

HUD's Basic Missions and Some of Their Key Implications

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In Washington today, major political efforts are underway to eliminate, or at least drastically shrink, the U.S. Department of Housing and Urban Development (HUD). Yet a persuasive case can be made that the Nation needs a strong Federal agency focused on a combination of housing and urban development: in other words, HUD! Such a department is required, even if its functions are drastically changed—an action HUD's own officials have recommended.

However, the specific missions appropriate to HUD possess characteristics that have contributed to recent undermining of the Department's political support. An understanding of the way that undermining has occurred may help strengthen the case for retaining HUD and continuing to provide significant support for its key missions.

Moreover, the unusual current atmosphere in Washington permits at least a consideration of other potentially desirable forms of radical change, including the realignment of major functions among Federal departments. Some such changes might greatly improve the Federal Government's ability to cope with the Nation's key urban problems.

Some Aspects of HUD's Creation

HUD was created during the Johnson administration by consolidating several existing agencies that dealt with housing, urban renewal, and housing finance. At that time most Americans viewed the Federal Government as a beneficent and positive force with a strong responsibility for attacking America's major social and economic problems. This positive concept of the Government's role was reinforced in the aftermath of racial rioting in more than 150 major cities in the late 1960s. There was a widespread belief that the Federal Government should "do something" to ameliorate the causes of those riots.² The urban areas where rioting occurred were part of the spatial and legal territory to be included in the jurisdiction of the new Federal department.

The era of HUD's creation was one in which the real income of most American households was rising rapidly because of military and other Federal spending and private-sector prosperity. This situation allowed the public to view an increase in the funds earmarked for an attack on social problems as not harmful to themselves, since their incomes were

increasing faster than the taxes needed to fund the added expenditures. Hence the population as a whole did not have a zero-sum-game attitude toward the use of public resources to improve the welfare of the disadvantaged portions of society.

However, two elements with a vital impact on HUD's mission were not included in the legal jurisdiction of the Department. This dual omission weakened HUD's ability to develop and carry out overall strategies influencing cities and urban development. One omitted element was *income maintenance* in the form of welfare programs; they remained under the jurisdiction of what is now called the Department of Health and Human Services. That was an understandable decision, since income maintenance seems more directly related to overall household welfare than to housing. Yet this element is closely related to HUD's mission, because the housing assistance incorporated in many HUD programs is actually a form of income maintenance. Moreover, households use a large portion of their welfare checks (that is, their income maintenance payments) to pay the rent on their housing—often for units that are substandard in quality. Thus the way welfare programs are funded and administered has a huge impact on the quality of their recipients' housing.

The second omitted element was *urban transportation*. Urban mass transit was initially a part of HUD and was transferred to the Department of Transportation when that agency was created. At that time Federal involvement in mass transit was minor compared with its role in highway planning and construction, which was never part of HUD. However, the nature and location of federally financed highways are crucial determinants of urban form, and more Federal money was being spent on metropolitan-area highways each year than on any other type of Federal activity intended to shape the physical and economic layout of the areas, including activities under HUD's jurisdiction. Thus not placing highway planning and finance under HUD's jurisdiction removed from its influence the single most important determinant of the way our metropolitan areas were to grow over the next several decades.³

HUD's Basic Missions

What Are HUD's Basic Missions?

Since its creation, HUD has been entrusted by Congress with administering over 200 specific programs covering a multitude of activities. Yet its basic missions—that is, the fundamental social functions it is supposed to carry out—can be summarized in two sets. One set is connected with housing and the other with urban development, particularly with the spatial efficiency of U.S. metropolitan areas. Because the housing missions have been emphasized much more by Congress, HUD, and most other observers than have the spatial efficiency missions, this analysis devotes more time to the latter.

Housing Missions. A recent HUD document officially defined the Department's basic missions as follows: (1) assisting homeless persons and families, (2) reducing the number of distressed public housing units, (3) developing affordable housing and making homeownership a reality for more Americans, (4) reducing racial barriers in housing markets, (5) empowering communities, especially poor ones, and (6) creating an environment within HUD that supports teamwork and organizational excellence.⁴ The first four missions deal directly with housing, and the last two do so indirectly. The missions are clear: One of HUD's central purposes is improving the housing situation of the American people, especially poor people who cannot afford "decent quality" housing without aid from others. This has long been recognized by HUD and its observers as a key HUD mission.

Urban Development Missions. HUD has another set of central missions related more to urban development patterns than to housing, and these missions are just as important as HUD's housing missions. Yet the official document cited above mentions only "empowering communities," and HUD has devoted far less attention to its urban development missions than to its housing missions.

What do these neglected urban development missions consist of? Almost 80 percent of Americans live in the Nation's 300-plus metropolitan areas, and almost two-thirds of those metropolitan-area residents dwell in suburbs and "exurbs." Thus, except for agriculture and mining, the basic economic and social functions of American society are carried out largely within these metropolitan areas.

If American society is to function well enough to provide its citizens with "decent" living standards and a satisfactory quality of life, its key activities must be located in space in ways that promote their mutual efficiency and effectiveness. Therefore spatial efficiency—how activities function within and around metropolitan areas—is of vital importance to our entire society. If these activities interact in ways that greatly reduce economic efficiency, increase social conflict, or isolate groups of citizens from proper schooling or job opportunities, the results can be harmful to our whole society.

Why HUD Is Needed To Perform Its Housing Missions

Why does the Nation need a separate Federal department to pursue the housing missions described above? Living in adequate housing is central to the well-being of every person and household, yet for most people housing is the most costly element of their living standard. Consequently, millions of households with low incomes cannot afford to occupy "decent quality" housing if they must rely solely on their own resources. Insofar as the Federal Government is concerned with public well-being, it must be concerned with improving the quality and quantity of their housing. Congress has long recognized this responsibility by repeatedly declaring that its "national housing goal [is] a decent home and a suitable living environment for every American family."⁵

No other agency within the Federal Government focuses on housing as part of its central mission. Other agencies are concerned with housing only peripherally, if at all; they are unlikely to pay sufficient attention to housing to improve the chances that most citizens will be well housed. Only a separate department with that mission as one of its central purposes would have such a focus.

Why not leave the housing missions to State and local governments? A key reason is that providing housing aid to poorly housed citizens amounts to redistributing resources from others to those citizens. Resource redistribution schemes are most effectively *financed* (although not necessarily best *administered*) at the national level. Local governments cannot tax their better-off citizens highly in order to aid their poorer ones without causing many of the former to move to nearby communities that have no redistributive schemes. Even State governments suffer from this competitive disadvantage, as seen in the tax-induced flight of many firms from high-tax New York to neighboring Connecticut and New Jersey. Only the Federal Government can impose higher taxes on its wealthier citizens to aid its poorer ones without causing many of the former to move outside its jurisdiction. Furthermore, the cost of financing a home purchase is heavily influenced by *national* financial conditions, not State or local ones. Therefore it is necessary to have an agency with nationwide scope and the authority to deal with housing financing conditions and availability—rather than leaving those tasks to multitudes of parochial State or local agencies.

Similarly, the racial and ethnic discrimination and segregation that permeate American housing markets cannot be dealt with effectively by purely State or local agencies. Those agencies with narrower jurisdictions need the legal empowerment of national antidiscrimination and antisegregation laws and policies to support local enforcement efforts. For the same reason that the civil rights movement ultimately required Federal action to overcome powerful State and local resistance, policies attacking racial barriers in housing markets need a strong national agency dedicated to that mission. It must be equipped with powers that transcend locally dominant prejudices.

For all these *housing-related* reasons, the Nation needs a separate Federal agency dedicated to the housing missions described above.

HUD's Spatial Efficiency Missions

Recent Trends Reducing Metropolitan Spatial Efficiency

Unfortunately, current trends are seriously undermining the spatial efficiency of many of our largest metropolitan areas in ways that local governments cannot halt. The fragmentalized government structure in nearly all U.S. metropolitan areas makes it impossible to develop coherent, consistent, and effective policies toward several key growth-related problems. These problems include air pollution and other environmental degradation; traffic congestion; failure to finance sufficient new infrastructure to accommodate growth; inability to select sites for regionally necessary facilities such as airports that have a negative impact on their immediate surroundings; failure to provide housing affordable to low- and moderate-income households near the places where most new jobs are being created; and the absorption of excessive amounts of open space by urban development.

All of these problems, essentially regional or metropolitanwide in nature, are related to the patterns of land use emerging from ongoing urban development controlled by fragmentalized local governments. That is why HUD's spatial efficiency mission, which focuses on land-use patterns, is relevant to problems such as air pollution that fall technically under the jurisdiction of other agencies, such as the Environmental Protection Agency.

At present, in nearly all major metropolitan areas authority over land use and regulations, which needs to be coordinated in order to cope with regional problems, is divided among hundreds of local governments. Each government competes with the others to capture activities that generate net local tax revenues and to reject those that generate net local fiscal losses. This ferocious fiscal competition makes development of a coordinated intergovernmental land-use policy almost impossible.

The result has been an immense spreading of people and activities across the landscape, increasing the need for, and cost of, travel within each metropolitan area. In the 20 years between 1970 and 1990, the Chicago metropolitan area gained only 4 percent in population but increased more than 40 percent in urbanized area. Similar "de-densification" has occurred in dozens of other major metropolitan areas. It is no accident that total vehicle miles traveled in the United States rose 40.4 percent from 1980 to 1990, compared with a rise of only 9.8 percent in the total population.⁶ More and more time and resources are being consumed by travel, often while commuters wait in creeping lines of congested traffic—a sign of decreased overall spatial efficiency.

Simultaneously, prime agricultural land situated in and around metropolitan areas is being converted to urban uses. While this fact may not seem important at the moment, since the Nation still produces farm surpluses, rising food consumption around the world will soon put pressure on every agricultural nation to make the best use of its most fertile arable land.⁷ By that time, however, millions of acres of such land in the United States will have been irreversibly developed.

Inefficient and Undesirable Effects of Poverty Concentration

Even more important, in the long run, is the deteriorating fiscal and social condition of many major central cities and older, close-in suburbs. As rapid growth on the fringes of metropolitan areas draws prosperous households and firms out of central cities and older suburbs, those communities are left with declining per-capita tax bases and increasing concentrations of poor households that have high public service needs. In 1990 the Nation's central cities, with 31 percent of the U.S. population, had 42 percent of all poor persons. In all central cities combined, about 19 percent of residents were poor, compared with about 8 percent in the suburbs and 14 percent in the entire Nation.

This concentration of poverty is greatly influenced by the exclusionary policies of many suburban governments. Their mostly middle- and upper-income citizens do not want additional low-income households to move into their communities. The former regard the latter as "the wrong kind of people," those who should be kept out of the neighborhood "to protect the quality of the local environment." These advantaged citizens are further motivated to exclude poorer ones by two economic desires: to maximize the market value of their homes and to minimize taxes paid in support of services for households that pay less in taxes than they absorb in schooling and other services. Therefore the residents of many suburbs encourage their local governments to erect zoning, building code, and other regulatory barriers to the creation of additional low-cost housing within their boundaries.

Such exclusionary behavior has three adverse impacts on the economic efficiency of metropolitan areas. First, it tends to force large numbers of poor residents to concentrate in certain parts of central cities and older suburbs that cannot engage in exclusionary tactics. This situation burdens the local governments with increasingly intolerable fiscal responsibilities and extensive areas of deteriorating or abandoned neighborhoods. It also aggravates four major social problems found in those areas and discussed below.

The second adverse impact of exclusionary behavior is that it isolates low-skilled workers living in inner-city poverty areas from the suburban communities where most new jobs are located and makes it harder for them to learn about and travel to new job opportunities. During periods of strong economic prosperity, exclusionary behavior also creates labor shortages—especially of low-wage workers—in suburban communities.

Finally, exclusionary behavior encourages many nonpoor suburban residents to believe—incorrectly—that their own welfare is almost totally independent of central cities, city residents, and city governments. Their spatial and social isolation from central cities, especially from poor people therein, leads them to believe they are also economically isolated, and insulated. Yet in reality, the economic welfare of all suburban communities in every metropolitan area is closely connected to the ability of that area's central city to perform its basic social and economic functions.⁸

Insofar as suburban residents falsely believe they can conduct their lives independent of occurrences in central cities, they are likely to refuse to support public policies that help central city residents and governments perform their functions effectively. That is especially true of public policies to redistribute economic resources from Federal taxpayers to central cities and their residents. Many of HUD's policies are designed to help cities cope with the disproportionate burdens of poverty forced on them in part by the exclusionary behavior of suburbs. Thus exclusionary suburban behavior and the isolationist mindset it encourages reduce the ability of central cities to perform their basic functions effectively and that, in turn, reduces the overall spatial efficiency of metropolitan areas.

Four Inner-City Maladies Becoming Nationwide Problems

One consequence of the concentration of very-low-income households in inner-city neighborhoods is the dominance of social maladies related to extreme poverty. While there are many such maladies, four in particular have spread beyond inner-city neighborhoods to other parts of metropolitan areas. As more residents of those areas—which include distant suburbs—realize that the problems threaten their own neighborhoods, the number of persons regarding themselves as potential beneficiaries of HUD programs may expand notably.

One such problem is the rearing of children in deprived conditions associated with poverty. Almost one out of four children under the age of 6 in the United States is being reared in a household where the annual income is below the poverty level, while only one out of seven Americans in the general population lives in such a household. These children often experience inadequate nutrition, poor parental care (partly because most live in single-parent households, often with overburdened teenage or adult mothers), inadequate exposure to the mental stimuli necessary for proper intellectual development and a positive attitude toward education, and destructive social values acquired from violence-prone peers and from television and movies. These deficiencies in the children's environment are likely to cause many to engage in crime and other costly antisocial behavior patterns.

The second social problem is crime and violence. Their levels are clearly highest in inner-city areas of concentrated poverty, but they are spreading throughout all parts of modern America. A dramatic illustration of this fact is the presence of metal detectors designed to discover weapons in every airport, many public schools and government office buildings, and even many private places of employment. Mugging, purse snatching, carjacking, and even murder have become endemic in suburban shopping-center parking lots and garages as well as in big cities. Even though crime rates per 100,000 residents have declined slightly in recent years, they are at very high levels compared with earlier periods in the United States and with any period in most other developed nations. One result is a vast amount of money spent on imprisoning convicted criminals. In 1992 the United States had over 330 persons imprisoned per 100,000 residents, by far the highest rate in the world.⁹

The third key social problem is the inadequate quality of public schooling. In many big cities, this problem is caused partly by the high concentrations in certain schools of children from mostly low-income homes in which neither parents nor friends place a high value on educational performance. But inadequate public education is by no means confined to inner-city schools; it is a nationwide deficiency. That this is so can be observed in the low test scores of American elementary and secondary students compared with those of students of the same age from other developed nations. Scores of American pupils from all parts of the Nation consistently rank far below those of their counterparts in nations such as South Korea, Spain, Italy, Taiwan, The Netherlands, Germany, France, Singapore,

and Japan. Students from these nations typically have a longer school year, spend more hours each day studying academic subjects, do more homework, and watch far less television than American students.

The Nation's fourth key social problem is a failure to integrate many workers, both young and mature, into the mainstream workforce. An increasing proportion of American workers do not have the training, skills, or discipline needed to take part in today's global competition in a high-tech world. This problem is partly a result of the preceding three, which tend to reduce both the ability and the willingness of many young people to acquire the skills necessary to succeed in the modern workplace. However, it is also relevant to older workers released from long-held jobs because of ubiquitous corporate downsizing. Many have specialized skills that are obsolete in modern technology, and it is difficult for them to find other jobs paying comparable wages. The resultant personal and family stress is almost as likely to appear in middle- and upper-income suburbs as in inner-city neighborhoods.

As these maladies continue to spread from big cities to surrounding older suburbs, the number and proportion of suburban residents who realize that they are dealing with problems formerly confined to big cities will become greater and greater. This situation may increase the political support for many HUD programs among metropolitan area residents, particularly those in middle-income communities, resulting in an important impact on the degree of support for HUD's missions in the Nation as a whole.

Demographic Trends Relevant to Metropolitan Spatial Efficiency

Another aspect of the spatial efficiency of metropolitan areas reflects the high degree of racial and ethnic segregation found in American housing markets. Racial segregation in housing reduces metropolitan area efficiency by pressuring most minority households to live in areas usually located far from new job formation. Also, African Americans and Hispanics have much lower average incomes and lower average educational attainment levels than non-Hispanic whites or Asians. Thus racial segregation in housing that isolates members of these groups tends to increase the concentration of poor households in high-poverty neighborhoods that offer substandard public education.

Partly because of such segregation, central cities and older suburbs contain a majority of the African Americans and Hispanics living in the United States.¹⁰ Yet those groups will play ever more important roles in the Nation's future. Together, the 58.3 million persons in the groups constitute 22.2 percent of the Nation's total population in 1995, but they will make up 56.2 percent of the projected 59.8 million increase in population between 1995 and 2020. Thus in 2020, just 25 years from now, these two groups will comprise 28.5 percent of our total population. Moreover, in 2020 members of all minority groups (that is, all but non-Hispanic whites) will make up 45 percent of all children under 18.¹¹ At present, the average household income of these groups is 30 to 40 percent below that of non-Hispanic whites, and their average educational attainment is similarly lower. Unless this condition changes, most of the Nation's future population growth will occur among the poorest and least skilled major minority groups. To improve the incomes and skills of these groups, American society needs to improve the quality of education and the job opportunities available near their residences in central cities and older suburbs. But that will be extremely difficult if the peripheral growth of our metropolitan areas continues to drain economically strong households and businesses from the central cities and older suburbs.

Why HUD Is Needed To Perform Its Spatial Efficiency Missions

Currently, no government or private group in our society except HUD is officially entrusted with the mission of studying or taking action on the trends adversely affecting the spatial efficiency of our metropolitan areas. In the past not even HUD focused much attention on developing policy responses to such trends. Since the Clinton administration took office, HUD Secretary Henry Cisneros has talked often about responding to these metropolitan-area trends, but in reality HUD has not refocused its mission to include strong emphasis on improving the spatial efficiency of metropolitan areas, as its mission statement shows.

For two important reasons, American society needs a highly visible, politically active focal point for thinking about and improving the spatial efficiency of our metropolitan areas. Those most affected by our spatial inefficiencies are Americans breathing polluted air caused by congested traffic; lacking region-serving facilities that cannot be built because of universal NIMBY (not in my back yard) opposition; living in inner-city, concentrated-poverty neighborhoods; or doing without vital municipal services such as effective schools because the local governments cannot afford to provide them. Thus, to improve the quality of life for millions of metropolitan-area residents of big cities and their suburbs, we need an effective means of attacking existing spatial inefficiencies.

The second reason for a public focal point involves global competition. Economic enterprises in U.S. metropolitan areas are engaged in worldwide competition with other enterprises located in rival metropolitan areas throughout the world. The result of this competition is vital to the welfare of American society, since so many American jobs depend on our goods and services remaining competitive with those produced overseas. If U.S. metropolitan areas function inefficiently, thereby contributing to higher production costs than those found elsewhere, our levels of employment and income will suffer.

True, other factors have still larger impacts on our global competitiveness than metropolitan spatial efficiency, including comparative real wage rates, environmental and other regulations that influence costs, and monetary policies that affect interest and exchange rates. Yet the impact of metropolitan spatial efficiency on our economic competitiveness surely is not trivial.

HUD is the logical entity to confront the challenges associated with improving metropolitan spatial efficiency. It is the only agency with an official area of jurisdiction that includes both housing and urban development and encompasses the physical entirety of each metropolitan area, rather than a fragmented portion. HUD must provide leadership in focusing the Nation's attention on the need for regionwide approaches and policies aimed at coping with the problems noted above. If HUD does not take on the mission in a forceful way, these adverse trends will further weaken many older central cities and suburbs, causing calamitous decay in large parts of our inner-city neighborhoods.

This conclusion does not imply that HUD alone can solve all of the problems associated with declining cities and deteriorating inner-city neighborhoods. Even at its best, the Department would need help from many other parts of society, both public and private. But if there is no HUD to focus public attention on these issues, few—if any—remedial policies will be directed at them.

Some Self-Destructive Aspects of HUD Programs

Tendency of HUD's Programs To Be "Economic Losers"

A pivotal problem with many of HUD's past housing-mission-related programs is that they emphasize activities that are not economically or financially self-sustaining. Examples are aiding households unable to pay for standard housing (through Section 8 vouchers) and aiding cities with high proportions of poor residents (through the Community Development Block Grant program). In other words, a high proportion of HUD's activities are inherently money losers. HUD's focus on these activities compels it to depend on congressional appropriations to enable it to redistribute income from taxpayers to persons involved in these "loser" activities. This situation exposes HUD to constant criticism from elements in society that oppose such redistribution or want to reduce Federal expenditures that do not benefit them.

HUD's focus on economic-loser programs inevitably arises from the nature of its basic missions, especially those connected with housing. One of its missions is aiding persons, including the homeless, who are unable to meet desirable minimum standards of housing without outside assistance. Another is providing compensatory financial assistance to city governments in municipalities that contain disproportionately large percentages of poor residents. Meeting those needs is a major social justification for HUD's existence.

Private agencies and actors cannot perform such functions without public subsidies, because they raise revenues to finance their activities by selling goods or services at a profit, or at least without a loss. Redistributive policies, by their very nature, involve receiving less revenue from beneficiaries than the cost of providing them with the goods or services. That is why these policies are economic losers. Thus private agencies and actors deliberately avoid redistributive activities unless they can find public funding sources to support them.

True, many private charitable organizations engage in redistributive programs of various types, from sheltering and feeding the homeless to providing medical care in major hospitals, and they do so mainly by raising the required funds from private donors. But housing is the single largest element in the cost of living for most households, and there are millions of very poor households. Therefore the total cost of closing the gap between the minimal cost of "decent quality" housing and the purchasing power of those poor households is huge. This gap is a vastly larger one than private charitable organizations can close through contributions from private donors. It is even beyond the willingness of Congress to close. Congress has never come close to providing enough Federal funds to subsidize the housing costs of all the poor American households technically eligible for housing assistance programs.

HUD's focus on such economic losers is intensified by the tendency of private firms to provide any elements of HUD's mission that can be performed profitably. For example, in the 1930s the Federal Housing Administration (FHA)—which became part of HUD when the Department was created—originated the idea of federally insuring household mortgages in order to make them more acceptable to private financial institutions. Not long thereafter, private mortgage insurers came into existence and began to provide all those types of mortgage insurance that could turn a profit. The mortgage insurers left to FHA the task of insuring household mortgages with a high probability of generating

losses. Similarly, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) have largely taken over the generation of financing for single-family mortgages through secondary markets by re-packaging mortgages and issuing securities based on such packages. Both of these quasi-private organizations were initially Federal agencies that were shifted to the private sector once their profitability was realized. The Government National Mortgage Association (GNMA) still performs this function from within HUD, but at a much lower volume than the other two organizations.

Once a HUD function has been identified as potentially self-supporting or profitable, private organizations can, and often do, begin to perform it. In fact, they can often do so more efficiently than HUD, for several reasons. For one thing, private firms or nonprofits may not be burdened by as many ancillary regulations as HUD. Also, they may not be charged with as many partially related public goals, which add to production costs. For example, HUD programs, when dealing with suppliers and workers, are supposed to award preferences to minorities, veterans, and other special groups, even if doing so costs more, and HUD must pay higher wages under the Davis-Bacon Act than many private producers. HUD and its private contractors have to keep voluminous records concerning all aspects of their behavior, adding significantly to the costs and time associated with producing a given output. HUD officials need much more time to make key decisions than is normal in private firms performing the same functions. Unlike private-sector executives, HUD officials cannot fire or even demote incompetent subordinates protected by Civil Service regulations without compiling elaborate, costly, and time-consuming records of their failings. These factors give private firms and nonprofits a sizable cost advantage, enabling them to win business away from HUD whenever the responsible officials have a choice and are responsible for minimizing costs. Furthermore, private firms specializing in one or two functions can become much more efficient in their performance than a large agency that must carry out more than 200 different programs.

As more and more potentially profitable functions associated with HUD's missions are taken over by private producers, HUD is left to an increasing degree with those that are the biggest economic losers. This outcome is promoted by critics of government who encourage every public agency to shift as many of its functions as possible to private markets. They claim correctly that such shifts benefit the Nation's economy by causing such functions to be performed more efficiently, but they rarely recognize the weakening impact that saddling HUD with mainly money-losing programs has on its base of political support, especially in an era of general hostility to government spending.

Shifting self-supporting activities from HUD to the private sector weakens HUD's ability to finance the economic losers it retains by reducing the potential for cross-subsidization from profitable activities to money-losing ones. When HUD was able to earn profits from conducting certain missions, such as providing FHA insurance to single-family homes, it could use those profits to help finance other missions that involved economic losers, but when most of its profit-making activities are taken over by private firms, such cross-subsidy financing is far less feasible.

Why HUD's Redistributive Activities Weaken Its Political Base

As noted above, HUD's missions to a great extent involve redistributing economic resources from households or areas that are self-supporting to those that are not. That is why so many of the programs are economic losers. Most households that benefit from HUD programs have a relatively low income, or they would not qualify for aid. Unlike

most other Federal departments, HUD administers few activities that provide benefits mainly to middle- or upper-income households. True, the tax benefits associated with homeownership accrue mainly to members of those groups, but homeownership tax benefits are built into the Internal Revenue Code. They are neither controlled nor administered by HUD.

FHA long provided mortgage insurance to millions of middle-income households, but that function has been largely taken over by private mortgage insurers. FHA insurance is now focused on lower income households that cannot afford the larger downpayments required by private mortgage insurers. True, mortgage bankers are a nonpoor group that benefits from FHA programs, but there are not very many mortgage bankers.

As a result, HUD's major beneficiaries are low-income households, city governments responsible for serving a high percentage of such households, and organizations that serve the two groups. But low-income households form a relatively small part of the American electorate; only 14 percent of the total population lives in households with incomes below the official poverty rate. Moreover, their rate of voting is lower than that of better-off groups. Therefore HUD does not have a strong base of political supporters among the Nation's broad middle class and is especially vulnerable to political hostility directed at government spending, which has increased markedly in the past few years. When conservative politicians or critics of government seeking to reduce Federal spending target HUD's activities, they find little public support for those activities among their middle- and upper-income constituents. The low-income beneficiaries of HUD's programs, and the public bureaucracies and private interest groups associated with those programs, have few political roots in America's broad middle class, where most voters are found.

Changed Public Attitudes Toward Government

Changed Public Attitudes Toward Federal Efforts To Solve Social Problems

The weakening of support for HUD has been aggravated by a recent shift in the public's attitude toward the desirability of having social functions performed by government, especially the Federal Government. When HUD was created, the American public generally viewed the Federal Government as a relatively beneficent force with a strong responsibility to tackle difficult social problems. Conversely, the American public now has a powerful anti-Federal-Government attitude. Many citizens believe Federal officials are incompetent bureaucrats whose actions cause more problems than they solve. Thus they think it would be desirable for the Federal Government to do as little as possible, especially concerning activities that might be performed by the private sector or by State or local governments.

This change in attitude stems in part from the slow growth of real income since 1973. After 20 years of very small increases in average household real income, or none, many Americans have come to resent redistributive spending by the Federal Government. They regard such spending—and especially increases in it—as depriving them of resources for which they have worked hard in order to benefit persons who have not been equally energetic or successful. They see the U.S. economy as a zero-sum game in which any use of Federal resources to aid others means a reduction in their own well-being, because additional Federal spending must be paid for by higher taxes or increased government borrowing.

Another cause of such hostility toward Federal Government programs is the apparent ineffectiveness of many past programs in solving the key problems to which they were addressed. This widespread perception of ineffectiveness is based partly on reality and partly on successful efforts by conservatives to exaggerate the futility of those programs. The reality is that several major social problems have intensified in spite of considerable Federal spending to combat them. These include crime, children born out of wedlock, poverty, inadequate public education, and the growth of an economic and social underclass.

The exaggeration by conservatives involves ignoring the positive impact that some earlier Federal programs have had on the welfare of millions of citizens. For example, Federal antipoverty programs enabled thousands of formerly poor inner-city residents, especially African Americans, to improve their education, obtain a well-paying job, and enter the ranks of the middle class. But many of the beneficiaries, who originally lived in inner-city slums, subsequently moved away and left the target areas no better off than before the programs began. Observers noticing the lack of improvement in these *areas* tend to ignore the improved status of many *former* residents and falsely conclude that the programs concerned had no beneficial effects that would justify their cost.

A third cause of the shift in attitude is public frustration with the multiplication of government regulations in all aspects of daily life. Government programs and policies aimed at remedying basic social problems tend to generate many regulations that restrict the behavior of private firms, households, and individuals or inundate them with a great deal of seemingly inefficient paperwork. The benefits those regulations produce, or whether the benefits are anywhere near the size of the cost, is not always apparent.

Ironically, another underlying cause of the current pressure on Federal agencies to reduce spending is the huge annual deficit now built into Federal Government finances by a combination of high spending and big tax cuts during the 1980s. This situation is ironic because it is the unwillingness of Congress to pay for earlier increases in Federal spending by raising taxes that generated that deficit. Thus Congress' past "generosity" in adopting spending programs without tax-based funding has led to its current "stinginess" in seeking to reduce existing Federal programs to help cope with the deficit.

The deficit has caused the Federal Government to restrict all additional spending to that which can be paid for by specific increases in taxes or decreases in other spending. At the same time, the entitlement portions of the budget, especially Medicare and Medicaid, are expanding rapidly from year to year. These combined forces place a squeeze on all other nonmilitary Federal spending. To offset that squeeze, Congress needs to reduce federally financed programs such as those administered by HUD.

A final cause of the pressure on HUD to shrink its activities is the sweeping Republican victory in the congressional elections of 1994. The victors ran on a platform of reducing the role of the Federal Government in American life and cutting existing Federal spending significantly. Since most big-city residents and most poor people do not vote Republican, HUD activities aimed at benefiting those groups have become prime targets for Republican cutbacks. In addition, a tactic held in high regard by Republican congressional leaders is that of privatizing activities now performed by the Federal Government. But true privatization does not work unless the activities can be made self-supporting through user fees and other revenue sources. The more that portions of HUD's activities are privatized, the less the remaining activities will be able to benefit from cross-subsidization. This situation lessens HUD's ability, without direct congressional appropriations, to finance the loser activities that are crucial to the performance.

The Window of Opportunity for Interdepartmental Change

The political atmosphere in Washington resulting from the November 1994 Republican landslide creates a possible window of opportunity for realigning major functions of existing Federal departments. Since Congress is apparently willing to abolish whole Federal departments and radically reorganize others, it might also be willing to shift some major functions from one department to another or merge related departments. No doubt any proposal for such shifts remains a political long shot, even in this unusual Washington climate. Yet any in-depth consideration of HUD's major missions should at least examine the possibility of correcting the important omissions in social functions made when HUD was founded or shortly thereafter.

Policy and Other Implications

Arriving at the Policy Implications of the Preceding Analysis

There is no purely—or even impurely—scientific way of deriving policy implications from the foregoing analysis, or from any other set of premises or facts. Policy formulation is an art that depends greatly on the social values, specific knowledge and beliefs, and practical judgments of those who perform it. Logically, reasonable policies should be responsive to the underlying conditions they are designed to address. Therefore rational justification of policies supposedly responsive to the conditions described above should be presented in arguments showing how the policies are designed to remedy problems emanating from those conditions.

The final section of this article presents a set of policy recommendations for HUD that are based on the author's analysis of the conditions above. Each policy recommendation is accompanied by a brief explanation of why it is a proper and desirable response to some of the conditions enumerated. Some of the recommendations are taken from HUD's recent restructuring plans. However, an analysis of feasible alternatives to the recommendations is beyond the scope of the article.

Policy Recommendations

- 1. HUD should certainly remain in existence as a separate Federal department in order to carry out those social functions that it alone can perform.** The reasons for this recommendation have been discussed at length.
- 2. HUD should significantly reshape itself in response to strong political pressures to reduce both Federal spending and Federal intervention in society.** Since the Department does not have a strong enough political base to resist these pressures altogether, it would fare better by responding to them in some degree rather than by being unresponsive and risking elimination. The strength of pressure on HUD to reform is shown by the fact that the Clinton administration seriously considered abolishing HUD entirely in response to the 1994 congressional elections. However, Secretary Cisneros persuaded the President and Vice President that HUD should be retained and radically transformed.

One important way to reshape HUD is to simplify its many programs by consolidating them into a far smaller number. HUD itself has proposed combining most of its programs into four major block grants to be administered by State governments. If State and local governments could use HUD funds to serve more housing-related

purposes than simply aiding low-income households, the number of households that benefit from HUD programs might increase. This could strengthen the Department's base of political support by adding more middle- and upper-income households to the list of advocates for its continued significant level of funding. Moreover, block grants to States would reduce HUD's direct administrative responsibilities and decrease its visible presence in the everyday lives of citizens, homebuilders, developers, and local governments. In today's anti-Federal-Government climate, that would be a distinct political advantage, especially in light of HUD's past reputation for bureaucratic incompetence.

Although block grants provide States with considerable flexibility in using HUD funds, they also have several drawbacks. First, there are few guarantees that the funds will be used to achieve HUD's main mission objectives, especially if there are no effective requirements for monitoring and evaluation. Second, Congress, which is likely to view block grants as general transfers of Federal funds to States rather than a means of achieving Federal goals, will start to pare back the resources devoted to block grants as it seeks additional means of cutting Federal spending. Third, insofar as States set standards for receiving housing and other assistance provided by HUD, State legislatures are likely to engage in competitive tightening of eligibility requirements and reductions in per-household aid in order to express their own now-politically-palatable antigovernment attitudes. Thus use of block grants will inevitably reduce both the amount and the effectiveness of resources devoted to HUD's basic missions, especially redistributive ones.

Whether or not the widening of HUD's political base of support through use of block grants is worth the risk of reducing the resources devoted to HUD's basic missions is a difficult decision. At present, the greater political acceptability of block grants probably tips the scales slightly in their favor and away from direct HUD administration of its to-be-consolidated major programs.

A second tactic in reorganizing HUD is to shift from a supply-side emphasis on housing aid to a demand-side emphasis that could be more consistently applied throughout each metropolitan area. This shift in emphasis involves using vouchers to replace both project-oriented and unit-oriented subsidies in as many programs as feasible. HUD has proposed using this approach to replace the funding of public housing authorities, after an initial transition period. Elimination of all project-based housing assistance funding would probably be impractical, given past commitments embodied in several existing programs, but a major shift of emphasis to demand-side forms of aid is certainly desirable.

Demand-side forms of aid, notably housing vouchers, can be freed from current geographic restrictions as to where aid recipients may live. Residents of public housing must live where the housing developments are located. A large number are in or next to inner-city concentrated poverty neighborhoods. In fact, many constitute entire poverty neighborhoods in themselves. Currently, many recipients of this type of housing aid must live in concentrations occupied mainly by very poor households like their own.

In contrast, recipients of unrestricted housing vouchers could move anywhere within a metropolitan area where they could find suitable accommodations. If a counseling organization were available to assist voucher recipients with areawide housing searches, many present residents of concentrated poverty areas might move to areas with much lower poverty concentrations, including the suburbs. The spatial efficiency

of the metropolitan area would benefit from the location of low-income households near sources of new jobs and in neighborhoods with better schools and a better living environment.

A third tactic is to reorganize HUD activities that can be conducted at a profit into more flexible forms that could be combined with activities likely to be losers, to permit cross-subsidies without congressional funding. An example would be to combine GNMA and FHA into a separate government corporation. Profits from GNMA's mortgage-backed-securities operations could be used to cross-subsidize the provision of mortgage insurance to low-income households that would not otherwise be able to achieve homeownership.

3. HUD should place more emphasis on increasing the spatial efficiency of U.S. metropolitan areas, especially in ways that can be done with low net costs.

These activities include transferring more Federal resources to big-city governments; allowing more low-income, inner-city residents to move to scattered-site suburban locations; and giving States incentives to compel local communities to reduce existing regulatory barriers to the creation of affordable housing. Unfortunately, many of these activities, though effective, are also likely to antagonize some middle-class Americans.

An important way to improve spatial efficiency in American metropolitan areas is to create strong incentives for the development of some type of regional decisionmaking within each metropolitan area. Regional decisionmaking does *not* mean metropolitan government. Rather, it means a way of planning for functional activities—such as housing, health care, and transportation—that takes into account the needs of *each region as a whole*, not those of each locality apart from the others. An example is the set of metropolitan planning requirements concerning highways and mass transit adopted by Congress in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA, often referred to as “Iced Tea”). A similar regional planning requirement might eventually be connected to housing and other programs under HUD's jurisdiction, as a means of improving the spatial efficiency of our metropolitan areas.

4. HUD should be merged with the Department of Transportation, since both departments are mainly concerned with activities that directly shape urban life.

Such a merger would place the main Federal activities that have a powerful impact on spatial efficiency in metropolitan areas in a single department. No action will have a more profound impact on the future of metropolitan areas than the placement of major transportation facilities—including both highways and mass transit—there. If HUD is to increase the emphasis on its urban development missions, the Department must encompass these transportation elements. The fundamental purpose of the merger should be to put the development of transportation facilities within the context of general urban development, rather than subordinating urban development to transportation goals. Therefore such a merger should be seriously considered only if the Secretary of the combined department is given the authority and the mandate to coordinate all the elements within the department.

This has *never* been done within the Department of Transportation, which consists of three essentially separate fiefdoms: highways, air travel, and mass transit. All three have operated mainly to achieve transportation goals rather than with regard to their impact on urban development in general. Likewise, such intradepartmental coordination has rarely occurred within HUD.

Such a merger would give the combined department many functions strongly supported by middle- and upper-income groups, such as funding highway construction and controlling airport and airline operations. The political base of support for the combined department would be much broader than HUD's current political base, which consists mainly of low-income households and organizations focused on their welfare. Moreover, the merger would give the new department a great acronym: the Department of Transportation, Housing, and Urban Development, or THUD!

Author

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Notes

1. The views in this article are solely those of the author, and not necessarily those of the Brookings Institution, its trustees, or other staff members. The article presents an analysis of these subjects and some recommendations flowing from that analysis.
2. See National Advisory Commission on Civil Disorders. 1968. *Report*. Washington, D.C.: U.S. Government Printing Office.
3. Even airport location policy affects urban settlement forms. But since only one major new airport (Denver's) has been built in the United States since the early 1970s, and no others are likely to be built in the foreseeable future, that is not as important as policies concerning highways and mass transit.
4. U.S. Department of Housing and Urban Development. *Presidential Performance Agreement with the U.S. Department of Housing and Urban Development*. Washington, D.C.
5. U.S. House of Representatives, Committee on Banking and Currency. *Basic Laws and Authorities on Housing and Urban Development*. Washington, D.C.
6. *Statistical Abstract of the United States: 1994*, pp. 8, 639.
7. See Brown, Lester R. 1995. "Nature's Limits," in Lester R. Brown and Others, *State of the World: 1995*. New York: W.W. Norton and Company, pp. 5-7.
8. For a detailed analysis of continued suburban dependence on central cities, see Anthony Downs. 1994. *New Visions for Metropolitan America*. Washington, D.C.: The Brookings Institution and the Lincoln Institute of Land Policy, Chapter 4.
9. *Statistical Abstract of the United States: 1994*, p. 215.

10. Of the 189 cities with populations of over 100,000 in 1990, 135 were central cities of metropolitan areas. These 135 cities contained 46.9 percent of all U.S. blacks, and 40.37 percent of all U.S. Hispanics. Data from the 1990 U.S. Census.

11. Data based on the Census Bureau's midrange population projections.