rise “projects” where crime and drugs are rampant. That impression, however, bears little resemblance to subsidized housing today. As a practical matter, HUD has been out of the housing construction business since 1978. While it plays a big role in providing Section 8 housing vouchers, it does not build much housing other than small projects for senior citizens and people living in rural areas.<sup>1</sup> Few people, however, are aware of HUD's current role, even those who care deeply about low-income communities. In a recent op-ed article in the *New York Times* (July 2008), for example, Columbia

Professor Sudhir Venkatesh criticized HUD as an ineffective tool for alleviating poverty and advocated its elimination.<sup>2</sup> The reality is that for more than 20 years HUD has taken a back seat to the new network of players now driving affordable housing policy; the network includes HUD but also local advocacy organizations, nonprofits, and for-profit corporations, as well as local, state, and federal government agencies and others. This network builds well-designed, high-quality homes.

## **A Flexible, Decentralized, and Well-Integrated System**

The recent history of government-subsidized housing should bring to mind architecturally significant apartment buildings that add value to their neighborhoods. These new government-subsidized programs have helped empower thousands of local communities through new institutions such as community development corporations (CDCs) and have helped revitalize many places that seemed hopeless a generation ago. Buzz Roberts, senior vice president for policy and program development for

the Local Initiatives Support Corporation, describes the current state of affordable housing production:

Over the past 20 years, a cluster of federal policies has supported a flexible, decentralized, and well-integrated production system. The system is distinctively market driven, locally controlled, and performance based. It builds sustainable partnerships among nonprofit and for-profit developers, private lenders and investors, as well as among all levels of government. (Roberts 2008, 36)

While the current approach to housing policy in America is producing better homes for low-income individuals and families than ever before, it is doing more than that: it is in the vanguard of how government delivers social services. This new approach to building housing demonstrates that multiple, disparate groups can form problem-solving networks and deliver high-quality housing and services. This change has contributed significantly to the much-acclaimed “comeback” of the American city. The influence of this model, first developed in the delivery of affordable housing, is even greater, however, because it is now providing an inspiration for policy areas as diverse as economic development, education, health, and the environment.

At first glance, this volume might appear to be another book on how public policy today often involves contracting outside of government and relying on public-private partnerships. That approach first captured widespread attention with David Osborne and Ted Gaebler’s *Reinventing Government* (1992) and much of the so-called third-way literature that was inspired by the Bill Clinton-era policy changes. This literature also includes more recent works such as Stephen Goldsmith and William Eggers’s *Governing by Network* (2004). But what these other books do not do is follow closely the formation of these partnerships—how they operate, cooperate, and execute over time. Brief treatments of public-private partnerships do not capture the complexities of these new policy-implementing structures.

The *Housing Policy Revolution* chronicles, through a historical analysis of political debates and detailed case studies, how a network approach to policy implementation developed in the 1970s, 1980s, and 1990s. It provides an in-depth history of who was involved, how they worked together, and what they built.

### Evolution of Federal Housing Programs

In 1996, the *New York Times Magazine* ran an article that described affordable housing as a political issue that had “evaporated” (DeParle 1996, 52). The *Washington Post* reported that HUD was seen as a “scandal-ridden, regulatory rat’s nest.”<sup>3</sup> HUD survived calls for its disman-

tling, but only barely. HUD, which had once spearheaded all production of low-income housing, saw its production programs whither. HUD produced 248,000 housing units in 1977, but by 1996 that number had dropped to 18,000 and has remained low since. Housing scholar and advocate Peter Dreier concluded in 1997 that recent history was a period of political retreat for low-income housing programs: “The political constituency for housing policy is weaker and more fragmented now than it has been in decades.” Dreier (1997, 273) lamented the loss of the old housing coalition that pushed access to housing as “part of the broad social contract.” Other studies on recent housing policy, including Mara Sidney’s *Unfair Housing: How National Policy Shapes Community Action* (2003), were severely critical of the federal government’s abdication of responsibility for providing housing for low-income Americans. These critiques were published against the backdrop of significant need for affordable housing. The U.S. Census Bureau’s “American Communities Survey” indicates that in 2006, 46 percent of all renters were paying more than 30 percent of their gross income on housing—a level generally considered a severe burden.<sup>4</sup>

The decline of federally built affordable housing closely follows the commonly accepted story about the U.S. welfare state generally—that it developed between the 1930s and the late 1960s and then suffered a series of setbacks during the 1970s, which triggered a political backlash. According to this interpretation, conservative politicians from Richard Nixon to Ronald Reagan successfully harnessed white middle-class anger over government programs to roll back the welfare state. At first glance, the fate of federal programs that subsidize apartments for low-income tenants confirms this narrative: the federal government created housing programs during the New Deal, added to them significantly during the 1960s, and in the 1980s cut them back in the wake of bad press, conservative attacks, and policy mistakes of the late 1960s and 1970s. The problem with this story is that you might have trouble hearing it over the din of construction of the more than 2 million federally subsidized apartments for low-income tenants built between 1986 and 2006 (NCSHA 2008). These units were built by for-profit and nonprofit housing developers and funded largely with tax credits and federal block grants.<sup>5</sup> The number of subsidized apartments met only a fraction of the need, but by 2008 there were nearly 33 percent more homes built under new government low-income housing finance programs (after 1986) than there were subsidized apartments built by all the HUD-sponsored programs dating back to the 1960s.<sup>6</sup> In fact, the number of homes built by the post-1986 programs compares favorably with all the existing subsidized apartments built since the beginning of federal programs in 1937 (2.0 million versus 2.7 million).<sup>7</sup>



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## **The Rise of a Stealth Housing Program**

Despite the lofty rhetoric of housing programs like the Housing Act of 1949, which promised every American family a “decent home and a suitable living environment,” the federal government never built many low-income apartments.<sup>8</sup> In fact, in some years, it destroyed more units than it built. Before the creation of the Department of Housing and Urban Development in 1965, the peak annual production of affordable housing through the public housing program was 71,000 units in 1954 (Orlebeke 2000). During the Great Society, the production numbers skyrocketed for a four-year period to nearly half a million units annually. This pace was short-lived, however.

In 1973, Richard Nixon imposed a moratorium on new construction, in part because there were many complaints that bad design and shoddy workmanship created instant slums. HUD had one more burst of building during the Carter administration, but since then the number of units it builds has remained low.

As HUD building programs fizzled, funding for low-income housing was on the rise. While a new housing finance program, the 1986 Low Income Housing Tax Credit (LIHTC) program, churned out fewer units than the peak HUD production years, it did so at a rate that was higher than the historic average and consistent for over 20 years. By 2005, the program was funding more than 130,000 apartments annually (NCSHA 2008). To say that the federal government has been out of the affordable housing business since the Reagan administration is simply wrong.

During the 1980s two simultaneous policy revolutions took place (or perhaps a revolution and a counterrevolution). Reagan dramatically eliminated funding for low-income housing and cut back the role of the federal government in housing. At the local level, though, a revolution from below pulled together community groups, local and state governments, and elements of the private sector to find ways to build housing for low-income tenants without federal help. In 1988, housing advocate Paul Grogan testified before Congress that:

The brute force of the federal cutbacks in housing in the last seven or eight years, while doing undeniable harm to many, have produced an unprecedented response in the housing arena at the state and local levels and have activated a staggering array of new involvements on the part of state and local government, the nonprofit sector, the private sector, labor unions, churches, and the list goes on. (U.S. Congress 1988b, 332)

The local effort started small but demonstrated how a decentralized housing network might work. The 1980s were a period of tremendous institution building, although it took place at the local level and often went unnoticed.

In time, the network grew in sophistication, became politically active, and lobbied successfully for more federal resources. The most important new funding programs were the Community Development Block Grant (1974), the Low Income Housing Tax Credit (1986), and HOME funds from the National Affordable Housing Act in 1990.<sup>9</sup>

The housing built through these programs was of higher quality than earlier low-income housing and was politically popular (a significant improvement over the old policies), but these programs did not solve the housing problem. The new network lacked the resources to build what was necessary for most of America's lowest-income families. The units built since 1986 were not for tenants who were as poor as those in projects built during the Great Society but instead targeted to the working poor (tenants who earned less than 50 or 60 percent of the median income in their area).<sup>10</sup> Even so, the new programs managed to serve tenants who were poorer than the statutes required. A 1997 Government Accountability Office (GAO) report that surveyed projects built with funding from the 1986 LIHTC program—the largest of the new programs for subsidizing low-income housing—found that three-quarters of the households earned less than 50 percent of the median income in their area (U.S. GAO 1997).

### What Happened to the Welfare State

While the evolution of the decentralized housing network is important in its own right, it also sheds light on a larger story about recent public policy history, especially the history of the welfare state.<sup>11</sup> Historical scholarship on the welfare state maintains that this institution shrank in the face of deft attack and weak defense (Edsall and Edsall 1991; Katznelson 1989).<sup>12</sup> But what has happened to the welfare state since the 1970s and 1980s is more complicated. In subsidized housing programs, both liberals and conservatives were frustrated with the programs of the Great Society, and while they disagreed on emphasis, both looked to change the delivery of social services.

Some aspects of the welfare state have been weakened since the 1970s, but others innovated and grew. At the same time that the *Washington Post* was reporting that “HUD is about as popular as smallpox,” billions of federal dollars began to flow into new subsidized housing programs.<sup>13</sup> Liberals like House Ways and Means Committee Chairman Charles Rangel joined with conservatives to increase block grants and tax expenditures for affordable housing at the same time they were cutting HUD's budget authority. Even more interesting, increased funding to subsidized housing through programs such as tax credits were enormously popular. These political debates lacked the sharp edge of prior eras and appeared to demonstrate a “willingness to walk away from ideology,” in the words of Jack Kemp, George H. W. Bush's HUD Secretary (U.S. Congress 1989, 6).

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This paradox in affordable housing policy illustrates many of the recent changes within the welfare state. The most dramatic change from the 1970s was not scaled back funding—although that certainly affected key programs for the very poor—but a shift in how the federal government delivered welfare state services and who was served.<sup>14</sup> The federal government used an array of new policy tools (tax policy, regulation, loans, and loan guarantees) to induce nongovernment players (nonprofit corporations and for-profit firms) to participate in shaping new programs to deliver social services. Lester Salamon (2002), Steven Rathgeb Smith and Michael Lipsky (1993), Jacob Hacker (2002), Christopher Howard (1999), Julian Zelizer (1998), and Jennifer Klein (2003) have shown that when these other funding mechanisms are taken into account, the U.S. welfare state is larger and more comprehensive than one would conclude by looking only at the bureaucracy-led, and direct expenditure-funded, programs. The government used incentives for social services with increasing frequency in the 1980s and 1990s, challenging the popular conception of a withering welfare state.

### Revolutionary Change in Housing Policy

To illuminate the revolutionary change in housing policy from the 1960s to the present, this book traces the historical events and larger forces that have shaped the options for politicians and activists over the past 40 years. The history is important because it shows that sometimes policymakers had few choices and that larger forces and trends often shaped the terrain on which this battle was fought. The history also demonstrates that many decisions and policies have had unintended consequences. What I lay out here suggests that for many years a current of many streams had been carrying us toward the policy we now have. The current was fed in part by history, in part by ideology, and in part by technology, but in all cases it was brought to life by policy actors—decisions made and not made along the way by individuals. Some of those decisions were made by powerful people on Capitol Hill and in corporate board rooms. Many of them were made by people who were less powerful—local activists and advocates hoping to improve communities. Together, they developed a new approach to building affordable housing. **CI**

# Endnotes

## The Housing Policy Revolution

1. Since the late 1970s, HUD's major programs included a small production effort for low-income elderly and rural tenants, a large housing voucher program (Section 8), an effort to undo past design and management disasters (HOPE VI), and a variety of insurance and grant programs.
2. Sudhir Venkatesh, "To Fight Poverty, Tear Down HUD," *The New York Times*, July 25, 2008.
3. Guy Gugliotta, "Report Suggests HUD Be Junked," *The Washington Post*, August 5, 1994, A19.
4. According to HUD's definition of worst-case needs, in 1978, 5.1 percent of all households fell in this category; in 2001, it was also 5.1 percent (HUD 2003, xix, 7). Another examination of how low-income renters were struggling during the economic boom years of the 1990s can be found in Nelson, Treskon, and Pelletiere (2004).
5. The Low Income Housing Tax Credit can be thought of as a tax coupon to corporate investors who put equity capital in apartment buildings rented to low-income tenants. To be considered "low income" one must earn less than 50 or 60 percent of the local area median income as measured by an annual survey by HUD. Since income is tied to local wages, it varies from county to county. The Internal Revenue Service (IRS) distributes the tax credits to state allocating agencies (typically each state's housing finance agency). They are distributed on a per capita basis—\$1.25 per person from 1986 to 2001 when they were increased to \$1.75 per person and indexed to inflation. In 2008, the credit was \$2 per person ([http://www.ncsha.org/uploads/Housing\\_Credit\\_Fact\\_Sheet.pdf](http://www.ncsha.org/uploads/Housing_Credit_Fact_Sheet.pdf)).
6. I am comparing the two major prior building programs, public housing and HUD-assisted projects (such as 221(d)(3), 236 and Section 8) to Low Income Housing Tax Credits only. There were other subsidized homes built in the later period without tax credits, but it is nearly impossible to track them all.

Public housing is about 1.2 million units. "Since 1937, the public housing program has been one of the major federal vehicles for improving the housing conditions of low-income households, currently aiding 1.2 million households or about one-third of all those receiving assistance" (U.S. Congress 1983, 1). HUD-assisted units total 1.5 million.

The U.S. Department of Housing and Urban Development's (HUD's) assisted project-based multifamily properties are privately owned properties representing a significant component of federally assisted housing for low-income families. This is in contrast to the public housing stock, which is publicly owned and operated. The HUD-assisted project-based multifamily housing stock includes more than 22,000 properties with more than 1.5 million units. They were developed under programs that were created in the 1960s and 1970s to supplement the public housing program, as part of a policy change that aimed to promote more privately owned development of affordable housing (Finkel et al. 2006, vii).
7. See appendix A in chapter 5.
8. Housing Act PL 81-171. See also U.S. Housing and Home Finance Agency (1950). For a good background on the 1949 Housing Act, see Hoffman (2000).
9. CDBG funds are block grants to localities (counties and cities primarily) and local governments decide how to spend the money; therefore, how CDBG money is spent can vary considerably from locality to locality. CDBG money has been spent on affordable housing since the beginning of the program in 1975, but it has only been tracked as a separate category since 2001. (Reports on national disbursements of CDBG by program area are available at <http://www.hud.gov/offices/cpd/communitydevelopment/budget/disbursementreports/>)

Richardson (2005, 12) notes that "The Housing and Community Development Act of 1974, as amended, established as the primary objective of the CDBG program 'the development of viable urban communities, by providing decent housing and suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.'"
10. To be fair, the old system also lacked the resources to fix the problem of housing low-income Americans, and the focus on very low-income residents was a relatively brief period of the housing program. "In 1950, the median income of public housing tenants was over 60 percent of the U.S. median; by 1975, it was only 30 percent of the U.S. median" (U.S. Congressional Budget Office 1983, 2).
11. The welfare state is a term that often summarizes the set of social services that provide citizens with a social "safety net" from their governments. Many types of social services can be considered part of the welfare state, including government-sponsored health care, education, unemployment and disability insurance, and retirement benefits. Some welfare states are extensive, such as the "cradle to grave" type we often associate with Scandinavia. Others are less comprehensive. For a good overview of the different types of welfare states, see Esping-Andersen (1990).
12. For the Edsalls, the labor-dominated Democratic Party reached a political high point with the Civil Rights Act of 1964, but the increased focus on minority rights pushed it too far to the political left while the Republicans moved to the political center. However, Arnold Hirsch in *Making the Second Ghetto: Race and Housing in Chicago, 1940–1960* (1998) and Thomas Sugrue in *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit* (1996) argue convincingly that the divisions in the liberal ranks were already apparent before the Civil Rights Movement.

Many authors claim that the welfare state has withered since the 1970s, including Berkowitz and McQuaid (1988), Gilbert (2002), Levine (1988), Katz (1986, 2002), Patterson (1981), Trattner (1989).
13. Guy Gugliotta, "HUD Mans Its Lifeboats," *Washington Post National Weekly Edition*, February 13–19, 1995.
14. The federal budget numbers also challenge the standard story. Direct expenditure spending did dip in the 1980s (see table I.1) and some programs—especially for the poor—have been eliminated or scaled back since the Great Society. But overall tax expenditures and direct expenditures continued to grow throughout the 1980s, albeit at a slower rate than the preceding 20 years. On this point, see Christopher Howard (1999, 35).