

HUD Cuts: Keep Calm And Carry On

Vanessa Brown Calder

March 16, 2017

President Donald Trump is expected to release some initial budget proposals today, and spending cuts are on the agenda. One agency targeted for cuts is the bloated Department of Housing and Urban Development, which is the object of a 13 percent reduction.

That's good news because some of the department's chief activities—public housing, rental vouchers and community development—have suffered from failure and waste for decades. Housing activists are already decrying the cuts, but when it comes to affordable housing, local governments can make progress without all the regulations and subsidies from Washington.

Public housing, for example, is a staple of the HUD portfolio, but it's been plagued by failure as far back as the early 1970s, when public housing projects became “a notorious symbol of failed public policy and architectural hubris.” Its prominence in the HUD portfolio has been reduced in years since, and many of the large housing projects have already been phased out or literally razed through the federal HOPE VI program and Rental Assistance Demonstration program.

Unfortunately, what's left of traditional public housing follows largely the same pattern as its predecessor, and sustains the program's unsavory reputation. For example, even the most ardent public housing advocate agrees that federal public housing suffers from dilapidation and disrepair, and a 2015 study conducted by the Manhattan Institute concluded that New York City's public housing experienced twice the assaults and rapes, and triple the murders expected given its size.

Can public housing be redeemed? It seems unlikely now, given HUD has been attempting to do that for around 40 years. Unfortunately, the core problem is the program's very design: depositing concentrated pockets of poverty in cities and then letting them decay there. Despite advocates' protests, maintaining 2017 levels of funding will not change the fundamentals.

Compared with public housing, rental vouchers enjoy an improved reputation. This is partly because they provide beneficiaries with more choice and the ability to live in privately owned and operated housing. Still, rental vouchers share many of their sister program's weaknesses. Like public housing, rental vouchers contain no work requirements or time limits. As a

consequence, only 25.7 percent of voucher-receiving household heads, or a little more than half of capable (non-elderly, non-disabled) household heads, report working.

Although public housing and vouchers set a low bar, if there was ever an example of government waste and abuse, it is surely embodied by the Community Development Block Grants program. The program is certainly flexible; in previous years, it provided money for sports complexes, wine bars and art museums, all in the name of fighting poverty and encouraging urban renewal. Pre-Obama, the Bush administration flatly labeled CDBG as “ineffective,” based on the program’s lack of a clear purpose, missing evaluation metrics, deficient oversight and because funds weren’t targeted to the poor. To this day, these problems persist. Funds are diluted across a wide variety of projects and spent haphazardly without clear outcome metrics. That’s a recipe for federal waste, not success.

Worse yet, research on federal grants indicates federal dollars crowd out state and local dollars. State and local governments respond to federal grant money by rearranging budget priorities to offset the benefits of grants altogether. Add that to the 13-30 percent of funds that are absorbed as CDBG money changes hands, and you have a program that looks like more of a cost to taxpayers than a benefit.

While public housing, housing vouchers, and CDBG have unique problems, there is one feature that remains consistent: Federal dollars are a distraction from local policy dysfunction. That is, current incentives provide no reason for states and cities to confront a housing crisis of their own making. For example, most local government officials don’t realize or care that zoning and land use regulations drive housing prices sky high, especially in locations that are hogtied by regulation like New York City. One study estimated that zoning regulation accounted for a full 50 percent of the cost of an apartment in Manhattan, and 53 percent of the cost of a home in San Francisco.

It shouldn’t surprise us that the federal government does a poor job of administering housing programs. Ultimately, housing and housing affordability are state responsibilities, not federal responsibilities. Given HUD’s record distorting state and local policy, there is an unconvincing rationale for its large and expanding role in local policy. Rather than worry about negligible cuts to HUD, smart taxpayers should ask whether housing policy would be better if HUD cuts went further.

Vanessa Brown Calder is a policy analyst at the Cato Institute, where she focuses on social welfare, housing, and urban policy.