PRESIDENT'S MESSAGE GEORGE W. McCARTHY

Lessons Never Learned

"Wish I didn't know now what I didn't know then."

IT WAS A THROWAWAY LINE in Bob Seger's 1980 ballad "Against the Wind," a reflection on innocence and regret. Although he felt the line sounded odd and thought it was grammatically incorrect, Seger kept it in because the people around him liked it. The line has since inspired other artists to offer their own interpretations. It inspires me as an invitation to learn, providing a frame for reflection on unintended consequences and letting us imagine how we might have done things differently. It's particularly apt in the context of our current national affordable housing crisis.

For four decades I directed and studied the use of public, private, and philanthropic funding to produce affordable housing and provide decent shelter for low-income families since the Great Depression. Lots of big ideas were discussed, many of them implemented. Most of those implemented did not deliver the expected results, but they all delivered unintended consequences. What can we learn from these 20th-century missteps—and more to the point, what are we *willing* to learn?

The federal government has struggled for more than eight decades to meet the basic commitments it made in the U.S. Housing Acts of 1937 and 1949: "a decent home and a suitable living environment for all Americans." The acts committed significant subsidies to build new public housing and eradicate slums. They promised new jobs, modernized cities, and better housing for those who needed it. Because the Housing Acts proposed to benefit all Americans, they attracted broad public support.

When implementation time came, most public housing authorities aimed to provide housing for those in the lower half of the income distribution—a politically popular decision. To maintain the new housing stock, rents were set to cover buildings' operating expenses. But as the buildings aged, operating expenses increased, and rents increased along with them. By the late 1960s, lower income tenants were getting priced out—paying upwards of 60 percent of their income to keep a roof over their heads.

Senator Edward Brooke (R-MA) remedied the situation by sponsoring an amendment to the Housing Acts in 1969, which capped rents at 25 percent of tenants' incomes. The federal government covered operating shortfalls with subsidies. For reduced rents to be set, tenants had to disclose their incomes. It soon became apparent that public housing was not serving the poorest families with the greatest housing needs. In 1981, Congress acted again, reserving public housing for families earning half of the median income and reserving 40 percent of the units for families earning less than 30 percent of the median.

The deterioration of the buildings was accelerating. This was because federal operating subsidies did not cover capital expenses and major systems (heating, lighting, elevators) began to fail. The federal fiscal austerity of the 1980s compounded problems by reducing operating subsidies. By the end of the decade the only reasonable response to the national crisis in public housing was widespread demolition.

As the subsidies declined and our aging housing stock failed, a counternarrative emerged through which the residents themselves were blamed. The "culture of poverty" and "learned helplessness" became dominant memes. Poverty was viewed as a communicable disease rather than a symptom. The poor became convenient scapegoats bearing responsibility for the failure of their own shelter, as if any renters, poor or not, are expected to take responsibility for maintenance of their buildings. By concentrating the poor in public housing, we reinforced bad habits and transmitted values that perpetuated poverty across generations. This was supported by another dominant meme of the 1980s—the perils of big government. Big government was sloppy and inefficient, this narrative went (and still goes); the decline of public housing was the government's fault.

In the "HOPE" programs that followed—Homeownership and Opportunity for People Everywhere—many public housing projects were replaced with low-rise, mixed-income developments, typically replacing one affordable unit for three that were demolished. To stimulate additional rental housing production, the federal government created the low-income housing tax credit (LIHTC) in 1986. The program offered private investors a decade's worth of tax credits in exchange for upfront equity investments—typically the hardest money to find—for housing production. States had authority over how to allocate the credits, and regulations mandated long-term affordability of the housing.

Importantly, the LIHTC program promised to overcome the two biggest failings of public housing. By attracting private investment, the efficiencies of the private sector would overcome dependence on inefficient big government. Second, location decisions could be delegated to state and local governments who could ensure that the housing production did not concentrate poverty. Moreover, competition for the tax credits would reduce their cost to taxpayers and eventually, the private sector would produce affordable housing without the need for subsidies.

Some pundits consider the LIHTC program extraordinarily successful. Over three decades, more than 2.5 million units of housing were built. But through that period, we lost more affordable units from the national housing stock than we produced. Moreover, the promised private sector cost efficiencies never materialized. Depending on the year and the market, production of LIHTC units was estimated to cost 20 to 50 percent more than similar unsubsidized units. This does not even count the estimated $100 million spent annually to administer the program.

The demolition of the Pruitt-Igoe public housing complex in St. Louis, Missouri, in the 1970s marked the beginning of a national reconsideration of affordable housing production and finance. Credit: Bettmann/Getty Images.

Tax credits for equity from private investors came at credit card rates to taxpayers. And the costs went up when public capital was cheapest. During the Great Recession, tax credits were yielding average after-tax returns of 12 to 14 percent to investors when the federal funds rate was near zero and the 10-year Treasury yield was around 2 percent. The private sector never was weaned from subsidy dependence. Today, virtually no affordable rental production happens without tax credits. Finally, disappointingly, it is universally accepted that the production of tax credit housing exacerbated the concentration of poverty.

How can the largest housing production program in the history of the nation, with broad bipartisan support, produce such disappointment? There are a lot of things I wish I didn't know now that I (and we) didn't know then—in 1999, in 1979, even in 1949.

I wish I didn't know that as good as we are at identifying big challenges and announcing ambitious responses, our commitment rarely survives economic challenges. We know now that simply building affordable housing is not sufficient for providing a decent home and a suitable living environment. One needs a sustainable model that maintains the buildings and preserves their affordability over time and builds where we need to—close to good jobs and schools.

I wish I didn't know that political support is evanescent, and memories are short. Ensuring that scarce subsidy reaches those who need it most is reasonable, but only if the subsidy is protected. The neediest are politically weak and not likely to marshal support to defend their entitlements. And when they try, they are easy to scapegoat.

I wish I didn't know that we spent tens of millions of dollars evaluating housing programs, but we haven't learned very much. We counted units, acting as if the number produced is the only important measure of impact. Twenty years ago, one in four families who qualified for housing assistance received it. Today, it is one in five families. While the general wisdom says housing costs that exceed 30 percent of income are unsustainable for families, about half of renters pay more than 30 percent of their pretax income for rent, with 20 percent handing over more than half of their income.

When do we take an honest reckoning of eight decades of effort to shelter our people? The complexity of housing challenges makes it impossible to learn anything from program evaluations. To learn, we need to reveal and commit to our intended outcomes, share the logic guiding our actions, and reconcile what we actually accomplish with our intentions. This is a learning model that we've embraced at the Lincoln Institute and I hope it can be applied more broadly to policy analysis in housing, community development, and philanthropy.

Providing affordable housing for all is no easy task. The painful truths of eight decades of work are offered not as an indictment, but as an invitation to learn, and to think and act differently. We need to try new things and learn from them. That innovation might take the form of building apartments above public libraries, a trend we explore in this issue. It might mean forging unexpected partnerships, as public utilities and housing advocates are doing in Seattle. It might mean auctioning development rights or otherwise leveraging land value.

We should aspire to the same ambition of the confident policymakers of 1949, committing to provide "a decent home and a suitable living environment for all Americans." But we'll need to try a lot of new things and learn from our mistakes. And if we commit to "searching for shelter again and again," as Seger sings later in the same song, we just might get it done.

*Have your own example of "wish I didn't know now what I didn't know then"? A policy or program we could have, or should have, learned from? We hope to spotlight a few in an upcoming issue—send yours to **publications@lincolninst.edu**.*