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# DEHAVEN: Five decades of failure are enough

**Tad DeHaven**

With trillion-dollar deficits as far as the eye can see, policymakers need to scour the federal budget for departments to cut and eliminate. They should start with ones that are not just wasteful, but actively damaging to the economy. Top of the list would be the \$60 billion Department of Housing and Urban Development.

HUD's negative impact on the economy is far larger than its multibillion-dollar budget.

HUD's policies played a key role in causing the housing boom and bust and then the recession in its wake. Weak lending standards on HUD-insured mortgage loans helped fuel risky non-prime lending. HUD also put pressure on banks and the failed housing giants Fannie Mae and Freddie Mac to make risky loans to underqualified borrowers. Thanks to those policies, Fannie and Freddie went bankrupt and already have received \$112 billion in taxpayer bailouts.

Steady increases in home-buying subsidies in recent decades were motivated by political attempts to curry favor with special interests such as the Realtor and homebuilder lobbies. Politicians justify the subsidies on their claimed civic virtues. But, as we've seen in the wake of the housing bubble's bursting, there's nothing virtuous about putting people into homes they can't afford.

Since the financial crash, the politics of housing subsidies seem to have become even worse. The housing lobby groups continue pushing to expand federal intervention in housing markets, and politicians keep increasing subsidies through the Federal Housing Administration and the Government National Mortgage Association, which insure and guarantee more than \$700 billion in mortgages and mortgage-backed securities.

HUD's FHA has expanded so much that it is facing the possibility of an expensive taxpayer bailout because of rising defaults on mortgages it insures. As for Ginnie Mae, its portfolio has exploded, and there are growing concerns it could be the next Fannie or Freddie.

Like housing finance, HUD's other activities also are politically driven but economically unsound. The department spends about \$10 billion a year on community development programs consisting primarily of grants to states and local governments for economic development and housing development and assistance. Community development funds originally were targeted to large cities in decline, but today, this congressional cookie jar confers largesse on communities rich and poor, large and small. In addition to complexity and bureaucracy, these programs are highly susceptible to financial abuses. Community development should be left to the private sector or local governments, where residents can better weigh the benefits of local projects with the tax costs.

HUD spends more than \$30 billion a year on housing assistance, which includes money for public housing authorities and rental subsidies for tenants. Dilapidated and crime-infested public housing is a vivid reminder of the government's failure when it comes to solving social ills. In recent decades, policymakers have moved away from public housing in favor of housing vouchers. However, instead of bringing an end to "concentrated poverty," that has merely spread it around. Policymakers justify these programs on a lack of affordable housing, but state and local governments themselves make housing more expensive with zoning rules and housing regulations.

HUD's current failures are not unique. It has a long history of failure and scandal. In the 1980s, HUD Secretary Samuel Pierce's eight-year tenure was so scandal-prone that it led to 17 criminal convictions, including convictions of three former HUD assistant secretaries. In the 1990s, President Clinton's HUD secretaries, Henry G. Cisneros and Andrew Cuomo, helped lay the foundation for the housing bubble with their political strategy of increasing the homeownership rate. And most recently, George W. Bush HUD Secretary Alphonso Jackson oversaw the inflation of the housing bubble and then the bust while using his office to reward friends and political allies.

Far from solving America's housing and urban problems, HUD has made them worse.

HUD should be abolished. State and local governments should be left to decide what housing and community development programs they want to fund. Even better, housing should be left to private markets, which produced massive amounts of housing for people at all income levels for many decades before government encroachment.

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