THE TRUTH ABOUT FEDERAL HOUSING SUBSIDIES: SOCIALISM FOR THE RICH, CAPITALISM FOR THE POOR

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Introduction

A July 6, 1990, article appeared in the New York Times, ■Expanding the Choices in Million Dollar Homes,• that described The Pinnacle, a cluster of new homes priced from $975,000 to $1.3 million, in Purchase, New York, in the heart of Westchester County's wealth belt.

The Times did not describe the Pinnacle as a "subsidized" housing project, but in its glowing description of the project the paper unwittingly revealed how taxpayers underwrite the cost of luxury housing.

Subsidy #1: ■The project is on a 23-acre site,• the Times noted, ■across the street from the 236-acre Silver Lake Preserve, a county-owned nature preserve.•

Subsidy #2: Then, gushed the Times, ■The project is only a few minutes' drive from the White Plains train station, and is within earshot of Interstate 684.• (While the noise of the nearby freeway might detract somewhat from the pride of owning a million dollar home, the convenient access to a major highway makes up for it.)

Subsidy #3: Likewise, the taxpayer-subsidized Metro North commuter rail lines add significantly to the value of The Pinnacle.

The Times did not mention another lucrative tax subsidy -- one that is available to homeowners. Pinnacle homebuyers would get huge tax breaks on both the mortgage interest and the property taxes. On a $1 million home -- with a 10% downpayment, a mortgage at 10% interest (the prevailing rate at the time), and an estimated $15,000 a year in property taxes -- the lucky homeowner could expect an income tax savings (in effect, a federal subsidy) of $35,000 in the first year alone.

Most Americans think that federal housing assistance is a poor people's program. In fact, relatively few low-income Americans receive federal housing subsidies. In contrast, about three-quarters of wealthy Americans -- many living in very large homes -- get housing subsidies from Washington in the form of tax breaks. These tax breaks subsidize many households who can afford to buy homes without it. Our policymakers and opinion-leaders, however, focus more attention on federal aid to the poor. These programs -- such as public housing and rent subsidies -- are much more visible than the hidden tax subsidies to the affluent. For example, a Lexis/Nexis search of major newspapers for the calendar year 1999 found 4,822 articles that mentioned "public housing;" 164 references to "Section 8;" and 39 stories with a combination of "mortgage interest" and "deduction."

As a result of low-income housing's weak constituency, Congress has during the past 20 years slashed low-income housing programs. In recent years, some members have even proposed eliminating the U.S. Department of Housing and Urban Development (HUD) altogether. Meanwhile, few politicians, journalists, or other opinionmakers worry about getting wealthy mansion-dwellers off government welfare.

Contemporary Housing Conditions

Recent economic and housing trends suggest that a ■rising tide• doesn♣t lift all boats. In fact, it raises rents and home prices. Although we are currently at the top of the business cycle, the U.S.

confronts a wide economic gap between the rich and poor paralleled by serious housing problems (Shapiro and Greenstein 1999; Mishel, et. al. 1999; Center on Budget and Policy Priorities 1998; HUD 2000; Wolff 1995; Wolff 2000). The major housing problem currently confronting the poor and many middle-income households is affordability: how much of their income they pay for housing (Joint Center for Housing Studies 1999; Stegman 2000).

Homeownership: The homeownership rate reached an all-time peak of 66.8 percent in 1999, but this aggregate figure can be misleading.[1] Compared with the early 1980s, the current rate has actually declined among all age cohorts under 55. For example, the homeownership rate among the 30-34 age group was 62.4% in 1978 and 53.6% twenty years later. (Segal and Sullivan 1998; Uchitelle 1999; Savage 1999; U.S. Census 1999). Moreover, many families who have managed to become homeowners are on shaky ground. In late 1999, according to the Federal Reserve's Survey of Consumer Finance, American households, particularly those with incomes under $50,000, had an unprecedented level of debt, including mortgage debt (Earnest 2000; Wolff 2000). The next economic downturn may see a significant increase in mortgage delinquencies and foreclosure.

Although the homeownership gap between white households and minority (black and Latino) households remains wide (even when household income is considered), it has narrowed, due in part to stronger enforcement of federal antiredlining laws and increased efforts by lenders as well as Fannie Mae and Freddie Mac to reach minority consumers. Moderate interest rates, relatively stable home prices, and employment growth also contributed to this trend (Evanoff and Segal 1996).

Rental Housing Squeeze: The most telling indicator of the housing shortage is the gap between the number of low-income households and the number of rental units affordable to the poor. In 1970, there were 6.5 million low-cost units and 6.2 million low-income renter households -- 300,000 *more* low-cost rental units than low-income renters. By 1978, this surplus of affordable units turned into a shortfall -- 7.4 million low-income renters and 5.7 million low-cost units -- a shortage of 1.7 million units. Since then, the gap has widened further. By 1995, the shortage reached a record level of 4.4 million units --10.5 million low-income renters and 6.1 million low-rent units (Daskal 1998). Waiting lists for subsidized housing are huge and growing (HUD 1999). In no metropolitan area in the nation can a family living on a minimum wage salary afford fair market rents. They would need to work an average of 86 hours per week -- and as high as 174 hours per week in San Francisco -- to avoid paying more than 30 percent of their income for housing (Dolbeare 1999).

Not surprisingly, the deepening shortage has led to increasing housing burdens -- in terms of cost, quality, and overcrowding -- especially for the poor. One important factor is that not all of the 6.1 million low-cost units -- which include both government-subsidized units and private-market units that are unsubsidized -- are occupied by poor households. Low-income households must compete with others for low-cost apartments. In fact, 82 percent of poor renters -- six million households -- spent at least 30 percent of their income on rent and utilities in 1995. Fifty-nine percent of poor renters -- 4.4 million households -- spent more than *half* of their income on housing in 1995. The poorest renters have the worst housing burdens: 76 percent of renters with household incomes below half of the poverty level spent more than half their income on housing, compared with 50 percent of those with household incomes between 50 and 100 percent of poverty level (Daskal 1998).

Slums have not disappeared. Millions of low-income Americans today live in inadequate housing, with infestation of vermin; water leakage through holes and open cracks in the walls, floors,

and ceilings; defective heating systems; and dangerous lead paint. Millions live in overcrowded housing, doubling or tripling up, compounding the problems of health and safety.[2] In Los Angeles, for example, at least 150,000 apartments -- one in nine -- are substandard, most in the city•s poorest neighborhoods (Tobar 1997). The poor, racial minorities, city dwellers, and rural Americans, in particular, confront these daily indignities. Poor people are more likely to occupy older housing with deteriorated lead-based paint and lead-contaminated dust and soil around it, contributing to higher rates of lead poisoning (and associated problems, such as brain damage in children).[3] Many poor households not only live in inadequate housing, but also pay an exorbitant share of their income to live in substandard units (HUD 1998). More than half of poor renters living in physically deficient, overcrowded or ■doubled-up• housing also spent more than 50 percent of income on housing (Daskal 1998). Between 1985 and 1990, 5.7 million Americans were literally homeless at one time or another (sleeping in shelters, parks, bus and train stations, abandoned buildings, and elsewhere). About 13.5 million people reported having been homeless at some point in their lives (Link et al. 1994).

Economic and Racial Segregation: Overall economic segregation within metropolitan areas is increasing. In general, the affluent, living in suburban enclaves protected by zoning regulations, tend to be isolated from other income groups; so are than the poor (Abramson, Tobin, and VanderGoot 1995). Many working class families living in inner-ring suburbs cannot afford to ■escape• to more affluent areas (Lucy and Phillips 2000). Between 1970 and 1990, the number of high poverty census tracts in metropolitan areas doubled, and their population increased from 4.1 to 8.0 million, while the national population grew only 28 percent (Jargowsky 1997). In the largest 100 central cities, the share of the poor living in 40 percent poverty tracts increased from 16 to 28 percent (Kasarda 1993). One-third of the 17.1 million poor people who live in the 100 largest metropolitan areas (5.7 million poor people, or about 2 million households) would have to move to different neighborhoods in the same metropolitan area to achieve an even distribution of the poverty people (Abramson, Tobin, and VanderGoot 1995). Moreover, the level of racial segregation within metropolitan areas hardly changed in 30 years, despite (or perhaps due to the failure to implement) federal fair housing laws (Jargowsky 1997; Immergluck 1999). For poor whites, blacks, and Hispanics, the number and percentage living in tracts with 40 percent or more residents in poverty rose substantially between 1970 and 1990, although disparities remain. In 1990, only 6.3 percent of all white persons lived in areas of concentrated poverty, while 33.5 percent of black persons and 22.1 percent of Hispanic persons lived in such areas (Jargowsky 1997). Even middle-income blacks are more likely to live in segregated areas than middle-income whites. Black and Latino poor are more likely to live in high-poverty neighborhoods than the white poor. Poverty concentration exacerbates the widening mismatch between suburban jobs and the urban poor, compounding their obstacles to decent employment, and contributes to the fiscal problems of our cities. The poor who live among other poor people suffer from more violent crime, worse schools, higher property tax rates, and more costly goods and services of all kinds, even groceries (Jargowsky 1997; Wilson 1996).

The Magnitude of Federal Housing Subsidies

In 1997, the federal government spent about $136 billion for various housing subsidies, as detailed in Table 2.[4] Americans typically associate the phrase "housing subsidy" with the poor. They

think of public housing projects, homeless shelters, or perhaps rent vouchers, most of which are administered by the Department of Housing and Urban Development (HUD). But the largest housing subsidies are much more invisible. These are subsidies that come through the tax code in the form of tax breaks or tax expenditures.[5]

There are basically two kinds of housing subsidies -- direct expenditures (administered by government agencies) and indirect expenditures ("tax expenditures"). As Table 2 reveals, tax subsidies for housing go either to homeowners or to investors. The table also shows that tax expenditures account for over $100 billion -- about three-quarters of the federal government's housing subsidies. Put another way, tax expenditures cost almost three times as much as direct housing subsidies. The Treasury Department -- not HUD -- is the largest government housing subsidy agency. Moreover, the gap between direct housing subsidies and tax expenditures has been widening. Table 3 compares federal tax expenditures for housing with the direct housing expenditures through HUD, the Department of Agriculture (USDA), U.S. Department of Health and Human Services (HHS), and the Department of Defense from 1978 through 1997.[6]

Whether the federal government uses direct expenditures or tax breaks to subsidize housing is not important on its own terms. But the reality is that most of the direct subsidy programs go to low- and moderate-income people, while most of the tax subsidies go the middle- and upper-class people. Here's the breakdown:

Homeowner Tax Expenditures

By far the largest federal housing subsidies are the tax breaks for homeowners, totalling $91.7 billion in 1997.[7] These include the deductions on mortgage interest ($53 billion),[8] deductions on property tax payments ($16.8 billion), the deferral of capital gains on home sales ($15 billion),[9] and exclusion of capital gains taxes of home sales for persons over 55 ($6.7 billion). About 27.8 million homeowners received at least one of these deductions. These tax breaks are very regressive. The highest-income taxpayers with the largest houses and biggest mortgages get a disproportionate share of these federal tax expenditures. As Table 4 reveals, over one-half of the mortgage interest deduction (53.6 percent) of the mortgage interest subsidy goes to the wealthiest 7.8 percent of taxpayers with incomes over $100,000.[10] The 1.6 percent of taxpayers with incomes over $200,000 received 20.1 percent of the entire amount.

Only 22.1 percent of all 134 million taxpayers took the mortgage interest deduction, but this varies significantly with income. For example, 73 percent of taxpayers with incomes over $200,000 took the mortgage interest deduction, with an average benefit of $6,073. In contrast, only about one-quarter (24.8 percent) of those in the $40,000-50,000 bracket took the deduction; those who did so saved an average of $737 on their taxes. Among those in the $20,000-30,000 income category, only 5.5 percent took the deduction; those who did so received an average benefit of only $411.

For many low- and middle-income taxpayers, the mortgage interest deduction offers little or no incentive to own rather than rent. For many of these taxpayers -- who can only afford a modestly-priced house and are in a low tax bracket -- the mortgage interest deduction (on its own and in combination with other itemized deductions) is likely to be lower than the standard deduction.

Among households with incomes under $20,000, slightly more than half own their own homes. Of those who own their homes, only 28.5 percent have mortgages. Of those that have mortgages, only 6.8 percent itemize. Among households in the $60,000-100,000 income bracket, more than 80 percent own their own homes. Of those who own their homes, about 78 percent have mortgages. Of those that have mortgages, about 66 percent itemize. Among households in the $120,000-$140,000 income bracket, almost 91 percent own homes. Of those, about 82 percent have mortgages. Among this group, about 92 percent itemize.[11]

These tax breaks have significant social consequences. The mortgage interest deduction artificially inflates home prices, since both owners and sellers impute the subsidy into their calculations. This is especially the case at the upper end, but it has ripple effects throughout the housing market.[12] Since the mortgage interest deduction is proportional to the cost of housing, it also promotes suburbanization and sprawl, encouraging homebuyers to buy larger homes in outlying areas rather than more modest homes in central cities and older suburbs (Gyourko and Voith 1997). Moderate-income homeowners, who cannot take advantage of the deduction, are concentrated in older suburbs and central cities. The provision (which was eliminated in 1997) that allowed homeowners to defer capital gains taxes if they purchase a more expensive home, but not a smaller one, exacerbated this tendency, encouraging the purchase of larger homes, typically in suburbs further from the central city (Bier and Meric 1994). By encouraging the suburbanization of housing, the tax code contributes to the well-known costs of metropolitan sprawl -- transportation gridlock, pollution, costly infrastructure, and related dilemmas. In other words, the "cost" of these housing tax breaks are greater than the amount that appears in the federal budget each year. There are related "external" costs to the environment, public health, and other factors that don't show up when policymakers itemize the list of tax expenditures.

Department of Housing and Urban Development

HUD spent approximately $12 billion in housing subsidies in 1997. HUD-assisted housing goes almost entirely to low-income households.

HUD's budget authority for low-income housing (in 1997 constant dollars) declined from $72.1 billion in 1978 to a low of $11.2 billion in 1989. It rose slightly in the early 1990s and declined again to $12 billion in 1997. Indeed, HUD shouldered the largest cutbacks of any major federal agency. As a result, the number of new low-income housing units subsidized by HUD funds declined from 300,500 in 1978 to 23,800 1996 (Dolbeare August 1996).

Housing assistance for the poor is not an entitlement, like food stamps or Medicaid. The available funds can only serve a fraction of those who meet eligibility criteria. In 1997, about 15.8 million low-income renter households were eligible for federal housing assistance. However, only about four million households received HUD housing assistance. About 1.14 million households lived in units owned by local public housing authorities, 1.7 million households lived in private, government-subsidized developments owned by private or non-profit entities, and 1.2 million households received tenant-based rental certificates or vouchers that allowed them to pay for private rental units.[13] The distribution of HUD-assisted households is very uneven across the country in terms of the proportion of poor families that receive any form of housing subsidies (Kingsley 1997).

That leaves almost 12 million poor households who were eligible for federal housing subsidies but did not receive them. They have to fend for themselves in the private marketplace. Among this group, HUD identified 5.3 million households with ■worst case• housing problems -- those who pay more than half their incomes for housing and/or live in seriously substandard apartments (HUD 1996).

Department of Agriculture

For many years the Department of Agriculture provided housing subsidies in rural areas under a division called the Farmers Home Administration, but now called Rural Housing Services (RHS).[14] In 1997, RHA spent approximately $3.5 billion in various housing subsidies. The Department of Agriculture's rural housing budget fell from a peak of $4.3 billion in 1979 to a low of $2 billion in 1986, remained steady through the early 1990s, and has fluctuated up and down since then. In real terms, however, the rural housing budget was highest in 1979 ($8.87 billion in 1997 dollars).[15] The Department's rural housing programs primarily target low- and moderate-income households. Between 1984 and 1997 the proportion of Department of Agriculture-subsidized housing targeted for low-income households ranged from 27.9 percent to 61.9 percent.[16] The number of new housing units subsidized by DOA dropped from 101,300 in 1978 to 59,900 in 1996 (Dolbeare August 1996).

Tax-Exempt Housing Revenue Bonds

The housing assisted by mortgage revenue bonds and rental housing bonds (which are exempt from federal taxes) goes to a mix of low-income, moderate-income, and middle-income families. The investors in these bonds are primarily affluent individuals who receive federal tax breaks for their investment. In 1997, federal tax expenditures for mortgage revenue bonds and rental housing revenue bonds cost the federal government $2.5 billion and $1.2 million, respectively -- about $3.7 billion altogether.

Since 1974, state housing finance agencies (HFAs) have issued more than $120 billion in Mortgage Revenue Bonds (MRBs) for about 1.8 million mortgage loans, mostly to moderate-income homebuyers.[17] The annual volume of activity increased in the l980s and expanded slightly in the 1990s. In 1997, for example, state HFAs issued $9.2 billion in MRBs to generate 104,311 mortgage loans.[18] MRBs can be used to purchase new or existing homes.[19]

Congress restricts MRB use to first-time homebuyers who meet income limits and home price limits. Borrowers can earn no more than the greater of their statewide or area median income. (Families of three or more than earn up to 115 percent of this figure). The cost of an MRB-financed home cannot exceed 90 percent of the average home price in the area. (In a few strictly defined disadvantaged areas, income and home price limits are higher). Most MRB loans go to families below these program limits. In 1996, 17 percent of MRB borrowers earned 50 percent or less than the state or area median income; almost one-third earned 60 percent or less; more than two-thirds earned 80 percent or less. The average MRB buyer earned less than 74 percent of the average income

of first-time homebuyers with conventional mortgages. The average price of a MRB-financed home was 70 percent of the average price of homes purchased by first-time buyers with conventional financing. Minorities constituted 23 percent of MRB homebuyers. Sixty-one percent of MRB financed homes were in metropolitan areas. Although the breakdown of central cities and suburbs in not available, it is generally recognized that MRBs have primarily benefitted suburban homebuyers.

Like other government housing programs, there is considerable "double-dipping" in terms of the use of federal subsidies. In 1996, over 58 percent of MRB loans were insured by the Federal Housing Administration, almost 9 percent were insured by the Department of Veterans Affairs, and about 5 percent were insured by the Department of Agriculture's Rural Housing Service -- in other words, 72 percent of MRB loans had some form of federal insurance.

Low Income Housing Tax Credit

Since 1987, the Low-Income Housing Tax Credit (LIHTC) has been the largest federal program to stimulate housing production for low-income families. From its inception through 1995, it assisted in the production of approximately 900,000 units, with the numbers growing each year as states and developers learned how to utilize the program. (Because many of these units have other federal subsidies, however, there is considerable overlap between the LIHTC-assisted and the HUD-assisted and Department of Agriculture-assisted units. In 1997, it cost the federal government $2.9 billion.

In the Tax Reform Act of 1986 Congress replaced existing tax incentives for construction of low-income housing (such as accelerated depreciation) with the LIHTC. The LIHTC provides tax breaks to investors (corporations and individuals) in developments to cover part of the cost of housing construction and rehabilitation.[20] In exchange, rents are set at a level affordable to households with modest incomes. At least 20 percent of the apartments in each development must be rented to households with incomes below 50 percent of the area median; at least 40 percent of the apartments in each development must be rented to households with incomes below 60 percent of the area median income. (In most areas this is about twice the poverty level). Under the federal law, rents must be affordable to these target income groups for at least 15 years, after which developers can charge market rents. The LIHTC program is not administered by any federal agency.[21] Instead, Congress authorized states (typically, state HFAs) to allocate the tax credits to qualified housing development projects.[22] The size of each state's tax credit allocation is determined by a formula based on population size ($1.25 per state resident).[23] In 1996, for example, Wyoming had about $600,000 in tax credits to allocate, while California had more than $39 million. In recent years, approximately 60,000 to 90,000 tax-credit units have been built annually; since 1987, the LIHTC has assisted in the addition of about 900,000 units.[24] The cost to the federal government is close to $30,000 per unit (Cummings and DiPasquale). Federal oversight of this program (which is the responsibility of the Treasury Department) is minimal.

States set criteria and review applications submitted by developers and allocate the tax credits. The state plans must, however, give priority to projects that serve the lowest income tenants and ensure affordability for the longest period. They must also consider the reasonableness of development costs and allocate the minimum amount of tax credits per project that allow the project

to be built. Non-profit developers have sponsored about one-third of LIHTC projects, even though the law requires that only 10 percent of the credits be set aside for non-profit sponsors (Cummings and DiPasquale).

After receiving tax credit allocations from the state, the developer is responsible for assembling the financial resources for the project.[25] In order make the rents in LIHTC-assisted projects affordable to low-income residents, state and localities often use CDBG, HOME, Section 8 certificates/vouchers, Rural Rental Housing funds, and property tax abatements. Three-fourths of the households in LIHTC projects benefited from additional government subsidies (U.S. Government Accounting Office 1997). Nearly one-third of residents in LIHTC projects use Section 8 vouchers or certificates to help pay the rent (E&Y Kenneth Leventhal Real Estate Group 1997; Cummings and DiPasquale 1998). In fact, few LIHTC projects rely on the tax credits alone. The General Accounting Office estimates that "almost three-fourths of the households in these projects benefited either directly or indirectly from other housing assistance, such as rental assistance to residents or loan subsidies to project owners."[26] As a result, the average household income in LIHTC-assisted projects is 38 percent of area median income. Indeed, the patchwork of subsidies necessary to "make the numbers work" is one of the major inefficiencies of the LIHTC program (Stegman 1990; Stanfield 1994.). Moreover, because the allocating formula is based on each state's population size, rather than the number of low-income households (as the CDBG is allocated), the distribution of LIHTC subsidies is relatively inefficient. Morever, states have used the high demand for the credit to negotiate better affordability. In 1987 the typical LIHTC project had a low-income use restriction period of 15 years (the statutory minimum), but by 1995 the average lock-in period was 42 years (E&Y Kenneth Leventhal Real Estate Group 1997; Cummings and DiPasquale 1998).

Department of Health and Human Services

Until Congress passed a welfare reform bill in 1996, federal and state governments combined allocated about $21.6 billion annual for Aid to Families with Dependent Children (AFDC), commonly called "welfare," distributed by the Department of Health and Human Services (HHS). Recipients received monthly checks to cover some of their living expenses. One study estimated that about 30 percent of this amount -- about $6.5 billion -- was used to pay rent.[27]

Most AFDC recipients received no housing assistance and had to find accommodations in the private market. Most of this group paid at least half of their welfare check for rent -- and frequently much more.[28] Since most welfare recipients also receive food stamps, they used most (or all) of their AFDC benefits to pay the rent. But the variations in housing costs across the country bore almost no relationship with variations in AFDC benefit levels. AFDC payments covered only 35 percent of average rent levels in Texas, but 125 percent of average rents Alaska. Nationwide, the median AFDC payment covered 66 percent of market rents.[29] Even if most AFDC recipients find cheaper apartments than the average market rent, the AFDC payment is insufficient to keep a roof over their heads and have enough left over for other necessities (Newman 1999). It is hardly surprising that many welfare recipients supplement their AFDC payments with work in the underground or informal economy (Edin and Lein 1997; Jencks 1997).

Slightly more than one million families (about 23 percent) of AFDC recipients also receive

HUD subsidies. They live in public or private assisted housing or have a rent certificate.
These families pay 30 percent of their welfare income for rent and HUD pays the rest. These families are better-housed than those AFDC families without HUD assistance. Because federal housing assistance is not an entitlement, the proportion of welfare recipients with housing subsidies varies considerably from state to state, from 12.1 percent in California to 56.8 percent in North Dakota. In seven states, fewer than one-fifth of welfare recipients receive federal housing subsidies.[30]

Department of Defense

The Department of Defense spent about $9.6 billion in 1997 to provide housing for military families in the U.S. These subsidies go to military personnel across the spectrum of income and rank.[31]

Who Benefits?

Federal spending for low-income housing has fallen sharply since the late 1970s. Even with the small expansion of the LIHTC program, overall funds for federally-assisted low-income housing has declined since the late l970s; recent increases have not returned overall spending to those earlier peaks. In 1978, the federal government spent $80.5 billion for low-income housing (in 1997 dollars) between HUD and the Department of Agriculture. In 1997, the federal government spent only $18.5 billion (in 1997 dollars) between HUD, DOA, and the LIHTC. Even if federally tax-exempt revenue bonds for housing are added ($3.7 billion in 1997), the magnitude of federal cutbacks for affordable housing is dramatic. In light of the significant increase in low-income families and the widening gap between the supply of affordable rental housing and the need, these cuts have exacerbated an already serious problem. Moreover, while states have increased their spending on affordable housing, they have not come close to filling the gap left by federal cutbacks, as Table 5 reveals.

Meanwhile, tax expenditures for investors and homeowners, which primarily benefitted middle- and upper-income people, have increased dramatically since the late l970s. Homeowner subsidies grew from $23.8 billion in 1978 to $91.7 billion in 1997 (in 1997 dollars). Investor subsidies (excluding the LIHTC) increased from $1.7 billion in 1978 to a peak of $18.3 billion in 1991, then declined to $9.9 billion in 1997 (in 1997 dollars).

Table 3 paints this picture in dramatic relief. In 1978, federal subsidies for low-income housing (HUD and USDA) were more than three times greater ($80.5 billion to $25.6 billion) than homeowner and investor subsidies (in 1997 dollars). In 1997, these figures were more than reversed. Federal subsidies for homeowners and investors ($101.6 billion) cost more than five times the federal subsidies (HUD, DOA, LIHTC) for low-income housing (in 1997 dollars).

The Ongoing Battle Over Housing Assistance for the Poor

In contrast to federal policies to promote homeownership for the middle- and upper-class, programs to help house the poor, and near-poor have been continuously vulnerable to political assault. Whereas programs to promote middle-income and upper-income homeownership have

essentially been entitlements -- available to all those who meet the eligibility standards -- housing subsidies for the poor have always been a lottery, available only to a fraction of eligible households.

The original vision of government-subsidized housing emerged from the progressive movement in the early 1900s. Until the Depression, reformers who advocated a strong federal government role in housing were a lonely voice in the political wilderness. The Depression -- when at least one-quarter of the workforce was unemployed and many more experienced declining wages and the threat of lay-offs -- convinced reformers that the private market and private philanthropy could not solve the economic and housing problems of the poor. Some of the earlier Progressive Era housing reformers like Edith Wood, joined by a younger generation of activists like Catherine Bauer, pushed for a strong government-led response to housing problems. Along with the labor union movement, they lobbied for a public housing program, union-sponsored cooperative housing, and new communities guided by cooperative principles. During the Depression, public housing advocates, like their European counterparts, initially envisioned it for the middle-class as well as the poor, but the real estate industry, warning about the specter of ■socialism,• successfully lobbied to limit public housing to the poor. (Lubove 1962; Oberlander and Newbrun 1999; Wright 1981; Radford 1996; von Hoffman 1996).

The federal public housing program was created in 1937 primarily to stimulate the economy, not to address urban slums or affordable housing. From the program's formal legislative inception, it was aimed at providing housing for the "submerged middle class" -- those who could not find suitable housing in the private market -- but not the very poor with no means to pay rent. Senator Robert Wagner of New York, principal author of the Housing Act of 1937, declared, "There are some whom we cannot expect to serve...those who cannot pay the rent." (Friedman 1968; Freedman 1969; Hays 1995).

For years, this arrangement worked. Public housing was often the best housing available to working class families. By 1942, 175,000 public housing apartments -- most in two-to-four story buildings -- had been constructed in 290 communities. During World War 2, the federal government created a temporary National Housing Agency (NHA) to coordinate the government's efforts to provide housing for defense workers. By l946, another 195,000 units of permanent housing, primarily near war industry sites and military bases. After the war, some Democrats sought to make the NHA a permanent agency responsible for housing and urban redevelopment, but in 1946 the Republican-controlled Congress rejected the idea, under pressure from the National Association of Real Estate Boards (later renamed the National Association of Realtors), which strongly opposed public housing.[32] Recognizing the pent-up demand for housing and fearing competition from public housing (which it claimed was an opening wedge for socialism), the real estate industry sabotaged the public housing program by pressuring Congress to limit it to the very poor. That new rule, embodied in the 1949 Housing Act, was the beginning of the decline of public housing's political support. Public housing barely got started before it was sabotaged exacerbated by the political climate of the McCarthy era and the Cold War. (Davies 1966; Friedman 1968; Radford 1996; Wright 1981; Keith 1973). Several other factors -- including changing demographics, costs, and design and location -- diminished political support, for public housing (Vale 1993). As a result, only 1.3 million units have been built in the programs 63 year history.

During the l950s and early l960s, Democrats in Congress -- supported by big-city mayors, along with the liberal National Housing Conference, a coalition of labor unions and public housing

advocates -- tried unsuccessfully to create a cabinet-level agency to deal with urban problems.[33] (Bratt and Keating, 1993). After winning a landslide victory in 1964, President Johnson -- with the support of civil rights groups, big-city mayors, labor unions, and private developers (all key Democratic Party constituencies) -- created the Department of Housing and Urban Development (HUD), which since l965 has been the major federal agency responsible for helping provide housing for the poor. HUD inherited three major programs -- the Federal Housing Administration (created in 1934), public housing (created in 1937), and the Urban Renewal Administration (created in 1949 to administer the urban renewal program). Through its history, HUD has been controversial, fighting an uphill battle to win political support for its mandate to help house the poor and revitalize cities.

For about a decade following the civil rights movement and the ghetto uprisings of the l960s, HUD rode the wave of public sentiment to address the problems of poverty and inner cities. Through the late l960s and early 1970s HUD was able to gain steady funding from Congress, thanks to the coalition of big-city mayors, sectors of the housing and banking industry, unions, civil rights groups, advocates for the poor, and business leaders concerned with revitalizing central business districts through the urban renewal program. Several Presidential reports on urban problems released in l968 -- including the National Advisory Commission on Civil Disorders (the Kerner Report) -- all cited the condition of ghetto housing as a serious problem and recommended a major new commitment to low-income housing. These forces triggered a new round of federal housing initiatives. Congress sought different approaches than public housing -- enticing private developers to build housing for the poor, providing low-income tenants with vouchers, and funneling federal "block grant" funds to cities and community organizations. The Housing Act of 1968 established a housing production goal of 26 million units within ten years, with six million for low-income households. Congress turned to the private sector to build low-income housing. Several programs gave private developers low interest mortgages, tax breaks and, later, rental subsidies. A low-income homeownership program (Section 235) provided low-down-payment, low-interest mortgages. Eventually over two million units of privately-owned subsidized housing were built -- almost double the overall number of public housing units.[34]

During his first term (1969-73), President Nixon and his HUD Secretary (former Michigan Gov. George Romney), along with a Democratic Congress, promoted a supply-side housing strategy to create a record number of new housing units built by the private sector with federal subsidies. Federal funding for low-income housing production peaked in 1972. By then, however, the political coalition for HUD had fragmented, leaving the agency vulnerable to budget cuts. Beginning in the mid-l970s, under President Nixon, a number of urban-oriented programs were folded into community development "block grants" (CDBGs). These were distributed directly to cities, giving control to mayors rather than community organizations. These funds could be used for capital improvements, human services and housing. In 1974 Congress also created the Section 8 program to entice private developers to house the poor with subsidies for new construction, rehabilitation and rent supplements. Upon taking office in l977, President Carter slightly expanded urban housing programs. HUD's annual budget reached $25-30 billion and the federal government added about 300,000 subsidized units a year.

New housing starts set records in the 1970s, even if far short of the 26 million goal. Since the late l960s, about 20,000 privately-owned projects with almost two million units of privately-owned subsidized housing were built.[35] These programs have been criticized as expensive ■bribes• to

lenders and developers. In many cases, their construction and operating costs exceeded the per-unit costs of public housing. Moreover, the federal programs gave the owners of many of these developments an option to withdraw after 20 years; as this ticking time bomb began to explode in the late l980s, Congress passed legislation allowing HUD to entice owners to keep their projects as subsidized housing, but at a huge additional cost to taxpayers.[36] During the l980s, the ideological assault on government activism -- by conservative politicians, think tanks, and the media -- helped undermine support for programs for the urban poor, including housing (Edsall and Edsall 1991). When President Reagan took office in 1981, the attack on HUD intensified. The Reagan administration sought to dismantle federal housing programs, claiming that "free and deregulated markets" could address the nation's housing needs. It reduced the budgets for most low-income programs, but low-income housing suffered the largest cuts. As Table 3 reveals, federal support for low-income housing has never recovered from the Reagan-era attack. Although the HUD budget increased during the Bush and Clinton years, in real terms (adjusting for inflation) it has never come close to the pre-Reagan era. The Reagan administration slashed the HUD budget from $30 billion to $9 billion. The Reagan and Bush administrations were partially successful in privatizing government programs. This included efforts to sell public housing units to residents, promoted as a way to help the poor to achieve homeownership.[37] The Democratic Congress stymied the Republican's efforts to decimate HUD even further or to sell off more than a handful of public housing projects, but it could do little to improve the public's view of HUD as a wasteful and inefficient agency, a view exacerbated by the "HUD scandal."

By the time Clinton took office in l993, HUD was one of the least popular or respected agencies of the federal government. After the Republicans won control of Congress in 1994, they escalated their attack on HUD as a symbol of the problems of activist government. House Speaker Newt Gingrich told the Washington Post, "You could abolish HUD tomorrow morning and improve life in most of America" (Cooper 1994). A year later, the Washington Post reported that, "Politically, HUD is about as popular as smallpox." (Gugliotta 1995, A4). That year, Republican Senator Lauch Faircloth of North Carolina, the chair of the HUD oversight subcommittee, filed legislation to eliminate HUD, asserting, "I think we need to put this department to rest" ("Adm'n Wins..." 1995). The 1996 Republican platform called for the elimination of HUD. Its presidential candidate that year, Bob Dole, drawing on popular but misleading stereotypes of public housing, called it "one of the last bastions of socialism in the world." Local housing authorities, he said, have become "landlords of misery" (Gugliotta 1996, A5). A few weeks later, Rep. Rick Lazio (R-N.Y.), chair of the House subcommittee on housing, attacked "the hulks of failure that characterize high-rise public housing." But it wasn't only conservative Republicans who criticized HUD. In 1989, following revelations of corruption and political favoritism during the Reagan administration, popularly called the "HUD scandal", the New Republic published an editorial entitled, "Abolish HUD." HUD Secretary Henry Cisneros admitted that he had inherited an agency "characterized by slavish loyalty to non-performing programs." Soon after the 1994 Congressional elections, Clinton, looking for a way to cut federal spending, proposed putting HUD on the chopping block. HUD Secretary Henry Cisneros, hoping to save his agency, pledged to "reinvent" it and soon produced a "blueprint" for reform that called for dramatic reduction in HUD's mandate, including the privatization of most federally subsidized housing developments (HUD 1995). In l995 and 1996, Congress cut the HUD budget by more than 20%. After the 1996 election, Clinton asked Congress to

increase HUD's budget, mostly to fund expiring Section 8 subsidy contracts, but the GOP leadership balked at this request. In October 1996, the New York Times magazine published a cover story by Jason DeParle entitled, "The Year That Housing Died," claiming that "the Federal Government has essentially conceded defeat in its decades-long drive to make housing affordable to low-income Americans" and that "housing has simply evaporated as a political issue." (DeParle 1996). News stories about the appointment of Clinton's new HUD Secretary, Andrew Cuomo, noted that he had taken the reins of the most unpopular Cabinet agency in the federal government. Soon after he took office in 1997, HUD Secretary Andrew Cuomo acknowledged that to many Americans, "HUD is really a metaphor for failed government programs, for failed aspirations." (Dionne 1997, A17).

How did this happen? One cannot simply blame the country's changing mood toward the poor. After all, low-income programs such as food stamps and Medicaid, while occassionally controversial, have not shared the same fate as federal housing programs. House Speaker Newt Gingrich was candid about the reasons for HUD's vulnerability. Its "weak political constituency," he told the Washington Post in December 1994, "makes it a prime candidate for cuts." (Gugliotto 1995a). Many Americans now believe that federal low-income housing programs reward a combination of government bureaucrats, politically connected developers, and people who engage in anti-social or self-destructive behavior. In particular, stereotypes about public housing and its residents as havens of social pathology have cast a long shadow on all federal housing programs for the poor.

One can identify at least ten major factors that have contributed to the erosion of political support for HUD in general and low-income housing programs in particular.

First, the private housing and financial industry's support for HUD has primarily focused on FHA, not its low-income housing programs. The industry has used its political muscle to maintain support for FHA's mortgage insurance program, particular the segment that promotes homeownership, but has used little of its influence on behalf of HUD's low-income programs.

Second, the general business community's support for HUD was limited to its role in revitalizing central business districts through the urban renewal program. This program was torn by controversy during the l960s, especially among residents of low-income neighborhoods opposed to bulldozer-style renewal. The controversy over urban renewal led to its demise in the early 1970s, eliminating the backing of local growth coalitions from the HUD constituency.

Third, the political influence of big-city mayors (and urban voters) has waned as the nation has become (thanks in part to federal highway and housing policies) increasingly suburbanized. In 1992, for the first time, suburbanites represented an absolute majority of voters in a presidential election. The gap between the growing number of suburban Congressional districts and the declining number of central city Congressional districts has widened (Wolman and Marckini 1998; Sauerzopf and Swanstrom 1999). With the exception of FHA, HUD funding formulas (such as the CDBG program) have little to offer suburbanites, including blue-collar inner-ring suburbs.[38]

Fourth, HUD has typically been viewed as primarily serving the very poor, with few benefits for the struggling working class. HUD programs have increasingly been targeted to the poorest of the poor. This is reflected in eligibility standards for public and assisted housing. It is reflected in the visibility of HUD efforts to house the homeless. In fact, HUD provides significant support for middle-class families through its FHA homeownership program. Perhaps few Americans identify the well-known FHA with HUD. Equally likely is the fact that a growing number of economically-

pinched Americans lack sufficient income to take advantage of FHA programs but fall above the eligibility threshold for HUD's low-income programs. HUD programs are neither an entitlement for the poor nor available to many working- and lower-middle class people. As a result, many families who are not well served by the private housing market still fall between the cracks of HUD's programs -- a recipe for resentment and weak political support.

Fifth, as American cities have declined, especially when they erupt in riots, HUD is often blamed for failing to solve the "urban crisis," even though it has never had the resources or authority to address the vast array of urban problems. Many Americans view HUD's programs as contributing to, rather than solving, urban problems. Whether or not this is true is less important than the fact that it is believed to be true. At the same time, HUD is given little or no credit for the nation's housing successes, including the improvement -- in terms of size, amenities, and the dramatic decline of physically substandard housing -- of the quality of American housing since the l960s.

In fact, other agencies, especially the Department of Transportation (in terms of the emphasis on highways over public transit) and the Department of Defense (in terms of the location of defense facilities and contracts; see Markusen, et. al, 1991, and Anderson and Dreier 1993), play a much greater role in determining the fate of urban areas. Even during the height of the 1960s War on Poverty, as illustrated by the short-lived Model Cities program, HUD has lacked the power to coordinate the various agencies involved in anti-poverty efforts, such as the Office of Economic Opportunity (OEO), the Labor Department, and the Commerce Department. Since then, HUD's efforts to trigger economic development in cities have been hampered by its lack of control over agencies with key programs, such as the Small Business Administration within the Department of Commerce. Even within its narrow mandate to address housing problems, HUD was not given authority over such agencies as the Federal Home Loan Bank, the Veterans Administration housing programs, and the Farmers Home Administration. (Bratt and Keating 1993; Mitchell 1985; Scruggs 1995)

Sixth, many Americans identify HUD with public housing and consider HUD-subsidized developments as having contributed to urban misery by warehousing the poor in high-rise "projects." The location of HUD-assisted housing has certainly contributed to the concentration of the poor and minorities (Massey and Denton 1993; Schill and Wachter 1995a and 1995b; Goering, at. al, 1994; Fischer, n.d.; Hughes 1997). Newspaper stories consistently identify HUD-subsidized housing developments with crime, welfare, and social pathology, compounding the media's general misleading stereotypes about the poor.[39] Conservatives often use public housing as a metaphor for the failure of activist government. The public housing program was generally reported sympathetically from the 1950s through the mid-l960s, but since 1965 media coverage of public housing has been consistently negative, focusing on the anti-social behaviors (crime, drug use, gang membership) of its residents and presenting misleading portrayal of public housing developments as "high rise slums."[40]

Seventh, HUD has become increasingly identified as serving the interests of racial minorities. Ironically, one criticism of HUD is that its programs segregate racial minorities in urban ghettoes, while a more recent criticism is that HUD seeks to deconcentrate the minority poor into white and more affluent areas. Since the l968 Fair Housing Act, one of HUD's responsibilities has been to monitor racial discrimination by landlords, real estate agents, local governments, and banks, and to punish violators. In recent years, HUD has also been involved in uncovering redlining by banks.

Although HUD has often been lax in carrying out these responsibilities, this mandate has not endeared HUD to the real estate industry. Some of HUD's biggest controversies have revolved around its efforts to reduce racial segregation. In some quarters, HUD is seen as the agency that seeks to integrate white neighborhoods. When the Clinton administration sought to deconcentrate the poor through the ■Moving to Opportunity• program (a small pilot program to help the ghetto poor find apartments in better neighborhoods) -- Republicans and conservative pundits attacked it as ■social engineering• (Dreier and Moberg 1996; Rockwell 1994; Bratt and Keating 1993; Schussheim 1994; Goering, et. al. 1999; Rosenbaum 1995; Rosenbaum, et. al. 1993; Rosenbaum and Miller 1997; Rosenbaum, Stroh and Flynn 1998; Rosenbaum and DeLuca 2000; Turner 1998: Turner, Popkin and Cunningham 2000).[41]

Eighth, HUD's low-income housing programs have continuously been torn by corruption and mismanagement scandals. Already identified with the poor, ghettoes, and minorities, HUD also became identified with mismanagement and corruption. Since HUD began, politically connected developers have fed at its trough of lucrative subsidies and mortgage insurance. HUD's first major effort was the Model Cities program, a comprehensive effort to revitalize distressed neighborhoods. It combined both physical improvements and social services, but lasted only a few years, in part because its emphasis on participation of the poor in its administration alienated big-city mayors and business leaders. One of the criticisms was that HUD funds went to incompetent or corrupt community groups, including some street gangs. Beginning in the late l960s, HUD shifted its emphasis away from public housing toward reliance on the private sector to provide low-income federally-assisted housing. This led to abuses and rip-offs, exacerbated by HUD's inability or unwillingness to effectively monitor its programs. No sooner had these programs started than members of Congress and the media exposed numerous problems, including excessive profits, poor construction, razing stable neighborhoods as part of "slum clearance," and using HUD grants as political payoffs to campaign contributors (Gans, 1962; Fried, 1972; Boyer, 1973; Liston, 1974). The first major scandal, which emerged in the early 1970s, involved the abuse of HUD's Sections 223(e) and 235 homeownership programs by realtors and lenders and of the Section 236 rental program by developers. "This scandal contributed to the quick demise of these programs following the 1973 Nixon moratorium on the construction of federally subsidized low-income housing." (Bratt and Keating 1993: 13). The elimination of these programs further weakened political support for HUD, not only by the public, but by those private sector constituencies who had profited from them.

In 1989, soon after Reagan left office, the nation's media uncovered another HUD scandal, revealing that high Reagan Administration officials had used political favoritism to allocate HUD low-income housing production funds, activities which later led to the conviction of several top officials. These revelations led Congressman Gingrich, the New Republic (1989), and others to call for abolishing the agency entirely. The Reagan Administration was simply more blatant about its abuses. The HUD scandals confirmed the public's skepticism about federal housing programs as rip-offs. Reports to Congress by the General Accounting Office consistently highlighted HUD's terrible track record of monitoring its programs, contributing to its image as an out-of-control bureaucracy. For more than a decade, the taint of these scandals eroded public and Congressional support for HUD.

Ninth, the consumers of HUD's low-income programs have become increasingly fragmented and politically isolated. HUD's current constituency is composed primarily of those who have a

direct stake in housing the poor: big-city mayors and local government housing bureaucrats; private housing developers, landlords and speculators; and poor people and their advocacy organizations. These groups are politically weak, fragmented, and generally viewed unfavorably. The various segments of the housing constituency often work at cross-purposes, lobbying for their own specific piece of the HUD pie, weakening the overall impact of their efforts and undermining the likelihood of building broad support for federal housing programs. (Dreier 2000) The mayors and housing bureaucrats depend on HUD funding and programs. This "urban lobby" (such as the U.S. Conference of Mayors and the National Association of Housing and Redevelopment Officials) has been steadily losing clout for years, as cities come to represent a smaller portion of the overall electorate and national PACs replace city-based political machines as the keys to winning urban seats in Congress (Nardulli, et. al. 1996; Paget 1998). HUD's private sector constituency includes landlords, developers, real estate lawyers, Advocacy groups -- including organizations like the National Coalition for the Homeless, the National Low Income Housing Coalition, ACORN, the National Community Reinvestment Coalition, and the National Congress for Community Economic Development -- are often referred to as the "housing movement" (Dreier 1984, 1996). Funded primarily by liberal foundations, these public interest organizations occasionally activate their loose networks of local housing activists (tenants groups, homeless shelters, community and church organizations, non-profit developers) to protect or expand federal housing programs for the poor. These advocacy groups have had some success in protecting and even improving HUD programs, but they mostly put their fingers in the dike.

Tenth, HUD's programs have increasingly resembled a crazy quilt with no overall coherence. They have been less ambitious and become increasingly narrow and balkanized. Since the l960s, HUD has added a patchwork of programs to accommodate its various narrow constituencies. This makes it a cumbersome and confusing bureaucracy that is ripe for mismanagement and corruption. HUD has many different pockets of money to help public housing agencies and an almost equal number of distinct programs for private owners of HUD-subsidized developments. HUD also has two programs allocated by formulas to municipal governments -- the Community Development Block Grant and HOME, both of which have various strings attached. There are distinct programs for new housing construction, for moderate rehabilitation, and for major rehabilitation. HUD has two housing allowance programs -- vouchers and certificates -- that have different standards. There are separate programs to house the elderly, Native Americans, rural populations, people with AIDS, and homeless people. In the l980s, HUD created a variety of programs to address the various subpopulations of the homeless. Separate programs were created to help homeless families, homeless veterans, homeless people with AIDS, and the elderly homeless, and to create single-room occupancy apartments (rooming houses), transitional housing for women and children, and shelters as well as health care clinics for homeless persons.

One by-product of the gradual but steady shift away from production programs towards vouchers and certificates is the further weakening of HUD's constituency. Today, one-third of the households with HUD subsidies are renters with vouchers or certificates. This proportion is likely to steadily increase. Tenants who live in a building or complex, or residents who live in a geographic neighborhood, can be mobilized to defend their interests. But tenants with vouchers, scattered across many buildings and neighborhoods, cannot easily be identified, much less organized, to protect these subsidies from elimination by Congress.

The Paradox of the Low-Income Housing Tax Credit

In terms of political support for low-income housing, the federal Low-Income Housing Tax Credit (LIHTC) represents an interesting contrast to the programs sponsored by HUD. Since it was created by Congress in 1986, and implemented the following year, the LIHTC has received growing support, not only among low-income housing advocates but also among business leaders as well as the private housing industry. In contrast to the HUD budget, LIHTC funding has increased, reaching approximately $3 billion in 1997. Since its creation, the LIHTC has been the largest federal subsidy for new construction and substantial rehabilitation of low-income housing (Newman and Schnare, 1997).

What explains the LIHTC's success? As noted earlier, in the Tax Reform Act of 1986 Congress replaced existing tax incentives for construction of low-income housing (such as accelerated depreciation) with the LIHTC. The LIHTC provides tax breaks to investors (corporations and individuals) in developments in which a substantial proportion of units are targeted for low-income households.

There are at least five factors which make the LIHTC politically attractive to a broad coalition of supporters.

First, it is relatively invisible. Like other tax expenditures, it is a subsidy allocated through the tax code, rather than through a federal government agency. In theory, it requires no bureaucracy, such as HUD or the Department of Agriculture. Thus, it is not subject to the same political conflicts as programs tied to agencies. In fact, there are administrative costs, primarily borne by state housing finance agencies, but also borne by the IRS in monitoring the tax credits.[42] Moreover, the transaction costs of the LIHTC are substantial. The LIHTC is a very complex instrument that requires many lawyers, accountants, and consultants and a great deal of paperwork among the investors, the developers, and the state housing agencies. These transaction costs increase the development costs of any project using the LIHTC. Such costs, however, do not show up in the federal budget, thus masking the LIHTC's inefficiencies.

Second, the per unit LIHTC subsidies are quite low ($27,300) compared with other federal housing programs, making the LIHTC appear to be an attractive program. But this figure masks the real subsidy costs. Many LIHTC projects require additional subsidies, including federal subsidies like Section 8 vouchers and certificates. The General Accounting Office estimates that "almost three-fourths of the households in these projects benefited either directly or indirectly from other housing assistance, such as rental assistance to residents or loan subsidies to project owners." (U.S. GAO, 1997: 4)[43] Indeed, the patchwork of subsidies necessary to "make the numbers work" is one of the major inefficiencies of the LIHTC program. Moreover, because the allocation formula is based on each state's population size, rather than the number of low-income households (as the Community Development Block Grant is allocated), the distribution of LIHTC subsidies is relatively inefficient.

Third, corporate investors earn substantial profits through the tax credit -- typically a 15% return on equity. Some of the nation's largest corporations have participated in the LIHTC. The LIHTC is not a form of corporate philanthropy, but many corporations nevertheless also earn positive publicity for investing in low-income housing and inner-city neighborhoods. They often use the phrase "doing well by doing good" to explain their motivation. LIHTC investors are recruited by

syndicators, state housing finance agencies, and other intermediaries. This has spawned an entire industry around the LIHTC -- syndicators, intermediaries, lawyers, accountants, development consultants, and others. Thus, in addition to some major corporations who act as investors, this "LIHTC industry" has a vested interest in protecting the program when it comes up for renewal in Congress. The LIHTC industry has the most direct stake in preserving the program, but it is able to marshall support from the more influential corporate investors, who represent Fortune 500 and comparable firms. Two of the major intermediaries are the Enterprise Foundation (founded by developer James Rouse) and the Local Initiatives Support Corporation (LISC), which both provide technical assistance and channel private and public resources to community development corporations (CDCs). They have been two of the key institutions to utilize the LIHTC and to mobilize the corporate investors to lobby Congress when necessary. While business support provides the LIHTC with a powerful lobby, some argue that the structure of the LIHTC is highly inefficient in terms of delivering scarce dollars to the poor (Stegman, 1990; Stanfield, 1994). The investors receive between one-quarter and one-half of the subsidy. The LIHTC has become more efficient over the years, as state housing agencies and developers become more sophisticated in getting investors and syndicators to put more dollars back into the housing developments. Even so, one housing expert likened the LIHTC to "feeding the sparrows by feeding the horses" -- an inefficient and indirect way to accomplish the goal of housing the poor. (Hartman, 1992).

Fourth, the bank industry has played a significant role in lobbying on behalf of the LIHTC in Congress. Banks that utilize the LIHTC as investors not only earn substantial profits, they also get credit under the federal Community Reinvestment Act (CRA) for addressing the credit needs of low-income communities and consumers. As a result, banks are the corporate sector most engaged in LIHTC investment.

Fifth, many of the developers of housing projects utilizing the LIHTC are non-profit organizations, typically community development corporations (CDCs), giving the program a positive public image of addressing community needs.[44] The Enterprise Foundation estimates that about one-third of all housing built with the LIHTC has been sponsored by non-profit organizations (Enterprise Foundation 1996). The Enterprise Foundation and LISC, as well as some state housing finance agencies, have played the role of matchmaker, linking investors to projects sponsored by CDCs. CDCs thus become the "public face" of the LIHTC and provide legitimacy and positive public relations. They are built by "the community," through partnerships with the private sector. The LIHTC is thus not identified with the same stigmatizing factors -- government bureaucracy, large-scale "projects" -- as HUD-subsidized housing developments. CDC projects tend to be smaller in size. Also, because the LIHTC does not provide sufficient subsidies to cover the operating costs for 100% low-income projects, a significant number of LIHTC developments are mixed-income. (GAO 1997).

In combination, these factors help explain why Congress has acted favorably in renewing and expanding the LIHTC at the same time it has attacked HUD.

The Mortgage Interest Deduction: Challenging the Housing Industry's Sacred Cow

How do we account for the huge gap between federal housing subsidies for the affluent and those for the poor? Political power and ideology are key factors in answering this question. The disparity in federal housing subsidies for the well-off and the poor is due primarily to the relative political influence of the constituencies who benefit from these different subsidies. The real estate industry's ability to protect the mortgage interest deduction illustrates how the allocation of housing subsidies reflects inequalities of political power rather than the provision of social needs.

Although homeownership has long been a cornerstone of the American belief system (Heskin, 1981; Dreier, 1982; Carliner, 1998), tax breaks for homeowners initially were not viewed as a key component of federal policy to encourage homeownership.[45] The original income tax applied only to the wealthiest one or two percent of the population, so the deduction was clearly not intended to broaden homeownership. But as the taxpaying population broadened, particularly after World War 2, the deduction grew almost by accident, at first small and little noticed. By the time Brookings Institution, Urban Institute, and other economists began suggesting in the l960s and l970s (Aaron 1972; Surrey 1973; Andreassi and MacRae 1981; Aaron and Galper 1985; Surrey and McDaniel 1985) that the homeowner deduction was inequitable and unnecessary, the real estate industry was already declaring it sacrosanct.

There is no evidence that when income taxes on individuals were introduced in l913, its framers viewed it as a vehicle to promote homeownership. The initial bill made a distinction between total income and taxable income; individuals were permitted to deduct from their total income "specific sources of income (e.g., gifts and inheritances and interests on state and local bonds) and specific expenses in order to generate a lower level of taxable income. Included in these expenses were interest paid of all indebtedness, including but not limited to home mortgages." At a time when personal and business debt were highly comingled, in part because so many Americans were engaged in agriculture, allowing individuals to deduct all consumer debt was administratively simpler than trying to figure out what was personal debt and what was business debt. (Howard 1997: 53-54).

The major tax break for homeowners -- the mortgage interest deduction -- did not affect a large proportion of the population until after World War 2 and was a tiny item in the overall federal budget.[46] Changes in tax policy and an expansion of homeownership gave a growing number of Americans a stake in the mortgage interest deduction. Thanks to a strong economy, rising incomes, and the federal policies to promote homeownership and suburbanization, homeownership increased significantly after World War 2. The homeownership rate increased steadily, from 43.6 percent in l940, to 55 percent in 1950, to 62 percent in 1960. It then grew more slowly, to 65.6 percent in 1980.

During this three-decade period, the federal government lowered the personal income tax exemption and raised tax rates. In 1941, it lowered the personal exemption (which added five million additional taxpayers) and increased the tax rate on the lowest brackets from 4.4% to 10%. A year later, Washington lowered the personal exemption again and raised the tax rate on the lowest bracket to 19%. These policy changes meant that millions of middle-class and even working-class families who had previously been exempt from the federal income tax were now paying taxes. In 1939, only 6% of all employees paid income taxes; by 1945, the figure had grown to 70% (Howard 1997).

In 1944, Congress enacted the standard deduction, which simplified the tax system and

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lowered taxes for most families. Many homeowners used the standard deduction rather than itemize their deductions because their interest payments were relatively small. By the l950's, however, the standard deduction did not keep pace with increases in income and the size of mortgages; so, as incomes rose, and homebuying and homebuilding grew, more Americans took advantage of the homeowner deduction. They viewed this deduction as part of their calculation when deciding whether to buy a home and how big a home to buy.

Stanley Surrey, who coined the term "tax expenditures," became Assistant Secretary of the Treasury for Tax Policy under President Kennedy (Surrey 1973). He helped draft JFK's April 1961 special message to Congress on taxation, which called for limiting the number of tax preferences while reducing overall tax rates, which he claimed would stimulate economic growth and also be fairer. These ideas were embodied in the Revenue Act of 1964, which Kennedy submitted to Congress. One provision permitted taxpayers to deduct itemized expenses that exceeded five percent of their income. This would lead more taxpayers to take the standard deduction and reduce the value of itemized deductions for many well-off taxpayers. Kennedy's proposal ran into a political buzzsaw. Every industry and sector that had a stake in various tax breaks -- including private charities, universities, doctors, state and local governments (whose residents would no longer be allowed to deduct state and local taxes from their federal taxes) and others -- lobbied against Kennedy's proposal. For the first time, the major real estate industry organizations -- homebuilders, bankers, and realtors -- lobbied to protect the tax breaks for mortgage interest and property taxes. These combined political forces killed the proposal in Congress. The lobbying effort over Kennedy's proposed tax reform served as a warning that they needed to protect tax benefits for homeownership, which they had previously taken for granted.[47]

In January 1969, Joseph Barr, the outgoing Secretary of the Treasury under President Johnson, testified before Congress, criticizing tax loopholes for the wealthy. He unveiled the nation's first "tax expenditure budget," which exposed the size of the many tax loopholes and even noted how many millionaires had paid no income taxes because of various tax breaks. One of his examples was the mortgage interest deduction, which, he said, cost the government $1.9 billion a year and which disproportionately helped affluent taxpayers. A few years later, Congress required that the list of tax expenditures be published annually.

A few months after Barr's testimony, the mortgage interest deduction made headlines. In October l969, President Nixon's HUD Secretary, George Romney, tossed aside a prepared speech and proposed repealing the homeowner deductions and channeling the revenue "to meet the problems of the slums." The Nixon administration, and then Romney himself, soon turned its back on the idea (Herbers 1969: 19).

During the l970s and early 1980s, the gap between housing tax expenditures and direct housing subsidies widened. (See Table 3). The size of the mortgage interest deduction grew steadily because housing prices increased, interest rates grew, and the standard tax deduction did not keep pace with these trends. Efforts to simplify and reform the tax code played a hand in putting the mortgage deduction in the political spotlight.

In his 1984 State of the Union speech, President Reagan announced that he had asked the

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Treasury Department to conduct a comprehensive review of the tax system with the goal of lowering tax rates, simplifying the system, and reducing government. Some Treasury Department staff were ready to propose sweeping changes, ending or reducing many tax breaks for business and wealthy individuals, including the elimination of the mortgage interest deduction.[48] The real estate industry learned what the Treasury Department officials were thinking and launched a political offensive. They lobbied Reagan heavily. In May 1984, an election year, Reagan spoke before the National Association of Realtors in Washington and was asked whether or not the mortgage interest deduction was in jeopardy. Reagan stated: "In case there's still any doubt, I want you to know we will preserve the part of the American dream which the home mortgage deduction symbolizes."[49]

After the 1984 election, Reagan unveiled his tax reform plan, which called for eliminating some key tax breaks, including charitable contributions and state and local taxes. It also limited the mortgage interest deduction to one home, and it eliminated the deduction for property taxes altogether. It also reduce or eliminated other real estate tax breaks for investors in office buildings and apartment complexes. This proposal galvanized the real estate industry in an unprecedented lobbying effort. The National Association of Realtors, the National Association of Home Builders, and the Mortgage Bankers Association sent a joint telegram to Treasury Secretary Donald Regan that said:

> We strongly recommend that any serious tax proposals do not eliminate or dilute incentives for savings, investment or homeownership. We are concerned about the impact of this proposal on the long-standing public policy for the tax code to provide incentives to promote homeownership and other housing-related investments (Congressional Quarterly Weekly Report 1984: 3018).

During the Congressional hearings on Reagan's proposal, the real estate industry engaged in an all-out campaign to protect the tax breaks for homeowners. They hired consultants to do studies demonstrating that any tampering with these tax breaks would hurt the economy, undermine the real estate market, and reduce homeownership. They argued that vacation states would be hurt by eliminating tax breaks for second homes. They got state and local government officials to join them in claiming that eliminating tax breaks for property taxes would hurt state and local governments. They organized a grassroots lobbying campaign, mobilizing realtors, bankers, builders, and others to arrange meetings with Congressmembers. They increased their campaign contributions to these officeholders, and they threatened to run candidates for Congress against members who voted to cut real estate tax breaks. Congress bowed to the pressure. Rep. Fortney Stark, a key advocate for eliminating some of the tax breaks, observed: "I was just outgunned by a real estate lobby that knows

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no limits to its greed." (Birnbaum and Murray 1987: 140).

Although Congress adopted much of the Reagan tax plan, reducing tax rates and eliminating many tax breaks dear to business groups, it bowed to the real estate industry's pressure by preserving the mortgage interest and property tax deductions for homeowners.[50] By lowering overall tax rates, however, the Reagan plan actually reduced tax expenditures, including the value of the homeowner tax breaks. Also, by increasing the standard deduction and the personal exemption, and indexing both to inflation, it reduced the number of families who would utilize the mortgage interest deduction. The real estate industry could not publicly oppose these provisions to lower income taxes on ordinary families. The narrow interests of the real estate lobby clashed with those of most taxpayers. As Birnbaum and Murray note:

> That this measure was even considered defied the conventional wisdom. No modern president has so opposed the concept of corporate taxes or had as many rich friends who benefitted from tax loopholes as Ronald Reagan. Yet the Reagan tax-reform initiative involved the largest corporate tax increase in history and the most dramatic crackdown on loopholes for the affluent (Birnbaum and Murray 1987:. xii).

The industry got another big scare a year later, when Congress limited the deduction to mortgage interest on just two homes and capped the subsidy at $1 million of principal eligible for the mortgage interest deduction. These moves frightened the housing industry. The $1 million cap itself affected very few taxpayers. But industry lobbyists worried that it might snowball, leading Congress to lower the cap again and again. Again, they mounted a major campaign to protect the homeowner tax break from further tampering by Congress. The real estate lobby groups made the homeowner deduction the litmus test for their support.

Soon after taking office in 1989, President Bush, speaking at a National Association of Realtors convention, vowed to defend the existing homeowner subsidy. Even so, to insure its support in Congress, the industry's lobby escalated its efforts. Once again, the industry marshalled its considerable forces. It produced reports alleging to show the disastrous consequences of eliminating the deduction (National Association of Home Builders 1989). The industry initiated a non-binding resolution, sponsored by Rep. Marge Roukema (a Republican representing affluent New Jersey suburbs) and Rep. Les AuCoin (a Democrat from lumber-intensive Oregon, which provides materials to the housing industry), in support of protecting the existing homeowner tax break.[51] Over half the members of the House of Representatives (including many liberal Democrats) signed on.

The 1990s Battle Over Deficits and Deductions

The Reagan era, by reducing taxes and expanding military spending, left a legacy of a

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ballooning federal budget deficit. In doing so, the Reagan administration tied the hands of subsequent presidents and Congresses to significantly reduce taxes or initiate new domestic social programs.[52] In this political climate, conservatives and liberals alike began looking for ways to reduce the federal deficit get closer to a balanced budget. Conservatives sought to do it by further slashing domestic social programs. Liberals looked toward raising taxes on the well-off as well as "reinventing government" to be leaner and more efficient. Faced with these dilemmas, both conservatives and liberals began to look at the list of tax expenditures as possible ways to achieve their goals. Not surprisingly, both political camps noticed that one of the largest items on the list was the mortgage interest deduction (See Table 1). A growing number of public officials, policy experts, and media outlets began to identify these homeowner tax breaks as possible targets for reducing the deficit.

Thus, the 1990s saw a new wave of concern about the mortgage interest deduction, fueled primarily by efforts to reduce the federal deficit. The visibility of this issue was aided by the annual publication of tax expenditures. In 1967, Stanley Surrey, Assistant Secretary for Tax Policy in the Treasury Department, helped institute a "tax expenditure budget." In 1972, the Joint Committee on Taxation began preparing an annual tax expenditure budget for the Committee on Ways and Means. In 1974, the Congressional Budget and Impoundment Control Act required that a list of tax expenditures be included in the annual budget. As a result two reports are published each year. The first, "Estimates of Federal Tax Expenditures," is a list of tax expenditures prepared by the Joint Committee on Taxation. It lists the tax expenditures by function and size and includes tables identifying the distribution of tax benefits by income bracket. The second is a report by the Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options." The CBO study is a compendium of ideas for cutting federal spending.[53] In this report, the CBO includes several ways to reduce the deficit by limiting deductions for mortgage interests. The 1995 report said:

> Such preferential treatment may benefit neighborhoods because it encourages home ownership and home improvement. The amount of preference, however, is probably larger than needed to maintain a high rate of home ownership. For example, Canada, which grants preferential tax treatment to capital gains from home sales but does not allow deductions for mortgage interest, has achieved about the same rate of homeownership as the United States.

The CBO estimated that eliminating the mortgage interest deduction would save the federal government $313.3 billion between 1996 and 2000. It also offered three more modest suggestions to

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limit this tax break for better-off homeowners.[54]

For many years, these two reports were virtually ignored. By the early 1990s, with deficit reduction and balanced budget mania at a peak, the CBO's suggestions began to be taken seriously and hotly debated. For example, a growing number of policy experts were debating the effectiveness of the deduction, and many were echoing the earlier concerns of economists like Henry Aaron and Joseph Pechman (Manvel 1991; Poterba 1992; DiPasquale 1992; Follain and Long 1991). Cushing Dolbeare, founder of the National Low-Income Housing Coalition, persistently issued reports during the 1980s identifying the widening gap between housing subsidies for the poor and tax expenditures for the well-off (Dolbeare 1983). In the late l980s, Anthony Downs, a Brookings Institution economist, drafted a paper for a Senate task force on housing policy that pointedly noted the disparities in federal housing assistance. Downs wrote:

> [H]omeownership tax benefits provide enormously disproportionate aid to high-income taxpayers, even though they need such aid least. Reducing only partly the amount of assistance they receive would make substantially more funds available for housing assistance to low-income taxpayers without increasing federal deficits. It would also increase the equity of housing assistance considered as a whole. By reducing homeownership tax benefits less than 20 percent ● and taking almost all of that reduction from high-income households -● the United States government could probably pay for a housing voucher entitlement program serving all eligible very-low-income renter households who applied (Downs 1990: 76).

In 1991, the Twentieth Century Fund issued a report, More Housing, More Fairly, that recommended "shifting federal (housing) commitments to make current allocations fair," in particular the tax expenditures for housing.[55]

Politicians and politically-attuned think tanks began to echo this debate. This debate was reflected in the mainstream media. During the late l980s through the early 1990s, a spate of newspaper and magazine articles, as well as newspaper editorials, about the mortgage interest deduction appeared, many of them questioning the widening gap between housing subsidies for the poor and housing tax breaks for the wealthy.[56] The mainstreaming of this issue is reflected in a 1989 cover story in Forbes, a conservative business magazine, entitled "Is the Mortgage Interest Deduction Sacred?" The article quoted veteran Congressman Sam Gibbons (D-Florida), who said: "I have no

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objections when the deduction goes for houses. When it goes for castles, I do." As shown in Table 6, newspaper stories referring to the mortgage interest deduction remained at a steady level from 1985 until 1992, when the number jumped due in part to its salience as a serious issue in the 1992 presidential election, when candidate Ross Perot and a number of policy advocacy organizations introduced the notion of revising the deduction to help reduce the federal budget deficit.

During the 1992 presidential campaign, for example, candidates' proposals to reduce the deficit were a serious issue, particularly since Reform Party candidate Ross Perot, a Texas billionaire, made it the focus on his platform. Although he did not emphasize it in debates or public speeches, part of Perot's deficit-reduction plan included limiting the homeowner tax break. During the campaign, two centrist policy organizations -- the Democratic Leadership Council's Progressive Policy Institute and the Concord Coalition (headed by former U.S. Senators Paul Tsongas, a Democrat, and Warren Rudman, a Republican) -- issued reports calling for reform of the mortgage interest tax break to reduce the deficit. Senator Paul Simon (D-Ill.), a leading liberal, echoed the same theme during an interview on "Meet the Press."[57] In defense of the deduction, the NAHB, in its compendium of legislative issues for 1992, noted that the mortgage interest deduction "has been the cornerstone of housing policy for most of this century." Changing the policy would not only "erode the importance of homeownership," it would also "sap the nation's vitality and threaten its role as a world leader."

After the 1992 election, with deficit reduction a major concern of key opinionmakers, the issue remained on the public agenda. A New York Times editorial argued that newly-elected President Clinton "could also reduce deductions for mortgage interest," in his plan to reduce the deficit (New York Times 1993). The Times' economics columnist Peter Passel made the same argument (Passell 1993). The Washington Post editorialized that what Congress ought to do is "trim the interest deduction from the top and use the proceeds to support the poor." (Washington Post 1994) Other mainstream media outlets kept the story in the public eye (Starobin, 1994; Peirce 1994; Inman 1994; Los Angeles Times 1993; Lehman 1994). There was some speculation that Clinton was eyeing the deduction (particularly lowering the ceiling) as part of his deficit reduction plan, especially since one of his key economic advisors during the campaign, Robert Reich, had criticized the deduction as a major loophole (Klott 1992; Church 1993; Samuelson 1993). Controversy erupted in February 1994 when a draft of a Clinton Administration plan to reduce homelessness, leaked to the New York Times, included a critique of the regressivity of the mortgage interest deduction (DeParle 1994). HUD Secretary Cisneros quickly responded that the administration opposed eliminating the deduction (Housing Affairs Letter, February 25, 1994).

The issue was sufficiently hot that Fannie Mae commissioned a paper by three economists asking "who really benefits?" from preferential tax treatment for homeownership. The agency published the study (Follain et al, 1993) and several responses in its journal, Housing Policy Debate, and organized a day-long conference on the topic in September 1993, inviting housing and tax policy experts, including representatives of the housing industry, to discuss the issue.[58]

Newspaper coverage jumped again in 1995 and 1996 when Senator Robert Packwood, chair of the Senate Finance Committee, floated the idea of limiting the deduction, and then when several

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1996 presidential candidates along with Cong. Dick Armey (R-Texas) proposed a flat tax that would have eliminated the mortgage interest deduction.

After the Republicans took control of Congress in November 1994, the momentum for tax reform and deficit reduction -- and the controversy over the mortgage interest deduction -- escalated. In December 1994, the Bipartisan Commission on Entitlement and Tax Reform, co-chaired by Senators Bob Kerrey (D-Neb.) and John Danforth (R-MO.), adopted the CBO's call to lower the ceiling on mortgage interest to $300,000. USA Today endorsed the idea in a lead editorial entitled, "Quit giving outrageous tax break to the wealthy."(USA Today 1994) The Competitiveness Policy Council, a 12-member task force composed of major business and labor leaders, made the same recommendation (Pearlstein 1995). Also after the l994 election, House Speaker Gingrich and Senate Majority Leader Dole appointed a National Commission on Economic Growth and Tax Reform to make recommendations for simplifying the tax code. Its original not-so-hidden agenda was to propose a flat tax. They appointed Jack Kemp, a strong flat tax advocate, to head the task force. But as the group was prepared to issue its report, around the time of the Iowa and New Hampshire presidential primaries, Dole and several other GOP candidates pressured Kemp to avoid calling for eliminating the mortgage interest deduction issue in order to avert the wrath of the real estate industry (Cornwell 1996). This split put the GOP presidential candidates in a bind. Even though Kemp's commission ducked the issue, the candidates could not easily dodge it. Steve Forbes' flat tax proposal had generated considerable attention (Cornwell and Collins 1996). At public candidates' forums, he pushed his rival candidates to take a position.

Soon after taking over as chairman of the Finance Committee, Senator Bob Packwood (R-Oregon) proposed limiting the mortgage deduction to $250,000 in debt (Boston Globe 1995). Around the same time, the new House Majority Leader Dick Armey (R-Texas) proposed a 17% flat tax that would do away entirely with all deductions, including the homeowner breaks (Housing Affairs Letter, May 19, 1995).

In response to Senator Packwood's proposal to lower the ceiling on the mortgage interest deduction, Time magazine and CNN commissioned a national poll on the subject. This is perhaps the only poll that has specifically asked about change in the mortgage interest deduction. Conducted by Yankelovich Partners in May 1995, it found substantial support for a Packwood-style reform. It asked 800 American adults: "As you may know, the tax code subsidizes mortgage loans, even for the most expensive homes. One proposal would limit the tax deduction to $300,000 in mortgage principal, and would save the Treasury $35 billion over five years, while affecting only 1.2 milion of the wealthiest taxpayers. Would you favor or oppose such a limit?" Overall, 68% of the respondents said they would favor it. There was almost no difference between Democrats, Republicans and independents.

The 1996 presidential elections brought the issue to the fore again, primarily in reaction to candidate Steve Forbes' proposal for a flat tax. Flat tax proponents produced studies claiming that lower tax rates would make homeowners and would-be homebuyers better off, even without the mortgage interest deduction (Seldon and Boyd 1996). The flat tax debate exacerbated divisions among conservatives. Right-wing think tanks like the Heritage Foundation and the libertarian Cato

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Institute, along with Citizens for a Sound Economy, a conservative advocacy group, supported the flat tax, including elimination of the mortgage interest deduction.[59] Indeed, CSE called the National Association of Realtors' study (which estimated that home prices would fall 15% if the deduction were eliminated) "another misleading attempt to mislead the media and scare homeowners." (Inman 1996)

The Real Estate Industry Mobilization

The mid-decade debate over the flat tax proposals produced another flurry of news articles, editorials, and columns about the controversy, many of which questioned the mortgage interest deduction's regressivity.[60] The real estate industry reacted fiercely to these attacks on its sacred cow. In response to the Packwood, Armey, and Forbes proposals, the real estate industry released several studies purporting to show the disastrous consequences of tinkering with or eliminating the mortgage interest deduction. The housing industry warned that any change in the mortgage interest deduction would wreak havoc with the real estate market and the overall economy.[61]

Seeking to ambush any attempt to tamper with this homeowner tax break, five housing industry lobby groups -- the National Association of Homebuilders (NAHB), the National Association of Realtors (NAR), the American Bankers Association, the Mortgage Bankers Association (MBA), and America's Community Bankers -- issued a 47-page study in March 1996 examining the impact of changing the mortgage interest deduction (The Impact... 1995). Citing his group's report, MBA president Joe Pickett told Congress in May that tampering with the deduction would be "harmful to the nation's economy and to efforts to spur homeownership. The indirect effects of lowering the cap could hamper business activity, slow employment growth and greatly reduce state and local government revenues."[62] A month later, the MBA issued its own report that concluded that housing values could decline by as much as 25% under the flat tax proposed by Rep. Armey (Isaac and Marigon 1996; Sichelman 1996).

The industry also used its political and financial clout to protect the deduction. Unlike industries dominated by a few large corporations, the real estate industry is composed of tens of thousands of firms -- builders, real estate agents, lenders, and others. The political action committees of the National Association of Realtors, the National Association of Home Builders, and the Mortgage Bankers Association have vast local networks and deep pockets. The National Association of Realtors PAC is the largest political action committee in the country in terms of contributions. In 1994 it gave $1,853,578 to Congressional candidates. The real estate/finance/insurance industry (through PACs and individuals) are the most generous contributors to Congress of any business sector. As Tables 6, 7 and 8 show, in 1994 the industry divided its contributions relatively evenly between Democrats and Republicans. In 1996, with the Republicans in control of both houses of Congress, the industry tilted toward the GOP, with 64% of its contributions. (This trend continued in 1998, as Tables 9, 10, and 11 reveal). Few members of Congress want to offend these generous donors or be labeled as anti-homeownership.

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The NAHB sponsored a front group, called the United Homeowners Association, to lobby to protect the homeowner deduction, but its financial and political ties to the industry were so transparent that no one in the media or in Congress took it seriously as an independent grassroots political force comparable to the AARP or the labor movement.[63]

The real estate industry -- not only bankers, realtors, and developers, but also junior partners like tax lawyers and Fannie Mae -- strongly opposed any change. According to one account, the NAR spent $750,000 in 1995 defending the deduction (Shear 1995). During the 1996 New Hampshire and Iowa presidential primaries, Fannie Mae and Freddie Mac spent over $100,000 in advertising to attack the flat tax proposals, arguing that it would drive down housing values. One ad put the flat tax in the same category as termites and tornadoes, labeling all three "famous American home wreckers." (Peirce 1996) The industry created a front group, the Coalition to Preserve Home Ownership, that during the New Hampshire primary mailed a brochure to voters that read: "Don't let the political stampede `flatten' your home! Make sure your favorite presidential candidate knows how important the mortgage interest deduction is to you." (Cornell and Collins 1996). Ironically, however, the NAHB found that many of its members supported the flat tax, even if it meant eliminating the mortgage interest deduction (Donohue 1996).

The tone of the industry's response suggests that it was clearly on the defensive and that it sensed the public mood was changing. Stephen Driesler, chief lobbyist for the National Association of Realtors, told the National Journal, "It's fair to say that when it's the chairman of the major tax-writing committee saying these things, it's a lot more serious than in the past, when it was usually just a member of the committee, or an isolated Member." (Jacobson 1995) An article in Mortgage Banking expressed concern that challenges to the mortgage interest deduction indicated that "the quintessential American dream of owning one's home is under attack." (England 1992)

The NAHB's chief economist admitted that the housing lobby was losing the public debate over the mortgage interest deduction. In the February 1995 issue of the NAHB's magazine, Builder, David F. Seiders acknowledged that the "once-sacred" tax break was no longer sacrosanct (Seiders 1995: 38). "Questions are being raised about the deduction's cost-effectiveness as a tool to broaden homeownership," Seiders wrote. He admitted that "Frankly, it's possible to find countries with homeownership rates comparable to those of the United States without deductions." Seiders also acknowledged that "it's also hard to defend the deduction in terms of equality or fairness." "Some characterize the deduction as `welfare for the rich,'" Seiders noted. admitting that "If the deduction were eliminated or capped even lower, it would fit with the Clinton administration's theory of `progressive restructuring' of the tax system." Seiders warned his audience of homebuilders that "[I]t's going to be hard to defend the mortgage-interest deduction using only the old arguments about homeownership and the democratic process." A few months later, NAHB president Jim Irvine warned his fellow homebuilders that the deduction is "seriously threatened as Congress works to contain the deficit," citing Packwood's proposal (Irvine 1995: 48).

The real estate industry's intense lobbying efforts paid off. Forced to take a position on the issue, the GOP candidates differed on the flat tax, but even those who supported the flat tax (Forbes excepted) came out in support of exempting deductions for mortgage interest and charitable

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contributions (Johnston 1996). At one debate, for example, Republican candidate Lamar Alexander claimed that removing the homeowner deduction would "cause a real estate crash," parroting the housing industry line.[64]

During the 1996 campaign, both Dole and Clinton came out against the flat tax and in favor of preserving the tax break. Speaking to the National Association of Realtors, Dole said:

> "When we were taking all the heat...on the flat tax, millions and millions of dollars of TV advertising directed right at Bob Dole, I stood my ground and said I don't care what happens, we're going to keep the mortgage interest deduction..."(Dole 1996)

The same day, President Clinton addressed the NAR. In the middle of his remarks, he noted the increase in homeownership rates under his Presidency, touted his plan to expand homeownership further, and attacked the flat tax plan, while implicitly endorsing the mortgage interest deduction:

> So we ought to balance the budget, but I don't think we should do it in a way that undermines the ability of people to own their own home. If we can simplify the tax code, I'm all for it. But I don't think we ought to adopt a flat tax that will raise taxes on everybody making less than $100,000 a year, and put homeownership out of the reach of all the people in those categories (Clinton 1996).

In mid-1995, Michael Carliner, vice president of the NAHB, said that the mortgage interest deduction "is in greater jeopardy now" than in the past, but that it would be "off the table" until the 1996 election (Stark 1995). Since the 1996 election, political interest in revising the mortgage interest deduction has waned, although there have been occassional echoes of concern. A number of policy experts and newspaper reporters and columns have continued to beat the drum for reform (Johnson 1999; Nelson 2000). Most politicians that favor tax reform, including a flat tax, have, with a few exceptions, exempted the mortgage interest deduction from their proposals.[65] During the 2000 presidential elections, only GOP candidate Steve Forbes (who favored a flat tax that did not retain the deduction) and Ralph Nader (who favored lowering the ceiling on the deduction and targeting the savings for low-income housing) raised the issue (Garvey 2000; Brownstein 2000). Neither Al Gore

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nor George Bush addressed the issue.

At the same time, the nation's widening economic disparities generated considerable political and media attention during the mid- and late 1990s. Secretary of Labor Robert Reich sparked a public debate in the mid-1990s when he put the issue of "corporate welfare" on the nation's agenda. Studies showing that the wealthy were getting wealthier while most other households were staying even or only slightly better-off triggered political debates and a myriad newspaper and magazine articles about who was prospering during the nation's prosperity.[66] Public debate over economic "fairness" is unlikely to abate in the near future. To the extent that the mortgage interest deduction is viewed as primarily subsidizing the well-off without at least comparable government assistance for the middle-class and poor, reform will continue to resonate within public opinion, although whether this translates into political change depends on many other factors.

Conclusion

The United States has serious housing problems, not only among the poor but also among middle-income households (Stegman 2000). The major housing problem confronting the poor and many middle-income households is affordability: how much of their income they pay for housing. HUD's recent State of the Cities 2000 report documents that since 1997 housing prices and rents have increases at more than twice the rate of general inflation (HUD 2000). The widening gap between the rich and poor, the proliferation of low-wage jobs, and the economic insecurity that even many middle-income families face in the new economy exacerbates our national housing crisis.

In reality, as described above, HUD plays only a small part in the federal government's housing puzzle. And, despite its name, HUD has much less impact on the economic and physical conditions of our cities and metropolitan areas than other federal agencies and policies, including highway programs, the siting of defense facilities, tax breaks for homeowners, and others. On its own, HUD, with its limited authority and budget, can do little to address the current plight of our cities -- including the concentration of poverty, the suburbanization of people and jobs, suburban sprawl, and the economic and racial segregation of our metropolitan areas (Markusen, et al 1991; Jackson 1985; Gyourko and Voith 1997).

Although HUD was a convenient symbol for the opponents of activist government, it was never the basket case that its critics imagined, Over the years, most (though not all) of its programs -- including public housing -- have generally been successful on their own terms. Public housing and Section 8 housing, including Section 8 vouchers, provide poor people with better housing than they can get in the unsubsidized private market. Why else would there be such long waiting lists for these programs in every city? (HUD 1999). FHA continues to make homeownership affordable to many Americans who, without this assistance, would still be renters. The CDBG and HOME programs, along with HUD's programs for the elderly, the homeless, and people with AIDS, have helped make life more bearable for many of the most vulnerable people in our society.

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Under President Clinton, and Secretaries Cisneros and Cuomo, HUD has more than survived. Much of its credibility has been restored (Alvarez 1998). The taint of political corruption and favoritism is gone. Its programs have been improved and expanded. Its budget has increased to $20 billion in FY 2000. New initiatives -- to eliminate or downsize the worst public housing projects and replace them with more livable and manageable developments, to help poor families move from high-poverty areas into better neighborhoods, and to implement the nation's fair housing and fair lending laws -- deserve high marks. So, too, do HUD's efforts to nurture and fund the burgeoning sector of community-based development organizations in cities and rural areas around the country. The overall homeownership rate is at an all-time high. Homeownership rates among Latinos and African-Americans have significantly increased. The HUD bureaucracy is more flexible and better managed. Secretaries Cisneros and Cuomo attracted some of the nation's best policy experts and practitioners to take key jobs, a major sea change from the Reagan and Bush years, when top HUD policymakers had little interest in or knowledge about the agency's mission. HUD has become much more user-friendly, such as putting HMDA (Home Mortgage Disclosure Act) data on-line so that community groups can have access to it. Its Policy Development and Research staff has consistently produced outstanding reports (such as recent State of the Cities reports), used research to help formulate and evaluate policy, and brought together the nation's leading academics and practitioners around important issues. HUD, as Secretary Cuomo likes to say, is "back in business." Housing advocates have such low expectations that token gains, such as an additional 60,000 housing vouchers, are greeted as major victories, when the need is in the millions (Lacey 1999).

HUD's budget has increased steadily in the past few years. But even with these added funds, it has still not recovered from the devastating blows it was dealt during the Reagan years. HUD's capacity to address the nation's housing problems are limited by both its mandate and its resources.

Clearly, the battle over federal housing subsidies must go beyond the HUD budget to address the disparities between assistance for the poor and assistance for the well-off. The most obvious issue are the tax expenditures for housing -- in particular, the mortgage interest deduction.

During the 1990s, efforts to revise the mortgage interest deduction emerged from three different directions.

Advocates of deficit reduction saw in the deduction a means to address the nation's budget dilemmas. In the early and mid-1990s, this approach resonated with a considerable segment of the population and opinion elites, as the Yankolovich poll showed, although there was no well-organized constituency capable of mobilizing behind it. The Clinton Administration's success in reducing the federal deficit has probably removed this issue from the political radar screen for the foreseeable future.

Advocates of tax simplification viewed the mortgage deduction as an example of the complexities of the tax code. But one proffered solution to this - the flat tax -- proved extremely controversial, particularly since its consequences would have been to simplify the tax code while making it even more regressive. The flat tax idea still has its advocates, but it has few strong political forces behind it.[67]

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Advocates for the poor, spearheaded by the National Low-Income Housing Coalition and the National Housing Institute, sought to redress the vertical inequalities reflected in the gap between federal tax expenditures for the well-off and housing assistance for the poor. (Burns 1998). The chief vehicle for this was a bill, drafted by the NLIHC and sponsored by Cong. Major Owens (D-N.Y.) to create a housing trust fund targeted for low-income households by lowering the ceiling on the deduction. Owens and the NLIHC were unable to find many cosponsors for the bill. The targeting of the trust fund's benefits exclusively for the poor limited the potential constituency for the legislation.

More recently, however, those who view the deduction in terms of economic unfairness have taken a somewhat different approach, seeking to design a progressive tax break for homeowners that would reach households that do not benefit from the current tax provisions (Dreier and Atlas 1992 and 1997; Green and Vandell 1996; Collins, Belsky and Retsinas 1999). The popularity of the Earned Income Tax Credit, a refundable credit for the working poor, suggests that this approach has considerable support. A homeowner tax credit has the advantage of using the same policy tool -- tax expenditures -- toward a well-recognized benefit: homeownership. Still controversial is whether revenues for this approach should come from reducing the ceiling on the current deduction (i.e. a revenue-neutral approach) or from another source in the federal budget. Regardless, advocates of this approach recognize that this tool is unlikely to benefit very low-income households in many markets, and that increased direct federal housing subsidies for the poor are still necessary. Nevertheless, it suggests that housing advocates have learned some political and policy lessons from the past half century's experience of trying to reform this tax provision.

Any effort to address this issue must calculate the political consequences -- the winners and losers, the geographic impacts (by state and Congressional districts), and the intensity of support and opposition among households in general and lobby groups in particular. In a scenario that substitutes a tax credit for the current deduction, if the losers are concentrated in only a few states or Congressional districts, but the winners are spread out geographically, this will effect political calculations. If a handful of households lose big, while a much larger number of households win (but these benefits are relatively small), that may impact the capacity to mobilize political support for reform. Initial analysis suggests that winners vastly outnumber losers, and that losers are much more geographically concentrated than winners. Within the homebuilding industry, if a mortgage tax credit significantly helps builders of start homes targeted for families earning, say, less than $60,000, but hurts builders of luxury homes and second homes, that could potential divide the homebuilding industry, depending in part of the internal dynamics (including the number and location of builders that specialize in starter homes) of the industry's lobby groups. A proposal to simply add a mortgage tax credit without eliminating the current deduction would face less political resistance, but would nevertheless generate debate over how much and where to find the needed revenue.

In the current budget climate, with a federal surplus, a strong economy, and persistently wide economic gap between the well-off and others, there is reason to think that a well-crafted proposal could marshall support to increase homeownership by revising the tax code to benefit those "left out" by current regressive tax deductions and the severe scarcity of federal housing subsidies for the poor.

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TABLE 1

Major Tax Expenditures in the Income Tax, Ranked by Revenue Loss, 1999

($ millions)

Rank	Provision	FY 2000
1	Net exclusion of pension contributions and earnings: Employer plans	$84,350
2	Exclusion of employer contributions for medical insurance premiums and medical care	77,670
3	Deductibility of mortgage interest on owner-occupied homes	55,100
4	Capital gains (except agriculture, timber, iron ore, and coal) (normal tax method)	40,585
5	Deductibility of nonbusiness state &local taxes other than on owner-occupied homes	37,000
6	Accelerated depreciation of machinery and equipment (normal tax method)	35,465
7	Step-up basis of capital gains at death	27,090
8	Deductibility of charitable contributions, total	25,850
9	Exclusion of interest on public purpose bonds	20,450
10	Deductibility of state and local property tax on owner-occupied homes	19,495
11	Child Credit[1]	18,725
12	Capital gains exclusion on home sales	18,540

[1] The figures in the table indicate the effect of the child tax credit, on receipts, not outlays. Child tax credits for individuals with three or more children may be refundable, and as such are paid by the Federal Government. This portion of the credit included in outlays while the amount that offsets tax liabilities is shown as a tax expenditure.

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13	**Exclusion of Social Security benefits for retired workers**	**18,125**
14	**Exclusion of interest on life insurance savings**	**14,990**
15	**Net exclusion of pension contributions and earnings: Individual Retirement Accounts**	**11,170**
16	**Deferral of income from controlled foreign corporations (normal tax method)**	**6,200**
17	**Exclusion of workmen's compensation benefits**	**5,475**
18	**Graduated corporation income tax rate (normal tax method)**	**5,360**
19	**Earned income tax credit[2]**	**4,971**
20	**HOPE tax credit**	**4,855**
21	**Exclusion of interest on non-public purpose state and local debt**	**4,635**
22	**Workers' compensation insurance premiums**	**4,585**
23	**Net exclusion of pension contributions and earnings: Keogh plans**	**4,255**
24	**Exception from passive loss rules for $25,000 of rental loss**	**4,215**
25	**Tax credit for corporations receiving income from doing business in U.S. possessions**	**4,120**

Source: Budget of the United States Government: Analytical Perspectives, Fiscal Year 2000, p.114

TABLE 2

Federal Housing Subsidies, 1997

($ billions)

Direct Housing Subsidies	
U.S. Department of Housing and Urban Development	$12.0
U.S. Department of Agriculture	3.5
U.S. Department of Health of Human Services	6.5
U.S. Department of Defense	9.6
Subtotal	**$31.6**
Indirect Housing Subsidies (Tax Expenditures)	
Homeowner Subsidies	
Deductibility of mortgage interest on owner-occupied residences	$53.1

[2] The figures in the table indicate the effect of the earned income credit on receipts, not outlays. Earned income credits in excess of tax liabilities may be refundable to individuals, and as such are paid by the Federal Government. This portion of the credit is included in outlays while the amount that offsets tax liabilities is shown as a tax expenditure.

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Deductibility of property tax on owner-occupied residences	16.8
Deferral of capital gains on sales of principal residence	15.0
Exclusion of capital gains on sales of principal residences for persons age 55 or over ($125,000 exclusion)	6.7
Investor Subsidies	
Exclusion of interest on state and local government bonds for owner-occupied housing	2.5
Exclusion of interest on state and local government bonds for rental housing	1.2
Exclusion of interest on state and local debt for veterans housing	0.1
Investment credit for rehabilitation of structures	0.1
Depreciation of rental housing in excess of alternative depreciation system	1.3
Low income housing tax credit	2.9
Deferral of income from post-1987 installment sales	1.0
Exemption from passive loss rules for $25,000 of rental loss	3.7
Subtotal	**$104.4**
TOTAL	**$136.0**

Source: The RHS Housing Program in Fiscal Year 1997; Newman and Schnare, 1994; Analytic Perspectives, Budget of the U.S., FY1997 TABLE1.898

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Table 3
Federal Housing Subsidies by Program Category, 1978 to 1997
(1997 dollars, in millions)

Year	Homeowner Subsidies	Investor Subsidies	LIHTC[a]	Dept. of Agriculture	HUD	Dept. of Defense	AFDC[b]
1978	23,891	1,727		8,433	72,131	7,953	7,124
1979	33,725	4,059		8,876	52,027	7,619	6,695
1980	42,316	4,469		8,026	52,176	7,621	6,820
1981	53,600	5,904		6,823	45,051	11,554	6,671
1982	58,747	5,061		6,279	23,877	12,623	6,237
1983	58,688	5,642		4,799	15,458	9,966	6,309
1984	54,287	5,618		4,344	17,002	10,264	6,415
1985	56,543	5,258		4,205	15,926	10,806	6,292
1986	57,930	5,812		2,848	14,032	11,170	6,392
1987	53,440	8,789	211	2,772	12,207	11,202	6,656
1988	68,247	8,376	348	2,848	11,288	11,147	6,567
1989	63,902	8,773	819	2,738	11,192	11,176	6,587
1990	82,192	14,778	847	2,726	12,777	11,215	6,731
1991	78,460	18,347	940	2,647	22,326	11,251	7,086
1992	80,220	16,499	1,195	2,963	19,034	10,359	7,522
1993	89,179	13,395	1,708	3,999	20,283	10,000	7,343
1994	92,218	12,977	2,075	3,880	19,749	9,574	7,335
1995	93,772	11,005	2,363	2,940	12,380	9,572	6,911
1996	90,107	10,379	2,667	3,421	13,520	9,686	6,475
1997	91,740	9,930	2,945	3,538	12,020	9,665	6,492
Total	1,323,204	176,798	16,118	89,105	474,456	204,423	134,660

Sources: Newman and Schnare (1994); Office of Management and Budget (1996); *The Rural Housing Program in Fiscal Year 1997* (1998); U.S. Department of Defense (1998); U.S. General Accounting Office (1995).
[a]Low-Income Housing Tax Credit.
[b]Aid to Families with Dependent Children. According to Newman and Schnare (1994), 30 percent of AFDC benefits is used to pay rent.

Table 4
Distribution of Tax Benefits for Mortgage Interest Deduction
FY 1998

	Income (Thousands)	Number of Returns (Thousands)	% of all Returns	Number of Returns taking Mortgage Interest Deduction (Thousands)	% of all Returns in Income Category	Value of Mortgage Interest Deductions (Millions)	% of Va Mortgage Dedu
der $10	19,763	14.75	14	--	$ 3	--	$
-20	25,158	18.78	345	1.4	128	--	
-30	20,397	15.22	1,134	5.5	466	1.00	
-40	16,189	12.08	2,375	14.7	1,238	2.63	
-50	12,434	9.28	3,080	24.8	2,270	4.83	
-75	19,469	14.53	8,201	42.1	7,667	16.32	
-100	10,015	7.47	6,538	65.3	10,029	21.34	1,
0-200	8,383	6.25	6,306	75.2	15,739	33.50	2,
0 & over	2,129	1.58	1,554	73.0	9,438	20.10	6,
TAL	**133,938**		**29,548**	**22.1**	**46,977**		

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Source: Calculated from data provided in ■Estimates of Federal Tax Expenditures for Fiscal Years 1999-2003,• Washington, D.C.: Joint Committee on Taxation, U.S. Congress, December 14, 1998).

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TABLE 5
Housing Subsidy Levels of States and HUD 1978-1996
(1997 dollars, in millions)

YEAR	STATES	HUD
1978	**587**	**72,131**
1979	**661**	**52,027**
1980	**738**	**52,176**
1981	**696**	**45,051**
1982	**614**	**23,877**
1983	**425**	**15,458**
1984	**399**	**17,002**
1985	**360**	**15,926**
1986	**487**	**14,032**
1987	**684**	**12,207**
1988	**1,085**	**11,288**
1989	**1,489**	**11,192**
1990	**1,641**	**12,777**
1991	**1,446**	**22,326**
1992	**1,316**	**19,034**
1993	**1,325**	**20,283**
1994	**1,334**	**19,749**
1995	**1,303**	**12,380**

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1996	1,492	13,520

Source: U.S. Bureau of the Census, Government Finances Report, annual reports 1978-1996; 1998 Green Book

Table 6

Newspaper Citations for Mortgage Interest Deduction

1985 ■ 1999

Year	All	NY Times	L.A. Times	Washington Post
1999	37	4	1	4
1998	58	2	5	6
1997	43	4	1	7
1996	129	7	2	15
1995	109	2	8	11
1994	77	2	5	6
1993	50	6	5	4
1992	83	6	6	4
1991	44	2	5	4
1990	58	7	8	7
1989	62	2	6	11
1988	56	4	11	17
1987	61	10	9	12

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1986	49	14	6	14
1985	54	10	12	11

Source: Lexis/Nexis

TABLE 6
Largest Business Contributors to Congressional Campaigns, 1994
($ millions)

Category	Total	From PACs	From Individuals
Finance/Insurance/Real Estate	$67.9	$29.7	$38.2
Lawyers & Lobbyists	39.1	6.4	32.7
Health	37.0	16.9	20.5
Agriculture	24.2	15.5	8.7
Transportation	20.3	13.7	6.6
Energy/Natural Resources	20.2	12.8	7.4
Communications/Electronics	18.0	8.7	9.3
Construction	14.7	5.5	9.2
Defense	8.6	7.4	1.2
Miscellaneous Business	38.4	13.6	24.8
TOTAL	**$288.6**	**$130.4**	**$158.2**

Source: Center for Responsive Politics

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TABLE 7
Contributions to Congressional Campaigns
by Finance, Insurance and Real Estate Sector, 1994
($ millions)

Category	Total	From PACs	From Individuals	To Democrats	To Republicans
Commercial Banks	$11.3	64%	36%	45%	55%
Savings & Loans	1.2	62%	38%	57%	43%
Credit Unions	.67	94%	6%	59%	41%
Finance/Credit Companies	1.4	74%	26%	56%	43%
Securities & Investment	13.6	27%	73%	57%	42%
Insurance	14.9	65%	35%	45%	55%
Real Estate	13.3	21%	79%	54%	46%
Accountants	5.7	63%	37%	51%	49%
Other	5.6	5%	95%	40%	60%
TOTAL	**$67.9**	**44%**	**56%**	**50%**	**50%**

Source: Center for Responsive Politics

TABLE 8
Contributions to Congressional Campaigns
by Construction Sector, 1994
($ millions)

Category	Total	From PACs	From Individuals	To Democrats	To Republicans
General Contractors	$5.6	33%	67%	38%	62%
Home Builders	2.5	64%	36%	41%	58%
Special Trade Contractors	1.6	29%	71%	29%	71%
Construction Services	2.1	37%	63%	61%	39%
Building Materials	3.0	29%	71%	29%	71%
TOTAL	**$14.76**	**38%**	**62%**	**39%**	**61%**

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Source: Center for Responsive Politics

TABLE 9
Largest Business Contributors to Federal Candidates and Parties, 1998
($ millions)

Category	1998	% to Democrats	% to Republicans
Finance/Insurance/Real Estate	$154.4	39	60
Lawyers & Lobbyists	69.8	69	31
Health	58.8	40	59
Agriculture	43.2	29	71
Transportation	35.5	29	71
Energy/Natural Resources	41.1	28	72
Communications/Electronics	54.5	49	50
Construction	32.8	33	67
Defense	11.4	33	67
Miscellaneous Business	90.5	36	64
TOTAL	$592.0	39	61

Source: Center for Responsive Politics
Note: Totals include PAC, soft and individual contributions over $200 to federal candidates and parties.

TABLE 10
Contributions to Federal Candidates and Parties
by Finance, Insurance and Real Estate Sector, 1998
($ millions)

Category	Total	% to Democrats	% to Republicans
Commercial Banks	$17.1	34	65
Savings & Loans	2.1	38	61
Credit Unions	1.8	43	57
Finance/Credit Companies	4.7	30	70
Securities & Investment	37.0	47	52
Insurance	31.2	30	70

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Real Estate	**37.6**	**44**	**56**
Accountants	**10.1**	**39**	**61**
Other	**12.2**	**39**	**59**
TOTAL	**$153.8**	**38**	**61**

Source: Center for Responsive Politics
Note: Totals include PAC, soft and individual contributions over $200 to federal candidates and parties.

TABLE 11
Contributions to Federal Candidates and Parties
by Construction Industry Sector, 1998
($ millions)

Category	Total	% to Democrats	% to Republicans
General Contractors	**$11.5**	**31**	**68**
Home Builders	**5.3**	**32**	**68**
Subcontractors	**3.8**	**25**	**74**
Construction Services	**6.1**	**54**	**46**
Building Materials	**6.0**	**21**	**79**
TOTAL	**$32.8**	**33**	**67**

Source: Center for Responsive Politics
Note: Totals include PAC, soft and individual contributions over $200 to federal candidates and parties.

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ENDNOTES

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[1] This was the rate at the end of 1999. It has increased slightly since then to over 67 percent.

[2] Today, 2.1 percent (about 2 million) of American households live in ■severely inadequate• dwelling units and another 4.4 percent (4.3 million) of all households live in ■moderately inadequate• units. In 1995, 2.5 million households (2.6 percent of all households) lived in overcrowded housing (HUD 1998). A housing unit is defined as having ■severe physical problems• if it has severe problems (defined in detail in the census reports) in any of five areas: plumbing, heating, electrical system, upkeep, and hallways. It has moderate problems if it has problems in plumbing, heating, upkeep, hallways, or kitchen, but no severe problems.

[3] Lead was banned from residential paint in 1978, but three-fourths of pre-1978 housing units contain some lead-based paintCabout 64 million privately owned units. About 16 percent of all low-income children residing in cities have elevated blood lead levels (Farr and Dolbeare 1996).

[4] This analysis excludes a number of other forms of government-subsidized housing. We also exclude the housing programs of the Federal Deposit Insurance Corporation, the government agency that insures banks that make mortgage loans and which disposes of the real estate assets of failed banks and S&Ls. We also exclude the Federal Housing Administration (FHA); many middle-class Americans purchased their homes with mortgages insured by FHA, which is a division of HUD. This insurance, backed by the U.S. government, allows banks to reduce the monthly mortgage payments, which is a form of government subsidy. Also excluded are the Veterans Administration (VA, which insures mortgages for veterans), Fannie Mae, the Federal Reserve System, and the Federal Home Loan Bank System. In addition to providing various housing subsidies, the federal government (primarily through the Department of Justice, but also through HUD) has also sought to monitor and reduce housing discrimination, beginning with the Fair Housing Act of 1968. These costs are also not included in this analysis.

[5] Overall, tax expenditures cost the federal government $436.6 billion in 1995. Source: Analytic Perspectives: The Budget of the United States FY 1997, Washington, D.C., OMB, 1997. See also Howard 1993, 1995, and 1997.

[6] Unless otherwise specified, the HUD figures used in this chapter are for HUD's budget authority for low-income housing. Budget authority is defined by the Office of Management and Budget as: "what the law authorizes, or allows, the Federal Government to spend for programs, projects, or activities." By specifying low-income housing, we are excluding HUD programs that are not for housing.

[7] Each year the Joint Tax Committee of Congress estimates the distribution of benefits of two of the major tax expenditures -- the deduction of mortgage interest and the deduction for local property taxes. Unfortunately, the JTC's estimates of the overall cost of these expenditures differs other sources, including the Office of Management and Budget. When comparing tax expenditures with other housing subsidies, we use the OMB figures in Analytic Perspectives: Budget of the United States. When examining the distribution of tax benefits for mortgage interest and property taxes, we use the JTC figures.

[8] In 33 of 42 states with individual income taxes, mortgage interest is deducted in the calculation of state income tax liabilities, increasing the tax subsidy for many homeowners. These states include: Alabama, Arizona, Arkansas, California, Colorado, Delaware, Georgia, Hawaii, Idaho, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi,Missouri, Montana, Nebraska, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon, Rhode Island, South Carolina, Utah, Vermont, Virginia, and Wisconsin.

[9] In 1997 Congress changed the law regarding deferral or exclusion of capital gains taxes on home sales to

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allow individuals to exclude taxes on up to $250,000 (and couples $500,000) in capital gains from home sales every three years.

[10] The figure used in Table 3 for the mortgage interest deduction is higher than the figure used in Table 1. The OMB uses a different method for calculating tax expenditures than the Joint Committee on Taxation, but only the latter has the advantage of disaggregating the benefits by income class. I have used the most recent figures (1998) for calculating the distribution of the deduction's benefits.

[11] This data comes from Green and Reschovsky 1997.

[12] Canada, for example, has no comparable mortgage deduction, but its homeownership rate is about the same as the United States.

[13] Different reports use different estimates of both the total number of households eligible for HUD assistance and the total number of households receiving HUD assistance. A HUD study (Casey 1992) using 1989 data estimated the number of poor renters eligible for HUD assistance at 13.8 million. A more recent HUD report (McGough 1997) put the figure at 15.8 million eligible households in 1993. A Harvard study (Joint Center for Housing Studies 1995) using 1993 data put the figure at 13.4 million. The Congressional Budget Office (CBO 1994) reports that 18.6 million households were eligible for aid in 1994. Regardless of which figures are used, the federal government's allocation of housing (HUD) and income assistance (AFDC) for the poor -- the former administered by HUD, the latter by HHS -- is very unequal and inefficient. Of the 13.4 million low-income renter households in 1993, 7.4 million did not receive income or housing assistance; 1.9 million received both housing and income assistance; the other 4.3 million received either housing or income assistance. (Joint Center for Housing Studies 1995; Newman and Schnare 1994) See Casey 1992; Congressional Budget Office 1994; Joint Center for Housing Studies 1995; Kingsley 1997; McGough 1997; Newman and Schnare 1994; U.S. Department of Housing and Urban Development 1996; U.S. Department of Housing and Urban Development, 1998.

[14] For many years the Department of Agriculture had a division known as the Farmers Home Administration. It is now known as the Rural Housing Service. See Rural Housing Programs, Washington, D.C: Government Accounting Office, November 1995.

[15] Data provided by Housing Assistance Council.

[16] In 1985, the Department of Agriculture subsidized 88,228 housing units, 29.8% of which (24,428) were targeted to low-income households. In 1991, the figures were 45,873 total units, of which 61.9% (28,383) were targeted to low-income households. By 1995, the figures were 47,233 total units, of which 45.7% (21,569) were low-income. In 1997, the figures were 52,400 total units, 31.4% of which (16,456) were targeted for the poor -- the lowest number since the figures were first tabulated for 1984. Source: The Rural Housing Program in Fiscal Year 1997, Washington, D.C.: Housing Assistance Council, 1998.

[17] In addition to MRBs, some states and local governments in the 1970s and 1980s began to issue industrial revenue bonds (IDBs) to provide financing for the construction and substantial rehabilitation of rental (multifamily) housing. By 1987, they had issued $20.5 billion in multifamily bonds. In the Tax Reform Act of 1986, Congress set tougher affordability standards on rental bonds, requiring developers to set aside 20 percent of the units for families earning less than 80 percent of the area median income. In 1987, 17 state HFAs issued 40 multifamily bonds worth $649 million, producing 11,000 additional apartments. In 1996, 29 state HFAs issued 157 multifamily bonds with almost $2.7 billion, producing 66,000 apartments. Most of these are subsidized by the federal government in the form of tax-exemption. (In 1996, 111 of the 157 multifamily bonds were tax-exempt. In 1996, this tax expenditure cost the federal government $870 million and the following year $810 million. The increase in multifamily bonds has been triggered by the Low Income Housing Tax Credit (HFAs provide the first mortgages for 45 percent of LIHTC projects) and by the Federal Housing Administration (FHA) risk program with HFAs. Many of the multifamily projects

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financed by HFA bonds also utilized federal HOME, CDBG, and Section 8 subsidies as well as FHA insurance. (See Cummings and DiPasquale, Terner and Cook, and State HFA Factbook: 1996.

[18] Data on MRBs comes primarily from State HFA Factbook: 1996, Washington, D.C.: National Council of State Housing Agencies, 1997, as well as information provided by Germaine M. Autry of the NCSHA. According to the Factbook, local HFAs typically issue approximately 25 percent of the amount of MRBs that state HFAs issue each year. Although MRBs are issued by state HFAs, the subsidies actually come from the federal government. Private investors accept lower interest from these bonds because they are exempt from federal taxes. (In 1997, the tax exemption for MRBs cost the federal government $2.5 million). This translates into a federal subsidy of approximately $24,000 per homebuyer -- $1.7 billion for 104,311 loans. The states pass on the interest savings on to homebuyers in the form of below-market interest rate mortgages, which lowers the cost of owning a home.

[19] States vary considerably in the extent to which they favor MRBs compared with other bonds and in their capacity and commitment to implement this program. Fourteen HFAs accounted for more than half (53.5 percent) the total number of loans in 1997. This figure was calculated by the author from data provided by the National Council of State Housing Agencies. In order of loans closed, these states include Pennsylvania, California, Virginia, Connecticut, Wisconsin, Nebraska, New York, Idaho, Missouri, Minnesota, Ohio, Michigan, Iowa, and Alabama. The fact that many states with large populations are not among this group indicates that many large states prioritize uses other than housing under their bond volume cap, while several small and medium-size states prioritize housing over other uses.

[20] The program grants investors a dollar-for-dollar reduction in their federal tax liability in exchange for providing funds for the development of qualified, affordable rental housing. The return to the investors largely comes in the form of tax credits, paid in roughly equal annual allotments over 10 years. Developers may claim the credits, but they typically sell them to investors for up-front cash that is put into the project's development. The developer can sell the credits directly to one or more investors, but they typically sell them to a syndicator who acts as broker between the developer and investors; the syndicator then markets the credits to potential investors. There a number of national and regional syndicators, both for-profit and non-profit, that now dominate the field. Investor profits on the LIHTC have ranged from 10 percent to 18 percent. The proportion of the tax credit that goes into the housing developments (the "net equity") increased from 42 percent to 65 percent between 1987 and 1996, according to one E&Y Kenneth Leventhal Real Estate Group report, and to 75 percent, according to the Cummings and DiPasquale report. See The Low-Income Housing Tax Credit: The First Decade and Cummings and DiPasquale 1998.

[21] The Internal Revenue Service (IRS) oversees LIHC compliance to ensure that states and investors do not use more tax credits than authorized.

[22] The District of Columbia, the city of Chicago, and two agencies in New York State (including New York City) each administer their own allocations.

[23] This formula has not changed since the LIHTC was initiated, despite the claims by developers that development costs have risen and that the LIHTC's purchasing power has been reduced.

[24] The actual number of LIHTC units is a matter of some dispute. Different studies offer different estimates. The confusion is compounded by the fact that many LIHTC-assisted projects have additional government subsidies, without which the projects would not be feasible. The reality of projects with multiple subsidies means that it is difficult to count the total number of units created with government subsidies.

[25] These include "one or more conventional mortgage loans provided by a private lender, loan consortium, or public agency; concessionary financing and grants from public or private sources, often referred to as 'gap financing'; and equity paid by the developer or, typically, a private investor in exchange for the flow of

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tax credits. Some projects, particularly those developed by non-profit organizations, may include some additional equity from the developer or from limited partners; in addition, some projects may have tenants who receive other government subsidies, such as Section 8 vouchers." Cummings and DiPasquale 1998, p. 3

[26] The advocates of the LIHTC turn the program's inefficiencies into a benefit by claiming that the credits "allow nonprofit and for-profit developers to leverage additional money to make the housing affordable" and that "[b]ecause it depends on investor capital rather than just direct government subsidies, the LIHTC has imposed a market discipline that makes these housing investments fundamentally sound for the long term." (Enterprise Foundation, 1996)

[27] See Newman and Schnare, 1994; and Newman 1999. Benefits levels for AFDC and food stamps combined eroded significantly beginning in the early l980s. They fell further and further below the official poverty line. In 1995, in every state, AFDC benefits were less than the typical monthly rents. See Dolbeare, 1996.

[28] Among "working poor" families who receive no housing subsidies, 59 percent paid at least half of their incomes for housing in 1995. See Sard, Lazere, Greenstein, and Daskal 1997.

[29] This study used the Fair Market Rent levels calculated by HUD for a two bedroom unit for a three-person family. See Dolbeare 1996.

[30] These include such large states as California, Florida, Illinois, Pennsylvania, California, Michigan, and Wisconsin as well as Nevada and Arizona. Barbara Sard and Jennifer Daskal, Housing and Welfare Reform: Some Background Information, Washington, D.C.: Center for Budget and Policy Priorities, February 1998. See also Kingsley.

[31] In 1996, the Department of Defense spent $5.7 billion to provide housing allowances for 569,000 military families in the U.S. This covered 80 percent of the typical family's total housing costs, with the family paying the remaining portion. It also spend about $3.9 billion to operate and maintain government-owned or -leased housing for 284,000 military families, covering 100 percent of their housing costs. These figures were provided by Pete Potochney and Dr. Saul Pleter of the Department of Defense. See also Military Family Housing, Washington, D.C.: General Accounting Office, September 1996; and the Department of Defense Budget Estimates for FY 1997 (The Green Book), Washington, D.C.: U.S. Department of Defense, 1998.

[32] Instead, Congress created a weak second-tier (rather than cabinet-level) agency called the Housing and Home Finance Agency, which was supposed to coordinate the public housing, mortgage insurance, and urban renewal programs.

[33] During the l960 elections, the Democrat platform called for replacing HHFA with a new cabinet-level agency. Upon his election, President Kennedy tried to create a federal department of urban affairs and housing, but was stymied by Congress. Much of the opposition came from Southern Democrats who feared that Kennedy would appoint Robert Weaver (HHFA administrator and the highest-ranking black in the federal government) to run the new agency (Bratt and Keating, 1993: 6).

[34] Between 1968 and 1973, only 375,000 public housing apartments were added.

[35] Most HUD-subsidized projects -- public and private -- are well run, but quite a few have been mismanaged by incompetent public housing agency bureaucrats and private landlords who took the subsidies but failed to maintain their properties. Over the years, HUD has used little leverage to make these inept or unfit private landlords (whether public or private) toe the line. In some cases, landlords milked these properties for their tax breaks and then walked away from the buildings entirely, leaving HUD to foreclose and become owner of ghetto slum housing. Moreover, most HUD-subsidized projects were sited

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in segregated neighborhoods, compounding the image of HUD housing as a major factor in creating isolated ghettos. (Goering, Kamely and Richardson 1994; Massey and Denton 1993; Schill and Wachter 1995a and 1995b) Local housing agencies and landlords argue, with some justification, that HUD rules requiring them to house only the very poor are responsible for some of the problems. Many HUD-subsidized projects have, in fact, become ghettoes filled with troubled families, some of whom engage in crime, join gangs, participate in the underground drug economy, and live on welfare and food stamps. (Keyes 1992) These "distressed" projects (as HUD calls them) cast a giant shadow on the entire HUD enterprise, stigmatizing "government housing" as housing of last resort.

[36] By the early 1990s, about 13,000 developments, with about 1.5 million units, remained in the inventory, exposing the FHA insurance fund to more than $34 billion in insurance obligations. (Pedone 1991; Sternlieb and Hughes 1991; Wallace 1994) According to the General Accounting Office, at least 15 percent of this inventory has severe physical problems that threaten tenants' health and safety. (England-Joseph 1995)

[37] The policy's chief advocates, HUD Secretary Jack Kemp and Stuart Butler of the Heritage Foundation, claimed that it had worked in England, where Margaret Thatcher gained considerable blue-collar support for selling off public housing to the tenants at reduced prices. Many middle-class families lived in England's public housing, which were in reasonably good physical condition. But the plan didn't make much sense on this side of the Atlantic, where the public housing stock is older and in much worse physical condition. In the U.S., tenants in subsidized housing are too poor to pay for routine operating expenses (utilities and maintenance), much less property taxes. The Kemp program also did not include funds to cover the cost of major repairs, including basic systems, elevators, roofs, etc. required for many older and run-down buildings. Despite warnings from HUD staff, Kemp plunged ahead with this Homeownership Opportunities for People Everywhere (HOPE) program. But few tenants wanted to buy their buildings under those conditions. Only a few thousand units have been sold. (Roistacher 1984; Dreier 1986; Silver 1990; Peterman 1993; Rohe and Stegman 1993).

[38] HUD Secretary Henry Cisneros sought to address this shortcoming by focusing attention on regional and metropolitan problems and on the interdependence between cities and suburbs (Cisneros 1993 and 1995). But neither the Clinton Administration in general nor HUD in particular was able to translate this political insight into significant shift in federal programs.

[39] Martin Gilens, Why Americans Hate Welfare: Race, Media, and the Politics of Antipoverty Policy, Chicago: University of Chicago Press, 1999; P. Klite, R.A. Bardwell, and J. Salzmann, "Local Television News: Getting Away With Murder," Harvard International Journal of Press/Politics, 2, 102-12, 1997; Shanto Iyengar, "`Media Effects' Paradigms for the Analysis of Local Television News," Palo Alto, CA: Department of Communication and Department of Political Science, Stanford University, 1998; available at: http://pcl.stanford.edu/research/papers/effects.html; Franklin D. Gilliam, Jr., Shanto Iyengar, Adam Simon, and Oliver Wright," "Crime in Black and White: The Violent, Scary World of Local News," Los Angeles: UCLA Center for American Politics and Public Policy, Occasional Paper No. 95-1, September 1995; Robert Entman and Andrew Rojecki, The Black Image in the White Mind: Media and Race in America, Chicago: University of Chicago Press, 2000; Robert Entman, "Racism and Local TV News," Critical Studies in Mass Communication, Vol. 7, 329-343, 1990; Robert Entman, "Blacks in the News: Television, Modern Racism and Cultural Change," Journalism Quarterly, 69, 341-361, 1992. See also Travis Dixon and Daniel Linz, "Overrepresentation and Underrepresentation of African Americans and Latinos as Lawbreakers on Television News," Journal of Communication, Vol. 50, No. 2, Spring 2000: 131-154; Allen Liska and William Baccaglini, "Feeling Safe by Comparison: Crime in the Newspapers," Social Problems, Vol. 37, No. 3, August 1990: 360-374;

[40] Mathew Reed, "Representing the Projects: Race, Class, and Poverty in National Media Representations of Public Housing in the U.S., 1950-1997," paper presented at American Sociological Association meetings, Chicago, 1999.

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[41] Democratic Senator Barbara Mikulski of Maryland, fearing a voter backlash from Baltimore's blue-collar suburbs, withdrew her support for the MTO program after Republican politicians claimed it would promote an exodus of public housing tenants into their communities (Mariano 1994).

[42] According to GAO, state oversight of the LIHTC is varied in terms of project costs, eligibility of residents, and other matters. The IRS does not adequately monitor state compliance of LIHTC projects. (GAO, 1997).

[43] Advocates of the LIHTC turn the program's inefficiencies into a benefit by claiming that the credits "allow nonprofit and for-profit developers to leverage additional money to make the housing affordable" and that "[b]ecause it depends on investor capital rather than just direct government subsidies, the LIHTC has imposed a market discipline that makes these housing investments fundamentally sound for the long term." (Enterprise Foundation, 1996)

[44] The IRS requires that at least 10 percent of each state's annual tax credit allocation be set aside for projects partially or wholly owned by nonprofit organizations, but many states allocate a much larger share (NAHRO, 1997).
45Being a propertyless tenant has never been part of the American Dream. Housing in the United States is symbolized by the free-standing single-family home. Opinion surveys consistently confirm Americans' strong preference for homeownership.(Fannie Mae, 1995; Koretz 1998). From the outset, European settlers sought to establish property relations as the legal and moral underpinning of the new colonies. The earliest settlers came to escape oppressive landlords. The abundance of land created enthusiasm about the possibility of individual ownership and "nourished the first settlers' vision of land as a civil right, a right against the long-standing obligations of a crumbling feudal society." (Warner, 1972: 16). Support for homeownership has been a key element of our civic religion. James Madison believed that "The freeholders of the country would be the safest depositories of Republican liberty." (Quoted in Marcuse 1975: 197) Thomas Jefferson, who was unusual in favoring tenant suffrage, nevertheless held that "the small landholders are the precious part of a state." President Andrew Johnson supported the Homestead Act to offer land ownership on the frontier because "it would create the strongest tie between the citizen and the Government." (Johnson 1850: 951)

In the half century from the end of the Civil War in 1865 to the Depression, as immigrants from abroad and from rural areas in the United States flocked to the nation's expanding cities, the nature of property ownership changed from an agrarian to an urban phenomenon, but property ownership continued to be viewed as an indication of one's ability and moral worth. Around the turn of the century, with the first wave of population movement away from the downtown industrial districts of cities, only the affluent middle class (thanks in part to the new trolleys) could afford to move to owner-occupied one- or two-family houses in the "streetcar suburbs." (Warner 1962). But as the economy grew and the middle class expanded, homeownership increasingly became not only a symbol of status and achievement, but also a goal working class families could strive for. It was not until after World War 2 that this goal would be widely realized, but as early as the turn of the century the ideology of homeownership as the "American dream" took root. (Marcuse, 1980). Presidents Calvin Coolidge, Herbert Hoover, and Franklin Roosevelt all waxed eloquent over the benefits of homeownership. (See Dreier 1982 for evidence of this). Making the country a nation of homeowners became a central feature of public policy, since homeownership was seen as a bulwark of social stability. For example, during the Depression, the banking system collapsed, and homebuilding, homebuying, and homeownership declined dramatically. Starting in the Depression, the federal government created several institutions (such as Fannie Mae, the Federal Deposit Insurance Corporation, and the Federal Housing Administration) to stabilize the banking system and make the flow of mortgage funds more dependable. These policies created a national market for mortgages and insured individual depositors♣ accounts from bank failures. These policies allowed lenders to make long-term (typically 30-year) mortgage loans with a relatively low (3% to 10%) downpayment. After World War 2, FHA and VA mortgage insurance, along with federal highway programs, increased homeownership and suburbanization, especially among white middle-class families. (For a discussion of this history, see Mitchell 1985; Hays 1995; and Stone 1993).

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46This discussion of the history of the mortgage interest deduction draws heavily on Howard (1997).
47 Previously, the real estate industry had exercised its political muscle to keep interest rates low, to get government insurance for mortgage loans, and to limit government subsidies for public housing that competed with private rental housing.
48In fact, Charles E. McLure Jr. (1986), an economist who designed the Reagan Administration tax reform policy, later observed that, "[e]ven if one grants the case for substantial tax preferences for owner-occupied housing, it is impossible to justify this distributional pattern of benefits."
49Ibid. p. 57.
50The same legislation reduced tax breaks for investors in real estate, including apartments, but in its place created the Low Income Housing Tax Credit (LIHTC), a new tax break for investors in low-income housing.
51The resolution concludes with the following: "Resolved...that it is the sense of the Congress that the current Federal income tax deduction for interest paid on debt secured by a first or second home should not be further restricted." Memo from National Association of Home Builders in author's possession.
52This meant that Bush had to violate his campaign pledge of "no new taxes." For Bill Clinton, this has meant that proposals to expand health care coverage and increase government spending for job creation would clash with the reality of the deficit.
53The 1987 version of this report listed 97 options; the 1995 version included 216 specific policy ideas.
54Removing deductions just for second homes would increase federal revenues by $3.2 billion over the five-year period. Limiting deductions to $12,000 per return (for single taxpayers) or $20,000 (for couples filing joint returns) would add $52.4 billion to the federal coffers. Reducing the maximum mortgage debt eligible for interest deductions from the current $1 million to $300,000 would generate $34.8 billion in additional revenue. The CBO noted that only a small fraction of homeowners -- about 1.2 million taxpayers -- would be affected by the last policy recommendation.
55One member of the task force that drafted the report -- Austin Fitts, a investment banker who served as Bush's Federal Housing Administration Commissioner from l989-90 -- told the National Journal why homeownership was on the decline: "Middle-class families are too busy paying people to live in mansions in Chevy Chase, second homes in Malibu, and empty office buildings everywhere."
56See Mariano 1988; Downey 1989; Harney 1990; Lehman 1991; Steinbach 1991; Salmon 1992; Stouffer 1992; Wrolstad 1992; Kinsley 1991; Dreier and Atlas 1991; Dreier and Atlas 1990; Atlas and Dreier 1992; Kinsley 1991; Garner 1991; Boston Globe, April 27, 1992; England 1992; Harney 1992; Waldman 1992; and Goodgame 1993.
57Discussing the need for a balanced budget, Simon said, "But I think we're going to have to look at things like can you deduct on interest on a mortgage on two houses rather than just one?" Source: Transcript, "Meet the Press," NBC, February 20, 1994.
58Transcript of Fannie Mae Research Roundtable Series: Homeowner Tax Preferences, September 14, 1993. (In author•s possession).
59For a profile of Citizens for a Sound Economy, see Hanna Rosin, "Shades of Gray," New Republic, April 14, 1997, pages 21-23.

60See Johnston 1996; Zachary 1995; Mariano 1995; Miller 1995; Kass 1995; Kemper 1994; Miller 1995; Dreier 1995; Hage, Fischer and Black 1995; Portnoy 1996; Harney 1996; Miller 1996; Horowitz 1996).
61The real estate industry argued that eliminating the deduction will reduce the homeownership rate, cause a dramatic drop in home prices and even lead to a severe economic downturn. Revising the current scheme by lowering the ceiling on deductible interest will hurt homeowners and the real estate markets in high-cost states. Eliminating deductions for second homes will hurt states with large numbers of vacation homes. Even those industry economists who concede that the current deduction may not be efficient argue that the "transition" period will cause numerous problems as homeowners lose tax deductions or must lower the sales price of their home to reflect the new tax realities. See The Impact of Potential Policy Changes Affecting the Mortgage Interest Deduction On the Housing and Financial Sectors, Washington, D.C.: America's Community Bankers, American Banking Association, Mortgage Bankers Association, National

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Association of Home Builders, National Association of Realtors, March 1995; William M. Isaac and James A. Marigon (The Secura Group), The Flat Tax: Implications for Homeowners, Washington, D.C.: Mortgage Bankers Association of America, April 9, 1996; The National Association of Realtors sponsored a study by the consulting firm DRI/McGraw Hill on the impact of eliminating mortgage interest and property tax deductions; see Boston Globe, June 29, 1996.

62The study actually refutes Pickett's rhetoric. It offers two examples of the impact of a $300,000 cap on house prices. First it looks at the effect on the owner of a $625,000 home with a $500,000 mortgage and estimates that the value of the house would drop by between 9.5% and 12.2%. Next, it estimates that an owner with a $1.25 million house and a $1 million mortgage would see his home's value decline by between 16.6% and 21.3%. This homeowner would see the value of his tax break fall from $380,000 to $103,738. It's hard to image the public feeling sorry for a millionaire whose finds his mansion subsidy reduced to a mere $103,738.

63Lehman 1990. In additional to support from the NAHB, the group received a grant from the H.J. Heinz Foundation, according to the author's interview with Jordan Clark, president of United Homeowners Association, May 3, 1991. Clark had been a lobbyist for the NAHB.

64In 1995, after Armey released his flat tax proposal, House Democratic Leader Richard Gephardt released an alternative progressive tax plan that, he claimed, closed loopholes and simplified the tax system. It retained the mortgage interest deduction. Source: "Remarks by House Democratic Leader Richard A. Gephardt, "A Democratic Plan for America's Economy: Toward a Fairer, Simpler Tax Code," Center for National Policy, Washington, D.C. July 6, 1995.

65Speaking before the NAR in favor of a "fair flat tax," Sen. John Ashcroft (R-Mo) made certain to exempt the mortgage deduction ("Fair Flat Tax..." 1998).

66 See, for example, Hage, Fischer, and Black 1995.

21. Some economists also argued that tax favoritism for homeownership encouraged families to purchase homes that exceed their needs, resulting in too much debt and an insufficient rate of personal savings, misallocating capital and hurting the nation's overall economy, although this view has had little political support (Jorgenson and Yun 1986; Weisman 1998).

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