HOUSING POLICY IN THE NEW MILLENIUM

Hilton Crystal City
Arlington, Virginia
October 2-3, 2000
LUNCHEON SESSION

Reported by: Ray Heer
Transcribed by: Janet S. Dickens
PROCEDINGS

Tuesday, October 3, 2000

Beginning Time: 12:55 p.m.

MS. WACHTER: Good afternoon. It's good to see the excitement. We have a special treat ahead of us -- really, twofold. First of all, we are going to hear very briefly from a dear friend and colleague. This person is a leader within HUD and a leader in the nation, as a whole, for social justice.

It's with great pride and pleasure that I introduce my friend and colleague, Assistant Secretary for Fair Housing and Equal Opportunity, Eva Plaza.

(Applause.)

INTRODUCTION OF KEYNOTE BY EVA M. PLAZA

MS. PLAZA: Good afternoon. Rather than to keep you from the main course -- or main speaker, I just want to introduce myself to you.

I don't know many of you, as some of my other colleagues do, but I'll tell you, we are beginning to make great moves and great changes in the fair housing arena, and we rely on you. That's the only thing I'd like to impress upon you, as researchers -- that we rely on your good work to help pull all of the parts of housing together and to make housing both accessible and -- accessible from a financial point of view and accessible from a physical point of view.

Now, just a few thoughts as you go about your research and your work after you leave this conference and -- keep in mind that we are now a society that's changing rapidly. It's changing -- the demographics are definitely changing, in terms of the number of immigrants and the number of minorities in our society. What I would like to have all of you keep in mind as you go about your work -- as the assistant secretary for Fair Housing, and as I have observed over the last three years how difficult it is to just, you know, do it all alone -- it's important that we start uniting -- not just in word, but in practice -- that you keep in mind the principles of fair housing, of one America, in the research projects and the research work you do.

You know, we always hear about the success
stories of new immigrants to this country because
those are the ones that are celebrated and written
about in the newspaper, but it does take a lot more
than one generation, or even two generations, for
most immigrants in this country to really start
making a dent in their own status in society.
And in that regard, it really does take a
lot of effort, maybe two or three jobs, for them to
actually assimilate into our society, but these are
the people who work the hardest in our communities,
and these are the people who are the victims of
something that you will hear about later on today
should you choose to go to the Predatory Lending
workshop, which I would commend to you.
As you know, HUD and the Treasury
Department wrote a study after having visited a
number of countries throughout -- a number of cities
throughout the country on predatory lending. And it
is African-Americans, after all -- and immigrant-African
Americans -- who are the victims in this whole
predatory-lending matters.
So I would urge you, if you have a chance
to walk around the various workshops this afternoon,
to try to make time for this and try to think about
how you incorporate the work -- or the lives of
these immigrants and African-American communities
who are the victims of predatory lending. So walk
around, go to the various different workshops. And
I hope that you do get a chance to enjoy my
colleague, since -- Alan Fishbein, and the experts
who are a part of that predatory lending panel.
We've achieved a lot in fair housing; but
again, I want to emphasize that we cannot do it
alone. We really need the researchers. We need the
minds, and the institutions that you have backing
you, to write about the effect that inaccessible
housing has to immigrant communities and African-
Americans.
And that's really all I want to say, but I
look forward to talking to some of you. Thank you.
Susan?
(Applause.)
MS. WACHTER: Thank you, Eva, for your
passion and your leadership.
Our luncheon speaker surely doesn't need
introduction to this group, but I'll go through some
of the facts anyway.
Anthony Downs, former chairman of the Real
Estate Research Corporation, former faculty member
of the University of Chicago, author of more than
ten volumes and many papers, including, just in the
last two years, "Political Theory and Public Choice"
and "Urban Affairs and Urban Policy," currently
working on "The Cost of Sprawl Revisited," and
currently a senior fellow at The Brookings
Institution.

More importantly, as a preeminent scholar of urban affairs, Tony has been providing wise counsel and insight to policymakers for more than 30 years. His writings on national and local housing and community development policy remain standard tools for scholars and guide policymakers and practitioners throughout the nation. With his leadership on urban and metropolitan issues, Tony brings an acute insight on how we got to where we are today and a vision of options for tomorrow. I am looking forward to having Tony remind us of the struggles that have taken place in Washington and inner cities and the lessons that can be learned from past policy as we search for solutions for the future. Tony.

(Applause.)

KEYNOTE ADDRESS BY ANTHONY DOWNS

MR. DOWNS: Thank you, Susan. It's an honor to have been chosen to speak to such a distinguished group of experts. In fact, my daunting assignment is to present an overview of what our housing policies ought to be for the new millennium which, as I understand it, is a thousand years.

(Laughter.)

MR. DOWNS: That's a rather challenging assignment. I can't cover all aspects of it, but only those I feel are most crucial.

(Laughter.)

MR. DOWNS: I do feel I'm as reasonably qualified as anybody else here to talk about this
subject because of my long experience in this field. In fact, at a recent birthday party my wife gave me, with the year ending in zero, I was rather depressed by my long experience, in general. She said to me, "Tony, don't worry. Ahead of you lies mystery, romance, adventure, excitement, a lot of other great reading."

(MR. DOWNS: I said to one of my five children, "Do I really look like I'm 60?"

(Laughter.))

MR. DOWNS: Now, I would like to start with certain background factors that underlie my subsequent remarks.

First, the American housing production and urban growth processes already provide excellent shelter opportunities for most households with middle and upper incomes, except in a few high-cost areas like Northern California. Our housing markets work very well for most households with money.

Second, however, the most widespread and serious U.S. housing problem lies in the discrepancy between the low incomes of many poor households and minimal cost of decent housing, as judged by middle-class standards. Household incomes in the United States go almost down to zero, but the minimum cost of what we consider to be a decent dwelling unit level off at some amount -- minimal amount that's needed to cover basic space, plumbing, kitchen, utility, and heating needs. So there's a gap between the ability to pay of the poorest in society and the minimum amount of shelter costs that they have to pay to get that minimum amount of shelter.

In 1997, 43 percent of all renter households had incomes below 50 percent of their area medians; 27 percent had incomes below 30 percent of their area medians, which is about equivalent to the poverty level; and 15 percent had incomes below 20 percent of those medians.

Now, those people with low incomes, if they spend 30 percent of their income on housing, which is the accepted standard, cannot afford to rent very large housing units. The 30 percent whose incomes are below $12,000 a year, if their rent that's charged is about 90 cents per square foot per month, which is -- I derived from the fair market rents of the 15 largest metropolitan areas, these households could only afford to rent 333 square feet if they spent 30 percent of their income on housing.

Even at 75 cents per square foot per month, they could only afford 400 square feet, which is half the size of a typical two-bedroom unit. Fifteen percent of the households who have the poorest incomes, below $8,000, could afford only 222
21 square feet, at 90 cents per square per month, which
22 is about -- which is the rent of a -- of a --
23 typical rent of a 800-square-foot two-bedroom unit
24 that rents for $720 a month.
25 So this means that the standards we set
0011
0012
1 and require for all new construction are so
2 expensive to build to, that a very large number of
3 poor households cannot possibly afford to live in
4 those units, either without spending more than 30
5 percent of their income for rent or without doubling
6 up. One way to get 220 square feet is to live three
7 households per dwelling unit. Now, that's a
8 possibility of doing it.
9 But this is one of the reasons why there's
10 such a contrast between the so-called "smart growth"
11 movement, which requires very high quality standards
12 for all new housing, and the ability of American
13 poor households to pay.
14 The 1997 fair-market rent for a household
15 of four in the 15 largest metropolitan areas was
16 $720 per month. If that's equivalent to 30 percent
17 of income, then the minimum income needed to avoid
18 housing poverty was $28,800 as compared to the
19 minimum income -- the poverty level for a food-based
20 measure is only $16,400.
21 So if we base poverty on -- if you had to
22 spend 30 percent of your income on housing, how much
23 would it cost you to get the minimum decent unit,
24 that would be -- your -- the poverty level would be
25 $28,800, which is a lot higher than the food-based
0012
0013
1 poverty level of $16,400. In 1997, over half of all
2 renter households had incomes below $28,800, so they
3 were "housing poor."
4 Now, this means that our low incomes
5 themselves comprise, by far, the largest housing
6 problem in the country. The best way to attack that
7 problem, as I've argued for many, many years, is not
8 necessarily by changing the way we build housing,
9 but it's by raising the incomes of the poor, which,
10 of course, lies outside of the jurisdiction of HUD,
11 except that housing vouchers, in essence, are
12 raising the income of the poor.
13 A third critical factor in the background
14 is that the population of the United States will
15 rise by 48 million people in the next 20 years --
16 from 2000 to 2020 -- and housing should be created
17 that those people can afford to occupy. But over
18 one third of these added people will be immigrants
19 from abroad, as a previous speaker just mentioned,
20 or their children. Many will be very poor, so
21 they'll be unable to afford new units built to our
22 high-quality standards without subsidies.
23 Yet poor immigrants are not deterred from
24 entering our cities by high housing prices that
25 force them to double up or triple up, because
overcrowded housing in American cities is vastly superior to what they experience in their home countries.

Now, overcrowding can occur in any group, which reminds me of something that happened in Minneapolis recently when there were four expectant fathers sitting around the waiting room in the ward where the children are born, and the first one -- they were all pacing up and down nervously, and the nurse came in and said to the first one, "Your wife has just given birth to twins." He said, "That's fantastic! What a coincidence -- I work for the Minnesota Twins."

A few minutes later, the second one came in and says, "Your wife has just given birth to triplets." He said, "Well, that's a little depressing, but I'm -- it is a coincidence, 'cause I work for the 3-M company."

A moment later, the third nurse came in and said to the third man, "Your wife has -- amazing -- has just given birth to quadruplets." And he said, "What a fantastic coincidence. I work for Four Seasons Hotel."

The fourth man fainted dead away upon hearing this.

(Laughter.)

MR. DOWNS: When they aroused him, he said, "I never should have taken that job with 7-11."

(Laughter.)

MR. DOWNS: Now, recent economic prosperity combined with some negative conditions produced by growth in high-growth areas have intensified anti-growth feelings in many communities, especially new suburbs. Although individual localities can slow growth within their own borders, there is no way, in my opinion, for individual regions, or the nation as a whole, to stop or greatly slow down our future growth. Yet concern with how to cope with this growth is rising all over the country and will greatly affect the environments in which future housing must be created.

As a result, effective housing policy must be concerned, in my opinion, with the entire growth process, not just the building of new housing as though it were a separate from the growth process. Housing processes must be integrated with growth policies. We have to look at the big picture. It may be I think that way because I'm an economist, and economists typically look at the big picture, and sometimes they do so at the sacrifice of being sympathetic to people who are suffering.

Which reminds me of a story about a
homeless person in Washington who approached three people on the street. And the first one was a member of Congress, and he said, "I haven't eaten in three days." The member of Congress said, "It'll be better after the next election," and passed on without giving him any money.

Then he approached the preacher and said, "I haven't eaten in three days." And the preacher said, "The Lord will provide," and passed on without giving him any money.

Then he approached an economist. In fact, it was Alan Greenspan, the chairman of the Federal Reserve Board.

(Laughter.)

MR. DOWNS: He said to Alan, "I haven't eaten in three days." And Alan said, "That's very interesting. How does it compare with the same period last year?"

(Laughter.)

MR. DOWNS: Now, the fourth crucial factor in background of housing policy is that -- one that most of us don't like to talk about. It is that most middle- and upper-income households of all ethnic groups in America do not want to live in neighborhoods containing any sizable number or percentage of poor people. This is especially true of households with school-aged children.

Therefore, non-poor households, who are a majority in the country, withdraw from areas where many poor people live and erect barriers to the subsequent entry of those poor people into their own neighborhoods. And this behavior is the foundation for the socioeconomic hierarchy of neighborhoods found in every U.S. metropolitan area. And it's described in my book, "Neighborhoods and Urban Development." I'm going to mention several books along the way, because I'm trying to stimulate the sales of those books, which are pretty low.

(Laughter.)

MR. DOWNS: Now, such behavior is similar to the unwillingness of most whites to live in areas where more than 25 to 33 percent of the residents are African-Americans, no matter what their income levels. This behavior by the white majority, although it's not going to be a majority long, as you just pointed out, underlies continuing racial segregation. Similar, but less intensive feelings are held by whites about other minorities, too.

Now, these two groups exclude the poor, not through purely market forces, but through local zoning and other regulations that prevent construction of affordable units. This behavior is rooted in the strong desire of home-owning households to protect and increase their housing values, since housing is their greatest asset.
Therefore, suburban governments, which are almost always dominated by home-owning voters, tend to adopt parochial policies that aim at benefitting their own residents without regard to the impacts upon anyone else.

And the attitude of most suburban residents and local government officials towards their moral obligation to do something about the poor, most of them are still living in central cities, reminds me of a story about a priest who discovered that there was a leak in the roof of his church, right over the altar. And every time it rained, the water poured down on the altar, and he couldn't say Mass.

So he called together his wealthiest parishioners, and he sat them around the table, and he said, "Ladies and gentlemen, you have a moral obligation to help me fix this roof." And he went around the table saying that to each of them, but none of them would give him any money.

He finally came to the wealthiest one of all, Patty O'Toole, and said, "Patty, you have a moral obligation to help me do this. You were baptized in this church, you had your first communion here, you were married in this church, you've gone to Mass here every year for 70 years, you have a moral obligation to help me do this."

Patty looked at him and said, "What do you know about moral obligations, Father? I'll tell you about them. I have a daughter with seven children, her husband just left her, she hasn't got a penny. I have a moral obligation to support that family. My son just graduated from medical school, spent all his money on tuition. Now he wants to develop a cure for AIDS. I have a moral obligation to support that benefit to humanity. My mother's 90 years old and has to go into a nursing home. It costs $150 a day. I have a moral obligation to pay for that. Those are real moral obligations. And, by God, if I can say no to them, I can sure say no to you."

(Laughter.)

MR. DOWNS: Now, that is the attitude of the typical suburbanite towards city problems, and that is one of the factors which -- when Secretary Cuomo was talking about "this is the moment for the political acceptability of an active program," he didn't mention how to overcome that attitude, which is one of the great difficulties of doing so.

Exclusionary zoning is reinforced by the desire of local officials and citizens also to minimize taxes by blocking land uses that generate more local expenses than they produce in revenues. And that means housing, especially housing for people with children. So truly affordable housing is regarding as a fiscal anathema by most suburban
governments. And they all try and shunt it off to some other place.

Yet our economy cannot run without many low-wage workers who service all of these communities and provide a lot of the services that their residents really want to have. But they can't afford decent units in these communities.

These exclusionary motives are emphasized during periods of prosperity when the residents have the luxury of not worrying about their jobs or incomes. Then they can worry about elements like congestion and lifestyle and how fast their community is growing.

Another result of prosperity has been rising prices and rents that hurt the poor. From 1990 to 1999, median home prices in the largest 21 metropolitan areas rose an average of 34 percent.

Now, a central, if unintended, consequence of this exclusionary behavior is significant concentration of the poorest households together in high-poverty neighborhoods in the central cities and older suburbs, especially poor minority households, who are doubly excluded -- and you are all familiar with this conclusion. Yet concentrating many very poor people together produces adverse neighborhood environments that reduce the life chances of people who live there compared to environments with much more economically diverse populations.

I am convinced, and so are most big-city mayors and many HUD officials, that we cannot improve the quality of life for the very poor without reducing big poverty clusters in our cities.

Now, I don't mean to imply that all the problems in life are caused just by poverty. In fact, a recent study showed that one out of every three Americans of every income group is suffering from some type of mental instability. Ladies and gentlemen, I'd like each of you to look at the two people sitting next to you.

(Laughter.)

MR. DOWNS: If they look all right, then you're the one.

(Laughter.)

MR. DOWNS: Moreover, the problems caused by poverty concentrations have been worsened by federal and other government policies that focus most housing assistance and incentives on the very poorest households in the poorest neighborhoods. This was done in the name of humanely aiding those who needed it most, but this policy has failed because it increased the concentration of the poorest households together, as in high-rise public-housing projects, thereby creating socially destructive environments.

It is time to realign incentives created
by federal policies so they encourage greater income
diversity, even if that means giving public aid to
people who are not the very poorest. For example,
more points for low-income housing tax-credit
projects should be given to those with moderate
percentages of very poor residents rather than to
those with the highest percentages, as is now done.

Now, HUD is already trying to realign some
of its incentives to create more income diversity in
quite a few ways, but it should do even more.
The preceding points show that the
dominant American housing-development process causes
a progressive abandonment of parts of many large
older cities through growth at the suburban fringe
aggregating urban decline.

Now, many observers, particularly
promoters of smart growth, blame urban decline on
suburban sprawl, but I think that conclusion is
false, and it's based on a lot of research I've done
on the relationship between suburban sprawl and
urban decline.

Major suburban growth in U.S. metropolitan
areas was and still is inevitable because of the
population increases in our metropolitan areas plus
rising real incomes that generate desires for low-
density living. Sprawl is just one possible form of
suburban growth. We're going to have to have
suburban growth. We've had to have it. We're going
to have more it, but sprawl is just one possible
form of it which is marked by very low densities,
leap-frog development way out into the vacant
countryside, unlimited outward expansion, and heavy
dominance by -- of automotive transportation.

In the United States, sprawl has been so
dominant that most people wrongly think that sprawl
is identical to growth. And, therefore, when we
talk about suburban growth, they think sprawl is the
only form that's possible. But that's not true.

It reminds me of something W. C. Fields
said when he was explaining the causes of
drunkenness and intoxication. He said, "People get
drunk when they drink Scotch and water; they get
drunk when they drink Bourbon and water; they get
drunk when they drink Rye and water" -- for which he
concluded that drunkenness must be caused by water.

(Laughter.)

MR. DOWNS: And that's the same conclusion
many American researchers have made -- that urban
decline must be caused by sprawl because it's
related to growth. But I've conducted extensive
regression studies that show almost no connection
between the basic traits of sprawl that I just
mentioned and urban decline, where I measured
decline as either the city population change from
1980 to 1990 or as an index of decline indicators
Now, I admit I was very surprised by this conclusion. I thought these two things were closely related, but further analysis convinced me that it's not the low-density aspects of suburban growth, those which comprise sprawl, that lead to urban decline; rather it is the operation of six other basic characteristics of our development process, some of which I've already mentioned.

First, we require all new housing to meet very high quality standards that poor people cannot afford without subsidy. Second, we don't give them the subsidies, so, therefore, they can't afford to live in new-growth areas. Third, we encourage exclusionary suburban zoning. Fourth, we engage in widespread racial segregation in almost all housing markets. Fifth, we maintain major obstacles to the redevelopment of older core areas. And sixth, we have social values that encourage households to move to higher-status neighborhoods when their incomes rise. These factors, not low density, are the reasons why our growth process causes poverty concentrations.

Now, this is an important conclusion, because it implies that continued growth at the periphery would still lead to concentrated poverty, even if we shifted from sprawl to much more compact forms of growth, unless we altered those six basic characteristics, or some of them. And concentrated poverty would, therefore, still generate withdrawal of the middle class to the suburbs, which aggravates urban decline.

In fact, the poor themselves often move out of the high poverty areas as soon as they get higher incomes. They're like mountain climbers. Mountain climbers do not tie each other together with ropes to keep from falling down the mountain, but they keep the sensible ones from going home.

(Laughter.)

MR. DOWNS: That's a subtle joke to see whether you're still awake, and I don't think you are.

(Laughter.)

MR. DOWNS: Now, let's turn to my conclusions about housing policy from these background factors.

My first conclusion is that, by far, the most important housing policies are being set by local governments, not by the federal government. True, the federal government influences the financial climate that affects housing affordability and production, but local governments set the rules of housing quality and density that really determine
the amount of housing built and where different income groups will live.

And those local policies are mainly determined by the parochial and exclusionary perspectives of suburban homeowners, as described earlier. This perpetuates poverty concentrations in older core areas.

Therefore, the most important thing the federal government can do to improve housing opportunities for the poor is to exert influence on local governments to be less parochial in deciding what types of housing can be built and where it can be built. This would require HUD and Congress to create incentives for local and state governments to modify their current exclusionary behavior towards housing.

And this is all discussed in my book, "New Visions for Metropolitan American," which was published by Brookings a couple of years ago and is available for $16.99 from the Brookings Institute. And I urge you to buy it. I don't care whether you read it, but I'd like you to buy it.

(Laughter.)

MR. DOWNS: Now, I admit most Brookings books are not the most exciting books you've ever read. They lack the sex and violence you normally associate with your leisure-time reading.

(Laughter.)

MR. DOWNS: In fact, most Brookings books are the type that, once you put them down, you just can't pick them up again.

(Laughter.)

MR. DOWNS: But my latest book, "Stuck in Traffic," is now in its second printing, which means there are now two copies.

(Laughter.)

MR. DOWNS: So you can see how popular it is.

Now, an example of what HUD ought to do has been created by EPA and the Department of Transportation, the latter and the former of the metropolitan planning organizations. Both require each metropolitan area to establish a regional planning agency that considers area-wide plans before the federal government will provide any funds to any governments in the region. HUD could make its financial aid similarly contingent on regional planning.

Possible goals of HUD's regional planning requirement would be to require each metropolitan region to establish fair-share allocations of low-cost housing among its communities, to allow owners of single-family homes of a certain size to create accessory apartments in their homes, even if the local government doesn't permit it, to require every
community to zones some land for multi-family
housing, to expand the use of vouchers to encourage
an even greater moving-to-opportunity program.

At the very least, HUD could make planning
grants to local governments within regions where all
such governments agree to develop a voluntary
regional plan -- and I think that is in your budget,
in fact, for $25 million, as I understand it.

Now, it's true that because suburban
homeowners form a majority of voters in the U.S.,
Congress will be reluctant to permit such a policy.
Yet HUD should press to get one, because HUD cannot
reduce inner-city decline without affecting the
growth process as a whole, which means affecting
local suburban growth policies.

A second key goal of housing policy should
be to deconcentrate existing high-poverty enclaves
in two ways. One is by using vouchers to give
households voluntary opportunities to move to
middle-income neighborhoods, as in the Chicago
Gatreau program and your own moving-to-opportunities
program. The other is to encourage greater income
diversity in poor neighborhoods, including in public
housing. These are already present goals of HUD
policy that should be promoted more strongly.

And these are not new ideas. In fact,
I've included them as the basis of my book, "Opening
Up the Suburbs," which was published in 1973 and has
attained the world record for the lowest royalties
ever earned by any book.

(MR. DOWNS: One year, I got $8.42. And
several years I had negative royalties because there
were more returns than sales.

(MR. DOWNS: Now, this approach of
deconcentrating the enclaves of the poor contradicts
the desire of middle- and upper-income households to
isolate themselves from the poor. Since the non-
poor are much more numerous and more powerful
politically than the poor, society has resisted
nearly all attempts to deconcentrate the poor by
integrating them into more affluent communities.

How you like this, of course, depends on
who you are. If you're some of these exclusionary
suburban residents, you'll like it. If you're
excluded from the opportunities provided in those
communities, you don't like it.

Like the airline pilot who called up the
tower and said, "What time is it?" The tower
operator said, "Well, that depends on what airline
you're with. If you're with United, it's 1:15; if
British Airways, it's 13:15; if you're with U.S.
Airways, the big hand is on the three, the little
hand is on the one."
MR. DOWNS: "If you're with Continental Airlines, it's Thursday."

MR. DOWNS: Now, I have long believed in my heart that we, in the middle- and upper-income groups, cannot ultimately upgrade our poorer brothers and sisters at arm's length but must somehow share our neighborhoods with them and our schools with them if we want to create truly equal opportunities in our society.

All of the great religions of the world have, as one of their primary commandments, "Love thy neighbor as thyself." I don't think they meant, by that, "First, screen out all the neighbors that don't seem lovable to you so the only ones that are left are those you think are like you and, therefore, more lovable." But this is a distinctly minority viewpoint strongly resisted by the vast majority of non-poor Americans and even by many poor households.

My third key goal is striking a better balance between aid to homeowners, mainly in the form of tax benefits, and aid to poor renters by greatly increasing the latter.

In the 1990s, HUD has placed much more emphasis on promoting home ownership than aiding low-income renters, even though the latter have more serious housing problems. Home-ownership rates have risen notably -- and that is good -- but today, builders are putting up many houses -- at least in the vicinity of where I live -- costing two to three million dollars. And I think it's ludicrously unjust to give the owners and the purchasers of those houses tax benefits of as much as $58,000 a year without providing any assistance to most eligible low-income renters. We don't need to encourage more mansions.

Now, it's true that it takes time to build up capital, and that's why HUD has encouraged home ownership, which reminds me of something that happened to me when I was a small boy. I played a game a lot called "Spin the Bottle." How many of you have ever played "Spin the Bottle?" You're too young. You don't remember this game; you're all too young.

Anyway, it's a game in which a girl spins a Coke bottle, and if it points at a boy, she either has to kiss him or pay him a nickel. And I played this game a whole lot when I was a kid, with the unexpected result that, by the age of 14, I owned my own home.

(Laughter.)

MR. DOWNS: Now, one thing that HUD could do regarding the balance of aid to homeowners and
renters is change the interest and property-tax
deductions to tax credits, which would be much
fairer without eliminating tax benefits altogether
by any means to home ownership. This would either
shift more benefits to less affluent homeowners or
save money, depending on how the tax credit rate is
set. The money that's saved could be allocated to
greater assistance to low-income renters.

And I think Fred Eggers showed me a
statistic this morning that only 22 percent of the
households actually receive -- actually deduct these
things from their income, because so many of them
use the standard deductions. So we wouldn't
necessarily be offending a majority of households if
we shifted from a tax deduction to a tax credit.

More federal money should be spent on
aiding low-income renters, mainly as vouchers and as
aid to the rehabilitation of older housing units.
HUD should also consider setting higher fair-market
rents in suburban markets with high housing prices
to enable Section 8 households to live there. And I
think you have just done that, too. You've just
raised your fair market rents. The present single-
rent policy in all parts of the metropolitan area
further encourages concentration of the poor.

Now, because it is politically impossible
to focus all federal aids on deconcentrating
existing poverty enclaves, we should also invest
notable resources in improving conditions within
those enclaves. We will be unable to deconcentrate
even a majority of existing high-poverty areas
within any short time, so we can't ignore the people
who are still in these poor neighborhoods; however
-- and here I'm going to say something which will
offend most of you -- we should recognize that
efforts to upgrade such areas are not likely to work
unless many non-poor residents can be attracted to
live there.

Billions and billions of dollars have been
spent to encourage community-development
corporations and empowerment zones to upgrade their
entire neighborhoods. Although they have created
many improvements in those neighborhoods, few of
them have succeeded in upgrading the entire
neighborhoods. It is time to stop wasting such aid
by focusing more of it on encouraging diversity.

We've been giving people what they want,
even though -- whether it works or not, which, of
course, reminds me of a story --

(Laughter.)

MR. DOWNS: -- about a farmer who had a
bunch of cows he wanted to get impregnated. He
didn't have any bull that could do the job, but he
found out that down the street from him lived a
farmer who had such a bull, so he loaded up his cows
in the truck. He took them down there and had them serviced by the bull. And before he went home that night, he says to the other farmer, "How will I know whether this has worked, whether they're pregnant?"
The other farmer said, "Well, you look out the window in the morning. If the cows are grazing contentedly in the pasture, they're pregnant. If they're standing nervously in the corral, they're not."

So the next morning, he looked out the window, and there were no cows grazing contentedly in the pasture. They were all standing nervously in the corral. So he loaded up the truck, took them down, had them serviced again, came back the next morning and looked out the window -- again, no cows grazing contentedly in the pasture.

So he took them all down and had them serviced again. Then came home that night, and he said to his wife, "I can't stand the thought of looking out the window again. You look out the window tomorrow and tell me what's happening."

The next morning, they woke up. She looked out the window, and he said, "Are they grazing contentedly in the pasture?" She said, "No." He said, "Are they standing nervously in the corral?" She said, "No." He said, "Where are they?" She said, "They're all standing in the truck, and one of them's blowing on the horn."

(Laughter.)

MR. DOWNS: But following the advice of trying to encourage more diversity means devoting public funds to providing incentives to persons other than the very poorest. This is a politically controversial but, I think, necessary strategy that, in fact, most city mayors are now promoting because they realize how important it is.

Now, another goal of federal housing policy -- looking at the millennium, which is a long time -- should be closer integration of land-use planning, transportation planning, and environmental planning since each type of planning is heavily influenced by the others in the process of mutual causation. In theory, the Departments of Housing and Urban Development and the Department of Transportation should be merged into one federal agency. It could be called either THUD --

(Laughter.)

MR. DOWNS: -- because of it's heavy influence; or maybe HUDAT, just for fun.

(Laughter.)

MR. DOWNS: That department should then require each metropolitan area to develop some type of coordinated affordable housing and ground transportation planning as a single document as a
prerequisite to receiving federal funding, because
in the United States, transportation planning is
generally not done with full recognition of its
impact upon land use, and vice versa.

Last week I was in Seattle, and I was
speaking on the future of ground transportation to a
futurist conference sponsored by the Department of
Transportation. This is my big futurist period.
And the Department of Transportation -- for many
years, I've been urging them to consider integrating
the impacts of their public transit planning, their
highway planning, their airport planning, not just
as means of moving people from A to B, but as
forming the skeleton of future urban development.
And they have consistently ignored that and not done
it.

So the only way to get it done is maybe to
merge the two departments. However, it would not be
possible to combine these departments without major
changes in the committee structures of Congress.
Congress is far more resistant to reform than any
other institution in America, even HUD. And trying
to closely integrate the actions of separate federal
agencies is usually a vain exercise.

As a starter, HUD should clean up its own
act a bit. For example, HUD's economic development
initiative recently financed a new hotel in
Huntington Beach, California, without inquiring
whether the low-wage workers to be hired by that
hotel could afford to live there or would have to
drive many miles back and forth to work, thereby
adding to traffic congestion and pollution.

No such grant should be approved without
examining their impacts upon local housing and
transportation requirements. We need more
bureaucratic discipline within your agency and
within most federal agencies, 'cause discipline is
important in all aspects of life.

Like the farmer and his wife who had two
teenage sons -- different farmer --

(MR. DOWNS: -- and they were increasingly
using profanity. And the wife said to her husband,
"These boys are getting out of hand. We've got to
do something about it." He said, "Alright, tomorrow
morning, I'll start disciplining them."

Next morning, he and his wife were sitting
at the breakfast table, and the two sons came in
with a clatter, and the oldest one sat down and
said, "Where are the goddamn Cornflakes?" And the
farmer, who's a huge man -- he grabbed -- stood up,
grabbed his son by the throat, gave him a right
cross, knocked him up against the floor -- against
the wall, went over and stomped on him, picked him
up, threw him down in his chair, turned to his other
son, and said, "Now, what do you want?"

His other son looked at him and said, "I don't know, but you can bet your ass it isn't Cornflakes."

(Laughter.)

MR. DOWNS: Now, the last policy I'm going to recommend is that the federal government should continue to promote economy policies that keep interest rates low and labor markets tight. Low rates make it easier to build more housing, and tight labor markets raise the incomes of many low-income workers. The long run of nine years of prosperity has done more for the economies of our cities than all other federal policies of any kind whatsoever.

Now, as we consider these policy recommendations, one enormous obstacle to achieving them emerges. It is the fact that present institutional arrangements in housing markets and growth processes favor the middle- and upper-income majority at the expense of the low-income minority, especially low-income ethnic minorities. For example, as I have pointed out, concentration of poverty in older core areas permits more affluent households to live in neighborhoods mostly free from the problems associated with poverty. And that's just what they want. And they get it.

It's hard to get them to change without some kind of a crisis or hitting them over the head, like the master of ceremonies at a banquet, and the speaker was going on longer and longer. And he looked -- he kept passing him notes, saying, "Stop. You're going on too long. The audience is getting restless."

The speaker wouldn't pay any attention to him. He was a professor --

(Laughter.)

MR. DOWNS: -- and he kept on going. So the master of ceremonies looked, and at the table in front of him was a water bottle with a top on it, and he said to himself, "If I screw the top on this water bottle, and I pretend to go up to give him a drink, I'll pretend to slip, I'll swing the water bottle, I'll hit him over the head, knock him cold, and we'll drag him off the platform." He got so desperate he decided to do this.

So he screwed the top from the water bottle, he started up, he started to swing, but he did slip. Instead of hitting the speaker, he hit an old man sitting right next to the speaker. The old man's head slumped down on the dais. The master of ceremonies said to himself, "My goodness, maybe I've killed this poor old man."

Just then, the old man looked up and said, "Hit me again, I can still hear him."
(Laughter.)
MR. DOWNS: Fortunately, Susan, there's no water bottle on your table.

(Laughter.)
MR. DOWNS: Now, the problem is, in short, that democracy is working, because the majority has created and sustained arrangements which benefit it and which its members, therefore, do not want to change. For decades, it has proven extremely difficult to persuade that majority to alter those institutional arrangements which benefit it by imposing high costs upon the poor. Appealing to their sympathy for the poor has had only modest results.

We don't have concentration of poverty through some accident. We don't have a concentration of poverty through market forces. We have it because it's a deliberate construct of people who are excluding the poor from their communities through exclusionary zoning.

But now the suburban majority itself is beginning to complain about some of the costs of the growth process that it's generated, particularly traffic congestion. The challenge of those of us trying to implement the policies I have described is to use these feelings of dissatisfaction to achieve institutional changes such as at least some regional planning mechanisms that might help remove some of the unfairness and ineffectiveness of our present housing and development processes and their unjust results for the poor.

Such appeals to the self-interest of the majority should include pointing out two consequences of their failure to upgrade the skills and incomes of people now living in concentrated poverty areas or to permit more of them to move to the suburbs.

First, if we fail to do that, we'll weaken the ability of these people to buy the suburban homes of the current white baby boomers when they or their children want to sell those homes.

The potential market for housing will then consist heavily of minority households now living in cities. But if those possible buyers cannot maintain future home values because they don't have enough incomes or skill, the present residents will not be able to sell their units at the prices they like.

Second, if low-wage workers essential to both business and residential areas have to live far from where the jobs are located because there's no affordable housing nearby, then both traffic congestion and air pollution will rise reducing the quality of life for the affluent households who can afford to live there.
And traffic congestion is often very confusing. Just the other day, Irving Jones was driving down the expressway when the phone in his car rang. And he picked up his cell phone. His wife said, "Irving, be very careful. I just heard on the radio that some idiot is driving the wrong way down the expressway." And Irving said, "It's not just one. There are hundreds of them."

(MR. DOWNS) In conclusion, I hope we'll recognize that the future housing policies and future metropolitan growth policies of our country are inextricably intertwined and cannot be treated separated. If so, we can perhaps use the growing awareness among even middle- and upper-income households that our growth policies must be changed to achieve major improvements in our housing policies in the new millennium. Thank you.

(MS. WACHTER) And we say, "Amen," to the last one.

Now, about that income tax deduction, I think we have to -- actually that's the Department of Treasury's conference across the way. We'll have to take up the mortgage deduction later. We have some ability to answer a few questions from the audience.

(MR. DOWNS) No, I have the ability to answer the questions.

(MS. WACHTER) Yeah, I don't.

(MR. DOWNS) They have to have the ability to ask them, however. Anybody want to ask me a question? Anybody dare to ask me a question?

(Laughter.)

(MS. WACHTER) No questions?

(MR. DOWNS) Well, let's begin with the second question, because the first question is very difficult, so --

(Laughter.)

(MR. DOWNS) No questions.

(MS. WACHTER) Thank you very much.

(Applause.)

(MS. WACHTER) I think we have all the answers already.

We have -- in the next sessions, we're going to hear about the new voucher initiatives, how we're making vouchers more affordable, about -- with some very recent changes -- and new production initiatives which are on -- underway as we speak today, so you'll have the most recent information -- and also predatory lending. As the cities come back, what are we doing to help protect the most vulnerable? And finally, after that, we have a plenary session on building a million homes --
market rate homes -- to help accomplish some of what
Tony's been talking about.
So we look forward to seeing you back here
at that. Enjoy the next sessions. Thank you.
(Whereupon, the proceedings were adjourned
at 1:45 p.m.)