

REFORMING HUD TO PREVENT NEW SCANDALS

Charges of influence-peddling at the Department of Housing and Urban Development (HUD) have elicited declarations of shock and dismay from lawmakers who normally boast of their version of influence-peddling: the ability to win favors for constituents. The existence of this cynical double standard is one of the lessons of the scandal. A more important lesson is that it is flawed policy that has made such a scandal possible. This policy, enacted by Congress, addresses the housing needs of America's poor mainly by enriching landlords, consultants, and developers. Rather than seeking "reforms" to "monitor" HUD programs better — which surely will trigger new forms of influence-peddling — lawmakers should recognize that the best way to house the poor is to cut out the middlemen and give housing assistance directly to poor families.

Ever since the 1930s, when federal public housing programs were launched, the federal government has been a honey pot for developers and housing financiers. The grateful housing industry has rewarded a pliant Congress with campaign contributions, and it has lobbied successfully for a steady enlargement of the housing honey pot. During the Carter Administration, for instance, commitments for future expenditures at HUD, chiefly to finance new construction, peaked at \$38 billion in 1978, up from \$29 billion in 1976.

The pot has been made sweeter by the design of these programs. Construction costs and profits not only have been subsidized in various ways, but under the Section 8 program, enacted in 1973, private landlords essentially were given a federal guarantee that they would receive a "fair market rent" on every unit they leased to a low-income family.

Giving Power to Poor Consumers. Under this arrangement, developers and owners reap enormous profits yet face virtually no financial risk, while loan and rent guarantees encourage inflated housing costs. With a captive market of tenants, the landlord has little incentive to keep his property well maintained and attractive. Indeed, letting a building deteriorate, or threatening to remove it from the low-income stock when federal rent guarantees expire, usually triggers more federal money in the form of rehabilitation assistance. Not surprisingly, the taxpayer cost of housing families in this way works out at about double the cost of simply giving assistance directly to families in the form of housing voucher. Such a voucher is a certificate of fixed value that poor families can use toward rent payments. Vouchers thus give the poor consumer power, allowing them to "shop around" in the rental market instead of being forced to live only in subsidized projects.

Ronald Reagan and his now-maligned HUD Secretary, Samuel Pierce, sought to switch the thrust of federal housing policy from subsidizing rich developers to subsidizing the poor. This would have eliminated handouts to middlemen. To an extent they succeeded. New federal commitments were slashed from the \$38 billion Carter annual peak to about \$15 billion when Reagan left office. New construction programs were virtually eliminated. But because of

previous commitments, new public housing starts in the first Reagan term actually ran at nearly triple the level under Carter, and annual HUD outlays rose from \$12.7 billion in 1980 to \$18.5 billion in 1988 — an increase generally ignored by lawmakers and journalists intent on perpetuating the myth that Reagan slashed spending on housing.

Gold-Plated “Rehabilitation.” Pierce also won grudging congressional approval for a modest housing voucher program. Currently about 200,000 families receive vouchers — just a small fraction of the 4.3 million families in subsidized housing. But under pressure from the housing industry lobby, Congress retained and expanded various “rehabilitation” programs. Often such renovation becomes so gold-plated that it amounts to new construction in all but name, with costs frequently exceeding \$50,000 per unit. It is the limited funding available for these profitable, discretionary programs that encouraged competing developers to retain high-priced consultants to influence HUD, supplementing the usual supportive letters and telephone calls from their congressional representatives.

Congressional leaders show little desire to reform the system that inevitably yields payoffs and profiteering. What most seem to want is more money for housing, with greater control over which developers are favored with handouts. This will not prevent a new housing scandal. Worse, it will not give the poor affordable housing. If lawmakers genuinely are interested in helping the poor, they would eliminate the trickle-down programs that throw dollars at the housing industry and use this money instead to fund many more vouchers. Housing vouchers make the housing consumer king. Vouchers give families freedom of choice and the incentive to bargain with landlords who then must compete for tenant dollars rather than a HUD official’s ear. Moreover, consultants, phoney billing, and artificially inflated housing costs have no place in a voucher program, since hiking costs only makes the developer and landlord less competitive in the rental market.

Beyond Vouchers. To be sure, HUD must do far more than distribute more vouchers. HUD Secretary Jack Kemp declares that he has no intention of being merely the “Secretary for Housing Vouchers.” HUD indeed must spearhead other strategies: Enterprise zones to create inner city jobs; tenant management and ownership expansion to save America’s public housing projects; streamlined building codes, land use restrictions and other rules that increase the cost of homeownership for young couples. But Kemp also needs to take every opportunity to remind Congress of the central lesson of what is coming to be called “Hudscam”: programs that subsidize developers are inherently flawed. They cannot be corrected merely by some tinkering and more oversight. They must be replaced with housing vouchers that subsidize families.

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For further information:

Kenneth J. Beirne, “Vouchers: A Way to Provide Better Housing for America’s Poor,” Heritage Foundation *Background* No. 582, May 27, 1987.

Benjamin Hart, “Congressmen As Lobbyists: A Look Inside the HUD Scandal,” Heritage Foundation *Executive Memorandum* No. 241, July 12, 1989.