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Comment on Roberto G. Quercia and George C. Galster's "The Challenges Facing Public Housing Authorities in a Brave New World"

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Abstract

Quercia and Galster argue that efforts to reform public housing will likely fail because they are hampered by conflicting and competing goals, or what they call a "constrained quadrilemma." We do not take issue with much of what Quercia and Galster find. Rather we recast the interpretation of their findings. Quercia and Galster argue that public housing is being asked to undergo reform and in the process reconcile a series of social agendas that will lead to the general improvement of society.

Yet from its inception, public housing has pursued too ambitious a program, with conflicting goals as Quercia and Galster describe. Quercia and Galster see the quadrilemma as leading to dysfunction. By contrast, we see the Quercia-Galster model for public housing authorities as less a constrained quadrilemma than a decision-making matrix that shows the trade-offs authorities must consider when reforming public housing.

Keywords: Low-income housing; Policy; Markets

We begin by lauding Roberto Quercia and George Galster for tackling so vexing a policy issue as public housing reform and doing so in such an innovative way. They provide policy makers with a new means of understanding the challenges that accompany a shift toward more market-oriented approaches to public housing. Their organization of these challenges into a comprehensive model allows us to better grasp the trade-offs that result from the "brave new world" of public housing.

The Fannie Mae Foundation invited Quercia and Galster to write an article on public housing as part of the 1996 Tri-Country Conference, which looked at housing and community issues in the United States, Canada, and the United Kingdom. They were asked to consider how private capital could be attracted to a public purpose—specifically, the revitalization of public housing. In addressing this charge, Quercia and Galster reveal the inherent difficulty of undertaking such an effort.

Their work once again shows the main fault lines in the provision of low-income housing.

U.S. low-income housing policy remains fragmented, with its two core constituencies—the borderline poor and the very poor—served by two very different housing systems. As the table in the previous comment by Thomas Nutt-Powell and Vito Gallo shows, nonprofit community development corporations (CDCs) target their efforts to those just below middle income, while public housing authorities (PHAs) provide housing to the poorest of the poor. Many policy makers are now considering how these two very different populations may be better served in a single integrated delivery system that operates within a market context. This is not simply a matter of PHAs behaving more like CDCs. PHAs face a much greater challenge than CDCs when seeking private investment. The fact that PHAs by current law must provide housing to the very poor inherently limits some market reforms.

Quercia and Galster argue that ongoing efforts to reform and improve public housing will likely fail because they are hampered by conflicting and competing goals, or what they call a "constrained quadrilemma." This is certainly a sobering conclusion, but one that they reach after considerable thought. Quercia and Galster also hold out some hope that in the long term we can resolve or even outgrow the quadrilemma. Yet the statistics they provide regarding, for instance, the millions of new units that must be built by PHAs to achieve this end via a mixed-income approach certainly paint a grim picture.

We do not take issue with much of what Quercia and Galster find. Rather we recast the interpretation of their findings. Quercia and Galster argue that public housing is being asked to undergo reform and in the process reconcile a series of social agendas that will lead to the general improvement of society. The fact is that from its inception, public housing has pursued too ambitious a program, with often-conflicting goals of the type that Quercia and Galster describe.

The 50-word title of the original public housing bill (S 2392) introduced by Senator Robert Wagner of New York to the 74th Congress in 1935 reflects the many goals imbued in this program: "A Bill to Promote the Public Health, Safety, and Welfare by Providing for the Elimination of Unsanitary and Dangerous Housing Conditions, to Relieve Congested Areas, to Aid in the Construction and Supervision of Low-Rental Dwelling Accommodations, and to Further National Industrial Recovery Through

the Employment of Labor and Materials." After considering S 2392, an article in the *Housing in the Seventies Working Papers* noted that what strikes the contemporary viewer "is the variety and disparity of purposes that were thought to be the object and justification of the legislation" (Semer et al. 1976, 89). Quercia and Galster are far from the first to note public housing's internal dilemmas (if not quadrilemmas). It is likely they will not be the last.

Public housing has long been burdened by having to solve social ills that are well beyond the scope of physical interventions. Part of the problem rests with public housing advocates who have at times lobbied for funding by arguing that proper shelter, per se, could transform the lives of its residents. Alexander von Hoffman (1996, 436) contends that "the failure of public housing, although few seemed to realize it, was that the program by itself could not solve social problems, integrate society, or usher in a high-rise urbanism." In short, Americans have been oversold on what public housing could reasonably deliver. By extension, much of the public disillusionment with the program stems from a history of overblown claims.

To paraphrase former president Ronald Reagan, who was certainly no fan of public housing, "There they go again." We are again asking too much of public housing. Public housing is being set up for yet another demoralizing policy failure. Now is the time to rein in some of these goals and to focus on what limited improvements can be made to public housing before whatever confidence is left in the system is lost for good. Quercia and Galster provide us with a method for determining which priorities PHAs may pursue as they confront a series of no-win scenarios.

Quercia and Galster highlight four conflicting goals that PHAs must pursue as they reinvent public housing: to maximize the geographic and social integration of poor and nonpoor households; to maximize private investment in PHAs; to maximize the value of cross-subsidies per poor PHA tenant; and to maximize the number of poor assisted by decent, affordable housing. The key word in their model is "maximize." The model is structured as a series of zero-sum trade-offs. To maximize one goal leads to minimizing another. There is very little room for win-win solutions in their model. Yet as we note, this has long been a problem for PHAs, which have typically pursued multiple goals but successfully achieved none of them.

Parenthetically, the conflict of multiple goals affects not just public housing specifically, but more generally subsidized

housing assistance in the United States over the past half century. Thus, Section 221(d)(3), Section 236, and sister programs were charged with aiding the needy (with often too shallow subsidies), stimulating construction, providing job training, providing a forum for technology to expand regional housing access, and so on. No wonder Lawrence Friedman (1968) termed government's intervention into housing "a century of frustration." Of all the century's housing initiatives, however, public housing, burdened with perhaps the most contradictory set of goals, had the most cause to be "frustrated," or to experience a quadrilemma.

We see the Quercia-Galster PHA model as less a constrained quadrilemma than a decision-making matrix that shows the trade-offs PHAs must consider when reforming public housing. As such, the model could serve as a heuristic device for those trying to set priorities and wanting to understand their ramifications in a larger policy context. Rather than constrained, we see the quadrilemma as potentially flexible in that goals can be emphasized or deemphasized depending on local circumstances.[1] Indeed, Quercia and Galster note that this is a likely outcome as PHAs move ahead. For them this is a problem; for us it is a solution. PHAs should not be all things to all people. They need to pick a policy priority and stick to it.

Any one of the four goals that Quercia and Galster identify could serve as the guiding force behind a PHA's reform policy. But the four goals are not equal in policy terms. PHAs currently seek to maximize the number of poor living in decent, affordable housing. Public housing provides shelter to the poorest of the poor. The other three goals are really reform options in reaction to the realization of the first goal, which ended up operating to radically increase the isolation of the poor. The reform goals seek to mainstream public housing in both social and economic terms, which unfortunately comes at the expense of PHAs' core goal of housing the very poor.

Quercia and Galster's quadrilemma thus slyly raises the question, What price are we willing to pay for public housing reform? The issue is really a paradox, not a dilemma, much less a quadrilemma. To better house the poor—to draw capital to their housing projects, to integrate them into nonpoor

[1]And each circumstance will have a different set of actors. In Richmond, VA, for example, public housing is folded into a redevelopment agency that may place a higher premium on integrating housing in mixed-use and mixed-income developments.

neighborhoods—we need the poor to be *less* poor. That is, they need to be better able to pay for housing. As with American policy in Vietnam, it seems as if the victims of our efforts are the very people that we seek to help.

Consider, for example, how the tensions between the four conflicting goals of the quadrilemma melt away when those being housed shift from the very poor to the working poor. This implies that the housing of the very poor is not just another goal, but instead drives the entire dynamic of the quadrilemma. In their section on intergoal conflicts, Quercia and Galster argue that "the goal of maximizing tenants' geographic and social integration [goal 1] acts as a disincentive to private investors [goal 4]" (labeled as line A in the model). They cite regulatory obstacles and NIMBYism ("not in my backyard") as causing potential delays in projects that heighten the risk for investors, which in turn drives up the cost of such housing. This is not an unreasonable conclusion to draw.

But suppose that the housing a PHA sought to build mixed working poor and middle-income residents. There will always be resistance to such developments in upscale neighborhoods, but they are not impossible to locate as infill projects in many urban fringe and inner suburban locations—for example, in such places as Arlington, VA, where mixed-income housing developments have worked in growth markets with such minor incentives as density bonuses.[2] (Even in upper-income areas, such as posher Manhattan neighborhoods, mixed-income housing is being built because developers receive property tax and other subsidies contingent on such mixing.) If such a development managed to clear regulatory hurdles, it would represent a lower risk for investors than developments built in areas of concentrated poverty, which offer little resistance. Mixed-income neighborhoods are simply better markets. Investors risk only the cost of entry into such places. Furthermore, mixed-income projects in moderate-income neighborhoods are exactly the type that provide a "neighborhood effect" benefit to residents (Briggs 1997; Ellen and Turner 1997). The point is that with some tweaking, goals 1 and 4 are not completely antagonistic and, depending on the income mix, may even be complementary.

[2]Philip Nyden and his associates have explored the very communities where such housing would be appropriate. Nyden identifies urban neighborhoods that he refers to as "social seams," which serve as socially and economically diverse buffers between minority and nonminority areas (Nyden, Maly, and Lukehart 1997).

The tension between goal 1 and goal 2 (maximizing the value of cross-subsidies per poor PHA tenant) is likewise lessened to the degree that the goal of housing the very poor is deemphasized (labeled line B in the model). This pattern also holds true for the tension between goals 2 and 4 (labeled line E in the model). Thus, by removing the very poor from the mix, the quadrilemma becomes a workable set of interrelated goals that need not conflict.

Clearly, the need to shelter the very poor often hinders a PHA's options in developing market solutions for public housing. Our solution to the quadrilemma involves understanding both the opportunities and limits of market-oriented strategies to maximize affordable housing. Quercia and Galster correctly argue that PHAs should adopt a more entrepreneurial approach to public housing. Indeed, as Nutt-Powell and Gallo note, many PHAs are already doing so. Quercia and Galster offer a host of useful suggestions in this regard, even speculating on how PHAs may act like private developers and look for ways to resolve the inherent antagonisms that exist between themselves and many CDCs. Still, most observers recognize that there are limits to what the market can do to house the poorest of the poor. Regardless of how inventive PHAs are or how many market incentives they innovate, some number of households will require housing that is directly and deeply subsidized from government revenue.

Now that a consensus has emerged that PHAs need to rethink their mission in market terms, it is fair to raise the opposite issue of what to do when no market solutions exist. We fear that so much intellectual energy is invested in shifting the PHA mind-set toward a market orientation that it may now cause some to overreach and thus avoid asking the tough question: How deeply can market forces go in supplying low-income housing before some form of direct government subsidy is required?

While most agree that in order to obtain the capital critical to sustaining and reforming public housing it is necessary to embrace private enterprise, such a shift in strategy introduces the risk that the search for profits may take priority over public policy concerns. And this risk of "excessive" profit often drives a strong political backlash, which leads right back to overregulation and excessive efforts to control market incentives. Thus in many ways the market offers a Faustian bargain for public housing.

It is our sense that the private, unassisted market can meet most low-income housing needs if the demand side is bolstered.

The market's prowess in this regard can be improved. Regulatory reforms can better empower the market to provide more low-income housing options. An example is zoning regulation reform to allow more intense use of existing buildings (e.g., the density bonuses we cited above) and parallel building code revision. For instance, in January 1998 the state of New Jersey will have building code regulations oriented specifically to existing buildings that will have the effect of lowering housing rehabilitation costs by 10 to 20 percent and dramatically fostering the conversion of nonresidential to residential space (Listokin 1995). The New Jersey building code reforms may very well be adopted by other states, as they are subsumed in the Nationally Applicable Recommended Rehabilitation Provisions developed for the U.S. Department of Housing and Urban Development (National Association of Home Builders Research Center et al. 1997).

The issue of the market's ability to provide decent low-income housing, despite the heated ideological rhetoric that surrounds the question, is largely an empirical one. We encourage advocates of market-based public housing reform to determine the thresholds below which the market functions ineffectively. Such thresholds are of course dynamic and will vary with specific market circumstances.

There are instances where the market, without any incentive, can supply low-income housing. Yet in high-cost regions, housing for even moderate-income families will require some form of market incentive. Conversely, very low income households will need subsidy even in regions with low-cost housing. Land costs, regulatory regimes, and construction and building material costs will help determine the point at which a household needs some form of housing subsidy.

The market of course once provided all low-income housing. According to George Sternlieb and James Hughes (1991, 124), "The basic historical paradigm was to attempt to bring rents down to affordable levels by invoking two key principles: maximize shelter density and minimize amenities." But this development strategy produced slums. Early 20th-century housing reformers, such as Catharine Bauer (1933, 1934), successfully lobbied to end the practice of building crowded and inadequate housing for the poor. As a result of their efforts, even low-income housing had to meet minimum codes for space and amenities. Unfortunately, since the housing reform movement, some Americans have lacked the resources to reasonably live up to legal standards. The construction of public housing was in part motivated by the need to close the income gap.

To an extent, public housing has succeeded. It is often said that the only people who want to live in public housing either are living there or want to get in, or as one wit observes, "Nobody ever writes about public housing from the point of view of the people who say, 'Things will be better when we get into the project'" (Tom Sullivan, quoted in Clapp 1984, 229). For a supposedly failed program, public housing often remains popular among the populations it serves. Indeed, only a fraction of those who qualify for public housing are actually able to live there.[3] The reason is that it still generally represents a bargain relative to market alternatives. And the housing quality is often better, although the neighborhoods may be bad.

Despite the demand for public housing, most mainstream policy makers and observers agree that adequate and appropriately managed demand-side subsidies, along with aggressive fair-housing enforcement, address most low-income housing needs. The question thus arises, What is the continuing role for public housing? While we generally concur with conventional wisdom that sees a greatly diminished role for public housing, we also find that the sunk costs in existing projects necessitate effective preservation efforts. In addition, we see value in an approach that ensures some guaranteed and stable affordable housing stock, which public housing still provides. Besides, given our limited state of knowledge about what really works most effectively in project-based assistance, we should not as a practical matter put all our eggs in one basket. We need to maintain an array of housing programs, if only to ensure that we do not lose our funding or skills in any category of low-income housing production.

In recent years, public housing has been described as one of the "last bastions of socialism in the world" (Robert Dole, cited in Peirce 1996) or "dissed and stressed in a brave new world" (Nutt-Powell 1995). To these are added the "constrained quadrilemma." We thank Quercia and Galster for bringing to the fore in a well-organized fashion public housing's many disparate reform objectives. We differ, however, in the perceived outcome from the disparate goals.

Quercia and Galster see the quadrilemma as leading to dysfunc-

[3]David Listokin (1991, 177) finds that "the overwhelming share of low-income families live in unsubsidized housing.... This is the case even for 70 to 75 percent of very low-income renters (earning less than 50 percent of median)."

tion; we see it as prompting creative PHA strategies. We would replace “quadrilemma” with “creative tension.” Other affordable housing providers, such as CDCs, benefit tremendously from the fact that public housing serves a population with few market or quasi-market options, thus allowing CDCs to focus their efforts on a relatively more viable market segment. (This is not to say that CDCs have an easy task; however, we venture to say that no CDC, if honestly responding, would want responsibility for housing the people that public housing serves.) Therefore, CDCs, and indeed some private sector providers, have a strong stake in seeing public housing survive in a more sustainable form. If PHAs can forge stronger ties with the nonprofit and private sectors, the reinvention of public housing, while challenging, is far more doable.

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