HOUSING AT THE MILLENNIUM

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John T. Dunlop Lecture, 1999

INTRODUCTION

It is truly a great honor to be able to speak at the John T. Dunlop Lecture at the Joint Center for Housing Studies. Over the years John has been a great mentor and friend. He has worked closely with the Joint Center since its inception, and when I was here as a Fellow in the early 1970s his wisdom and actions were essential in maintaining the Center and focusing its efforts on housing. He has been a prominent national leader on issues related to labor, manpower, housing, and home building at the highest levels for many years. And, most recently, John has provided me with the opportunity to step back, reflect, and write on the years I have spent as a teacher, participant and scholar of housing policy in the United States.

1999 is the 50th Anniversary of the passage of the Housing Act of 1949 (Public Law 81-171) which was signed into law on July 15, 1949. In 1949 the Act passed with the clear and resounding theme: Every American should have “a decent home and suitable living environment.”

Since that time, we have made significant strides towards that goal. We have overcome a number of the problems of the past, however important challenges remain, and new issues and problems have arisen. The purpose of this paper is to examine what we have learned as we look at housing at the millennium. What have we accomplished over the last 50 years? What are the challenges we face looking to the future? And how can we be more effective as we develop and implement the nation’s housing policy?

The paper will be divided into two parts. The first will focus on the substance of housing policy, providing an overview of what has occurred the last 50 years and identifying the challenges that we face now and the areas that must be addressed as we move to the next millennium. The second part will focus on the process of developing and implementing housing policy and understanding how we can better achieve “common ground” as we move forward.

In dealing with housing policy, especially in an academic setting, it is tempting to separate the substance of policy from the politics and the process. I understand why. If you are trying to set forth sound policy recommendations, you want to do so based on solid research and analysis, and let the politics fall where they may. In turn, when someone is involved in the day to day fray of implementing a policy or adjusting to the realities of the moment, there is little time, and often little will, to step back to do solid analytical work or to review how the decision of the moment will impact other people or policies in the future. This paper is based on the premise that both the substance, as well as the process, are important as we look to the new millennium. Numerous reports and academic papers on housing policy sit on the shelf. They provide a context and background, but they are far from the realities of implementation. In turn, actual policy—whether at the federal, state, or local level—is most often set by specific actions and limited proposals which arise from a variety of sources and are filtered through a political screen with analysis primarily done to either support or detract from a pre-established position.

HOUSING POLICY - PAST, PRESENT, AND FUTURE

The Successes and Challenges of the Last 50 Years

In 1949 the nation faced a number of housing issues and concerns. With the end of World War II there were both significant housing needs and opportunities. New families forming with the return of the GIs and deferred housing need and repair provided renewed vigor in the economy and strong housing demand.[1] However, the homeownership rate was only 55 percent and, as the paper will detail shortly, the condition of significant portions of America’s housing was poor. Since the passage of the 1949 Housing Act, we have made remarkable progress in many areas. This paper will not attempt a full analysis of what has transpired over the last 50 years, but it will highlight seven areas: homeownership, housing quality, tax expenditures for housing, direct Federal spending for housing, the transformation of the housing finance system, a stable economy, and a solid housing market.

Homeownership

The homeownership rate for the nation is currently at all-time highs. In 1950, the home ownership rate was 55.0 percent. The rate rose to 65.6 percent by 1980, but then faltered, dropping to 63.9 percent in 1990. However, since then, the homeownership rate has risen steadily due to demographic and economic factors working in combination with a broad range of public policies which support homeownership. In the third quarter of 1998, the home ownership rate reached a quarterly all time high of 66.8 percent, and for 1998 the rate was also at an annual all time high of 66.3 percent. These statistics mean that at the end of 1998, 69.1 million Americans now own their home, and that the homeownership rate has increased over 20 percent since 1950. (Chart1 shows the nation's annual homeownership rate from 1940 to 1998.)

The last six years have been particularly dramatic. Since the beginning of 1993, 7.3 million more American families have become homeowners. In addition, homeownership in cities exceeds 50 percent (albeit barely) for the first time in the history of the nation. In 1994, 48.5 percent of the households living in cities were homeowners, and by the end of 1998 that percentage had risen to 50.04 percent. We have also seen an increase in the number of minority homeowners. At the end of 1998, 58.6 percent of homeowners were white, 15 percent were African American, 15 percent Hispanic, and 11.4 percent were minorities other than African American or Hispanic. Although the homeownership rate for whites still far exceeds the rate for minorities, over the past five years, homeownership among minorities has increased at more than twice the rate of whites (although this increase appears to be slowing recently). In 1993, the homeownership rate for whites was 70.2 percent and in 1998 it was 72.6 percent. The homeownership rate in 1993 for blacks was 42 percent, in 1998 it was 46.1 percent. For Hispanics, the rate in 1993 was 39.4 percent, and by the end of 1998 it had arisen to 44.7 percent. (The overall national homeownership rate at the end of 1993 was 64 percent, and it rose to 66.3 percent at the end of 1998.)

The benefits of homeownership have been documented in a variety of studies, so they will not be discussed in detail in this paper. It is worth noting, though, that a growth in the homeownership rate results in benefits both for individual households and for communities.[2] However, it is also important to point out that adequate and affordable rental housing is also essential.

Housing Quality

One of the primary focuses of the 1949 Housing Act was "a decent home." Since 1949 the quality of housing in the United States has increased dramatically. From a home building perspective, the last 50 years of housing production has been extremely productive. Since 1950 home builders have built 73 million single family and multifamily houses to local codes and standards, and these 73 million homes represent 62 percent of the existing stock of 117 million homes in 1998. (It is interesting to note that in addition to these 73 million homes, an estimated 1 million units of public housing and 1.6 million units of subsidized housing were built during this period.) With people moving to new homes, and older homes being demolished, poor quality housing has been removed from the existing housing stock, and it has been replaced with better quality housing.

In order to highlight the shifts in the quality of housing since 1949, it is interesting to look at numbers in two areas, first plumbing and second crowding. In 1950, 29 percent of all occupied homes lacked complete plumbing. In 1990, the latest year that we have comparable statistics, only 1.1 percent of the housing had incomplete plumbing. Although it would be delightful to have that number even lower, the shift between 1950 and 1990 is dramatic.

Related to crowding, in 1950, 16 percent of all occupied homes were considered crowded. (By definition that means that they had more than 1 person per room in the housing unit.) In 1990 the comparable statistic was that only 5 percent of all occupied homes were considered crowded.

To illustrate the shift in concern about the quality of housing over the last 50 years, it is interesting to compare the report of the President's Committee on Urban Housing, often referred to as the Kaiser Commission because it was chaired by Edgar F. Kaiser, which was presented to President Lyndon B. Johnson in 1968, with the report of the President's Commission on Housing which was chaired by William F. McKenna, and presented to President Ronald Reagan on April 29, 1982. The Kaiser Commission report is filled with pictures and comments related to a decent home and the quality of America's housing.[3] Although the report of the President's Commission on Housing begins with a chapter on housing quality and housing affordability, and recognizes that continued progress in the area of quality is essential, the tone and emphasis is completely different, and the President's Commission on Housing, published in 1982, stresses concerns related to housing affordability as opposed to housing quality. Quoting from the President's Commission on Housing, "Affordability has clearly become the predominant housing problem among low income Americans."[4]

Tax Expenditures for Housing

One of the primary areas where the Nation has expressed support for housing has been through the tax code. Over the years, the Federal Government has provided significant support to housing through tax expenditures for homeownership and renting, with a number of the tax programs in place in 1949, and many of them added or modified over the last 50 years. Based on estimates for FY'99, the tax expenditures include (see Chart 2):

- $48.5 billion for the mortgage interest deduction for first and second homes;
- $17.8 billion for real estate property tax deduction;
- $5.8 billion for exclusion of capital gains;
- $1.4 billion for mortgage revenue bonds for owner occupied housing;
- $0.7 billion for tax exempt bonds for rental housing; and
- $2.3 billion for the low income tax credit.

Total tax expenditures for housing are over $75 billion per year, and tax policy has obviously had an impact on such areas as the homeownership rate, the construction of single family housing, the production of low income and rental housing, and consumer choice related to investments in housing as compared to other alternative investments.

Direct Federal Spending for Housing

The Department of Housing and Urban Development represents housing and urban interests within the Executive Branch. As such, a variety of direct federal spending is allocated through the Department of Housing and Urban Development. The HUD budget in Federal Budget Outlays for FY'99 was $32.58 billion, and Chart 3 provides an overview of Direct Housing Assistance Outlays since 1979. In addition, other agencies with housing programs, for example the Department of Agriculture with their rural housing programs and the Department of Defense with military housing programs, represented another $5-6 billion in direct spending on housing at the federal level.

Recognizing that there are important analytical problems in making this kind of comparison (like adding apples and oranges), if one were to take the tax expenditures just discussed and combine the direct Federal housing expenditures, it means that housing will receive approximately $110 billion in federal support in FY '99. In relationship to spending in other sectors, it is worth noting that compared to transportation, agriculture, education, and medical care, only medical care receives greater support than housing. Budget outlays in FY '99 from the federal budget for transportation were $42.64 billion, agriculture $21.45 billion, education $31.04 billion, with medical care, including of course Medicaid and Medicare, being $348.08 billion.[5] (See Chart 4.) Since 1949, then, significant federal resources have been directed, and continue to be directed, towards housing.

Over the last 50 years we have seen significant shifts in the US housing finance system. This has been particularly dramatic in the last two decades where the US housing finance and delivery system has undergone a major transformation. In the early 1980's, when the President's Commission on Housing met, there was a serious question as to where the money would come from to finance mortgage credit in the years ahead. Today the availability of mortgage credit for home loans is no longer a key concern. A variety of market and public policy developments have shifted the issue from availability to one of cost to the buyer. In addition, over the last ten years a number of innovations, as well as market forces, and perhaps most important, a strong economy, have helped address the cost for the buyer as well. As a result, the nations homeownership rate has swelled to record levels as noted above, and in 1998, the mortgage market experienced its best year on record, with approximately $1.5 trillion of new mortgage originations in 1998, despite the serious problems in the global financial markets.

Two seminal events which have shaped today's housing finance system over the last two decades have been the changing role of the thrift industry and other mortgage finance originators, and the growth and development of the secondary mortgage market. Thrift institutions, once the primary source of housing credit, no longer dominate the housing finance marketplace. For example, the thrifts' share of mortgage origination fell from 53 percent in 1984 to 18 percent in 1997, and mortgage banking companies grew from 23 percent to 57 percent (Chart 5). Thrift industry problems with borrowing short and lending long, which started in the high and volatile interest rate environment of the late 1970s and early 1980s, led to deregulation. However, without adequate examination and regulation, deregulation caused a severe crisis for the deposit insurance fund and brought about government intervention related to the thrift industry through the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989. The remaining thrift institutions are strong financially, but FIRREA and subsequent regulatory actions have restricted thrift housing lending, particularly for acquisition, development and construction (AD&C) financing, and have weakened the housing focus of the thrift charter.

Juxtaposed against these developments in the thrift industry, the secondary mortgage market has matured in a way which has forever changed the US housing finance system. The secondary mortgage market linked housing to the financial markets and filled the credit gap left by the declining role of thrifts. The share of mortgages funded through the secondary market has more than doubled from 27 percent in 1984 to 58 percent in 1998 (Chart 6). Government has played a key role in the growth of the secondary mortgage market through the creation of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, which have fostered product and technological innovations that have expanded home ownership opportunities across a wide range of borrowers. The maturation of the secondary market has transformed the mortgage market from one dominated by portfolio lenders to one dominated by secondary market entities, such as mortgage banking companies and the GSEs.

Further, the development of innovative securities structures has broadened the investor base, allowing more funds to flow into the mortgage market from the capital market and ultimately reducing mortgage rates for home buyers. The volume of mortgage-backed securities (MBS) issued has increased more than ten times, from $62 billion in 1984 to $835 billion in 1998 (see Chart 7). All this secondary market activity has lead to benefits for consumers through lower interest rates, and this is illustrated by the fact that mortgage rates are generally 50 basis points lower on loans eligible for purchase by Fannie Mae and Freddie Mac than they are for “jumbo” loans that are above the “conforming” loan limits for Fannie Mae and Freddie Mac. In addition, and perhaps most important, the secondary market has maintained liquidity in the mortgage market in good economic times and bad. Most recently, for example, during the liquidity crunch in the Fall of 1998 when numerous sources of credit dried up, the volume of activity by Fannie Mae and Freddie Mac increased significantly in November and December, and the result was essentially no disruption in the flow of credit to housing (see Chart 8).

Home buyers have been the primary beneficiaries of this evolutionary process. A plethora of mortgage product innovations have given home buyers the tools to respond to any interest rate environment. Adjustable-rate mortgages (ARMs), for example, provide a safety valve on loan qualifications and lower monthly mortgage costs when interest rates are high. Conversely, when rates fall, no-cost refinancing programs save borrowers out of pocket transactions costs, enabling them to lower overall mortgage costs by refinancing into a lower-rate mortgage (either a fixed-rate mortgage [FRM] or an ARM).

More recently, the market has developed a range of products to address the largest stumbling block to home ownership, the lack of a down payment. Following the lead of FHA, Fannie Mae and Freddie Mac now offer loans that reduce down payments and other front-end closing costs. For example, the Fannie Mae Flex 97 and Freddie Mac Alt 97 products require a down payment of only 3 percent, similar to the cash requirements in the FHA program, and these products can be combined with a grant or second mortgage to cover closing costs.

Over the past five years, borrowers have also benefited from technological innovations, such as automated underwriting systems, which have resulted in faster loan qualification and processing. The time from mortgage application to approval has been reduced from months to minutes. Development of credit and mortgage scoring systems have also resulted in improved underwriting analysis which has allowed the market to serve those with weaker credit histories. The end result is a significant transformation over the last fifty years of the U.S. housing system.

Stable Economy

Although there have been significant peaks and troughs in the economy over the last 50 years, over time, the Federal Government has generally sought to foster a stable economy with sustainable growth. Housing is essential to that stability and plays a key role in the economy. At times housing has been a vehicle for slowing the economy—primarily when the Federal Reserve has raised short term interest rates to fight inflation—and in times of prosperity, housing has been a major factor in fueling ongoing economic growth. In looking at the last few years—especially the last six—the stability and growth has been remarkable. Mortgage interest rates were below 8 percent in 1995, 1996, and 1997. In much of 1998 they were below 7 percent, and they continue at a low level by historic standards. The growth of the gross domestic product has also been remarkable, with positive growth over the last 32 quarters—the longest peacetime expansion the nation has ever seen. GDP growth in 1996 was 3.4 percent, in 1997 3.9 percent, and in 1998 3.9 percent. The federal budget was balanced last year for the first time in 30 years, and if you look at the unified budget, there was a surplus. The stability in the federal budget has contributed to lower interest rates and to economic prosperity. Perhaps the most important factor influencing housing production over the last few years, then, has been the general strength and stability of the economy.

Strong Housing Market

If we examine the last 50 years of housing development, we have seen significant peaks and troughs related to the production of housing, but, on average, the level of production has been strong. As noted before, 73 million homes have been built since 1950, and the level of housing activity in the United States is the envy of the world. We experienced a significant housing recession caused by the credit crunch in the early 1990s, but since then the level of production has been very strong. In the past five years we have produced almost 7.4 million homes, and another 1.7 million manufactured housing units (mobile homes) have been shipped for a total of over 9 million new housing units produced. Housing starts in 1997 were 1,474,000, and in 1998 housing starts were the best in 11 years since 1987 with a production of 1,622,000 new housing units — 1,279,000 single family starts and 343,000 multifamily starts. In addition, in 1998 there were 374,000 manufactured housing units (mobile homes) that were shipped.

New home sales in 1997 were 807,000, and in 1998 new home sales reached an all time high at 890,000 new homes sold. Remodeling has also experienced remarkable growth over the last two decades. As Chart 9 shows, the growth of remodeling expenditures for all residential properties has grown from $37.46 billion in 1978 to $118.57 billion in 1997 and an estimated $121.83 billion in 1998.[6]

Key Challenges As We Look To the Future

A review of the developments over the last 50 years generally presents a story of success. Tremendous progress has been made related to homeownership, the quality of the housing stock, developing a strong tax and finance system to support housing, directing federal dollars to support housing, and, in recent years, achieving a stable economy to support a strong housing market. It seems fair to surmise that a number of the people who were involved in the passage and administration of the Housing Act of 1949 would feel that many of their expectations and hopes have been met and, in some cases, perhaps exceeded. However, over the past 50 years, there have been important social and cultural changes in society, and the problems and challenges in the housing area have shifted and evolved. Significant issues remain as we look to the future, but they are generally different issues and some of them are even spawned by our own success. Three seem particularly important and will be discussed in this paper: Meeting the needs of the housing "have nots," overcoming the complacency which exists because of our success, and dealing with the challenges of growth and the environment.

1. Meeting the Needs of the Housing "Have Nots"

Despite the progress related to homeownership, housing quality, and a remarkably strong economy, a number of people have been left behind and serious challenges related to providing housing to the poor and those with low- and moderate-incomes still remain. Increasing numbers of households do not have access to decent and affordable housing, and the number of households with significant housing needs remains at an all-time high. In 1988, William Apgar and James Brown, the co-authors of the Joint Center for Housing Studies at Harvard University's *The State of the Nation's Housing* report, highlighted their presentation by noting "This report paints a picture of America clearly divided between housing haves and have nots."[7] The same issue is relevant today.

In the report to Congress issued by the U.S. Department of Housing and Urban Development in April 1998, Secretary Andrew Cuomo noted that "Despite robust economic growth between 1993 and 1995, the number of very low income American households with 'worst case' housing needs remained at an all time high—5.3 million." (Households with worse case needs are defined as unassisted renters with incomes below 50 percent of the local median who pay more than half of their income for rent or live in severely substandard housing.) Secretary Cuomo went on to note that "The stock of rental housing affordable to the lowest income families is shrinking and that Congress has eliminated funding for new rental assistance since 1995."[8] A similar point is made in the 1998 "The State of the Nation's Housing Report," prepared by the Joint Center for Housing Studies at Harvard University, which notes that over 10 million households pay more than half their incomes for housing, and "affordability is by far the most pressing problem to the 8.6 million renters and 5.6 million owner-households with extremely low incomes."[9]

Homeownership is growing, but as noted earlier, the homeownership rate for minority households is significantly below the rate for White households. Also, today's 25-34 year olds with only a high school education are falling further and further behind in their ability to progress up the housing ladder.

This problem is further exacerbated by the fact that federal direct housing support reaches a diminishing share of those who are in need. Further, some individuals are not only poor, they are geographically segregated, and this causes serious concentrations of poverty, poor housing, homelessness, and discrimination. There is a growing awareness that past federal programs have done little to address these kind of issues. With a nation that has so much, it is discouraging that these kind of problems continue to exist.

Further, exclusionary housing policies limit housing opportunities and raise housing costs in a variety of neighborhoods throughout the country. Significant barriers exist to building affordable housing. Many of these were pointed out in the report to President Bush and Secretary Kemp by the Advisory Commission on Regulatory Barriers to Affordable Housing entitled, "Not in My Backyard," which was published in 1991.[10]

All of these issues are complicated, and oftentimes the challenges are not just housing problems, but they relate to welfare, income, education, health care and a variety of social services. (For example, the problems of the homeless are exacerbated by a wide range of social, health and mental health, and economic concerns.) But just because the problems are difficult, they cannot be ignored, and as we move to the next millennium, they require an on-going public policy focus and attention and resources from both the public and the private sectors.

2. Overcoming the Complacency of Our Own Success

Over the last 50 years the nation has experienced significant housing success. A majority of the United States is now well housed—for example, as noted earlier, the overall homeownership rate at the end of 1998 was 66.3 percent and the homeownership rate for White Americans was 72.6 percent. The homeownership rate for those in the nation with ages 50-64 was over 80 percent. We therefore suffer from our own success. Much of the public is focused on concerns other than housing, such as education, crime and health care. In essence, the 69 million existing homeowners "have" their housing and this leads to the "not in my backyard" (NIMBY) phenomenon. In fact, against the backdrop of this success and the recognition that other issues are more prominent in the minds of the American public, the housing challenge noted above related to the housing "have nots" may be harder to address in 1999 than the housing problems facing the nation in 1949.

The fact that housing is no longer a top of the mind issue can be illustrated from a variety of sources. In December, 1992, Bonner and Associates commissioned a survey by the Gallup Organization of the members of Congress.[11] Twenty-eight percent of the members of Congress (not their staffs) responded. They were asked to rank a series of issues in terms of their importance, with the top ranked category being called "critical" and the second item being called "very important." With eighteen issues that were on the list, housing was dead last with only 6 percent of Democrats and 2 percent of the Republicans indicating that housing was "critical." And when the top two categories were put together, "critical" and "very important," housing came in seventeen out of eighteen, with only term limits being ranked at a lower level of importance. By comparison, in the top three categories, 97 percent of the members of Congress felt that jobs and health care issues were either "critical" or "very important," and 96 percent felt that the federal budget deficit was "critical" or "very important." Only 29 percent felt that way related to housing issues, and 21 percent felt that way related to term limits. (Given the fact that we know that limiting the length of their terms is not a high priority to very many members of Congress, especially those who have served for a number of years, it provides little solace to know that housing was not the last item in the ranking.)

Another example that housing is not a top of the mind issue for the American public is shown in a survey of four hundred national opinion leaders commissioned by the National Association of Home Builders in July 1997 and January 1999. In 1997, respondents to the study were asked to indicate which of the following issues or problems they felt should receive the greatest attention in the federal government in Washington at the present time. The issues included the federal budget deficit, health care, the economy, housing, crime and drugs, and public education. Only 2 percent of the opinion leaders said that housing was the primary issue they would like the federal government to do something about. In a similar survey conducted in January 1999, an identical result was achieved, with only 2 percent of the four hundred national opinion leaders indicating that housing was their top issue.

Interestingly enough, although housing, per se, was not a top of the mid issue, these same opinion leaders did feel that homeownership was important. Eighty-four percent of the people surveyed owned their own homes, and 49 percent felt that more should be done by the federal government to promote homeownership, while 30 percent felt that the level of promotion by the federal government was the right amount and only 13 percent felt that less should be done to promote homeownership. Interestingly, when this same question was analyzed for opinion leaders who had children at home, even a higher number, 56 percent compared to 41 percent of those who did not have children living at home, felt that more should be done to promote homeownership. Overall, this group felt that homeownership was important to the community, and important values stemmed from homeownership, such as adding to the safety of the community and the quality of education. In considering the views of these opinion leaders, the large majority were homeowners and supported homeownership, but because they already had their own house, it seems that they were generally not concerned about housing for others (except perhaps their own children), and housing was not at the top of their list of significant priorities.

Housing then, is not a top of the mind issue and that means that it will be difficult to address the housing needs of the "have nots" highlighted earlier. We have already noted that there are significant indirect and direct federal expenditures for housing. Given the national priority reflected in the polls, the housing industry and those who are interested in housing in this nation, will have to fight hard to maintain these resources, and it will be difficult to increase the allocation of federal resources for housing. (It should be noted, however, that the support for the mortgage interest deduction remains very strong in any polling data which is gathered.)

3. Dealing with the Challenges of Growth and the Environment

To the extent that housing is considered an item on the national policy agenda, the discussion usually relates to issues of growth or environmental concerns related to the production and development of housing, and affordable housing is usually left out of the dialogue. Issues related to sprawl, livability, and smart growth have become top of the mind issues in many communities. For example, in another recent national voter attitude survey conducted by the National Association of Home Builders, with a sample size of 1,209 registered voters interviewed between February 7-11, 1999, an open-ended question was asked as to what these people thought was the most important issue facing their local community. Housing was not raised per se, but issues related to education and schools and roads and traffic were first and third respectively.

As with any public policy topic, there are multiple sides to the debate. On the one hand, there are those who raise this topic with the purpose of stopping growth. They would use concerns related to protecting the environment and slowing sprawl as a reason to stop essentially all development. On the other hand, there are legitimate concerns related to growth that must be addressed. The environment needs to be protected both now and in the future. Traffic congestion, problems with schools and infrastructure, as well as general notions of livability, need to receive focus at the community, state, and even national level. However, discussions of “smart growth” should not be turned into discussions of “no growth,” and issues related to smart growth should take into consideration factors of housing affordability and meeting on-going demographic demand due to household formations.

It should also be recognized that concerns surrounding growth which place limits on the quantity and type of housing will only exacerbate the challenge of meeting the needs of the “housing have nots.” Constraints which raise building costs and limit growth will make it more difficult to produce new affordable housing, will raise the cost of existing housing in established communities, and will increase the possibility of discrimination through exclusion.

Finally, it is worth noting that issues related to “growth” and “no growth” generally arise when the economy is strong. We have seen an almost unprecedented period of solid economic development and strong housing production. The strong demand for housing when the economy is good leads to efforts to slow things down. However, when the economy slows down and people become concerned about jobs and economic growth, the equation shifts. In times of recession, the country looks to housing as a way to stimulate the economy and create jobs.

ACHIEVING COMMON GROUND IN THE NEXT MILLENNIUM

Facing the Realities

As we go to the next millennium, how can we best address the housing-related challenges of the new century. The challenges after World War II were significant, and in many respects the nation has done a remarkable job to meet them. Indeed, by many standards, the United States is the best housed nation in the world. However, our very success in the past complicates our ability to address the problems of the future.

As noted above, housing is no longer a top of the mind issue. When the Housing Act of 1949 was passed, the nation was focused on meeting what were real housing challenges for a broad component of American society. The economic and housing development success of the past 50 years, coupled with the public policies that have been implemented to address these issues, have led to a situation where the public is now focused on other issues besides housing. Such areas as education, crime, social security and health care are a greater priority. In fact, to the extent that there is a public outcry related to housing, it tends to be oriented on such issues as sprawl, traffic congestion, and issues of growth that could actually exacerbate trying to provide affordable housing. Also, the “have nots” who are not being served— those 5.3 million Americans noted earlier— as well as the young families and the immigrants who seek affordable housing, have relatively little political clout, and certainly far less influence than the mainstream of America who are well housed and focused on other issues.

The ability to achieve common ground and to address the housing challenges in the millennium is further complicated by ever present, and perhaps growing trends, toward partisanship. Partisan politics has long been a part of the American political system, and indeed, it is only natural that in a democracy a variety of special interests will strive to achieve what is most appropriate for their own good. However, by some accounts, and based on my own personal observations, partisan trends have heightened over the last several years. The impeachment challenge brought partisanship to the forefront, and the trend toward hardened coalitions on the right and the left seems to be growing. Partisanship is part of democracy. However, if we are going to address the challenges the nation faces in the housing arena, it will require an effort to cut across traditional interests and differences in order to seek and achieve common ground.

When I was an academic, prior to spending close to two decades in the Washington public policy arena, it was tempting to feel that good analysis, coupled with vision and public purpose, could lead to sound housing policy. It was also tempting to decry the role of special interests in the process. I remember, when I was first approached about becoming the Executive Vice President and CEO at NAHB, I thought to myself, why would I want to represent a special interest group. Obviously, I changed my mind, and the last 15 years at NAHB has convinced me that my job was one of the best places in Washington to focus on housing policy. But, in addition, I learned that although good policy analysis still matters, other factors and realities must also be addressed in trying to formulate sound housing policy. The problem is not the existence of special interests, per se. Special interests are, as I noted before, a part of our democratic system. The problem is often the failure on the part of the special interests to come together and to achieve common ground. There is also often a failure to recognize and deal with the significant market, political and other realities that exist. As we look to the next millennium, there are at least three major realities that must be recognized.

First there is the reality of the housing problems we face. The situation of the housing "have nots" is not just an academic story. These are real people living in real housing which is in poor condition and which they cannot afford. Cases of poverty and economic and geographic discrimination still exist. Challenges to provide affordable housing are real. At the same time, though, we must met the needs of our environment, as well as balance the need for affordable housing with concerns about traffic congestion, schools and infrastructure.

The *second* reality we must deal with is the marketplace. For example, each year, there is an estimated net immigration of 820,000 people into the United States.[12] With this as a base, the overall demographic demand from immigration, births and household changes is in the range of 1.1 to 1.2 million households, and this leads to an overall housing production need of 1.3 to 1.5 million housing starts per year. Also, the economic challenges for those who are less advantaged continues. Given these realities, the consumer is going to drive what the private market produces. During the last few years it has been fascinating when I have met with certain groups that have, in essence, accused the home builders of creating sprawl. The home builders have built the homes, but builders who want to stay in business build to the demand from the consumer and are very careful to watch and follow that demand. If they build homes that the consumer does not want, they will not be sold, and they will go out of business. Home builders have an influence on what happens in the market place, but in large part, they do not lead the market, they follow. This is illustrated by the results of a national voter attitude survey conducted in January, 1999, by the National Association of Home Builders, with a sample size of 1209 people. Despite all of the discussion in the newspapers about sprawl and the publicity about growing discontent among suburban home owners, when voters were asked how they felt about the community they lived in, 90.5 percent said they were satisfied. Among them, 50.9 percent said they were very satisfied, and 39.9 percent were somewhat satisfied.

The *third* reality is the wide variety of actors and competing interests in the world of housing and urban policy. Each player views the world from their own perspective. A brief discussion of the various forces and players involved illustrates the wide range of views that must be brought together if we are to reach common ground.

The consumer and the market are obviously essential in establishing both housing demand and economic capacity to buy housing resources. In turn, responding to that demand, home builders, sub-contractors, land developers, suppliers of housing products, realtors, and a variety of others produce and sell housing in the marketplace. Once a buyer makes a decision, the finance system becomes of primary importance, and a more efficient finance system means more buyers and renters can afford the housing in which they chose to live. Players in the primary mortgage market including mortgage bankers, savings and loans, commercial banks, mortgage brokers, and now credit unions, all interact with the home buyer. And as we noted earlier, the secondary market has played an increasingly important role in providing the sources of credit to finance housing loans.

There is also a substantial non-profit community which provides new and rehabilitated housing, and indeed the interaction between the private sector and this non-profit community has grown over time with private home builders sometimes building for non-profit organizations. One of the questions that must be addressed in the next millennium is the interaction between the private and the non-profit sector in dealing with government policy at all levels – federal, state, and local.

As noted earlier, the federal influence on housing policy is significant, and although direct resources have been limited in recent years, the federal government plays an important role directing, guiding, and facilitating the nation's housing policy. And the role of state and local government is increasing in importance. Most of the barriers which exist to building affordable housing are at the local or the state level, and local and state governments can serve as an important catalyst to stimulate the private market to provide and meet housing needs.

As a part of providing housing, a whole range of other areas impact the price and production of housing, such as building codes, provision of roads, sewers and infrastructure, the quality of education in a particular community, and the rules surrounding construction worker safety and protection. Also with a strong economy, one of the growing challenges in providing housing is a viable work force to build and renovate. The trade unions are therefore involved in a number of areas related to the construction and renovation of homes; for example, the role they play in determining the rules related to worker safety. Also, a wide range of community and other influences will impact the houses that are built throughout the country. Environmental issues and issues related to growth and no growth all influence the housing which is produced and the time involved in the approval and production process.

The reality then is that because of this confluence of actors and forces, no one is able to establish one national housing policy. Rather, housing policy is sorted through on an issue by issue basis, whether at the national, state, or local level. National housing policy is the sum total of a series of smaller housing policy debates and efforts which take place to produce and develop housing in a variety of venues. Attempts to reach and make decisions focus on specific issues and cases, and it is therefore informative to examine one example of trying to achieve common ground in formulating housing policy.

A Case Study on Achieving Common Ground: OSHA Regulations for the Home Building Industry

The application of Occupational Safety and Health Administration (OSHA) regulations within the home building industry has been an issue for a number of years. On the one hand, home builders and workers both desire worker safety. Workers obviously care about their health, and problems and accidents on the job site are very time consuming and costly for home builders. On the other hand, home builders feel that the safety requirements to work on a single family home job site are significantly different from those for a high rise apartment or office construction project. The question, then, is how to find the appropriate balance between appropriate worker safety and not requiring excessive regulations that lead to unnecessary housing costs.

The National Association of Home Builders began working with OSHA on these issues early in the Clinton Administration when Joe Dear was appointed Assistant Secretary at the Department of Labor for Occupational Safety and Health Administration (OSHA). Mr. Dear expressed genuine interest to work with the home building industry, and early in his tenure, he visited a home building job site where the builders identified the differences between high rise construction and home building. This led to regular meetings between home builders and the OSHA Administrator, Mr. Dear. Efforts were made to identify areas—such as fall protection, trenching and fire extinguishers —where home building safety requirements should be somewhat different than other construction safety standards. As the conversations with Mr. Dear evolved, one of the primary requests from the home building industry, was a "separate" compilation of standards for regulations related to home building as compared to other construction. Although Mr. Dear seemed somewhat sympathetic to the concept of a separate standard, he also recognized the problems and challenges that might arise—for example opposition from the trade unions. As a result, the dialogue continued to focus on specific regulations, and the discussions related to a separate standard, or compilation of standards, were put aside.

Also during this period, the National Association of Home Builders talked to various people at the White Housing, including President Clinton, about the possibility of a separate standard for residential construction, and — although there always seemed to be sympathy to the subject — no action was ever taken.

Realizing that the dialogue with the Administration was not leading to results, the National Association of Home Builders decided to approach Congress During the Appropriations process in 1996 for the Federal FY 1997 budget, NAHB was able to work with both Republicans and Democrats in the House and Senate Appropriations Committees which dealt with the budget for the Department of Labor. Bipartisan support was essential. Support from the Republican leadership was sought and obtained, and on the Democratic side, NAHB worked closely in the House with Congressman Steny Hoyer from Maryland, and in the Senate with Senator Harry Reid from Nevada. As a result of this bipartisan effort, the House report on the 1997 appropriation for the Labor Department (House Report 104-659) stated "The Bill includes $2 million for the purposes of evaluating the practical application of construction regulations under the Occupational Safety and Health Act to residential construction. The Committee questions whether these regulations are appropriate for residential construction." And the Senate report (Senate Report 104-368) stated: "The Committee applauds the Department for its desire to streamline regulations and provides $2 million to the Office of the Secretary for the purposes of evaluating the practical application of construction regulations to residential construction." Now that Congress had acted, NAHB could go back to the Administration to seek implementation of this Congressional action.

Interestingly, while Congress was working on the Labor Department Appropriations Bill, Professor John Dunlop, who has been a longtime friend and colleague, stopped by my office. We had an extended conversation and one of the topics which arose—raised by John—was whether or not the home building industry might be interested in a somewhat different standard for OSHA regulations related to home building construction. My answer, of course, was yes, and we discussed the efforts that were already underway. We decided that if NAHB was successful in getting the appropriation included in the Labor Department's FY '97 budget, that perhaps John could help with the implementation because of his extensive experience in the Department of Labor and because his close ties with both the labor unions and the home building industry.

The appropriations passed, and the ball was now with the Department of Labor to try to follow-up on the Congressional mandate. John Dunlop did become involved, and he arranged a meeting between Joe Dear, Bob Georgine, President of the Building and Construction Trades Department for the AFL-CIO, and Kent Colton, the Executive Vice President and CEO of NAHB, to discuss the possible uses of the $2 million and how the project should proceed. A general agreement was reached that we should proceed with a working group from OSHA, Labor, and the home builders, and we all asked Professor Dunlop if he would help facilitate such an effort. Unfortunately, Assistant Secretary Dear announced soon thereafter that he was leaving OSHA at the end of the year to return to his home state of Washington. Joe Dear had good relationships with both the unions and the home building industry and was in a solid position to move the project forward. With Dear's pending departure, the project began to fall apart. Several months passed, and on December 4, 1986, NAHB was informed by Bruce Swanson, OSHAs Directorate of Construction, that the Solicitors Office in the Department of Labor had determined that the three-part working group of labor, management and government that had been envisioned to implement the project was likely in violation of the Federal Advisory Committee Act (FACA) because the working group would provide information and advice to the agency, but it had not been formally established according to the requirements of FACA. As a result, it was decided to have the project completed by a sub-group of the OSHA Advisory Committee on Construction, Safety and Health (ACCSH). Bruce Swanson informed NAHB that this group could advise OSHA because it was a sub-group of a formally established advisory committee, and it would be open to all parties interested in participating.

The first meeting of the sub-Group was held on January 7, 1997 at OSHA, but it did not go well. The meeting was an open session attended by many organizations, most of whom did not focus on residential construction. Also, the meeting did not follow a tight agenda, nor did it focus on the Congressional purpose as outlined in the FY'1997 Labor Department Appropriations Bill. A second meeting was scheduled for February 24, 1997, and John Dunlop tried in the interim to facilitate better communication between the various parties. However, the February 24 meeting also did not go well, and based on the lack of progress, NAHB sent a letter to Cynthia Metzler, Acting Secretary of Labor, and Mr. Gregory Watchman, Acting Assistant Secretary of Labor for Occupational Safety and Health, indicating they would no longer participate in the process until another venue was established to oversee the project.

Quoting from the NAHB letter that was sent February 27, 1997:

> At the second meeting on February 24th, not only was there no resolution to the issue of Congressional intent, but the tone of the meeting deteriorated to the point where NAHB's views were ignored. Attempts were made to illustrate NAHB's so called 'inflexibility' on the issue, when we are seemingly the only party interested in carrying out Congress' intent in a timely manner. . . .
>
> Furthermore, NAHB cannot take part in the process which is not consistent with the intent and purpose of identifying existing standards applicable to residential construction. As a result I have instructed my staff to no longer participate in this process until another venue is established to oversee the project that was intended, and until OSHA exercises more oversight of the process and the project is carried out as specified by Congress.
>
> I look forward to discussion this with you in person and hope we can schedule a meeting as soon as possible.
>
> Best regards, Kent W. Colton

This letter seemed to get the attention of Mr. Watchman and the Labor Department, and John Dunlop was sent to the rescue. A breakfast meeting was held on March 7, 1997 with John Dunlop, Bob Georgine, and Kent Colton, and based on that meeting, John drafted a process whereby a set of standards that were applicable to the residential construction industry could be selected from the full universe of OSHA construction regulations. These residential construction standards could then be published in a separate book. John indicated that he would be willing to conduct this evaluation of the "Practical Application of Construction Regulations to Residential Construction," and highlighted the fact that doing this evaluation would not constitute an action to revise or alter any construction standards that existed. Rather the separate document would serve as a simplified means for home builders to be able to understand what regulations were especially applicable to home building. Once the book of applicable standards was complete, then a training program could be developed utilizing the remaining $2 million to educate home builders, union workers, and OSHA inspectors as to the regulation and application of safety standards in the home building industry. The unions were interested in receiving funding to help conduct part of this educational effort, and so was OSHA. However, the only way they would be able to receive any of these dollars for training would be if the separate book of the applicable standards was published.

In the meantime, NAHB also was able to approach Congressman Stenny Hoyer to seek his assistance to encourage action by OSHA and the Department of Labor. A hearing was held in April 1997, and as a follow-up Congressman Hoyer sent a letter to Greg Watchman, the Acting Assistant Secretary for OSHA. In his letter he notes:

> As you know I am a strong supporter of OSHA and will continue to support the agency in its ongoing efforts to ensure safe working conditions for American workers.
>
> I look forward to your response to my questions on how OSHA will conduct this systematic review of current OSHA construction standards. Furthermore I want to impress upon you the importance of ensuring that this project is conducted while keeping in mind the original intent and specific report language in last years appropriations. Specifically, I mean that current standards are reviewed and categorized by their application to the residential construction industry, and further whether home builders can practically comply with the applicable regulations. I am aware that OSHA has concluded that several standards, including fall protection and trenching, are difficult for residential contractors to comply with, and has begun a thorough review of them.
>
> I understand that interested parties have met and are seeking a way to move this project forward. Furthermore, they believe that your personal involvement and leadership would greatly assist in the ultimate success of this effort. As I told you at the hearing, I hold OSHA and the leadership throughout the Department of Labor ultimately responsible for seeing to it that this project is completed by the end of the fiscal year.

The combination of John Dunlop's good efforts, coupled with the strong support of Congressman Hoyer, who was close to both the unions and the home building industry, put the project back on track. Meetings were held between John, Bob Georgine and Kent Colton, and at the conclusion of those meetings, a document was prepared which was then presented to Cynthia A. Metzler, the Acting Secretary of the Department of Labor. Agreement was reached at this meeting as to how the project should proceed, and Acting Assistant Secretary Greg Watchman sent a letter to Stenny Hoyer outlining the plan of action. A contract was prepared with Dr. Dunlop to work with all the interested parties, home builders, union representatives, and contractors, in order to identify the applicable set of regulations. The time table set forth was to complete the project by the end of the summer, 1997. Dr. Dunlop presented his report on time to the Secretary of Labor in August 1997, and the book he prepared, entitled *Selected Construction Regulations for the Home Building Industry*, U.S. Department of Labor, Occupational Safety and Health Administration, 1997, was published on schedule. The book was then used as the basis for a series of training programs for the home building industry, the construction trade unions, and OSHA inspectors, and the project was completed successfully. In essence, common ground was achieved.

This is a case of where common ground was achieved between a variety of different parties to the benefit of housing policy, housing affordability, and worker safety. A set of construction standards which was 932 pages was reduced to 186 pages, and although it should be clear that no regulations were changed, the smaller book is significantly less intimidating to the home building industry and allows home builders to focus on those rules and regulations that they need to follow in order to be in compliance with OSHA guidelines.

Achieving Common Ground Related to Housing Policy

A key question is: Why was this effort to achieve common ground successful when so many others fail? A variety of factors were involved. First, the idea was a good idea which was able to stand the test of close scrutiny and be sold to a bipartisan group in Congress. Second, a great deal of education and perseverance was required to communicate with all of the appropriate parties, including members of Congress, people in the White House, labor unions, and a variety of key staff at the Department of Labor and OSHA. Without education and dialogue, it would not have been possible to achieve eventual understanding and compromise. Third, there was a willingness for the key parties to work together. The large group effort failed miserably, but a small group built on long-standing relationships was able to succeed. Fourth, and perhaps most important, there was the presence of an honest broker, a facilitator who could bring together the various parties, including the home builders, the unions, OSHA and the Department of Labor. That facilitator was Dr. John Dunlop. I can unequivocally say that without John's involvement this project, it would never have succeeded.

A fifth and final point is also worth noting. Achieving common ground does not mean that players cannot take a tough stand in the process. In fact, in this case, such a stand by NAHB was essential. For example, although the idea of a "separate standard" had conceptual interest within the administration it never would have happened without

Congressional action in the Labor Appropriations Bill. The Bill then provided the guidance that was needed when the effort began to stray. Also, when the first attempts at implementation began to disintegrate, NAHB took a hard stand that the Congressional intent was not negotiable and, fortunately, they were backed up by Congressman Stenny Hoyer.

Are all these factors essential in order to achieve common ground? In most cases, yes. Although this paper is not the forum to explore all the principles that may be necessary to achieve common ground on a range of issues, it is useful to contrast this example with several other cases to highlight the importance of these five factors, and others, in achieving common. The first contrasting case is the area of wetlands. The Clean Water Act calls for the regulation of the navigable waters of the United States, and as a part of that it has been determined through various regulations and court decisions that that Act gives the Corps of Engineers the authority to regulate the use of wetlands. However, Congress has never precisely defined a wetland, so over the last twenty years there has been significant disagreement about what a wetland is and how wetlands should be regulated. The National Association of Home Builders, along with a number of other business interests, have tried to work with the Corp of Engineers to achieve what they felt was a balanced position. On the other side has been a variety of environmental groups. The debate often centers around the definition of a wetland. This paper will not venture into that topic, but the bottom line is that common ground has not been achieved, and the result has been a series of law suits, regulatory disagreements, and a variety of “punches” and “counter punches” in Congress.

The next example, which relates directly to housing, is the successful attempt in 1998 to raise the ceilings on FHA mortgages. Over the years there have been a number of debates about where the FHA loan ceilings should be set. In 1980 the limits for Fannie Mae and Freddie Mac (often times referred to as the conforming loan limit) and FHA were very close, with the limits for Fannie Mae and Freddie Mac set at $93,751 and the FHA limit set at $90,000. However, the Fannie Mae/Freddie Mac conforming loan limits were set according to an index prescribed in legislation based on data developed by the Federal Home Loan Banks, and the Fannie Mae/Freddie Mac loan limit rose from $93,751 in 1980 to $227,150 in 1998. In 1998 the HUD Secretary, Andrew Cuomo, proposed that the FHA limit be set to conform to the same index as for Fannie Mae and Freddie Mac. (At the time of the proposal, the FHA maximum ceiling was 75 percent of the Fannie Mae/Freddie Mac conforming loan limit, and the FHA minimum limit was 38 percent of the conforming loan limit. Given the fact that the conforming loan limit was $227,150, the FHA maximum limit was 75 percent of that amount, or $170,362, with the FHA minimum limit being $86,317.)

Secretary Cuomo’s proposal to raise the FHA loan limits was supported by the home builders, the mortgage bankers, the realtors and a few other groups. Lining up on the other side were some conservative Republicans who opposed additional federal involvement to support housing in the federal credit markets, private mortgage insurers, and Fannie Mae and Freddie Mac. Fannie Mae was especially involved in the debate. In the end, a compromise was worked out in Congress where Senator Kit Bond from Missouri in the Senate and Congressman Jerry Lewis from California in the House, the respective chairmen of the HUD/VA Appropriations Committees, made a bipartisan compromise to raise the limits to 87 percent of the Fannie Mae/Freddie Max conforming loan limit for the FHA maximum limit and 48 percent of the conforming loan limit for the FHA minimum limit. This effort was successful and the FHA loan limits in 1998 were therefore raised to $197,620 and $109,032 respectfully. In 1999 the Fannie Mae/Freddie Mac conforming loan limit rose to $240,000, and the FHA maximum loan limit was therefore raised to $208,800, and the FHA minimum loan limit was set at $115,200.

At first blush it might seem that common ground was achieved through Congressional compromise, and certainly those who favored the rise in loan limits, including the home builders, felt that this effort was a success. From the outset we felt that some type of compromise was going to be essential. However, during the debate the discussion became very bitter among several of the parties, and groups which generally work together were not able to achieve agreement. The opponents of raising the limits fought to the end, and although they were unsuccessful in keeping the loan limits where they were, the fight has led to lingering feelings of distrust and animosity.

In 1999 we are now dealing with a series of housing policy issues and debates, and, to be candid, the residue of the fight over FHA has made it more difficult for housing interests to come together to achieve common ground on other issues. The lines here are not between Republicans and Democrats, but between special interests within the housing sector, and the tendency for interests within this sector to seek only their own special interest does not bode well for the ability to achieve common ground related to housing issues in the next millennium.

As I noted in the earlier discussion about success in the OSHA case, parties must be willing to step back and to compromise. It does not mean that one side has to win and the other lose, rather, a great deal of literature and effort has been devoted to “getting to yes” where, by communication and compromise, both parties can reach an agreement that will be better for both than the alternative. In essence, a “win/win” can be developed. However, as we move to the next millennium, the tendency within the housing sector may be the reverse.

A FRAMEWORK FOR THE FUTURE

Fifty years ago with the passage of the Housing Act of 1949, the nation declared that every American should have “a decent home and suitable living environment.” As we look to the future, the goal for future housing policy should be similar: Every American should have the opportunity to live in a decent and affordable home in a suitable, safe living environment. As we strive to realize this goal, ten building blocks for future housing policy can be identified.

1. Homeownership

This paper has already highlighted the desire on desire on the part of many to be homeowners, the social benefits related to homeownership, and the rise in homeownership over the last fifty years. Homeownership should continue to be a primary part of the nation’s on-going efforts to address housing needs. Expanding homeownership generally improves the lives of families and individuals and strengthens communities. Further, homeownership opportunities must continue to include minorities and a broader group of moderate income buyers.

2. Affordable Rental Housing

Future housing policy should also focus on the importance of affordable rental housing, both for those who are priced out of the homeownership circle and for those who choose not to own and prefer to rent. Down payment and affordability serve as key barriers to many who cannot afford to buy a home, especially among the housing “have nots”. Programs such as the low income tax credit and inner city efforts to develop affordable rental housing are therefore absolutely essential, along with continued reforms in existing federal programs such as Section 8 and Public Housing. The private market for rental housing is also an important part of the nation’s housing stock, providing choice for households who are at the high end of the market, who are highly mobile or who choose to rent for a wide variety of reasons.

3. Creating focus on the Housing Have Nots

This paper has already highlighted the importance of meeting the needs of low- and moderate-income households in the nation, especially in light of the fact that many people have their housing and are no longer concerned about this issue. Addressing these problems deserves renewed focus, but it will require going beyond housing solutions, since many of the problems—such as homelessness or housing for the poor—also relate to income, health, mental health, geographic isolation, education, job access, and a variety of inner-city concerns.

As noted earlier, the HUD Worst Case Housing Needs Report, published in 1998, points out the nation’s continuing and growing housing gap. However, if we were to address the housing challenges in the next millennium, the “haves” of the housing community are going to have to be more concerned about the “have nots.” Also, housing policy should encourage the private sector to address these needs by removing the barriers to building housing in the inner city.

4. A Tax System to Support Housing

A variety of tax incentives for housing provide the backbone for the nation’s housing policy. This support is essential in the future. For example, the mortgage interest deduction provides the foundation for homeownership support in this country, and any change in this system would cause a major disruption of property values and the housing market. Because the middle class is a primary beneficiary of the deduction, there are those that have argued that the dollars for the mortgage interest deduction could best be targeted for more direct housing programs for low- and moderate-income households. Such thoughts are naive in our political system. It is possible that Congress might reduce or eliminate the mortgage interest deduction some time in the future, but if this occurs, the dollars saved would be used to decrease the deficit or to fund other priorities besides housing. The politics are simply not there to redirect those tax expenditures to other housing needs. In addition, a large majority of the American public have benefited from the deduction at some point in their life, and polls constantly demonstrate that there is constant and strong support for the deduction among the American public.

Of course, the mortgage interest deduction is not the only part of the tax system which provides support for housing. The low income tax credit, mortgage revenue bonds, depreciation treatment for rental housing, the property tax deduction, exclusion of capital gains, and tax credits for the rehabilitation of historic structures are all part of the tax support system for housing, and they provide a key component of the framework for housing policy in the future.

5. Housing Finance System

Over the last fifty years, the housing finance system in this nation has evolved into a strong means for providing housing, and this system needs to be continued and enhanced in the future. The nation’s housing finance system requires few federal dollars, and it has proven to be remarkably efficient. Housing related GSEs (government sponsored enterprises) including Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System can and must play a major role as we go forward. The Federal Housing Administration (FHA), the Veterans Administration (VA), and the Farmers Home programs should also continue as important mechanisms to provide support for the nation's housing policy in the next millennium.

6. Removing the Barriers to Building Affordable Housing

If we are to provide affordable housing for this nation, we must find effective ways to remove the barriers to building affordable housing. Building codes, for example, set a threshold on housing quality, but they also impact and, in some cases, limit affordability. A balance must therefore be struck on regulatory issues in order to provide quality housing and protect the environment, while at the same time producing affordable housing. One way to do this is to call for a housing impact statement on any federal regulation that will impact the production of affordable housing in this country.

7. Federal Role

Recognizing that the federal budget for housing will be limited in the future, the federal government should focus on areas where it can make the greatest difference. Federal systems that support housing and community development—such as FHA and the Block Grant Program—should be maintained as efficiently as possible and federal resources should be directed to areas where the greatest benefits can be achieved. To the extent that there are new resources, they should be targeted to those who are in greatest need. Further, it is important to maintain a Cabinet level agency to speak for housing within the Federal government. The Department of Housing and Urban Development can serve as an important catalyst and facilitator, and the work of a creative, energetic HUD Secretary will help to frame debate and lead the dialogue to focus housing policy in the next millennium.

8. State and Local Leadership

A major leadership role must come from state and local governments in dealing with the housing problems in the next millennium. State housing finance agencies, in many cases, have proved to be a creative means for addressing issues and concerns. A whole group of entrepreneurial Mayors have emerged showing that they can make a difference in tackling urban and housing issues. Michael Stegman, Director for the Center of Community Capitalism at the University of North Carolina, Chapel Hill, has argued that it is time to "shatter the myth that American business cannot realize competitive returns by investing in emerging inner cities . . . Business can do good and do well by investing in the inner city."[13]

In the same article he goes on to point to a generation of entrepreneurial Mayors who are reducing regulatory barriers and improving infrastructure and to market savvy community organizations that are forming joint ventures with businesses in the inner city. Partnerships between the public and private sector are essential to achieve maximum benefits at the state and local level. For example, the National Association of Home Builders is working with the U.S. Conference of Mayors and other public leaders, along with a range of other groups, under the coordination and leadership of HUD, to focus on building a million homes in the inner city over the next ten years.

9. Smart Growth

As we move to the next millennium we will need to deal with the issues of smart growth, while at the same time meeting the challenges of protecting the environment and providing affordable housing. Powerful and partisan forces exist on all sides. In reaching appropriate policy solutions, the government and the private sector must recognize the demographic and consumer preferences that drive housing demand. Efforts to control where people live are doomed to failure. As noted earlier in the paper, survey results show that people generally like where they live. At the same time, members of the housing industry, including home builders, realtors and land developers, must focus on achieving solutions to address the real problems that exist related to traffic congestion, the quality of schools and education, and the unsightly dimensions of sprawl. Principles that will aid smart growth relate to preserving open space and protecting the environment, providing for compact development, revitalizing downtowns and providing for infill development, funding infrastructure such as transportation and schools, and providing housing choices. The ABC's of smart growth should include "affordability," "balance," and "choice."

10. Achieving Common Ground

As we go forward greater effort must be made to achieve common ground among the various interests that are involved in developing and influencing housing policies and programs in the nation. Growing partisanship and the temptation of the many groups who are involved in developing and implementing the nation's housing policy to focus primarily on their own interests severely limits our ability to achieve common ground. A careful understanding of demographics and market forces is essential in dealing with the realities and all sides of an issue must come together. The Secretary of the Department of Housing and Urban Development could convene a group to provide a "Framework for the Future" and to try to develop bipartisan support for future action. Consensus among everyone is impossible, but crafting a viable framework would be an important task moving to the next millennium.

CONCLUSION

Fifty years ago when the Housing Act of 1949 was passed, the nation faced serious challenges, as well as opportunities related to housing. Millions of young families needed homes, and the condition of large portions of the nation's housing stock was poor. Many of the challenges related to bricks and mortar, and with government policy and strong demand serving as the catalyst, the nation's home builders, lenders, suppliers of housing products, realtors and a wide variety of other members of the housing industry came together to meet the need. Millions of new homes were built, including housing for the poor through public housing and a variety of subsidized housing programs. The achievements over the last 50 years in such areas as homeownership, housing quality, and housing finance are remarkable.

However, over the last 50 years we have also seen dramatic social and cultural changes in our society. With success comes complacency and the urgency of the 1950s, '60s and '70s no longer exists. Housing is not a top of the mind issue. Addressing the housing concerns related to the less advantaged will therefore be harder, resources are limited, and the challenges of the very poor often go beyond housing. Further, a new battle has arisen related to housing, land use, smart growth and environmental balance. These issues will provide the framework for much of the housing debate in the years ahead.

If we are to address these new challenges and issues, it is necessary to step back and understand not only the substance but the process of developing and implementing housing policy. The nation's housing policy will not be dictated from the Federal level, per se. Rather, policy will be framed on an incremental basis and through a variety of specific local, state and national policy actions and debates. As this process proceeds, we can only hope that we will be able to identify the new issues and realities we face and work successfully at achieving common ground in addressing these issues. If the nation's housing advocates cannot agree among themselves, it will be even harder to try to reach a national agreement as we move into the next millennium.

Endnotes

1. As an indication of deferred housing needs and repairs, residential building (non-farm) declined with World War II from $3.5 billion in 1941 to $0.9 billion in 1943 and $0.8 billion in 1944. However, as an indication of this deferred demand after the war, it rose to $4.0 billion in 1946, $6.3 billion in 1947, $8.3 billion in 1949 and $12.5 billion in 1950. (See *The Economic Report of the President*, January 1951, p. 188.)

2. For a discussion of the benefits of homeownership see Green, Richard K. and Michelle J. White, 1999, "Measuring the Benefits of Homeowning: Effects on Children," *Journal of Urban Economics*, 41:441-461; DiPasquale, Denise and Edward L. Glaser, "Incentives and Social Capital: Are Homeowners Better Citizens?", initially a working paper for the Joint Center for Housing Studies, Harvard University, W97-3, December 1997, soon to be published in the *Journal of Urban Economics*, ; and Kane, Thomas J., 1994, "College Entry by Blacks since 1970: The Role of College Costs, Family Background, and the Return to Education," *Journal of Political Economy* 102(5): 879-911.

3. For an example of the papers prepared for the President's Committee on Urban Housing, and as an illustration of Professor John Dunlop's long and creative work in this field, see J. T. Dunlop and D. Q. Mills, "Manpower in Construction: A Profile of the Industry and Projections for 1975," *A Study of ComparativeTime and Cost for Building Five Selected Types of Low Cost Housing*, prepared for the President's Committee on Urban Housing, 1968, Volume II, pp. 241-286.

4. *The Report of the President's Commission on Housing*, William F. McKenna, Chair, Washington, D.C., 1982, p.12.

5. See "Historical Tables," *Budget of the United States Government, Fiscal Year 2000*, p.54 for agriculture, p. 59 for transportation, edcation and medical care. This paper has not calculated tax expenditures for these sectors, but the tax expenditures in each of these sectors is significantly less than the tax expenditures related to housing because of the high level of benefits from the mortgage interest deduction and the real estate property tax deduction.

6. For a further discussion of the growth and importance of remodeling as a part of the nation;s housing industry, see Joint Center for Housing Studies, Harvard University, *Improving America's Housing*, the Remodeling Futures Program, March 1999.

7. William C. Apgar and H. James Brown, Press Release introducing *The State of the Nation's Housing 1988*, Joint Center for Housing Studies of Harvard University, Cambridge, Massachusetts, p.1, March 17, 1988.

8. *Rental Housing Assistance - The Crisis Continues*, *1997 Report to Congress on Worse Case Housing Needs*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, April 1998, p. 19.

9. *The State of the Nation's Housing: 1988* Joint Center for Housing Studies of Harvard University, Cambridge, Massachusetts, 1998.

10. "`Not in My Back Yard,' Removing Barriers to Affordable Housing," *Report to President Bush and Secretary Kemp by the Advisory Commission on Regulatory Barriers to Affordable Housing*, July 8, 1991, Washington, D.C.

11. "Bonner and Associates Survey of Business Issues in the New Congress," The Gallop Organization, Inc., December 9, 1992, Princeton, New Jersey.

12. The U.S. Bureau of Census, *Current Population Reports*, P25-1095 and P25-1130 estimates net migration at 820,000 per year from 1998-2050. Also see U.S. Department of Commerce, *Statistical Abstract of the United States, 1998*, 118th Edition, October 1998, population sect., p. 9.

13. Michael Stegman, "America's Inner Cities as Emerging Markets, "*Kenan-Flagler Alliance*, Fall, 1998, p. 52, Kenan-Flagler Business School, University of North Carolina at Chapel Hill.