The Evolution of Low-Income Housing Policy, 1949 to 1999

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Abstract

The evolution of low-income housing policy during the past 50 years can be divided roughly into two segments: the first running from 1949 to the 1973 Nixon moratorium on subsidized production programs and the second from 1973 to the present, marked by a diminished federal leadership role and an increased state and local role. After tracing the rise of the federal leadership role represented in the Housing Acts of 1949 and 1968, this article focuses on the development of three important policy instruments that mark the devolution of housing policy: housing vouchers, housing block grants, and the Low-Income Housing Tax Credit.

The three-pronged strategy of vouchers, block grants, and tax credits has achieved reasonably good results and attracted an unusual degree of political consensus. A steady expansion of all three offers the most promising path to the "realization as soon as feasible" of the national housing goal.

Keywords: Federal; Low-income housing; Policy

Introduction

Shelter is one of the three basic human needs, and a responsible society has an obligation to prevent people from dying out in the cold. In 1949, however, the United States set a goal that would take this minimum obligation several steps further—to "a decent home and a suitable living environment for every American family." This declaration moved the nation beyond the obligation to provide mere shelter and into the realm of "housing," a market commodity produced by a complex and politically influential industry. It also embraced "every American family," not just the obviously needy found huddled under viaducts. This challenge meant confronting the issues of defining who besides the immediately desperate might receive housing assistance, what form such assistance might take and for what types of "decent" housing, and who should be administratively responsible for running the system. Since Congress's famous formulation in 1949, efforts to achieve the goal have turned on such questions.

The 50 years since passage of the Housing Act of 1949 can be divided roughly into two segments: The first ran from 1949 to the 1973 Nixon moratorium on housing production subsidies, which marked the end of the federal government's aspirations to dominate the assault on the national housing goal through federally enacted and administered production programs. The second segment, from 1973 to the present, has seen the evolution of a mixed system of low-income housing policy with a much diminished federal role in program design and outcomes, an ascendant role for state and local governments, and the opportunity for the recipients of housing vouchers to scout the private market for the best deal they can find.

This article traces the rise and demise of the federal leadership model in housing policy up to 1973 and focuses on the development of three important and reasonably effective policy instruments that have come to mark the devolution of housing policy and programs: housing vouchers, housing block grants, and the Low-Income Housing Tax Credit (LIHTC). Given that only rental housing assistance can claim to serve households with the lowest incomes, the emphasis is on rental housing. The article does not explore the many fascinating and complex issues related to the national policy of advancing homeownership across the broadest possible spectrum of incomes.

The housing goal: Overview of the first 50 years

For low-income housing advocates, the Housing Act of 1949 promised that the federal government, given the means and the authority, could solve the nation's housing problems through the exercise of committed political leadership at the top and the implementation muscle of a technically skilled, socially conscious bureaucracy working its will with an eager housing industry and compliant local governments. The years that followed were initially inauspicious: Public housing, the only low-income program available, fell far short of authorized production targets; new programs were started but failed to gain momentum; and executive responsibility for housing was fragmented. The turnaround began in 1965 with the creation of the U.S. Department of Housing and Urban Development (HUD). Then, in 1968, the notion of federal leadership and efficacy in housing triumphed: Reaffirmation of the 1949 goal with quantified production targets and timetable, new housing subsidy programs generously funded, planning requirements aimed at dispersing low-income housing throughout metropolitan regions, and even a new fair housing act outlawing racial discrimination—all the tools were there.

The enchanting possibilities of the Housing Act of 1968 soon began unraveling. For the first few years of the Nixon administration, production targets for subsidized housing were met, but attacks on the production-dominated strategy were mounting from both inside and outside the federal government. In January 1973, President Richard M. Nixon abruptly imposed a moratorium on all new subsidy commitments, and forever after, the soon-to-be-disgraced president would be remembered chiefly for that action rather than for the 1.6 million units of subsidized housing started during his administration. The moratorium forced a reexamination of federally administered production programs and a search for better alternatives.

Since the 1973 moratorium, three policy instruments have arisen from the debris of tried and canceled programs, experimentation, partisan contention, ideological conflict, and—surely not least—scholarly research, analysis, and debate. The first is the emergence of housing voucher–type programs—known variously as housing allowances, rent certificates, housing payments, and currently as housing choice vouchers—as the preferred subsidy vehicle instead of large-scale subsidized housing production programs. The "triumph" (Winnick 1995) of vouchers was ratified as early as 1988, when a panel of housing experts convened by the Urban Institute concluded that the "heated voucher/production debate" had "largely subsided" (Turner and Reed 1990, 7):

> Demand-side subsidies make the most sense when affordability is the greatest housing problem to be resolved. And the evidence is convincing that this is indeed the case—in most housing markets and for most types of units. (Turner and Reed 1990, 7)

The housing voucher has evolved, although much tinkered with, from the modest progenitor created in 1965, called the Section 23 Leased Housing program. Today, it has been widely embraced as the most useful, cost-effective form of subsidy.

The second instrument is the formal transfer of most housing program control from the federal government to state and local governments. In this case, the milestone is the Housing Act of 1990, which created the HOME housing block grant to states and cities as the sibling to the popular, well-established Community Development Block Grant (CDBG) enacted in 1974. Under HOME, federal money would continue to flow to housing production and rehabilitation for both renters and lower-income owners, but local officials, not federal officials or Congress, would determine the mix of applications. This transfer of power is also indicated in the HOPE VI program, created in 1993, which provides lump-sum grants of $50 million to cities for dealing with their distressed public housing inventory. Demolition, new construction, and social services are all permitted uses. As I will argue later, the pre–block grant program models of the 1960s and 1970s involved a presumption of federal control that was at least partly illusory, while at the same time the federal government bore the entire political weight of their evident shortcomings. Thus, politically and administratively, the logic of transferring power eventually prevailed.

The third instrument to gain wide acceptance is a relatively new variation on an old theme—namely, the use of the tax system to induce desired housing outcomes. Here I am referring to the LIHTC for the production of low-income rental housing. Enacted in 1986 and only haltingly employed for several years, the LIHTC has survived its many critics and at this writing seems about to be expanded. Part of the reason for its success is that it dovetails with the move toward greater program control by states and cities, which determine the allocation of the credits to specific projects. HUD is largely shut out of LIHTC action; responsibility for monitoring and enforcement is shared by state housing agencies and the U.S. Internal Revenue Service (IRS). Politically, the LIHTC is also helped by being a tax expenditure rather than a spending item; as such, its cost tends to be hidden below the horizon of general public awareness.

These three—vouchers, block grants, and tax credits—form the core of postmoratorium low-income housing strategy. How this came to be will be taken up after a historical sketch of the first quarter century following the original declaration of the housing goal in 1949.

The 1949 goal: Neither timetable nor means

In 1973, HUD's National Housing Policy Review referred to the 1949 housing goal with some understatement as "a commitment without a timetable and without adequate means of accomplishment" (HUD 1973b, 1–13). Congress, in stating the goal, made no specific reference to helping poor people in their quest for a decent home. In fact, the language leading up to the goal itself cites the need for "housing production," presumably at market prices, "to remedy the serious housing shortage," and for aggressive "clearance of slums and blighted areas" (HUD 1973b, 1–13). If anything, the production of housing that the poor could not afford and the destruction of places where many of them lived worked against such an objective.

In the 1949 act, the only housing subsidy vehicle specifically aimed at low-income families was public housing, first enacted in 1937 as a way to house the temporarily unemployed and, not incidentally, to create jobs for the building trades. Although public housing was built and managed by local housing authorities, the federal government paid the entire capital cost through "annual contribution contracts" to retire bonds issued by the authorities. Rent collections were expected to cover all operating costs without federal help. Despite the sense of urgency inspired by the Depression, public housing had been strongly opposed by private real estate interests that failed to prevent its passage but then succeeded in holding down its implementation to a handful of units in its early years.

After World War II, public housing reemerged, this time as a potential instrument for helping low-income families cope with the postwar housing shortage and for replacing housing in cleared slums. President

Harry S Truman was a vigorous advocate of program expansion, as was "Mr. Conservative," Republican Senator Robert Taft of Ohio. They and their allies finally prevailed in 1949, when Congress authorized the construction of 810,000 units of public housing over the next six years.

It was not much of a victory. "Authorization" means little unless it is followed by appropriations—actual commitment of money—and local implementation. The opponents of public housing were influential in both arenas. In the 1950s, congressional appropriating committees typically provided money for about 25,000 units, while at the local level, battles over public housing sites could be settled only by placing public housing in the least desirable parts of town where poor families were already concentrated. Thus, 10 years after the 6-year, 810,000-unit total had been set, less than a quarter of the units were in place. (The program would gain some momentum and struggle to its 1949 authorization level in another 10 years.)

The 1960s: Alternatives to public housing

Compared with the 1950s, the years leading up to the Housing Act of 1968 were a time of activism and innovation—but low production. Morton Schussheim in his monograph on "the legacy of the sixties" called the housing acts of 1961, 1964, 1965, and 1966 major pieces of legislation, but noted pointedly: "Production of housing for lower-income families, a major aim of the [Kennedy and Johnson] Administrations, never reached a significant level" (Schussheim 1969, 1). The programs of the 1960s did, however, test the political and administrative waters for subsidy alternatives that could augment the always troubled public housing program and engage the interest and energy of the private sector. Characteristically, President John F. Kennedy, like his predecessors, looked to the economic stimulus value of housing production.

The 1961 Housing Act launched the Section 221(d)(3) program, a rental program for moderate-income families considered needy but too well-off to qualify for public housing. This group occupied what was known as the "20 percent gap," referring to the legally mandated gap between the rents public housing authorities could charge and the rents for private standard housing. Apartments could be built by nonprofit sponsors or private developers willing to take a limited profit. The subsidy mechanism was a so-called BMIR (below-market interest rate) loan at 3 percent, which allowed the sponsor to pass along lower development costs in the form of lower rents—15 to 20 percent below comparable unsubsidized housing. To complete the subsidy two-step, Fannie Mae, a government corporation until it was spun off by the Housing Act of 1968, bought the entire project mortgage from the sponsor's lender at market rate, absorbing the difference between that rate and 3 percent. Production of "(d)(3)s" was constrained by a lack of qualified sponsors ready to come forward, as well as by government-imposed cost constraints and limited availability of sites. It was also unpopular with Treasury and budget officials because the government's purchases of large project mortgages were a direct hit on the federal budget.

In 1965, to address the shortcomings of Section 221(d)(3), President Lyndon B. Johnson presented the Rent Supplement program as the wave of the future. "If it works as well as we expect," he said, "it should be possible to phase out most of our existing programs of low-interest loans" (Schussheim 1969, 15). Instead of using BMIR financing as a subsidy method, rent supplement projects would receive direct rent-reduction payments to make up the difference between 25 percent of tenant income and a fair market rent; therefore, the immediate budget impact would be relatively small and spread over many years. As introduced, rent supplements were aimed at an income group similar to that targeted by Section 221(d)(3). As the proposal emerged from a notably unreceptive Congress, the subsidy method was adopted but broadened to include low-income families eligible for public housing. Congress also choked off any possibility of volume production by refusing to appropriate any money for the program in 1965 and approving only half of Johnson's 1966 request with a rider requiring local government approval of each rent supplement site (Hays 1995). Five years after enactment, only 31,000 units would be in place (Listokin 1991).

On the public housing front, some housing authorities in urban areas that were losing population saw an opportunity in the supply of vacant units in the private housing stock. But public housing was structured solely as a development program with no authority to lease existing, privately owned apartments. The Section 23 Leased Housing program changed that. For the first time, the federal government authorized deep subsidies for renters occupying standard housing in the existing stock, leased on the open market by a public agency. It was a low-profile initiative with a big future.

The 1968 reaffirmation: Both timetable and means

In 1968, Congress reaffirmed the 1949 housing goal, again putting it in the context of a housing shortage: "The supply of the Nation's housing is not increasing rapidly enough to meet the national housing goal." But this time there is no reference to clearing "slums and blight," the besmirched code words for the urban renewal program, also launched in 1949, that by 1968 had become known for destroying housing, especially in low-income neighborhoods, and replacing little of it. The most notable feature of the 1968 reaffirmation, however, was the de-termination by Congress that "this national housing goal…can be substantially achieved within the next decade by the construction or rehabilitation of twenty-six million housing units, six million of these for low- and moderate-income families." To show that it meant business, Congress instructed the president to prepare a year-by-year schedule for meeting the goal and to report annually on progress. Both the unsubsidized and subsidized components of the goal were stunningly ambitious: The housing industry had only once produced 2 million units in a single year and that was in 1950; in the two years leading up to the declaration, 1966 and 1967 *combined,* there were only about 2.5 million starts.

The 6 million target—an average of 600,000 annually—was even more of a stretch. In the 1950s, subsidized starts under the public housing program hit a peak of 71,000 in 1951, drifted down to about 20,000 in the mid-1950s, and closed the decade at about 34,000 units, a mere 2.2 percent of total housing starts. Even with the addition of two subsidized direct loan programs—the Section 202 program for elderly housing in 1959 and the Section 221(d)(3) program for moderate-income renters in 1961—total annual production of subsidized housing amounted to only about 72,000 in 1966 and 91,000 in 1967. For the two years combined, subsidized starts made up 6.5 percent of total starts, the first time since the 1949 act that assisted starts had broken 5 percent (Downs 1972). Reacting to such a piddling performance, the 1968 act intended to move beyond rhetoric to a serious run at a quantified goal and a disciplined timetable.

The chief means of accomplishing the subsidized housing goal were two new programs also enacted in 1968: Section 235, which provided eligible home purchasers with mortgages insured by the Federal Housing Administration (FHA) and subsidized to a rate as low as 1 percent, and Section 236, which gave apartment developers FHA-insured 1 percent mortgage financing, thus enabling them to offer below-market rents to low- and moderate-income tenants. The mortgage interest subsidy mechanism had the advantage of causing little budget impact in the initial years of production.

The Nixon administration embraces the 1968 goals

At the time the 1968 act was passed, the methodological crudeness of the goal calculation and the implausibility of being able to wipe out all housing problems in 10 years were not seriously raised as issues. Nor did it matter that the Johnson administration, which had championed the goal, was on the way out after the 1968 election, to be replaced by a presumably more conservative Nixon administration. On the contrary, Nixon installed as HUD secretary the production-minded Governor George Romney of Michigan, the former head of American

Motors and briefly Nixon's challenger for the Republican presidential nomination. Early in Nixon's first term, Romney told the Subcommittee on Housing of the House of Representatives: "I accept these goals, not as an engineer's measure, but as a reasonable expression of our national need by a knowledgeable and humane Congress which sought to give some definite expression to the ends we seek in housing" (HUD 1969, 20). Reflecting on the 1949 goal, Romney said: "The challenge to us all is that today, twenty years later, we are so dismally far from having achieved that goal. The problem is how we can best see its realization, not in the remote future, but in the years that lie immediately ahead" (HUD 1969, 20).

In contrast to the authorization/appropriation shell game that followed the 1949 act, Congress provided full funding to the Section 235 and 236 programs, as a galvanized FHA bureaucracy set out to prove that it was capable of managing an unprecedented production mandate. It succeeded. Subsidized production spiked to 197,000 starts in 1969, to 431,000 in 1970, and promised to head even higher in 1971. Henry Schecter, a strong proponent of the 1968 goal from his influential position as senior HUD economist in the 1960s, and coauthor Marion Schlefer noted with satisfaction that the amazing run-up in production "must raise serious doubts about the validity of oft-repeated claims that the complexities and red-tape involved in the present subsidized housing programs are serious impediments to volume production" (Schechter and Schlefer 1971, 5). There was, however, little sense of celebration in the Nixon administration or in Congress.

Second-guessing the production strategy: The 1971 report on the national housing goal

Although the *President's Third Annual Report on National Housing Goals* took bows for exceeding the production timetable laid out in the first goals report, it bristled with cautions and second-guessing. "Production," the report stated, "is not the sole measure of progress, and may not even be the most important" (*President's Third Annual Report* 1971, 21). The production surge, according to the report, had raised a number of troubling issues that needed to be addressed "so that necessary reforms in basic policy can be identified, developed, and implemented as quickly as possible" (*President's Third Annual Report* 1971, 21). But why reform a "basic policy" that seemed to be working? After all, the 1968 goal had called for record production, and record production, surprising skeptics, was clearly happening.

For one thing, by the early 1970s, one of the critical underpinnings of the quantified goal was looking increasingly shaky: the notion of a desperate physical shortage of shelter that could be addressed only by a huge production effort. Housing, including much in reasonably sound condition, was being abandoned in the cities as entire neighborhoods seemed to be emptying out. The middle-class exodus to the suburbs was clearly connected in some way to abandonment, and the report suggested that new subsidized housing might be contributing to this abandonment, which, "if unchecked, could turn our production efforts into a treadmill" (*President's Third Annual Report* 1971, 25). Although a complete explanation of abandonment was elusive—prompting the inevitable round of studies—one thing at least was apparent to the naked eye: A physical shortage of shelter was not the problem.

Cost

The 1971 report grouped its reservations under the headings of "cost," "equity," and "environment." The discussion of cost pointed to rising housing costs and the unprecedented share of subsidized starts—about one of four—in relation to total starts in 1970. This suggested that the federal government was, among other things, feeding "runaway inflation of housing costs" (*President's Third Annual Report* 1971, 22). Translated into federal budget impact, the outlook was ominous: It had been easy to *start* the new subsidy programs because budget outlays in the early years covered only the interest subsidies on the first wave of units; however, as hundreds of thousands of units were piled onto the subsidized stock annually, a huge, scary budget "uncontrollable" loomed. The report cited estimates that subsidized production under way or planned for fiscal year 1970–72 had already obligated the government to "perhaps $30 billion" and that achievement of the 10-year goal might cost "the staggering total of more than $200 billion" over the life of the mortgage contracts (*President's Third Annual Report* 1971, 22). Although the report offered some hope that the problem might eventually yield to HUD's "efforts to advance industrialized methods of housing production, and open up opportunities for large-scale marketing of industrialized housing," it also warned that "the Federal Government could not stand impassively at the cash register and continue to pay out whatever is necessary to feed runaway inflation of housing costs" (*President's Third Annual Report* 1971, 22).

Equity

The "equity" discussion in the report had familiar echoes of innumerable housing policy debates before and since. First, there was the issue of program coverage—the fact that even the ambitious goals envisioned in the Housing Act of 1968 would still cover only a relatively small fraction of the eligible population, estimated at about 25 million households. The dilemma was that "it will be difficult to continue favoring a select few in the population," but "it is doubtful that the public, and hence the Congress, will be prepared to accept the staggering budgetary cost of a more global coverage" (*President's Third Annual Report* 1971, 23–24). Second, the equity issue was sharpened by the production emphasis on "brand new homes"; this meant not only that the "fortunate few" were getting a housing bargain at taxpayers' expense, but also that their neighbors in similar economic circumstances were "left struggling to meet their monthly payments in older homes purchased without subsidy." Third, "too often the present housing subsidy programs simply cannot help the very poor" (*President's Third Annual Report* 1971, 24). Given statutory limits on the amount of subsidy per unit and the relatively high cost of new construction, "few of the families actually receiving subsidy are at the very low end of the eligible income range" (*President's Third Annual Report* 1971, 24). Programs that had ostensibly been devised to plug the affordability gap for needy families were in fact leaving the most desperate among them to fend for themselves.

Environment

According to the report, issues relating to housing policy and the environment had both physical and social dimensions. Looking back, the report said that the "complex interaction" of federal housing policies and local decision making had "sometimes wrought unfortunate environmental consequences," such as "poorly planned crackerbox developments" in the suburbs after World War II and, in urban areas, "drab, monolithic housing projects, largely segregated, which still stand in our major cities as prisons of the poor—enduring symbols of good intentions run aground on poorly conceived policy, or sometimes simply a lack of policy" (*President's Third Annual Report* 1971, 25). These past failures called for "more explicit attention to the environmental impact of housing programs" and a more active role on the part of state and local governments "in relating community growth, development, and services to the housing needs of citizens of all income levels" (*President's Third Annual Report* 1971, 26).

The report offered its analysis as a "broad framework for evaluating housing programs and policies in the coming year" (*President's Third Annual Report* 1971, 26); it did not spell out specific proposals for change. Yet certain policy themes were clearly signaled—the unsustainability of future housing claims on the federal budget, the top-heavy emphasis on new construction at the expense of "second fiddle" housing preservation programs, the neglect of the poor in housing programs, and the enlistment of state and local governments in comprehensive housing and community development programming. Even as the housing production numbers in the early 1970s indicated a triumphant march toward the 1978 goal, the emerging policy debate foreshadowed a much rockier prospect.

Attacks on the production programs from all sides

Partly in response to the report, the *National Journal* ran a story in June 1971 pointing to “a full-scale and bi-partisan revolt against the nation’s 37-year-old builder-oriented policy” (Lilley 1971, 1535). The article quotes numerous members of Congress, mayors, and HUD officials, all of whom found things not to like about the subsidy programs in place: high cost, shoddy construction, poor administration, inapplicability to big-city housing problems, failure to help low-income families, and lack of planning on a metropolitan scale. But pitted against the possibilities for change, according to the story, was “by far the most potent of the housing lobbies” (Lilley 1971, 1535), the National Association of Home Builders (NAHB), joined by the Mortgage Bankers Association and the National Association of Real Estate Boards. Not that it was all that clear what shape “reform” might take. Some critics wanted more emphasis on housing rehabilitation, some were attracted to housing allowances (then at a very early experimental stage), and some called for a radical restructuring of the subsidy delivery system through block grants to metropolitan housing agencies. In the absence of political consensus of any sort, the production juggernaut rolled on.

In late 1971, an internal HUD report to the White House called “1972 Outlook” reflected a characteristic ambivalence, calling subsidized housing production “unquestionably one of the Administration’s great success stories,” but also warned that “it carries the seeds of vulnerability….Instances of negligent administration, inferior projects, excessive profits, and overbuilding a particular market can be expected to crop up in spite of our best efforts to prevent them, particularly since our manpower is dangerously thin in such key functions as inspections and appraising” (HUD 1971b, 1). The seeds of vulnerability had in fact already been amply sown far and wide and would continue to yield an unwelcome bumper crop of criticism in 1972.

The Proxmire attack

On the eve of the 1972 elections, the Joint Economic Committee of Congress released six papers it had commissioned from housing policy experts such as Henry Aaron of the Brookings Institution and Henry Schecter of the Congressional Research Service (U.S. Congress 1972a). Committee chairman Senator William Proxmire, who also served as a member of the Housing Subcommittee of the Senate Banking Committee and chaired the Senate Appropriations Subcommittee on Housing, launched a broadside attack in a press release accompanying the papers:

> Taken together, these studies form a damning indictment of our present housing programs and their administration. One thing is

> abundantly clear—reform of housing programs is long overdue.… I intend to pursue the issue of housing programs and housing reform until we get some order out of the present chaos.…The last Congress found the housing subsidy area such a complicated mess that it could not decide what to do. (U.S. Congress 1972b, 1)

Indeed. Like many others, Senator Proxmire found it much easier to flail the housing programs than to propose and adopt better alternatives. He noted in his statement, for example, that Aaron advocated a housing allowance entitlement program "arguing that it would be free of many of the inequities and rigidities of existing subsidies"; Schecter, however, "warns against the notion that housing allowances are a panacea for existing housing problems" because of the threat of "strong inflationary pressures in housing markets with limited housing supply" (U.S. Congress 1972b, 6). Proxmire did have a good word for the Section 23 Leased Housing program, a small program reviewed in a paper by Frank deLeeuw and Sam Leaman. Section 23 permitted local public housing authorities to lease rental units in existing private housing for its low-income clients. It was much cheaper than conventional public housing and better accepted by "both tenants and the community" (U.S. Congress 1972b, 7).

The 1973 moratorium

After Richard Nixon's landslide reelection in 1972, the White House and the Office of Management and Budget (OMB) clearly signaled to HUD that housing subsidy programs were in deep trouble and might be shut down entirely. Word also filtered out to the FHA bureaucracy, which hustled pending applications through the commitment process to beat the anticipated ax. Romney by this time was fed up with the subsidy programs and had, in any case, stated before the election that he would not be around for a second Nixon term. Still, he strenuously opposed the "virtually complete 'moratorium,'" effective January 1, 1973, that OMB wrote into the fiscal year 1974 draft executive budget. In his budget appeal letter to the president, Romney stated that he had

> no objection to a substantial cutback in these programs while we pursue the development of an alternative housing strategy. I do object, however, to the abrupt, across-the-board character of the moratorium which will cause widespread disruption in the housing industry, and will prevent the Federal Government from keeping existing specific commitments for subsidized housing. (HUD 1972, 1)

Romney argued that "the complex network of building and financial institutions that has formed to take advantage of Federal subsidy programs" deserved some "lead-time to adjust to new circumstances rather than suddenly being put out of business" (HUD 1972, 2). He also warned that a complete moratorium will "raise havoc with many existing commitments for subsidized housing, which frequently interlock with related federally-financed efforts," citing as examples urban renewal, new communities financed with federally guaranteed bonds, disaster housing, and "fair-share" subsidized housing distribution plans prepared by metropolitan planning agencies with HUD's encouragement (HUD 1972, 2). Wrote Romney: "[T]urning our back on these commitments would invite a wave of protest and justified cynicism on the part of those with whom we have [been] conducting public business in good faith" (HUD 1972, 2). If the federal budget was too tight to "allow an orderly transition" to a new housing strategy, he recommended a "staged reduction in the mortgage interest and property tax deductions" taken by middle- and upper-income families—a suggestion that was not adopted (HUD 1972, 4).

The bad news on the moratorium was delivered personally by Romney in a speech to the NAHB on January 8, 1973, in Houston. His profound ambivalence about the major subsidy programs was revealed again in this speech, which refers to the apparent success of Sections 235 and 236 in many parts of the country; however, "they have been too frequently abused and made the vehicle of inordinate profits gained through shoddy construction, poor site location, and questionable financing arrangements" (Romney 1973, 8). Sounding much like Senator Proxmire a few months earlier, Romney referred to the housing programs as a "Rube Goldberg structure" (1973, 8) and as a "statutory and administrative monstrosity" (1973, 7). The time had come, he said, "to pause, to re-evaluate, and to seek out better ways" (Romney 1973, 6). He also pointedly refused to use the term "moratorium," instead calling the action a "temporary hold" and noting that the pipeline of approved subsidy applications would keep production going at quite high levels—around 250,000 units—for another 18 months. Beyond that, Romney stated somewhat vaguely that "projects which are necessary to meet statutory or other specific program commitments will be approved in coming months" (1973, 7).

These arguments against a complete moratorium had some effect, with the help of a more flexible domestic affairs staff at the White House countering the hard-liners at OMB. In negotiations after the NAHB speech, it was determined that all Section 235 and 236 projects that had reached the HUD "feasibility approval" stage of processing by January 5, 1973, would escape the moratorium and could go forward to final processing and construction. In addition, OMB agreed to allow 60,000 extra units for the balance of fiscal year 1973 for "specific program commitments" yet to be defined, and "informally" approved 75,000 for fiscal year 1974 (HUD 1973a, 1).

Such palliatives prevented a complete shutdown of subsidized production activity, and advocates from the housing industry and low-income housing supporters would continue to push with limited success for a resumption of large-scale, federally sponsored production programs. But the 1973 moratorium had squashed what was left of the spirit of '68, and the search for better ways in the next quarter century would lead in other directions, specifically to demand-side subsidies and devolution of low-income production decisions to state and local governments.

The history and development of the three program types—vouchers, block grants, and tax credits—that have come to dominate the current phase of the half-century quest for the national housing goal will be considered next.

Housing vouchers: Retooling an old idea

Housing vouchers, then called rent certificates, were first advanced in the 1930s by the National Association of Real Estate Boards as an alternative to government-sponsored new housing for the poor, but in 1937, public housing prevailed as the vehicle of choice. The rent certificate idea stayed alive in the postwar debates leading up to the Housing Act of 1949, again losing out to public housing advocates. In the Eisenhower administration, the President's Committee on Government Housing Policies took up the idea again in 1953 with the same result:

> The committee concluded that rent certificates would be degrading to recipients, that they would not 'add to the housing supply,' that they would deter participation by private enterprise, that appropriate administration of the program would be organizationally complex, and that there would be no feasible way to limit the scale of such a program. (Carlson and Heinberg 1978, 49)

The realtors' persistent lobbying for rent certificates also suggested, of course, that their real motive was to take advantage of public funds to jack up rents in their least desirable properties.

Housing vouchers reemerged in the 1960s in the context of softening urban housing markets and public housing authorities that were caught between local opposition to development sites and their bulging waiting lists for low-rent housing. The first significant step came with the Section 23 Leased Housing program authorized by the Housing Act of 1965. Section 23 allowed public housing authorities to lease standard housing units from private landlords and sublease them to their clients. The authority paid the landlord a market rent, the low-income family paid what it could afford as determined by an income-driven formula, and the government made up the difference. Usually, the authority searched the market for appropriate units and then negotiated terms with the landlords, but a few authorities also experimented with a "finders-keepers" method whereby prospective tenants did their own shopping and brought a unit to the authority for approval. Either way, Section 23 cut the tie between a subsidized renter and a physical project built solely for low-income occupancy and in so doing, opened up new opportunities for both geographic mobility and economic—perhaps even racial—integration.

In the late 1960s, vouchers—then known as housing allowances—were considered by another presidential advisory body, the President's Committee on Urban Housing (known as the Kaiser Committee after its chairman, industrialist Edgar Kaiser), which recommended that experimental tests of housing allowances should be initiated. In 1970, Senator Edward Brooke of Massachusetts led the way for such experiments, sponsoring Section 504 of the Housing Act of 1970, which authorized HUD to spend $20 million in fiscal years 1972 and 1973 for the Experimental Housing Allowance Program (EHAP). Meanwhile, two cities that were part of the Model Cities program—Kansas City, MO, and Wilmington, DE—launched small demonstration programs (about 250 families in Kansas City and 80 in Wilmington) to test housing allowances.

The EHAP

Working with the Urban Institute, HUD immediately set about designing the program. Even as the department was in the midst of a huge subsidized housing production effort, the attractions of the housing allowance were compelling. As summed up by HUD Assistant Secretary for Research and Technology, Harold Finger: It "would get the Department out of the business of reviewing particular housing development applications for particular localities, thereby avoiding the problem of local resistance to Federally assisted housing development" (HUD 1971a, 1). It could be less costly and easier to administer than production programs. It could act as an important housing preservation tool by encouraging landlords to meet code standards to qualify for renting to allowance holders, who would then ensure a stable rental income stream. It "could eventually eliminate the development of public housing with its concentration of large families, welfare families, fatherless households" (HUD 1971a, 2). But to make a convincing case for all these benefits, housing allowances had to be tried in settings approximating, as far as possible, actual operating conditions.

As implemented during the 1970s in 12 sites at a cost of about $175 million, the EHAP was indeed, in Louis Winnick's delightfully dismissive phrase, a "rich feeding ground for the policy elite" (Winnick 1995, 96). In the real world of postmoratorium housing politics, as opposed to the contrived world of the experiments, Congress preempted the

EHAP's research findings in 1974 by adopting an allowance-like component of the new subsidy program called Section 8. Yet the EHAP's mountains of data and careful design, and the scrupulous objectivity of the analytical team all played their part in wrapping up the debate on the workability of housing allowances. In particular, the "supply experiments" carried out for five years in Green Bay, WI, and South Bend, IN, and designed to test the market effects of a full-scale allowance entitlement, "resulted in no detectable marketwide rise in rents," thus blunting the traditional chief line of attack by allowance opponents (Winnick 1995, 108).

Vouchers and production: Head-to-head competition

Showing that a program can work is not the same as demonstrating that it is superior, however. The contest between the allowance component (Existing Housing) of Section 8 and the production components (New Construction and Substantial Rehabilitation) played out in the postmoratorium 1970s. Under Romney's successor, James T. Lynn, the Existing Housing component—which replaced the already operating Section 23 leasing program—moved ahead quickly, but the production components lagged. As a result of the delay, Carla Anderson Hills, who took over from Lynn in March 1975, inherited production programs for which no regulations were in place and not a single subsidy commitment was in sight (Foote 1995). Hills, an energetic administrator with a point to prove—her nomination by President Gerald R. Ford had been opposed by housing lobbyists because of her lack of housing experience—took hold of the production programs and succeeded in increasing subsidy commitments from no units at all in fiscal year 1975 to 85,000 units by March 1976 (Hills 1976). Still, congressional critics charged HUD with a bias toward the Existing Housing program, a misdirected attack in Hills's case because she had gotten the Section 8 production programs running smoothly and in addition was reactivating the dormant Section 235 program for subsidized homeownership production. Nevertheless, Congress wrote mandates into the 1977 appropriations act requiring HUD to spend a bigger share of Section 8 on production (Harney 1976). As discussed in the next section, the incessant wrangling with Congress over subsidy types and mix helped persuade Hills that a housing block grant was a better way to organize housing spending.

Jimmy Carter's election in 1977 brought in an administration eager to establish an activist posture in housing and urban policy. As applied to housing, this meant going with the tide of congressional support for stepped-up production and with developers who by that time had mastered Section 8's lucrative profit potential. The Existing Housing component continued as a lower-profile adjunct to the main action.

The "triumph" of vouchers

After Ronald Reagan was elected president in 1980, he appointed the President's Commission on Housing to conduct yet another review of housing programs and make recommendations. Citing gains in both housing supply and quality since the 1950s, as well as the EHAP in the 1970s, the commission concluded that "massive production of new apartments for the poor" was not the answer; rather, a "Housing Payments Program…for lower-income consumers is the most efficient way to help the largest number of poor families in their quest for a decent home" (President's Commission on Housing 1982, xxiii). In making their recommendation, the commission also pointed to the large future budget obligations attached to Section 8 contracts already in force—$121 billion in fiscal year 1982. Armed with the commission's report, Reagan called for repeal of the production components of Section 8 and Congress complied, leaving Section 8 certificates as the only large-scale form of federal housing subsidy. In 1985, the Reagan administration introduced a "voucher" variant of the Section 8 program, which gave the recipient the option of choosing a unit costing more than the HUD-approved fair market rent and paying the difference out of his or her own pocket. The "certificate" and "voucher" programs operated—somewhat confusingly—side by side until merged in 1999 under the name "Housing Choice Vouchers."

"The Triumph of Housing Allowance Programs," as laid out in Winnick's insightful account, "stems from the confluence of discrete trends" (1995, 99), including the fact that the extraordinary utility and versatility of vouchers have progressively widened their base of political support to embrace both urban housing preservationists and metropolitan housing dispersalists. Vouchers also benefit from *not* being production programs, which seem forever burdened with the weighty baggage of blighting projects, excessive cost, social pathologies, bureaucratic bungling, and outright scandal. Staunch defenders of production programs will protest with some reason the unfairness of this judgment, but the images of program failures are too deeply stamped in the collective mind to be dislodged. Vouchers profit in the image game from being largely invisible and from involving financial stakes too small to invite conspicuous fraud. Most important is the recognition across the policy spectrum that "in a better housed America, the core housing problem stemmed, predominantly, not from deficits in supply but from deficits in income" (Winnick 1995, 97).

Block grants and the illusion of federal control

For about 40 of the 50 years since the Housing Act of 1949, housing programs for the poor labored under a crippling paradox. Federal money filled the subsidy gap in one way or another: Federal laws and regulations created the program structures for a parade of initiatives, and federal officials—both civil servants and political appointees—acted as gatekeepers, holding in their hands the keys to the federal cashbox. Quite properly, the programs in force at any particular time were labeled "federal." Yet the programs were inescapably "local" as well. Federal housing laws and budget appropriations do not build a single house or apartment anywhere: Actual building requires a local entrepreneur, a site, a complicit local government, and consumers willing to buy or rent. Even with voluminous federal "standards" and regulations in place, this mix of local actors presents a host of vulnerabilities: the home builder who cuts corners and turns out a shoddy product, the apartment developer who fabricates projected expenses and cash flow to "make the numbers work" on a subsidized project, local governments who proffer sites intended to wall off and segregate their poor and minority citizens, and consumers who conceal income to qualify for subsidies. When abuses crop up, as they inevitably do, the federal government is left holding the bag and is deemed responsible. As Secretary Romney, referring to the Section 235 program, testified in April 1971 to the Housing Subcommittee of the House Appropriations Committee:

> As I take a look at this program…I find no real incentive in there for anybody to see that this program is going to operate on the soundest possible basis other than those of us in the federal government. And everybody is out to take advantage of the situation. It is not structured in a way so that you have any incentives to do other than take advantage of the situation.…The builders like to build them. The real estate people like to sell them. But we are in a position where we have to protect the consumer, we have to protect the government…under circumstances far more difficult to protect the basic interest than I ever had to contend with before in any field I have ever been in (Lilley 1971, 1537)

The tension between the federal and local roles in producing subsidized housing was further complicated by the somewhat ambiguous role of the HUD/FHA field offices. The field staff were of course responsible to their masters in Washington for administering the laws and regulations emanating from Congress and the HUD central office. They were also assigned program production targets that they were under pressure to meet. Although they were guardians of the federal interest, however, their very effectiveness as program implementers depended in large part on how "local" they could be—in other words, how accommodating they could be to the profit motives of local builders and the political agendas of local governments and often members of Congress as well, who took considerable interest in how their financial contributors from the housing industry were being treated by HUD field personnel.

The cross-pressures on the field staff from local constituencies and from Washington led to many lapses of judgment and sometimes to outright corruption. As a result, the production programs confronted every HUD secretary with the dilemma of how much centralized control to impose on the field. Should all major project decisions require a Washington review and sign-off, thus slowing down the approval process and hobbling the effectiveness of able field office directors? Or should field staff be trusted with real decision-making authority, subject only to monitoring and spot checks by Washington? Whatever the decisions individual secretaries made on these matters, there were trade-offs and risks that would become all too real on the next trip to Capitol Hill.

Further complicating federal and local roles was federal prescription of the nature and mix of the available programs. When public housing was the only game in town, local governments built public housing. When the 1968 housing goal and new production targets were the emphasis, cities whose priorities were preservation and rehabilitation had very little to work with. After the 1973 moratorium, it was hard to know from year to year what to expect, as Congress engaged in what HUD Secretary Carla Hills referred to as “fits and starts, backing and filling,” constantly fiddling with the mix between new construction and leased housing, and between public housing and Section 8, all the while floating numerous proposals for new or redesigned programs (Harney 1976, 1271).

Housing block grants: Competing models in the mid-1970s

By the mid-1970s, the pattern of national housing initiatives had become familiar: the fanfare accompanying enactment, the implementation scramble, the analysis of results, the counting of costs in budget and social terms, the second thoughts and recriminations, and finally the search for a new model. At the heart of this tiresome cycle was the tension between the pretense of federal policy control and the messy realities of local implementation. “I’m damn tired of people in a delivery system objecting to change when everyone knows that the delivery system is clearly failing,” said Representative Thomas “Lud” Ashley in 1971 (Lilley 1971, 1537). Ashley, the influential chairman of the Housing Subcommittee of the Banking Committee, was an early, though not consistent, advocate for a housing block grant that would cut the connection between the private developer and the federal bureaucracy by interposing metropolitan planning agencies as recipients of the block grant. As a condition of getting the grant, metropolitan agencies would be required to develop areawide housing plans for distributing subsidized housing throughout the suburbs, thereby mitigating suburban exclusionary zoning and the concentration of housing for poor minorities in central cities. Such a planning requirement had already been inserted into the Housing Act of 1968, but the planning agencies, dominated by local officials, had been slow to respond; a housing block grant would presumably goad them into action. Despite Ashley's advocacy and influence, the idea was too radical; it was introduced but went nowhere.

Not long afterward, however, the block grant concept was taken up again, although in different form and without Ashley's visionary planning and social agenda. This time the leading sponsor was Secretary Hills. Hills was inspired by the model of the CDBG, enacted in 1974, a consolidation of eight separate (mainly nonhousing) programs on the "Urban Development" side of HUD. The CDBG predecessor programs, including urban renewal, model cities, open space, and water and sewer grants, had suffered under many of the same tensions as the housing programs: federal funding approval on a competitive, case-by-case basis, detailed federal regulatory control, and the political responsibility for anything that might go wrong as local officials adapted federal policies to local circumstances. CDBG virtually eliminated federal funding discretion by providing automatic, formula-based annual grants to all cities with populations of more than 50,000, to urban counties, and to states for distribution to nonmetropolitan areas. With regard to housing, the CDBG statute permitted funds to be used for housing rehabilitation but not new construction. Hills characterized the difference between CDBG and the old categorical programs as "like night and day" (Harney 1976, 1271). She saw no reason why what worked for community development would not also work for housing.

In one sense, however, CDBG sharpened the conflict between federal and local roles in housing by requiring a local Housing Assistance Plan (HAP) that was supposed to embrace all assisted housing. The difficulty, as laid out in a HUD staff analysis, was that

> responsibility for actual delivery of assisted housing rested primarily with semi-autonomous public housing agencies, private builders and HUD, leaving local governments with only a peripheral role in implementing their own HAP goals. As a result, HAP preparation often is viewed as a paperwork exercise, with its quality reflecting that attitude. (HUD 1976, 5)

Despite the indifferent quality of the HAPs, Congress was quick to jump on the fact that in the aggregate, they showed a preference for New Construction and Substantial Rehabilitation over Existing Housing assistance by about a 60 to 40 ratio, while HUD's actual performance in fiscal year 1976 indicated the reverse. The conference committee report on the Housing Act of 1976 chided HUD for "disregarding the contents of housing assistance plans in allocating housing assistance…failing to use the traditional public housing program to provide needed new units…and administering the Section 8 program in a way to make it a virtual nullity as a useful tool to assist newly constructed and rehabilitated units" (HUD 1976, 6). On the one hand, Congress directed HUD to pay more attention to the local HAPs, but on the other, the Appropriations Act mandated specific spending earmarks for “a veritable maze of programs,” including conventional public housing, with no indication as to how HUD was to mesh these mandates with local plans. As the HUD staff paper put it: “This ‘halfway-house’ approach to housing assistance is rapidly becoming an administrative nightmare for the cities, for HUD, and for the intended recipients of the assistance” (1976, 7–8).

Hills directed her staff to prepare draft legislation for a housing assistance block grant that would have been presented as the centerpiece of a 1977 housing reform initiative. But time ran out on the abbreviated Ford administration; in 1977, President Jimmy Carter’s appointees were in charge.

Housing block grants: An idea in eclipse

During the Carter administration, the block grant idea lacked powerful sponsors in either the executive or legislative branches. Carter’s HUD inherited from Hills a Section 8 New Construction program with the early bugs worked out. The old axis between HUD and developers was back, and HUD wanted to show its commitment to low-income housing by running up the highest production numbers since the 1973 moratorium. A block grant would have disrupted that agenda.

After Carter’s defeat in 1980, Ronald Reagan, the newly elected president, appointed a study commission to recommend the future course of housing policy. As already noted, the main recommendation of the President’s Commission on Housing was for a “housing payments” (voucher) program. However, the block grant idea also reemerged as an important commission recommendation, partly as a concession to supporters of production subsidies. The proposal was to tack on a new “Housing Component” to the CDBG that would permit new construction. The Reagan administration chose to adopt the voucher recommendation and dismissed the block grant proposal.

The housing establishment endorses block grants; Congress eventually agrees

With the Reagan administration locked into an antiproduction, voucher-only housing policy, and with the 1988 election on the horizon, housing advocates in the Senate and the housing industry gathered their forces in 1987 under the banner of the National Housing Task Force, a privately funded group “organized to help set a new national housing agenda” (*A Decent Place to Live* 1988, ii). Led by developer/philanthropist James Rouse, founder of the Enterprise Foundation, and

David O. Maxwell, chairman and chief executive officer of Fannie Mae, the 26-member body reviewed 72 position papers from housing interest groups and 20 papers prepared by scholars and practitioners. The report of the task force, issued in March 1988, had as its centerpiece recommendation a $3 billion, freestanding housing block grant to state governments and cities. Christened the Housing Opportunity Program (HOP), the federal block grant was to "be provided with maximum flexibility and minimum regulation" (*A Decent Place to Live* 1988, 13). As for the forms of assistance to be provided for low-income housing, the task force report recited the menu of subsidy choices that Congress had been scrapping over for 40 years—"grants, loans, interest reduction subsidies, operating support, or any other mechanisms"—and concluded that state and local governments should decide on whatever combinations they "found appropriate and effective" (*A Decent Place to Live* 1988, 21). Twelve years after Secretary Hills had called for a housing block grant, the pillars of the housing establishment came around to the same view. In those intervening years, the task force believed, state and local housing agencies had gathered "both capacity and experience," enabling them to "contribute significantly to meeting the housing goals set by the Task Force" (*A Decent Place to Live* 1988, 26).

Congress eventually agreed. The issue of a housing block grant versus a new, HUD-run rental production program was fought out in 1990. On the Senate side, sponsors of the housing bill pushed for the task force's HOP proposal, but on the House side, sponsors adopted a rental production program paired with a small block grant to help community-based, nonprofit housing developers. In the conference committee, the Senate side prevailed: HOP emerged as the HOME Investment Partnerships program, funded at $1.5 billion, with 15 percent set aside for community-based nonprofits.

After Congress acted, some analysts claimed that the 1990 act would deflect assistance from the neediest households (Nelson and Khadduri 1992). But Gordon Cavanaugh, former head of the Philadelphia Housing Authority, commented that such criticisms

> miss the point of [the 1990 act], which was to reestablish local roles. The thrust of the HOME program is to create a housing program free of HUD's constant bureaucratic interference.…HUD does not know best. (Cavanaugh 1992, 68, 75)

The legacy of past rental production programs was all around to see: public housing projects in ruins and Section 236 and Section 8 projects built on financial quicksand demanding billions of federal dollars to keep them from going under. Enthusiasts for local control believed that state and local governments could do better; almost everyone agreed that they could do no worse.

The LIHTC

Tax advantages linked to real estate investment in general and to low-income rental housing in particular have long been tied to stimulating subsidized production. As Case has written: "Virtually all privately financed housing for low- and moderate-income families over the past two decades [1970–1990] has received a substantial subsidy through the tax system" (1991, 343), almost all through the sale of limited partnerships to investors who are able to use tax credits or depreciation allowances to shelter other income from taxation. The process of organizing and marketing such benefits is called syndication. For developers, syndicators, and limited partners, investing in low-income housing is a way of doing well by doing good, especially when the federal government eliminates much of the risk by insuring the mortgage.

The rules of the syndication game are set by Congress in the tax laws, which can change abruptly to enhance or reduce housing-related tax provisions in response to a perceived need for housing stimulus or for cooling an overbuilt market. In the 1980s version of this story, Congress reacted to bottom-scraping housing production—fewer than a million units in 1981—by shortening depreciation schedules for multifamily construction, which was especially depressed, at only 319,000 units nationwide. The stimulus had the desired effect, and more: Apartment construction more than doubled by 1985, causing a glut of overbuilding in many markets that would shortly contribute to the S&L debacle of the late 1980s. Congress reacted again in 1986 by taking aim at the 1981 incentives in order to slow down speculative building. But low-income housing developers and advocates, who had been hurting since the termination of Section 8 production programs three years earlier, pleaded that their cause constituted a special case. Congress threw them a bone: a new low-income housing tax credit even more lucrative than the incentives it replaced. After a slow start, it "has become the primary production vehicle for low-income housing in the United States" (Wallace 1995, 793).

How the LIHTC works

Individuals and companies who invest in low-income housing can take a tax credit (a dollar-for-dollar offset against other taxes) equal to their investment in 10 annual installments. To qualify for tax credit investment, properties must rent at least 20 percent of their units to households earning 50 percent of the area median income or less, *or* at least 40 percent of their units to households earning less than 60 percent of median income. The rents charged may not exceed 30 percent of a household's income. Units meeting these standards must remain in service for at least 15 years. As implemented, most developments end up being 100 percent occupied by renters meeting the 60 percent of median income standard.

The number of units generated by tax credits is limited by the total allocation permitted under federal law, which established a formula calling for annual allocations to states based on population; each state receives $1.25 per resident. State housing agencies distribute the credits to local housing agencies or directly to sponsors of low-income developments. Program compliance on the development side of the program is the responsibility of state agencies, while the IRS is responsible for enforcing the federal tax code.

LIHTC as a production program

After enactment, the LIHTC got off to a slow start. Congress gave the unfamiliar incentive only a three-year life; the IRS took its time preparing implementing regulations; and developers and investors, not wanting to get caught in yet another congressional change of heart, were cautious. Between 1989 and 1993, the tax credit was kept alive with annual extensions until a persistent lobbying effort persuaded Congress to make it permanent. In 1995, however, supporters had to stave off a determined effort by the House Ways and Means Committee to “sunset” the tax credit in 1997 as part of a broader assault on deficit-swelling “corporate welfare” (Stanfield 1995). Politically, it seems out of danger now: In 1998 and 1999, Congress considered increasing the per resident limit from $1.25 to $1.75, and it seems likely that an upward adjustment along those lines will eventually be adopted.

Estimates of production linked to the LIHTC vary, depending on the source and the method used to count a unit—apartment construction is a multiyear process spanning the time between the initial allocation of credits to a project (which might never be built) and the date it is “placed in service.” Using the latter definition, HUD (1996) estimated on the basis of a survey of state housing agencies that 224,446 low-income units had been produced in the 1990–94 period. The U.S. General Accounting Office surveyed the same agencies and got slightly different answers adding up to 172,000 units in the 1992–94 period (White 1997). Cummings and DiPasquale estimate that “roughly 550,000 to 600,000 units were put in place in [LIHTC’s] first ten years” (1999, 303). And according to data provided to me by the National Council of State Housing Agencies, tax credits allocated from program inception (1987) through 1998 have provided financing for more than a million low-income apartments.

LIHTC as a block grant

However one sorts out the production numbers, the LIHTC is a very substantial contributor to the low-income housing stock. In addition, from the state and local perspective, a key feature is that it functions administratively "as a form of tax block grant," a flexible source of funds "to provide for local housing needs, including rehabilitated or newly constructed apartment buildings, townhomes or single-family homes, free of federal interference" (Patterson 1996, 7). It has also become a very important production engine for the thousands of nonprofit community development corporations (CDCs) operating in cities across the nation. National nonprofit intermediaries, principally the Local Initiatives Support Corporation and the Enterprise Foundation, act as packagers of corporate tax credit investments, which are then funneled to local CDCs for specific projects (Orlebeke 1997; Walker 1993). Thus, although the LIHTC law required each state to set aside at least 10 percent of its allocation for nonprofit sponsors, the efforts of the intermediaries have resulted in a larger share—more than a quarter—of the credits being committed to nonprofit sponsors (HUD 1996). For CDCs, tax credits typically form one layer of a much more complex financing package combining subsidies from other sources such as low-interest financing from state or local housing agencies, philanthropic grants, donated land, or CDBG or HOME block grants. These financial gymnastics are necessary because the LIHTC by itself cannot get rents low enough for the lowest-income households.

The LIHTC's friends and critics

The LIHTC has many friends, but also many critics. One line of attack has been that the relative complexity of the program necessarily involves quite high transaction costs. Particularly in the LIHTC's early years, much of the tax credit dollar—perhaps 20 to 30 percent or even more—was never applied to bricks and mortar, but instead was drained off to pay the fees of lawyers and accountants who put together tax credit deals. Also, as just noted, the LIHTC falls short of serving very low income households, forcing sponsors to hunt for other subsidies if the community's neediest families are to be served. These issues lead to an examination of the efficiency of the tax credit in relation to its cost to the federal treasury as a tax expenditure (revenue that is forgone), as well as to the question of whether there is a simpler, more direct way to achieve low-income housing construction that costs less in money and energy.

According to congressional staff estimates, the tax expenditure triggered by the LIHTC was $3.2 billion in fiscal year 1998 and is projected to be $19.6 billion over five years (1998–2002) (Schussheim

1998). It can be argued that the high return on investment that these numbers represent is an unwarranted windfall for corporations lured by tax credits and that the benefits should therefore be reduced or auctioned off. Surely, as some suggest, one could devise a more efficient low-income production program by scrapping the costly and convoluted tax credits and substituting an up-front capital grant similar to the current small-scale Section 202 program for elderly and handicapped housing (Case 1991).

The LIHTC debate is the latest variation on a recurring theme in low-income housing politics. Housing advocates who have the interests of the poor at heart call for government grants and other incentives to stimulate desired production. In the nature of things, such inducements attract, indeed require, the participation of profit-motivated developers, investors, and professional experts such as lawyers and accountants who master the intricacies of a given subsidy technique. (Even "nonprofit" corporations must make money somehow to survive.) When the inducements succeed and production flows, the second-guessing ensues. Project overhead and construction costs, swelled by government regulation, are high; developer and investor profits seem excessive, plundering the federal treasury. Housing advocates motivated by altruism may recoil from these realities, but at the same time, they are reluctant to give up a technique that, however costly and clumsy, works. Economists and policy analysts, meanwhile, scrutinize the incentive and offer more efficient alternatives. The LIHTC has been operating in this challenging terrain.

The difference between the LIHTC and previous tax incentives, as noted above, is that it functions as a form of block grant to states and cities, and in so doing is part of the pattern of devolution marking the postmoratorium period. Devolution has brought with it the highly varied, pragmatic, and often resourceful application of multiple public, nonprofit, and private sources of support that have gathered under the much celebrated banner of "public-private partnerships." Although the community-based arms of these partnerships often lead a harried and precarious existence, complicated by the exertion required to assemble development deals, it seems that their professionalism and productivity are gaining rather than losing strength, and the LIHTC has come to occupy a key place in their worthy efforts to improve housing and neighborhoods.

Moreover, in recent years, as private and nonprofit developers have become more adept in putting together tax credit deals, the LIHTC has also become much less vulnerable to charges of wastefulness and inefficiency. Michael Stegman, an early critic of the LIHTC as a "highly inefficient and relatively inaccessible subsidy mechanism" (1991, 359), now points to "enormous gains in LIHTC efficiency" so that "a growing portion of every tax credit dollar is going into building affordable housing rather than to paying syndication costs or higher investor returns" (1999, 323–24). With the reservation that the LIHTC allocation formula should be adjusted to target more poor households, Stegman asserts—and I agree—that the LIHTC "should continue to be the core of the country's low-income housing production system well into the twenty-first century" (1999, 323).

Conclusion

In this article, I have sought both to describe the evolution of important low-income housing policies since 1949 and to suggest that these policies generally make sense: specifically, that they evolved during an extended period of trial and error, that as far as can be determined they are achieving their objectives reasonably well, and that they appear to enjoy a fairly stable political consensus unusual in a chaotic half century of federal housing policies.

In recent years, the most significant turbulence occurred after the 1994 midterm elections when Republicans took control of Congress. Some Republicans, looking for ways to shake up the federal domestic program establishment, focused on HUD as a target for radical reform or elimination, and it was not clear that the Clinton administration would try very hard to stop them. In an attempt to stave off the threat, HUD Secretary Henry Cisneros convened his top staff shortly after the 1994 elections to put together a "Reinvention Blueprint," which included a striking outburst of contrition and a proposed revamping of the department's programs. The tactic succeeded in blunting the movement to get rid of HUD and was a remarkable signal of how much the housing policy landscape had changed since 1949 and 1968.

The Reinvention Blueprint declared as "undeniable truths" HUD's "slavish loyalty to non-performing programs and insufficient trust in the initiatives of local leaders" (HUD 1994, 1) "…[who] know best how to set community and housing priorities and make them work" (HUD 1994, 4). As applied to low-income housing programs, the blueprint called for ending within three years the entire federal system of public and assisted housing tied to project subsidies and replacing it with vouchers issued to tenants who could either stay in place or take them into the private market. State and local governments would be responsible for managing the new voucher system and would also continue receiving housing block grants for new construction and rehabilitation.

Although the main elements of the blueprint have not been adopted and implemented—and are not likely to be anytime soon—the proposal to demolish up to 100,000 units of the "worst public housing developments" is moving forward (HUD 1995, 8). Local governments, usually with the help of the flexible, $50 million HOPE VI grants first authorized in 1993, are now able to tear down derelict public housing as part of a plan to "transform public housing communities from islands of despair and poverty into a vital and integral part of larger neighborhoods" (Epp 1996, 570). In addressing the transformation challenge, cities will be drawing on a wide range of public and private investment sources, including the voucher, block grant, and tax credit programs discussed here.

Unfortunately, as the case of public housing illustrates, the expansion of programs that work is severely limited by the burden of paying for programs that have not. Billions of dollars have been and will be spent to prop up, and now tear down and partially replace, urban public housing. Added to that are the billions that have been and will be committed to preserve the affordability of some 4,000 multifamily properties built under the subsidized production programs of the 1960s and 1970s (Smith 1999). During this period, a fundamental principle had somehow eluded federal policy makers. As David A. Smith has put it: "Identifying and finding the resources to build affordable housing is straightforward; managing it over time is much more difficult" (1999, 147).

HUD's current preservation strategy, known by the shorthand term "mark-to-market," is governed by the Multifamily Assisted Housing Reform and Affordability Act (MAHRA) passed in 1997. MAHRA capped a decade of legislative effort to deal with the many problems of the federally insured multifamily inventory, including troubled projects with chronic maintenance and financial burdens and better-off projects whose owners are eager to terminate expiring subsidy contracts and convert to market-driven rents, thereby pushing current lower-income tenants out the door. Mark-to-market entails a multiyear process of enormous complexity that calls for a project-by-project analysis of the inventory. Project mortgages and rents are to be restructured and put into line with local market values; where necessary, funds for repairs and capital improvements can also be bundled with the refinancing package. Fully implementing mark-to-market will be costly: A 1995 estimate by Smith put the net cost to the FHA insurance fund at about $8.2 billion (1999). Wisely, MAHRA has taken the day-to-day management of mark-to-market out of HUD's hands by requiring the agency to subcontract with participating administrative entities, usually state housing finance agencies, which will make all the key project-level decisions under HUD's broad oversight—yet another step down the devolution path.

Despite the expensive baggage of past blunders, the three core elements of current low-income housing assistance policy—vouchers, block grants, and tax credits—seem to be securely in place. As always, future Congresses and presidential administrations will still have plenty to fight about in the housing policy arena, but I do not believe we are near another major turning point in housing policy. For low-income housing advocates, this outlook suggests that the most prudent political strategy is to push for a steady expansion of all three program elements as the most promising path to the "realization as soon as feasible" of the nation's housing goals.

Finally, the issue of federal regulatory control versus state and local government discretion continues to be a difficult balancing act. Despite the laudable tendency on the part of Congress and HUD to devolve increasing responsibility to the state and local levels, the impulses to control, prescribe, regulate, and micromanage are powerful. In HUD's 1998 appropriations legislation, for example, the same Congress that authorized the promising idea of up to 100 local "home rule" grant demonstrations combining public housing and Section 8 funds, also enshrined the right of public housing residents to own one or more household pets (Poduska 1998). The federal government must necessarily follow what happens to the money it dispenses. But in recent years, state and local governments have shown commendable initiative in taking on the social and economic challenges posed by their neediest citizens, including the political responsibility for results. A steadily more assertive role in housing is the logical extension of this trend. The federal government would do well to stay on the course of encouraging it.

Author

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