

## Public Housing and Rental Subsidies

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### Overview

From Franklin Roosevelt to Lyndon Johnson, Harry Truman to Bill Clinton, American presidents and their housing administrators have cut the ribbons on new versions of subsidized housing projects. Their theory has been consistent: private markets fail to provide housing for people with low incomes, and thus government subsidies are needed to fill the gap. Even presidents such as Richard Nixon and George W. Bush, who did not promote the construction of new public housing, accepted the idea that housing markets fail the poor and backed housing vouchers for rent in private dwellings.

Since the 1930s, the federal government has funded one expensive approach to low-income housing after another—without seeming to notice that the new approaches were made necessary less by market failure than by the failure of past public policies. Public housing projects erected to replace slums soon became "severely distressed," in the phrase used by one congressional study. Housing vouchers meant to end "concentrated poverty" instead moved it around. The low income housing tax credit program provides large subsidies to developers and few, if any, benefits to low-income families.

President Obama has said that his administration will end programs that have failed. Let's hope that the administration takes a fresh look at housing programs and recognizes the distortions and damage they have created. They have failed not because of poor architecture or design, nor minor management problems, but because of much more fundamental factors. Federal housing programs distort markets in ways that undermine neighborhoods, they encourage dependency, and they do not create incentives for long-term maintenance and improvements. They also rest on the false premise that the private sector cannot provide housing for those of modest means.

Federal housing subsidies have also been expensive to taxpayers. In 2009, the federal government will spend about \$25 billion on rental aid for low-income households and about \$8 billion on public housing projects.<sup>1</sup> The following sections discuss the origins of federal subsidies, the distortions caused by public housing and housing vouchers, and the ability of private markets to provide housing without government help.

### Origins of Federal Housing Aid

For generations, activists—from Jacob Riis to Jesse Jackson—have viewed the housing conditions of lower-income Americans with despair, and their concerns have prompted many federal interventions. The first large effort was the National Housing Act of 1937, which has been repeatedly amended with new attempts at reform over the decades. A pattern has emerged: each time a bold new approach is attempted, initial success is followed in subsequent decades by unintended and harmful side-effects.

The outlines of this pattern began to emerge as early as 1854, when the New York Association for Improving the Condition of the Poor decided to build a "model tenement" at the corner of Elizabeth and Mott Streets. Constructed by a newly formed limited-dividend corporation, the building degenerated rapidly, and in a little more than a decade it had become one of the worst slums in the city. It was sold, and soon after demolished. Like later public housing projects, this effort aimed at limiting or eliminating the profit motive in housing, and the result was that there was little incentive for anyone to maintain or improve the structure.

Ignoring such early failures, major federal efforts to provide low-income housing were launched in the 1930s and subsequent decades. In 1932, President Herbert Hoover oversaw the creation of the Reconstruction Finance Corporation, which made loans to companies for low-income homebuilding and slum clearance.<sup>2</sup> In 1933, Congress created the Public Works Administration, which pursued low-income housing and slum clearance projects through loans to companies, loans and grants to local governments, and through direct federal efforts.<sup>3</sup> The Housing Act of 1937 gave a permanent boost to public housing by providing federal financial assistance to local housing agencies for constructing and maintaining housing projects.

All these attempts ignored the fact that during 1870–1930—when there were high levels of immigration and rapid urbanization—private builders erected thousands of units of low-cost housing that were "affordable" to those with low incomes. Reformers who bemoaned the lack of low-income housing failed to understand the vitality of the many neighborhoods with modest dwellings, which served as building blocks allowing residents to own their own homes and move up the "housing ladder" to better, larger homes as they became better off.

Notwithstanding the proven ability of American builders to tailor acceptable homes to the incomes of those of modest means, the Housing Act of 1949 called for "a decent home and suitable living environment for every American family."<sup>4</sup> It authorized the construction of hundreds

of thousands of public housing units, and it expanded the pool of families eligible for public housing.<sup>5</sup> By 1964, there were 582,000 units of public housing in the nation occupied by 2.1 million people—and that was before President Lyndon Johnson's expansion of federal spending on the cities and the establishment of the Department of Housing and Urban Development in 1965.<sup>6</sup> HUD was given a wide-ranging mission to make over poor inner city neighborhoods with housing and community development subsidies. HUD's first secretary, Robert Weaver, had an optimistic vision of "massive housing rehabilitation efforts . . . [to] achieve our goal of adequate housing for all families."<sup>7</sup>

However, the optimism of reformers in the 1960s was dashed by the growing failures of federal housing efforts. By the early 1960s, public housing was becoming infamous for its crime, graffiti, smashed windows, and general deterioration, and by the 1970s many projects had become social disasters.<sup>8</sup> A landmark in government failure occurred in 1972 with the demolition of the Pruitt-Igoe high-rise public housing complex in St. Louis, which consisted of 33 11-story apartment buildings. Considered an "architectural masterpiece" when built in the early 1950s, the federally funded Pruitt-Igoe project was demolished after vandalism and crime rendered it uninhabitable.<sup>9</sup> Since then, many more federal housing initiatives have been launched, but most have similarly ended up as expensive failures.

## Public Housing

HUD was not originally intended to have much direct involvement with public housing. The 1937 housing act encouraged the construction of public housing projects with the creation of a federal housing authority to purchase local construction bonds, but local authorities were to build and manage the projects. Public housing was supposed to be supported through rents and local funding.

However, the exodus of working-class families from public housing, along with a rent cap imposed by Congress in 1969, made local housing authorities dependent on federal operating and repair subsidies doled out by HUD. The turning point was legislation that limited rents to 25 percent of tenant income, which had the unintended consequence of sharply cutting the revenues of housing authorities—and thus maintenance spending.

Federal operating subsidies have risen from \$6.5 million in 1969 to \$4.4 billion by 2009.<sup>10</sup> These operating subsidies are in addition to the \$2.5 billion or so annually that HUD distributes for capital spending on public housing projects. The federal economic stimulus bill in early 2009 kicked in an additional one-time infusion of \$4 billion for capital spending.<sup>11</sup> About 1.1 million households currently inhabit federally financed public housing, down from a peak of 1.4 million households in 1991.<sup>12</sup>

Most people agree that big public housing projects can be noxious environments for their tenants. They are disproportionately home to extremely poor, single-parent households, along with the crime, social problems, and poor academic performance associated with that demography. Ironically, public housing was originally meant to serve lower middle class working families. But as the economy boomed after World War II, those families found private homes in the growing suburbs, and by the 1960s they had abandoned public housing. Left behind were poor, nonworking families, almost all of them headed by single women. Public housing became a key component of the vast welfare network that gave young women their own income and apartment if they gave birth to illegitimate kids. As the fatherless children of those women grew up and went astray, many projects became lawless places, overrun with gang activities.

Public housing projects have also damaged the city neighborhoods that surround them. They have radiated dysfunction and social problems outward, damaging local businesses and hurting nearby property values. They have also harmed surrounding cities by inhibiting rundown areas from coming back to life by attracting higher-income homeowners and new business investment. Fear of those who live in housing projects has driven away striving, upwardly mobile people who are the ones that make neighborhoods flourish.

City policies have often made matters worse by ensuring the permanence of public housing. Since public housing cannot be bought and sold on the market, it has disrupted the healthy recycling of property that helps dynamic cities grow and that spawns opportunities for rich and poor alike. Unlike privately owned buildings, public housing has almost always become property permanently fixed in a particular, low-value use, even as surrounding cities and metropolitan areas have changed.

In recent decades, hundreds of thousands of public housing units have been demolished after falling into disrepair and being overtaken by crime and disorder. Chicago's Robert Taylor homes, for example, consisting of 28 apartment buildings of 16 floors each, were completed in 1962 and demolished by 2007. Chicago's infamous Cabrini-Green complex has also been mainly demolished, as have many other troubled housing projects across the nation.

To replace some of the units of these complexes, the Hope VI program was launched in the 1990s as the latest incarnation of public housing. Hope VI focuses on creating low-rise projects with a mixed-income group of tenants. Such projects are predicated on the theory that if higher-income families live in the same complexes as poor families, the successful tenants will set a good example for the less successful tenants. Perhaps so, but so far there is no evidence of this. It might be just as likely that the children of the dysfunctional families set bad examples for the children of the more successful families.

It is also far from certain that many Hope VI projects will be able to attract a mix of households in the first place, or over time. And, like prior federal efforts, Hope VI is based on the fallacy of "environmental determinism"—the false belief that the right kind of public housing can cure the ills of distressed households. The truth is that the struggle to improve one's lot and move to a better neighborhood is what encourages the habits of thrift, education, and marriage which lead, in the long run, to social and economic success.

The Obama administration is nominally proposing to end HOPE VI funding. To replace it, the administration is launching the Choice Neighborhoods Initiative to "build on the success and lessons learned from the HOPE VI program."<sup>13</sup> That view is predicated on a program whose success is based on that which it has replaced—severely distressed public housing—rather than any evidence that HOPE VI developments can be well-maintained over time and that low-income tenants in Hope VI projects can be launched toward upward mobility.

Another response to the failure of traditional public housing has been the creation of the Low Income Housing Tax Credit in 1986, which currently subsidizes construction or rehabilitation of roughly 70,000 units of low-income housing each year. This is another failed attempt to

manipulate markets, and it has a variety of negative effects. For one thing, the structure of the tax credit program encourages the location of projects in particularly low-income areas, thus exacerbating the concentration of poverty in cities, just as traditional public housing did.<sup>14</sup> Also, the method of allocating tax credits to the states results in many subsidies going to areas of the country where few housing affordability problems exist.<sup>15</sup>

Further, the projects built under the LIHTC program have income caps for tenants, which create the same disincentive effects for personal advancement that traditional welfare programs do. Finally, the program essentially functions as a subsidy program for developers. Economists Edward Glaeser and Joseph Gyourko argue that developers effectively pocket the \$4 billion or so in annual federal tax credits, while the rents in buildings constructed under the program are generally no lower than they would have been in the absence of the program.<sup>16</sup>

## Rental Subsidies

Though crime-ridden public housing projects are the most infamous symbol of federal housing policy, much more funding today goes toward rental subsidies for low-income families in private dwellings. About 2 million households receive federal tenant-based aid, at a taxpayer cost of \$16 billion in 2009.<sup>17</sup> In addition, about 1.3 million households benefit from project-based aid, which subsidizes rent in particular buildings at a taxpayer cost of \$7.5 billion in 2009.

The idea for rental vouchers originated with Lyndon Johnson's Kaiser Commission on Urban Housing. The commission mistakenly believed that private housing markets could not provide the poor with adequate housing, despite the fact that private markets had been steadily improving housing standards for many decades for families at all income levels. Accepting the commission's rationale, the Nixon administration proposed what became Section 8 of the Housing and Community Development Act of 1974, which authorized federal rent subsidies for privately owned apartments.

The rationale for vouchers was straightforward: instead of placing an aid recipient in a government-built housing project, the federal government would provide a voucher that subsidized rent in a privately owned building. Liberals embraced Section 8 vouchers because they believed poor families could not afford decent market-rate housing. Conservatives embraced vouchers because it seemed to be a market-based method of steering the private sector toward serving a public policy goal.

Unfortunately, housing vouchers have caused many of the same problems as public housing, including long-term government dependency and the concentration of poverty. Although traditional federal welfare payments were reformed in 1996 to encourage work and self-sufficiency, Section 8 housing remains an open-ended benefit that recipients can remain on permanently. The problem is compounded by the fact that the value of Section 8 benefits is large. For example, the value of a New York City Housing Authority voucher for a two-bedroom apartment in 2007 was a hefty \$1,318.<sup>18</sup>

Although anyone earning less than 80 percent of the median income initially qualifies for the program, priority for vouchers goes to the poorest applicants. By law, 75 percent of vouchers must go to households earning 30 percent or less of median family income for an area. Local housing authorities can go even further in targeting the poorest applicants, and many do. The result is that vouchers are heavily tilted toward very low income single-parent households.

Today, most Section 8 recipients receive a variety of open-ended federal benefits, including food stamps, Medicaid, and the Earned Income Tax Credit, which together constitute substantial permanent welfare support for single-parent households. These programs and housing vouchers risk encouraging the formation and continuation of government-dependent households. Because Section 8 rent is pegged at 30 percent of income, any increase in a recipient's wages above that amount leads to a steep rent increase, and thus Section 8 creates a strong disincentive for individuals to expand their market earnings and seek personal advancement.

By contrast, unsubsidized housing markets are supportive of a healthy social fabric because they inspire and enable individuals to advance. Private markets reward effort and achievement by giving people the chance to live in better homes in better neighborhoods. As people work hard and gain job experience, they can earn their way to larger homes in nicer neighborhoods. There is no hurdle to improvement, as there is with income-targeted government benefits.

Whereas public housing projects created highly visible pockets of crime and poverty, Section 8 vouchers were supposed to spread out poor families more widely. But that has not happened, and Section 8 tenants have become concentrated in particular buildings and certain areas of cities. Democratic Senator Barbara Mikulski of Maryland has noted that vouchers have replaced "vertical ghettos with horizontal ones."

Some landlords, in fact, specialize in Section 8, becoming experts at the complex regulations, and they skillfully work the system to their financial advantage. With Section 8 tenants, landlords don't have to worry about nonpayment, because the government deposits its share of the rent—the lion's share—directly into the property owner's bank account. Moreover, for many buildings the government-paid rent is more than the market rent would be. The reason is that the program allows voucher holders to pay up to the average rent in their entire metropolitan area, and landlords in lower-income neighborhoods, where rents are below average, simply charge voucher holders exactly that average rent.

Taken together, both housing vouchers and public housing contribute to the creation of what might be called "frozen cities." Subsidized tenants remain stuck in public housing projects and Section 8 buildings for years, even decades. In addition, the actual buildings that subsidized tenants inhabit remain tied to one particular low-value use, which prevents the affected areas of cities from enjoying the natural changes and upgrading over time that other neighborhoods experience. Neighborhoods with subsidized housing do not get renewed, and they offer fewer opportunities for individuals to improve their lives and their surroundings.

Many policymakers remain in thrall of the "free market" voucher. They have yet to grasp that Section 8 vouchers establish no real private market, but are instead merely a categorical income assistance program that has helped to form and perpetuate a social and economic underclass. Republicans have often acquiesced in Section 8 program's growth, while urban Democrats use the program's growing funding

to shower benefits on their constituents.

To its credit, the George W. Bush administration tried to freeze funding on traditional Section 8 vouchers, and it pushed for the more than 2,000 local housing authorities across the country to make vouchers less of an open-ended benefit. (To its discredit, however, it also proposed that Section 8 payments be allowed to be used as downpayments on homes!) While Section 8 was originally a Republican program, Democrats have consistently come to the defense of the program, blocked cuts and reforms, and successfully promoted expansion.

## Private Markets and Low-Cost Housing

Supporters of subsidized housing have, for more than 70 years, acted on the belief that private markets cannot provide adequate housing for lower-income families. New Deal administrator Harold Ickes frequently made such claims in support of housing subsidies.<sup>19</sup> Ickes claimed that "slums cannot be eradicated except on the basis of a government subsidy."<sup>20</sup> In 1935, Catherine Bauer—an influential public housing crusader at the time—claimed that private housing markets could not serve fully two-thirds of Americans, and thus most people would need public housing assistance. The same year, prominent architect Albert Mayer claimed in a *New York Times* op-ed that 50 percent of the population could not afford to rent in private dwellings.<sup>21</sup>

The post-World War II era's explosion of home ownership quickly gave the lie to those sorts of claims, as private markets produced millions of new homes in the suburbs. Unfortunately, all sorts of federal housing subsidies had already been put into place and were difficult to repeal—even with the poor performance of the subsidies and the excellent performance of the private sector in providing new housing during that era.

Before federal subsidy programs were begun, and before the widespread use of detailed housing regulations and zoning ordinances, private markets did a good job of providing housing for lower-income Americans. During the period from 1890 to 1930, for example, vast amounts of new working-class housing were built in American cities. In Philadelphia during that period, for instance, some 299,000 brick row homes were built—and many of them were so solid that they are still in use. Data from that period show that a significant percentage of residents of poor neighborhoods did not live in overcrowded tenements, but instead lived in small homes that they owned or in homes where the owners lived and rented out space.

From the end of the Civil War until the New Deal, private markets generated a cornucopia of housing types to accommodate those of modest means. In those years, Chicago saw the construction of 211,000 low-cost two-family homes—or 21 percent of its residences. In Brooklyn, 120,000 two-family structures with ground-floor stores sprang up. In Boston, about 40 percent of the population of 770,000 lived in the 65,376 units of the city's three-decker frame houses. These areas of low-cost, unsubsidized housing were home to the striving poor. In Boston, as pioneer sociologists Robert Woods and Albert Kennedy describe it in their 1914 work, *The Zone of Emergence*, those neighborhoods teemed with skilled and semi-skilled workmen, the large majority of whom owned their homes.

Even in the poorest neighborhoods, housing was rarely abject. A 1907 report by the U.S. Immigration Commission, for instance, found that in the eastern cities, crowding in such neighborhoods was by no means overwhelming. "Eighty-four of every 100 of the homes studied are in good or fair condition," wrote the commission.<sup>22</sup> True, many lived without hot water or their own bathrooms, but this was a time in America that was far less wealthy than today in general, and rental costs, contrary to legend, were not unduly burdensome. A 1909 study by the President's Homes Commission of Washington, D.C., found that a majority of the 1,200 families surveyed paid but 17.5 percent of their income for housing costs.<sup>23</sup> Many of the poor—just like the "emerging" class that Woods and Kennedy described—lived in small homes they owned or in small buildings in which the owner lived.

We know from Jacob Riis's powerful 1891 book, *How the Other Half Lives*, some families lived in very poor conditions. But it is essential to remember that the conditions in which these poor families lived were not permanent—a fact unacknowledged by either Riis or today's housing advocates. After all, the generation of children for whom Riis despaired went on to accomplish America's explosive economic growth after the turn of the century and into the twenties. By 1930, the New York settlement-house pioneer Lillian Wald would write in her memoirs of the Lower East Side that, where once Riis had deplored overcrowding, she now found herself surrounded by "empties" because most of the poor had climbed the economic ladder and headed to Brooklyn and the Bronx. In other words, "substandard" housing was a stage through which many families passed, but in which they did not inevitably remain.

Perversely, subsidized housing advocates usually make matters worse when they try to ban the conditions that offend them. By insisting on unrealistically high regulatory standards that drive up housing prices beyond the means of the poor, they help create housing shortages. Since the New Deal, a flood of regulatory mandates—whether for the number of closets, the square feet of kitchen counter space, or handicapped access—have caused private owners and builders to bypass the low-income market in particular. Under current building codes and zoning laws, much of the distinctive lower-cost housing that shaped the architectural identity of America's cities—such as Brooklyn's attached brownstones with basement apartments—could not be built today.

It is true that even with relaxed building and housing codes, we might not be able to build brand-new housing within the reach of all those with low incomes. But housing structures last for decades, which facilitates the continual passing along of gradually older homes to those of more modest means. When new homes are built for the middle class, their homes are passed along to the lower middle class. When lower-middle-class families move up to better accommodations, they pass their homes and apartments along to those who are poorer, and so it goes.

A major social benefit of private and unsubsidized rental and housing markets is the promotion of responsible behavior. Tenants and potential homeowners must establish a good credit history, save money for security deposits or downpayments, come with good references from employers, and pay the rent or mortgage on time. Renters must maintain their apartments decently and keep an eye on their children to avoid eviction. By contrast, public housing, housing vouchers, and other types of housing subsidies undermine or eliminate these benefits of market-based housing.

Support for housing subsidies rests upon a failure to understand the importance of the means—such as marriage, hard work, and thrift—by

which families improve their prospects so they can move to a better home in a better neighborhood. Better neighborhoods are not better because of something in the water but because people have built and sustained them by their efforts, their values, and their commitments. Subsidies are based on the mistaken belief that it is necessary to award a better home to all who claim "need," but it is the effort to achieve the better home, not the home itself, that is the real engine of social improvement.

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- <sup>1</sup> *Budget of the U.S. Government, Fiscal Year 2010, Appendix*, pp. 570–75.
- <sup>2</sup> B. Putney, "Low-Cost Housing in the United States," *CQ Researcher*, January 24, 1935, p. 6.
- <sup>3</sup> B. W. Patch, "Federal Home Loans and Housing," *CQ Researcher*, November 20, 1933, pp. 13, 14.
- <sup>4</sup> Willem Van Vliet, ed. *Affordable Housing and Urban Redevelopment in the United States* (Thousand Oaks, CA: SAGE, 1997), p. xiii.
- <sup>5</sup> "Public Housing in War on Poverty," *CQ Researcher*, July 22, 1964.
- <sup>6</sup> "Public Housing in War on Poverty," *CQ Researcher*, July 22, 1964, p. 8.
- <sup>7</sup> Quoted in Howard Husock, "The Inherent Flaws of HUD," Cato Institute Policy Analysis no. 292, December 22, 1997, p. 5.
- <sup>8</sup> "Public Housing in War on Poverty," *CQ Researcher*, July 22, 1964, p. 9.
- <sup>9</sup> "Low-Income Housing," *CQ Researcher*, May 8, 1987, online edition.
- <sup>10</sup> *Budget of the U.S. Government, Fiscal Year 2010, Appendix*, p. 573.
- <sup>11</sup> *Budget of the U.S. Government, Fiscal Year 2010, Appendix*, p. 573.
- <sup>12</sup> Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy* (Washington: American Enterprise Institute, 2008), p. 103.
- <sup>13</sup> *Budget of the U.S. Government, Fiscal Year 2010, Appendix*, p. 567.
- <sup>14</sup> Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy* (Washington: American Enterprise Institute, 2008), p. 106.
- <sup>15</sup> Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy* (Washington: American Enterprise Institute, 2008), p. 109.
- <sup>16</sup> Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy* (Washington: American Enterprise Institute, 2008), pp. 112–14.
- <sup>17</sup> *Budget of the U.S. Government, Fiscal Year 2010, Appendix*, p. 570. In addition, the budget includes \$1.5 billion in fiscal 2009 outlays for the housing certificate fund.
- <sup>18</sup> [www.nyc.gov/html/nycha/downloads/pdf/070213N.pdf](http://www.nyc.gov/html/nycha/downloads/pdf/070213N.pdf)
- <sup>19</sup> B. W. Patch, "Federal Home Loans and Housing," *CQ Researcher*, November 20, 1933, pp. 13, 14.
- <sup>20</sup> B. Putney, "Low-Cost Housing in the United States," *CQ Researcher*, January 24, 1935, p. 2.
- <sup>21</sup> B. Putney, "Low-Cost Housing in the United States," *CQ Researcher*, January 24, 1935, p. 2.
- <sup>22</sup> Quoted in Howard Husock, "We Don't Need Subsidized Housing," *City Journal*, Winter 1997, [www.city-journal.org/html](http://www.city-journal.org/html).
- <sup>23</sup> Howard Husock, "We Don't Need Subsidized Housing," *City Journal*, Winter 1997, [www.city-journal.org](http://www.city-journal.org).

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