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"HOUSING AND THE 2008 ELECTION"

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Thank you for the invitation to speak today. I have enormous respect for this organization and the work that all of you do.

I would like to frame today's talk as follows:

In less than three years, this nation will hold a presidential election, the first one since 1952 in which no incumbent—president or vice president—will be on either party's ticket.

The upcoming election has already set off a competition for ideas as prospective candidates scramble to distinguish themselves from the rest of the pack.

The question for us today is: Can affordable housing be part of the national discourse leading up to the election? Is it conceivable that at least several presidential candidates will pay attention to this issue? Is it possible the two parties' nominees will ultimately compete over housing policy?

At first blush, this prospect appears farfetched. Housing has all but disappeared from national-level political debate, except for occasional discussions of the housing bubble and the aftermath of Hurricane Katrina.

Contributing to this lack of discussion is the reality that the current Bush administration has been arguably the most hostile administration in modern memory toward federal housing assistance.

At present, federal housing policy seems defined almost exclusively by the fiscal imperative; that is, the administration's drive to reduce domestic discretionary spending.

Over the past five years, this administration has sought and received deep cuts in the HOPE VI program—a program that has radically transformed this country's worst public housing into mixed-income communities, thereby reducing concentrations of urban poverty.

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This administration has also sought and received deep cuts in funding for incremental Housing Choice vouchers. As such, the gap between the number of households currently served by vouchers and the total number of needy households will only continue to grow.

Finally, this administration has sought and received deep cuts in funding for the Community Development Block Grant (CDBG) program.

Congress has represented a partial but not total roadblock against the administration's onslaught. It has rejected, at least thus far, the most radical and harmful reform proposals for CDBG and the Section 8 voucher program. It has also prevented, at least thus far, the total elimination of HOPE VI.

Yet today's congressional housing coalition is a mere shadow of its former self. Congressional attention to the Millennial Housing Commission's report in 2002 paled in comparison to the reception given the National Housing ("Rouse/Maxwell") Task Force in the late 1980s. While that task force's efforts resulted in the passage of the National Affordable Housing Act of 1990, the 2002 commission's findings have been all but ignored.

Unfortunately, one could fairly argue that things will get a lot worse before they get better.

Irrespective of which party wins the Presidency in 2008, the federal budget over the next decade will be consumed by rising health care, Social Security, and other costs associated with the country's aging population.

Furthermore, the extension of tax breaks enacted since 2001 could leave Congress and the next administration with even less room in the budget for maintaining existing housing programs, let alone for considering new initiatives.

However, I want to argue today that all hope is not lost for federal housing policy.

Our country's housing challenges are changing in ways that both involve a broader segment of people and places and implicate many of our country's top domestic priorities—including competitiveness, smart growth, high-quality education, and growing the middle class.

And, most importantly, a growing number of states and localities are responding to these housing challenges in ways that—if history is any guide—will influence and shape federal policy in the future.

Let me walk briefly through these changes and then conclude with what they might mean for the 2008 election and beyond.

In general terms, the United States faces three interrelated housing challenges:

> First, housing is not affordable for a growing segment of the population, particularly within prosperous, high-performing cities and metros.

> Second, affordable housing is particularly absent in suburban areas of the country, the very areas where both population and job opportunities are expanding most rapidly.
>
> Third, sharp racial and ethnic disparities in housing persist, even in light of noteworthy homeownership gains by minorities over the past decade.

Let's review some illustrative facts and figures, bearing in mind George Bernard Shaw's admonition that "[t]he mark of a truly educated person is to be deeply moved by statistics."

First, some comments with regard to overall housing affordability in this country.

The 2002 Millennial Housing Commission report identified affordability as the "single greatest housing challenge facing the nation."

Housing is the single largest expenditure within the budget of most American families—and for a growing portion of American society, this expense has become unaffordable.

According to the Harvard Joint Center for Housing Studies, nearly 1-in-3 households—33 million households in total—spend 30 percent or more of their annual income on housing. The vast majority of these households—28 million—fall in the lower half of the national income distribution. A growing number of these households are working families.

Such high levels of spending on housing have been shown to inhibit a household's spending on other necessities, including food, health care, and transportation. Thus, what makes this one-in-three figure more distressing is that it does not include those households which—while spending 30 percent or less of their income on housing—made major tradeoffs in order to keep housing costs down.

Many households, for example, must move to far-off locations to find affordable housing—often to the outer suburbs or exurbs of a metropolitan area—which in the process causes their transportation costs to increase enormously.

Furthermore, one-in-eight households in the country—14.1 million in total—have critical housing needs, meaning they spend 50 percent or more of their income on housing and/or live in dilapidated units. Around 5 million of these households are working families, and a large majority of them live in suburbs or non-metropolitan areas rather than central cities.

Not surprisingly, renter households are experiencing the most severe affordability problems. Among the nation's 34 million renter households, 44 percent—14.8 million households—spend more than 30 percent of their income on housing. More than 22 percent of renters spend more than half their income on housing and are thus severely cost burdened. Among the lowest-income renters—those who earn under $10,600 per year—70 percent spend more than half their income on housing.

However, households with moderate or critical housing needs are not just renters. According to the National Low-Income Housing Coalition, nearly one-half of low-income households with critical needs are homeowners.[1]

The cause of this affordability problem is not difficult to establish. The problem stems from a growing gap between wages and prices, particularly housing prices, for an increasing portion of the U.S. workforce.

As the Harvard Joint Center wrote in its 2005 *State of the Nation's Housing* report:

> "At the source of the affordability problem is the structural mismatch between the large number of low-wage jobs that the economy is generating and the high costs of supplying housing."

Or as it wrote in its 2004 report, "[m]any of the nation's most urgent housing challenges arise from what might be called an income problem."

The fastest growing part of the economy is work that pays insufficient wages. According to the Harvard Joint Center and the Bureau of Labor Statistics, the median wages in industries that have added jobs since the 2001 recession are 21 percent lower than in those industries that are shedding jobs.

While wages have stagnated, housing prices have continued to rise—in some places at double-digit figures.

Although rising prices for single-family homes have attracted the most attention, rent prices have also increased notably. Gross rents—that is, rents plus utility costs—have been growing faster than inflation, even while the median renter's monthly income has declined 7.3 percent since 2000. As a result, since 2000, gross rents as a share of renter income have grown from 26.5 percent to 30.3 percent.

Within the market for owner-occupied housing, the median price of a single-family home in the United States has grown 54 percent over the past 5 years alone, while median household incomes actually declined 3.5 percent from 2000 to 2004.

The galloping prices in the owner-occupied housing market have often been attributed to low mortgage interest rates and high levels of speculative investment—the latter owing to a decline in the relative attractiveness of other uses of investment capital.

House prices and rents have shown especially fast growth in strong job markets, which in turn exacerbate the affordability crisis for low- and moderate-income owners and renters.

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[1] This figure includes not only those affected by high housing costs, but also those living in crowded or structurally inadequate units.

The housing affordability challenge, however, cannot be explained by looking at income alone; there are also problems with housing supply.

The supply of low-priced rental and owner-occupied housing is generally not keeping pace with demand.

In particular, the nation's stock of affordable rental housing is rapidly shrinking through demolition, deterioration, gentrification, and private providers "opting out" of their project-based Section 8 mortgages. Smaller, older, and individually owned properties are at the greatest risk of removal from the rental stock.

Although the low-income housing tax credit subsidizes the production of around 90,000 units of affordable rental housing per year—through both rehabilitation (40 percent) and new production (60 percent)—this is not enough to offset losses. According to the Harvard Joint Center, two million low-cost units were demolished or withdrawn from the rental-housing inventory between 1993 and 2003—on average, that's 200,000 losses a year.

In 2002, the Millennial Housing Commission found that there are two million more poor households in the U.S. than there are affordable units to house them.

Furthermore, most new additions to the nation's rental stock are happening at the upper end of the rent spectrum, with major losses at the lower end. The median rent for newly constructed units is 37 percent higher than the median rent for existing units. "Filtering" from the higher end of the market to the lower end does not seem evident.

Even with record-low interest rates, innovative tax incentives, and a growing market for multifamily mortgage-backed securities, production of new affordable housing has been slow.

Why isn't enough new supply being created?

Clearly the high costs of new production play a role. These costs are in no small part associated with various regulatory barriers imposed by state and local governments.

> Regulations can inhibit the production of affordable housing by imposing direct costs such as administrative fees, impact fees, and environmental mitigation requirements.
>
> They can also inhibit production by constraining the range of allowable development types such as large-lot zoning ordinances, inflexible building codes, density restrictions, or outright bans on multifamily housing.

The second major housing challenge is that a large portion of the affordable housing is located in the wrong places.

In metro area after metro area, there is a spatial mismatch between where jobs are growing and where housing affordable to low-wage workers is located.

On one hand, Americans continue to move further away from the urban cores of metro areas. In 1970, half of all households in the nations' 91 largest metros lived within 8.9 miles of the central business district. By 2000, that boundary moved out to 12.2 miles. And where people go, so go jobs– today, employment growth is fastest in the low-density counties on the fringes of America's metro areas.

On the other hand, affordable housing remains disproportionately located in distressed inner-city and older suburban neighborhoods. This heavy concentration of affordable housing within central cities results in part because many wealthier suburbs practice exclusionary zoning, which inhibits (or outright prevents) affordable housing from being built within their borders.

However, federal policy—and in particular, government-subsidized production of affordable housing—also actively pushes low-income families into distressed inner city neighborhoods, areas which tend to have poor schools and few jobs. Incredibly, 58 percent of the housing built in metro areas through the low-income housing tax credit in the 1990s was located in central cities, which comprise only 38 percent of metro areas. Today, nearly 60 percent of government-assisted renters—and almost 70 percent of assisted minorities—live in central cities.

Thus, federal policy essentially serves to isolate people away from opportunities for economic and social advancement. Without more production of affordable housing in suburban areas—particularly rental housing—the economic prospects of the nation's lowest-income residents are likely to worsen.

There is also a spatial mismatch with moderately priced homes. Much of the rapid population growth in the 1990s occurred in exurban places like Prince William and Loudoun counties here in the DC metro or in Forsyth outside Atlanta. Moderate-income families are leapfrogging over existing suburban communities to move to these once-rural places in order to find more affordable homes.

This "drive to qualify" phenomenon—widespread throughout the United States—is exacerbating sprawl patterns on the exurban fringe by increasing the distances that families must travel to get to and from work, school, and home. Indeed, many families experience the "sticker shock" of sprawl after realizing that their transportation costs have come to equal or exceed their housing costs.

The final housing challenge relates to racial and ethnic disparities.

The past fifteen years have shown noteworthy progress on some fronts. For instance, there have been strong gains in homeownership among both African Americans and Hispanics, thanks to low mortgage interest rates (now below 6 percent) and the development of innovative financing products. From 1991 to 2003, the minority share of first-time homebuyers has increased from 22 percent to 35 percent.

These gains in homeownership are a major success because owning a home is the ticket to joining the middle class. It is the first and most important step onto the ladder of wealth creation—indeed, homeownership is the single largest source of wealth for most Americans.

Unfortunately, even after these gains, large disparities still exist.

According to 2005 Census Bureau estimates:

While 76 percent of whites are homeowners,
60 percent of Asian-Americans are homeowners,
50 percent of Hispanics are homeowners, and
48 percent of African Americans are homeowners.

The Harvard Joint Center has estimated that 26 percent of the homeownership gap between whites and minorities can be attributed to social factors like housing discrimination.

However, stark differences in educational attainment also underpin this homeownership gap.

According to 2000 Census Bureau figures for the population aged 25 and older:

While 27.0 percent of whites have attained at least a BA,
And 44.1 percent of Asian-Americans have a BA,
Only 14.3 percent of African Americans have a BA, and
Only 10.4 percent of Hispanics have a BA.

In an economy where you earn what you learn, these disparities in education will continue to result in disparities in income, homeownership, and wealth.

An additional concern is that the recent gains in homeownership—particularly among minorities—are at risk of being lost if interest rates climb significantly higher or if the housing bubble bursts. That is because many families have achieved homeownership in part because of relaxed credit standards within the lending industry or by making use of risky financial products like sub-prime, interest-only, or variable-interest-rate loans.

Indeed, it already appears that homeownership gains are leveling off, and the homeownership rate for African Americans actually declined around one percentage point from 2004 to 2005.

So what are leaders doing to address these challenges?

Across the country, these three challenges –affordability, location, and racial/ethnic disparity—are being perceived as challenges with relevance far beyond the narrow confines of traditional housing constituencies.

Business leaders in hot markets—California, New York, Chicago, New England, Seattle—are drawing the connection between the costs of housing and employers' abilities to attract and retain skilled workers.

For such leaders, the urgent need to address housing challenges is less about issues of inherent fairness and more about the present and future competitiveness of their regions.

These leaders are asking some tough questions:

> Why would skilled workers move to (or remain in) a region with high housing costs when they can locate to a place with the same types of jobs but better access to housing?
>
> Likewise, why should a firm move to (or remain in) a region with high housing costs when such a region compels them to pay high wages, thus cutting into their profit margins?

Environmental advocates are drawing the connection between the concentration of subsidized affordable housing in central cities and the sprawling development patterns on the fringes of American metros.

When affordable housing is concentrated in the distressed urban core—where schools are often lower quality and crime is relatively higher—moderate- and middle-income families are driven away. Because they can't afford to live in high-priced areas, however, these families are forced to move further to the outer suburbs and beyond. This great game of leapfrog unfortunately characterizes most, if not all, American metropolitan areas.

Enlightened **real estate and educational leaders** are drawing the connection between high concentrations of subsidized housing and school performance.

Research has clearly shown that children who live in neighborhoods of concentrated poverty are more likely to attend a school with poor standardized test results, fewer resources, and high dropout rates. To the extent that affordable housing policies exacerbate concentrated poverty, school performance is put at risk.

Finally, **advocates for working families generally and health care and child care specifically** are drawing the connection between high housing costs and the ability of low- and moderate-income families to enter and stay in the middle class.

Thus, concerns about housing exist across a broad spectrum of constituencies, which together have formed a friendly and potent political base to advocate for government action.

Indeed, across the country, states and localities are already trying to address the housing challenges I have outlined above by doing three principal things: boosting incomes, expanding the supply of moderately priced housing, and re-orienting the regulatory environment.

Let me give you some examples of state and local policy innovations.

On income, states have shown clear leadership in response to federal neglect.

Congress has not increased the federal minimum wage since 1997. In the meantime, price inflation has eroded the wage floor of $5.15 to the point where, today, less than 1 percent of renters nationwide live in areas where a single, full-time, minimum-wage job provides sufficient income to afford even a studio apartment, according to the National Low Income Housing Coalition.

More strikingly, the "national housing wage"—the full-time hourly wage required to pay fair market rent for an average two-bedroom home in the U.S. without spending more than 30 percent of income—is now $15.78, more than three times the federal minimum wage.

In response, a growing number of states—currently 18 plus the District of Columbia, comprising 46 percent of the U.S. population—are enacting minimum wages higher than the federal standard, some of them significantly so.

Moreover, 17 states now have their own earned-income tax credit (EITC) programs, which—like the federal program—supplement the incomes of workers who earn up to double the rate of poverty with a refundable year-end tax credit.

States are also trying to make sure that existing wages stretch further. North Carolina has cracked down on predatory lending, and Massachusetts and California have programs that ensure that affordable housing is built along transit corridors to enable low-wage workers to economize on transportation costs.

Although localities generally have less fiscal capacity to act than states, there is still enormous activity on the local level. Advocates in many communities have campaigned for living wages for public employees, and some jurisdictions like New York and San Francisco have even enacted local EITCs.

These income-related campaigns, for the most part, have not been led by housing advocates—even though bolstering household incomes represents one of the most effective ways of improving housing affordability.

On housing supply, states and localities have also taken major steps.

Most prominently, 36 states and more than 300 localities have created housing trust funds. These 350-odd trust funds, using dedicated sources of public revenue like taxes and fees, collectively spend more than $500 million annually on the production and preservation of affordable housing.

Over the past five years, housing trust funds have grown radically in both size and number. In late 2002, for example, California voters approved a $2.1 billion bond measure to endow a new state trust fund.

In Los Angeles—where the homeownership rate is 40 percent and only 12 percent of households can afford to buy a median-priced home—the city's Housing Trust Fund, also launched in 2002, will soon have $100 million in annual dedicated revenues. This revenue stream will enable it to create 4,000 to 5,000 units of affordable housing annually, making it the largest local trust fund in the country.

In DC, the $15 million Washington Area Housing Trust Fund is assisting with the creation and preservation of 10,000 affordable units throughout the metro area. In the District proper, a separate Housing Production Trust Fund is creating and renovating more than 2,000 affordable housing units annually.

Finally, many states are showing interest in using the tax code to promote employer-assisted housing. In Illinois, a "donation tax credit" provides donors (both corporations and individuals) with a 50¢ tax credit for every $1 donated to an eligible housing project, including employer-assisted housing and homeownership counseling as well as traditional programs to develop affordable rental and owner-occupied housing.

On the regulatory side, states and localities are gradually taking steps to shape housing markets to ensure that affordable housing is located in communities of expanding opportunity.

More than 130 localities nationwide have taken affirmative steps to mandate the production of affordable housing through inclusionary zoning ordinances. The first such ordinance was passed in Montgomery County, Maryland in the mid-1970s. Today, around 5 percent of the U.S. population lives in a community that requires affordable housing to be built in any new development. (Over 100 of these localities are in California, while most of the others are clustered around Boston and Washington, D.C.)

In 2004, Madison, Wisconsin became only the second city in the Midwest to adopt inclusionary zoning. Its ordinance—aimed in part at making it possible for public servants to live closer to work—requires all new developments including 10 or more contiguous units, whether rental or owner-occupied, to set aside at least 15 percent of units in the development for affordable housing. Households earning below 60 percent of area median income (AMI) qualify for the set-aside rental units and those below 80 percent of AMI for the owner-occupied units.

Policy innovation has also occurred at the state level, where both California and Illinois have compelled suburbs and other localities to open up to affordable housing.

In California, every city and county must develop a "housing element" that identifies sites appropriate for new affordable housing. Anti-NIMBY laws prohibit local governments from withholding approval for any new low-income housing development unless certain narrowly drawn conditions exist. The state also has a "density bonus" law requiring local governments to grant up to a 35 percent increase in allowed density if a prescribed minimum percentage of affordable units per development is attained.

In Illinois, the 2003 Affordable Housing Planning and Appeal Act (AHPAA) requires certain non-exempt municipalities and communities to develop affordable housing plans and submit them to the state housing development authority for approval. The law also includes an affordable housing appeals statute, which enables developers of low-income housing whose projects are denied by local authorities to appeal the decision to a state-level board. Illinois is only the fourth state in the country—and the first outside New England—to create such an appeals system.

However, no state has yet passed an unambiguous, universal, and mandatory inclusionary zoning law.

Nevertheless, states and localities alike are working to address today's housing challenges by boosting incomes, stimulating new development, and shaping markets.

Furthermore, states and localities—following the lead of business, environmental, educational, and advocacy leaders—are increasingly drawing the connection between the availability of affordable housing and their future economic vitality.

In California, Governor Schwarzenegger has declared that housing affordability is a "key component of the state's economic engine." High housing costs, he has argued, prevent the state "from being competitive in attracting and retaining skilled workers."

New York City represents an example of pulling all of these pieces together—a higher minimum wage, greater supply, and reduced regulation—within a long-term competitiveness framework.[2]

Mayor Bloomberg's recently announced 10-year housing plan—the largest municipal housing plan in the country's history—represents a $7.6 billion commitment to build and preserve 165,000 units of affordable housing. According to the Mayor, the plan's commitment to affordable housing represents a "central part" of the city's strategy to "maintain economic competitiveness in a changing world."

Among other steps, the 10-year plan:

- establishes a New York City Housing Trust Fund to subsidize low-income housing development;
- creates a New York City Land Acquisition Fund to prepare new development sites and finance other pre-development costs;
- reforms the city's historic Section 421-a tax exemption;
- incorporates the principles of inclusionary zoning and density bonuses; and
- streamlines other regulatory barriers.

In addition, the city's Housing Development Corporation—an entity independent of the city's budget—has now become the nation's largest issuer of bonds to finance lower-cost housing, with $4.8 billion in bonds outstanding at the end of 2005.

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[2] The minimum wage—$6.75—is set by the state of New York.

Although these state and local initiatives are innovative and substantial, they cannot displace the role of the federal government in creating an effective national housing policy.

Thus, the real question today is whether smart action at the state and local levels will ultimately "trickle up" in order to inform and shape the debate at the federal level.

The tactical and strategic lessons are many:

- Build broad-based coalitions that go beyond the usual housing constituencies.
- Connect housing policy to other broad priorities, such as economic competitiveness.
- Strive for inclusive and comprehensive solutions.
- Support smart growth.
- Target the market.
- Build political support by either aiding the middle class directly or embracing its values.

Many of these lessons are not new to housing advocates.

The housing advances in the 1930s, 1940s, and the 1960s—the birth of FHA and VA homeownership programs, the creation of public and assisted housing, the enactment of fair housing laws, the creation (and expansion) of secondary mortgage market entities—were directly connected to broad national priorities, such as stimulating the national economy, helping veterans after World War II, and healing the racial divisions in the nation.

These policies represented a national-level response to national-level crises that were well understood—for example, the Great Depression and urban upheavals. Even the response to homelessness in the 1980s and in more recent years built upon a growing national dissatisfaction with the visible signs of housing distress.

The advances in federal homeownership policies also provided direct assistance to the middle class and, in so doing, broadened their base of political support. In this respect, housing reforms replicated the success of other major domestic reforms like the enactment of Social Security in the 1930s, Medicare in the 1960s, and environmental protection laws in the 1970s.

Other advances in housing policy succeeded by directly appealing to middle-class values rather than assisting the middle class directly. Public housing reforms in the 1990s reflected a widespread perception that many troubled developments had been fundamental mistakes and were now doing more harm than good. In a similar vein, anti-redlining and fair housing laws reflect a deeply rooted American belief that individuals and families should be treated fairly and equitably.

These historical advances in housing policy are noteworthy, too, for the fact that they directly diagnosed the problems of the housing market and then targeted policy responses appropriately. Federal housing initiatives in the late 1940s, for example, were launched in direct response to the inadequate supply of "decent, safe, and sanitary" housing for a growing nation. Efforts in the late 1980s and early 1990s were direct responses to the diminishing supply of affordable rental housing, particularly in major metropolitan markets.

These historical lessons should provide guidance to housing advocates today as they strive to build broad political coalitions that can reform housing policy in a way that achieves their goals and appeals to the mainstream of American political life.

So what is possible in 2008?

It is likely that the 2008 presidential race will enable certain specific housing initiatives to get their day in the sun.

As in the 2000 or 2004 elections, it should not be difficult for housing advocates to get candidates to express their support for current legislative proposals to stimulate housing production, such as a federal homeownership tax credit, a federal employer tax credit, or a national housing trust fund.

Each of these proposals has merit and deserves support. Yet they are incremental in nature and do not add up to a national housing agenda. In some respects, they enable candidates to appear pro-housing during campaigns and then ultimately govern otherwise.

We should all remember, for example, that George Bush advocated a homeownership tax credit during the 2000 election. Such a credit has yet to be enacted, although the administration has sought numerous changes in the tax laws since the President took office in 2001.

The real challenge for 2008, then, is to have a candidate or candidates—and the housing constituency in general—articulate a clear vision for an integrated national housing policy that includes the three basic building blocks of state and local innovations:

- **boosting income** to ensure that a broader portion of the American workforce can afford housing;

- **growing and maintaining the supply** of affordable housing to meet the growing demand of the American workforce; and

- **shaping housing markets** to ensure that new affordable housing is located close to employment and educational opportunities.

These building blocks sound benign and uncontroversial. However, they have profound implications for the division of responsibilities between the federal, state, and local levels of government. They also have profound implications for the fate of existing programs and future initiatives.

I think 2008 will provide, first and foremost, an opportunity to reexamine how federal policies can grow the incomes of low- and moderate-income workers.

An income growth strategy is desperately needed for very low income workers in the United States. With welfare reform, the federal government declared that work would be the organizing principle of social policy in the nation. Yet we still have a long way to go on fulfilling the second promise of welfare reform: “if you work, you shall not be poor.”

And, as I discussed before, disparities between wages and housing prices extend way beyond the population receiving welfare benefits. A growing number of working families earning moderate and even middle-income wages are struggling to afford housing.

We, therefore, need to encourage presidential candidates to call for an expansion of housing vouchers—since vouchers are essentially income supports.

We also need to encourage candidates to support more general approaches to growing incomes such as raising the minimum wage, expanding the earned income tax credit, and cracking down on predatory lending.

Make no mistake: these approaches—general though they may be—nevertheless have a significant impact on housing affordability and should be embraced by housing advocates. They also bear the benefit of universality: while income supports like the EITC are entitlements, federal housing assistance programs are not.

As for the second point—growing and maintaining the supply of affordable housing—I think we need to reconsider our current vehicles for both production and preservation.

We need to, on one hand, find ways of using federal resources in ways that not only build a certain (limited) number of units of affordable housing in each metro in a year, but also catalyze the production of thousands more—perhaps by providing incentives to streamline state and local regulations, codes, and processes; by creating new financing vehicles and products; and by increasing the pool of builders who participate in affordable housing production programs.

Such a catalytic effect might be achieved by allocating a portion (say 20 percent) of funding for the HOME program and the low income housing tax credit program through a performance driven competition rather than data-driven formulas. Why should the federal government treat all states and localities equally when clearly some places are “doing the right thing” on housing (e.g., lowering regulatory and administrative barriers) and others are “doing the wrong thing” (e.g., needlessly driving up the costs of production)? It is simply inefficient for scarce federal housing resources to be used in ways that merely compensate for the anti-housing policies of certain state and local governments.

We also need to reexamine the federal approach to preserving existing affordable housing, particularly housing that was built with federal subsidies. Extending the physical and affordable life of the existing inventory is fiscally efficient and cost effective and could be achieved by a range of tax and spending tools.

Finally, with regard to shaping housing markets, I believe that the federal government needs to think about housing location the way that parents do. That is, how do we build affordable housing in areas that are close to good jobs and good schools? How do we thread the ethic of equal opportunity—embodied in programs like inclusionary zoning—through all of our programs?

Here are some ideas for candidates and constituencies to consider:

Imagine making it easier to serve families with a broader range of incomes in neighborhoods with high concentrations of poverty.

Imagine a joint education/housing initiative that provides new vouchers only to families that use them to move to neighborhoods with better schools.

Imagine devolving governance of housing vouchers to new metropolitan housing entities that provide voucher recipients with the counseling and supports they need to move to areas of low poverty.

Imagine leveling the playing field on low income housing tax credits to stimulate the production of subsidized housing in areas of growing employment.

Imagine building on the achievements of community development corporations by creating a network of regional housing corporations to develop and preserve affordable housing in suburban areas.

Imagine a joint transportation/housing initiative that provides a tax credit to developers for the production of mixed-income housing along transit corridors.

The bottom line is this: the housing challenges of today demand a new set of ideas and policies and programs that are equal to the task and tailored to the new metropolitan reality of our nation.

All of this discussion leads to my last point, which concerns the future of HUD.

I think 2008 is a perfect time to reassess HUD's function, mission, and capabilities.

HUD is now 40 years old and, to be frank, it is not aging well. Gross financial errors in HUD program administration top $1 billion. A large portion of its workforce has retired or is considering retirement. Many formerly core functions have been outsourced.

Today, HUD is not only no longer nimble or entrepreneurial—it is barely aware of how the housing world works.

I believe we need to start a frank discussion about the future of HUD. We should identify the capabilities and resources that the federal government will need in order to both address this country's 21^{st} century housing challenges as well as manage the legacy programs and assets inherited from its past 40 years of activity.

In making this assessment, all options should be put on table, including I believe eliminating the Department, moving certain functions to other Cabinet agencies and building new capacities in (perhaps) a new federal entity.

All told, there is much work to be done. I look forward to the participation of this organization in advancing this important debate and in building a broad-based coalition for reform that includes, but is not limited to, the traditional housing constituencies. Housing policy is not just about housing—it is about the health and well-being of our economy, our society, and our country as a whole.

Thank you very much.