

## 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*

We find Quercia and Galster's article on reforming public housing an intriguing academic exercise that contains some key insights useful to practitioners. However, the article fails to consider several key elements in the provision of assisted housing that make their "constrained quadrilemma" much less problematic than they assume.

The article ignores the tenant-based certificate/voucher approach to meeting the housing needs of low-income and very low income persons and households. This is a significant oversight, in that many public housing authorities (PHAs) manage a larger portfolio of certificates than of PHA-owned housing. If the litmus test of the success of public housing's "reinvention" is the extent to which it is able to maximize both the number of low-income households served and their social and geographic integration, then public housing's extensive use of certificate/voucher programs demonstrates a road out of the quadrilemma.

**Keywords:** Low-income housing; Policy; Markets

### **Introduction**

Academics are fascinated by paradigms: the posing of propositions, the pondering of possibilities, the pronouncement of projections. However, reality cannot always be captured in elegant phraseology. Having said that, let us consider what is useful in the view of the world of public housing according to Quercia and Galster.

The article has four sections of introductory material, but the core of the piece is its second half, in which the paradigm—the "constrained quadrilemma"—is posed and analyzed, and conclusions are drawn.

## Comparison of public and private-assisted housing

In the first half of the article, Quercia and Galster summarize public and private-assisted housing according to five key elements. We have used this information to create table 1; however, we must point out that the distinction between the two types of assisted housing is artificial. In fact, public and private-assisted housing programs are part of the same “family,” although public housing has been the neglected and maligned sibling for decades.

*Table 1. Summary of Quercia and Galster’s Elements of Public and Private-Assisted Housing*

Element	Public	Private-Assisted
Motives	Housing for low-income and very low income persons	Profit in low-income housing
Financial structure	Subsidy driven (deep)	Subsidy driven (shallow)
Developments	Big city: old, high density Small city: new, lower density	Viable locations
Tenants	15% of area median income (AMI)	50–80% of AMI
Management	Centrally directed; proxy measures	Site-based; cost-effective
<i>Additions by Nutt-Powell and Gallo</i>		
Origin of program	1930s	1960s
Age of stock	Trimodal	Unimodal
Regulations	Centrally conceived and directed	Location based

This comparison of two types of assisted housing is rooted in reality but distorts it. Three additional elements help clarify. The first two additional elements—origin and age—are important in understanding both the nature of the stock and notions about the role of the federal government at the inception of each program. The public housing program is about 60 years old—many of the first developments were designed and built as Works Progress Administration projects. About 25 percent of the stock was built before 1956; another 35 percent was built from 1956 to 1970; the remaining 40 percent was built after 1970. Private-assisted housing dates back only about 30 years and as

such has a uniformly “younger” stock.<sup>1</sup> The third additional element is the regulations that guide each program. Public housing is a centrally directed federal New Deal program,<sup>2</sup> and regulations (and statutes) are often in the “one-size-fits-all” mode. Subsidies are formula driven (through the Performance Funding System) and averaged over the entire inventory of a public housing authority (PHA). Private-assisted housing is location based and deal driven, with states and the Federal Housing Administration (FHA) operating in parallel on the production side, and federal subsidies disaggregated to specific properties or to tenants.

A few comments on what Quercia and Galster say about these elements: Public housing indeed has ended up housing the “very poor and most desperate,” as the income disparities suggest. The “very poor” include a large number of low-income elderly households for which housing was built (by the approximately 3,400 large, medium, and small PHAs) mostly after 1970. Housing the “most desperate” is neither a motive nor a policy of public housing, though it has been an unintended consequence of other policies. The “desperate” state of public housing today is, by and large, a result of two federal housing policy mandates: the Brooke Amendment and federal preferences. The Brooke Amendment not only abolished locally established minimum rents but also destroyed local control over tenant selection policy, a control that the federal government is now encouraging PHAs to reinvent. It is ironic that Quercia and Galster only belatedly acknowledge this situation in their concluding paragraphs. Federal preferences for admission to public housing were the final blow to the local integrity of public housing. This mandate resulted in the free fall of average tenant incomes to the 15 percent that the authors describe. It also graphically illustrates the extent to which the centrally controlled public housing system has become dependent on deep federal subsidy for its daily operations and in the process has lost touch with the marketplace.

As to location, not all public housing is terrible or terribly located; not all private-assisted housing is well operated or located. In many instances, newer public housing is indistinguishable (by virtually any standard) from private-assisted

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<sup>1</sup> The recent effort to preserve “expiring use” private-assisted housing (under the U.S. Department of Housing and Urban Development’s Title VI Low-Income Housing Preservation and Resident Homeownership Act program) is an indication of the aging of this stock and the problems (use, age, cost) that it is beginning to experience.

<sup>2</sup> We recognize that a few states have parallel public housing programs.

housing focusing on the same market and built around the same time. An Abt Associates study funded by the U.S. Department of Housing and Urban Development (HUD) on the risk status of the FHA stock concluded that roughly 24 percent of properties were distressed, 15 percent were stressed, and 62 percent were sound (Wallace 1993). Thus, neither public nor private-assisted housing is homogeneous, nor can good policy be made by using broad-brush descriptions and summary elements that make them appear to be so. While we agree that much of “reinventing” PHAs will be “back to the future,” it is ironic that the same federal culprits—congressional and bureaucratic—responsible for the worst of the high-density, low-income vertical slums that blight the central cities of America are fomenting their destruction in the form of the HOPE VI initiatives.<sup>3</sup>

A comment is necessary on what is *not* discussed by the authors. The article (especially the definitional first half) focuses on housing developments. It ignores the tenant-based certificate/voucher approach to meeting the housing needs of low-income and very low income persons and households. This is a significant oversight, in that many PHAs manage a larger portfolio of certificates than of PHA-owned housing. If the litmus test of the success of public housing’s reinvention is the extent to which it is able to maximize both the number of low-income households served and their social and geographic integration, then public housing’s extensive use of certificate/voucher programs demonstrates a road out of the quadrilemma.

A second major omission is the subject of welfare reform. Clearly, public housing is “in play” (to a degree that private-assisted housing is not) in the welfare-to-work revolution. When Congress and the president agreed to end “welfare as we know it,” national estimates were that 28 percent of all public housing tenants were on Aid to Families with Dependent Children. Few people in Washington seem to have recognized the financial dilemma they had created for public housing, and Quercia and Galster failed to factor this particular public housing vulnerability into their analytic paradigm. There is no simple marketplace way to address this situation. Public housing providers are going to have to focus their attention on child care, job training, and transportation issues—and find every available public and

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<sup>3</sup> While the federal government (and architects in love with 1950s superblocks) carry a large portion of the blame for high-rise slums, they were aided and abetted by local practitioners and politicians in the ghettoization of the poor with federal money. For a classic study of the dynamics in general and of Chicago in particular, see Martin Myerson and Edward Banfield (1955).

private partner to address them. The private-assisted housing providers do not have the same risk exposure in this grand social welfare experiment, because the dynamics of federal policies have not led them to house the “desperate” low-income populations. The two housing delivery systems have come to serve different populations, albeit both low income, and these differences will be illuminated by the impending fallout of welfare reform on the public housing system.

### **The constrained quadrilemma**

Having said all this, what do we learn from the constrained quadrilemma? The achievement of any important objective always involves balancing and choosing among competing objectives. The question is whether Quercia and Galster have made the right choices.

Quercia and Galster suggest that a PHA has four goals, which result from the move toward tenant-based assistance in public housing:

1. To maximize the integration of poor and nonpoor households.
2. To maximize the value of cross-subsidies per poor PHA tenant.
3. To maximize the number of poor people assisted by decent, affordable housing.
4. To maximize the amount of private capital invested in PHAs.

First, it is not entirely accurate to say that the policy movement is toward tenant-based assistance in public or private-assisted housing. Both public and private-assisted housing stock represent too great a sunk capital investment for the federal government to abandon. However, it is true that legislative initiatives for both types of subsidized housing have focused on encouraging a more market-based, cost-effective test of success. In a word, businesslike behavior is being demanded. For both types of housing, the subsidy stream is declining—an inevitable result of balancing the federal budget. In private-assisted housing, there are no cost-adjusted budgets; in public housing, operating and capital subsidies will decline, both per unit and in terms of funds for poorly performing developments.

Second, any shift to tenant-based assistance is not necessarily going to undercut the role of a PHA in meeting its goals. Historically, PHAs have striven for income mix; federal policies such as the Brooke Amendment have frustrated that commonsense approach. Owning or operating housing is not the only way to achieve what would seem to be the basic goal—that is, Quercia and Galster’s goal 3, maximizing the number of poor people assisted by decent, affordable housing. PHAs (especially those operating in soft or average housing markets) are delighted to have increased certificates/vouchers as a way of achieving their mission.

What of the quadrilemma? Is it real? As posed, it is compelling to those with an economist’s worldview. Substitute a public administration perspective, and then substitute “satisfice”<sup>4</sup> for “maximize,” and the quadrilemma becomes the routine of what one does every day to do a good job. We first comment on the four goals as posited by Quercia and Galster, then turn to the six intergoal conflicts (A through F), and finish with the four sets of external constraints (G through J).

Economists draw the distinction between “markets” and “needs.” Indeed, the authors point out that public housing not only was never intended to compete with the private market, but was statutorily prohibited from doing so. To expect public housing to readily compete, given its comparatively older stock, lower income profiles, and “undesirable” locations, is asking for a miracle. Most public housing, especially that serving an elderly population, has had a hard time being “successful” in the marketplace (that is, surviving without subsidy) precisely because of federal policies that prompted the system to serve those with incomes below the radar screen of the regulated market economy. The authors make the point that government regulations, primarily in the areas of minimum housing code standards and land use, have preempted any opportunity for the unsubsidized private sector to serve the housing needs of Quercia and Galster’s “poor” or “nonpoor.”

What then are we to make of Quercia and Galster’s four goals of public housing? Each postulates *maximization* of goal attainment. By comparison, any practitioner, whether public or private, knows that all housing is local, all local activity is political,

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<sup>4</sup> The term “satisfice” is most frequently associated with the works of Charles E. Lindblom, who is most noted for his article “The Science of ‘Muddling Through’” (Lindblom 1959). (See also Lindblom 1968; Lindblom and Cohen 1979.)

and all political activity tends toward compromise. As suggested above, the test of a housing provider is the test of *satisficing*. Given that as our point of view, here are our observations on the goals, conflicts, and constraints of the quadrilemma.

### *Goals*

1. Integration is racial and ethnic as well as economic. Housing is local and a matter of choice on the part of each consumer. The market is bigger than its subsidized element. Every assisted housing development owner or manager (public or private) intuitively understands “internal subsidies” and tries to balance social and economic objectives. Public housing will be able to achieve a broader income mix now that local preferences (including those for working families) and ceiling rents are options for PHAs.
2. Cross-subsidy need not be maximized; the development’s budget simply has to balance. Our experience suggests that a household at about 35 percent of area median income (AMI) will pay 100 percent of the costs of operating public housing—that is, the costs exclusive of mortgage payments.
3. One can minimize the number of people living in poor housing or maximize the number living in good housing. Either way (and contrary to the authors’ assertion), the goal can be achieved by methods other than owning and operating housing developments. Such methods include in particular the certificate/voucher programs, which have a positive impact on conditions of the privately owned and operated rental market. Pursuit of such alternatives is the reason “leveraging” has found its way into the lexicon of public housing.
4. As with the operating budget, capital funds need only be sufficient. A sound operating budget can and should contribute to capital funds. Further, investors have objectives in addition to profit maximization, such as staying in business and achieving “good citizen” goals. Thus, contrary to this goal statement, PHAs need not offer the highest possible rate of return. Finding new sources of capital and operating funds is a very good example of how providers of public housing seek not to maximize but simply to make housing work. (The authors seem to acknowledge this point in their summary.) Anecdotal information suggests that PHAs are already becoming more entrepreneurial. They understand,

for example, the benefits of administering the certificate/voucher programs. They are figuring out the value of their assets (capital, property, subsidy stream, and institutional capabilities) and forging partnerships in various inventive ways.

### *Intergoal conflicts*

- A. The conflict as posed is artificial. It has to do with stereotypes of PHAs as bad and private developers as good. Stereotypes can be circumvented if not changed altogether. One simple mechanism is for public housing to be developed by a PHA affiliate of a different name or by a developer partner under the partner's name.
- B. This conflict ("the need for exclusion") requires empirical evidence to be believed. Given Galster's research in this field, we are surprised by the lack of reference to such studies. The success of so-called 80/20 deals<sup>5</sup> throughout the United States suggests there is no basis for this conflict. Prejudices can flourish if labels are evident. It is not clear to us that a sagacious housing owner or operator (either public or private) would create this problem by labeling and stigmatizing.
- C. This is a conflict only if the budget makes it so. Given that public housing deals have soft debt, the budget problem is minimal.
- D. This is a conflict only in the "maximize" formulation. Every development, regardless of its economic focus, must be sustainable in the market. The issue is budget based, not theoretical.
- E. No owner who needs private investment will have a budget that emphasizes one objective at the expense of all others. Any investor in subsidized housing comprehends the multiple objectives. Those seeking only higher returns look elsewhere in the investment marketplace.

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<sup>5</sup> The 80/20 deals typically involved state housing agencies using tax-exempt bonds (thus reducing the interest rate) but requiring that some percentage (typically 20 percent) of the units be committed to low-income (Section 8-qualified) households.

- F. Semantics obfuscate. The maximum income on entry to public housing is 80 percent of AMI. By choosing “poor” (those who need subsidy) and “nonpoor” (those who do not need subsidy) as their definitions, Quercia and Galster have created an intellectual dead end. Economic diversity is entirely possible at and below 80 percent of AMI, which HUD defines regionally. If economic diversity means that poor and nonpoor mix, then the definitional median is about 35 percent of AMI. If tenants in traditional public housing are at and below 20 percent of AMI, then bringing together those from 20 percent to 80 percent with those below 20 percent is a significant achievement of social and economic integration. Further, the analysis needs to be specific and locational. For example, in Detroit the city’s median income is about \$25,000 for a family of four, compared with the region’s AMI of about \$50,000 for a family of four. Thus, about 75 percent of the city’s population is eligible for public or private-assisted housing with incomes up to \$40,000 for a family of four. Quercia and Galster have thus hit upon an ecological fallacy, because they have shifted the units of analysis. By any reasonable standard, a range of incomes of \$5,000 to \$40,000 in a development is significant integration.

### *External constraints*

- G. These three obstacles are not real. Federal preferences are gone. Federal funds have been and continue to be available, with significant loosening of use restrictions on all HUD capital grants to PHAs. Leveraging increases funds. NIMBYism (“not in my backyard”) is no more or less a factor for a PHA than for any developer of housing for low-income households. A good record and good capability can prevail.
- H. The argument may work for “true” market-rate households—that is, those with income above 80 percent of AMI. However, the applicability depends on the location and quality of the housing. As suggested above, households from 35 to 80 percent are significantly less likely to exhibit this behavior.
- I. Location is everything. A well-regarded PHA has no problem attracting investors, and even a terrible PHA can attract investors with the right partner arrangement. The location, financial package, and project bona fides will attract the

investment. While not all locations are equally attractive, various incentives can equalize them.

- J. The external constraint posed is a real demand of new federal statutes. PHAs must have sound business plans, as a housing company and for each business center, especially for marginal developments. A development becomes marginal by a variety of factors but most obviously by high vacancy rates. If a property is vacant, those for whom it is intended have voted with their feet. Many big-city PHAs with older stock have experienced the phenomenon of newly modernized developments that are unable to attract tenants. Need does not equate to demand, a fundamental reality in housing and one that is essential for academics to teach.

## Conclusion

Putting aside the details, the thrust of Quercia and Galster's article—that there are conflicting goals—is correct, for public *and* private-assisted housing. The political decision to balance the federal budget calls for creativity by all players in the housing industry. Public housing perhaps has further to go than other types of housing, given the consequence of its operation for so long in a central command economy. Each PHA needs to understand just what type of housing company it is and which parts of the housing business it wishes to be in. Unquestionably, it is desirable for public housing to broaden its income mix. The same is true for private-assisted housing. However, it is certainly the case that there is no institution other than a PHA that exists with a geopolitical charter and statutory mandate to identify and respond to the needs of low-income and very low income persons and households. For big-city PHAs especially, escaping the suburban noose is more than a marketing problem; it requires changes in both state enabling legislation and public attitudes. PHAs are learning that their statutory charters are not a monopoly, certainly not within the geographic market or on federal funds. Theirs is a mandate that must be carefully nurtured if a PHA is to achieve a “satisfactory” rating from its most important reference group, its local community.

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