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Illogical Housing Aid

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THE tax deduction for mortgage interest may not quite be the “third rail” of politics that Social Security is, but politicians on both sides have long been afraid to touch it. So when Mitt Romney recently floated the idea of capping this deduction, Democrats pounced.

Here, after all, was Mr. Romney arguing to cut a long-favored tax benefit for middle-class homeowners — in the midst of a soft housing market, no less — so as to make up lost revenue from his proposed tax cuts that, critics say, disproportionately benefit the wealthy.

But while Mr. Romney’s tax proposal over all may not be fair or sensible — or even mathematically logical — Democrats shouldn’t be so quick to attack any change to the mortgage interest deduction. In doing that, they’re depriving themselves of a potentially powerful tool for progressive governance, one that could greatly increase funding for affordable housing. In truth, the mortgage interest tax deduction benefits the rich far more than middle-income families. A 2012 study by the nonpartisan Center on Budget and Policy Priorities shows that of federal tax expenditures for homeowners, more than half goes to households with annual incomes above $100,000, about twice the United States median.

Upper-income Americans take advantage of these policies to help them buy million-dollar homes, but there are relatively few federal housing dollars for extremely low-income families — and even fewer for those in the next tier up, who earn between $20,000 and $50,000 a year. Rather than preserve the mortgage-interest deduction as it is now, progressive politicians would do better to redirect the benefits we currently provide to America’s wealthiest homeowners to supporting housing for struggling and moderate-income families.

Indeed, Mr. Romney’s father, George W. Romney, adopted just such a position. As Richard Nixon’s secretary of the Department of Housing and Urban Development (H.U.D.), the elder Romney was an ardent advocate of aid to the poor.

In December 1972, he wrote Nixon to suggest a “staged reduction” in mortgage interest and property tax deductions. He thought savings should be shifted toward affordable housing. “At a minimum,” he argued, “this would offset the impression that this budget is taking away from the poor to benefit the middle income and rich.” Mitt Romney has a different view. The primary justification for his own willingness to consider capping mortgage deductions is to replace lost revenue from his proposed 20 percent across-the-board federal tax cut, a policy whose prime beneficiary would be upper-income households.

Fundamentally, the younger Mr. Romney has demonstrated no interest in promoting the cause of affordable housing once championed by his father. At a private fund-raiser this spring, Mr. Romney said H.U.D. “might not be around later” if he were elected president.

Though certain of the department's programs could be transferred elsewhere in the government, continued support requires presidential backing. Slashing H.U.D.'s programs would pull the plug on an essential lifeline for millions of Americans who are unable to afford the cost of market-rate housing. Today, that need is greater than it has been in years.

Since 2000, federal assistance to the poor through long-term subsidies of public housing and Housing Choice Vouchers (Section 8) has stagnated. A third program, the Low-Income Housing Tax Credit, encourages the development of housing for working-class families, but the affordability of the apartments it covers is guaranteed only for a limited time.

Together, public housing and voucher programs serve roughly the same number of households as in 2000, even though the nation's population has grown by 33 million, or 12 percent, and the number of impoverished people has ballooned by 14 million, or 45 percent.

Today, the federal government spends about $40 billion annually on housing programs designed specifically for low-income households. Yet the mortgage interest deduction alone costs the Treasury some $80 billion a year. Almost $35 billion in housing aid goes to families with incomes above $200,000.

The National Low Income Housing Coalition (N.L.I.H.C.), working with Representative Keith Ellison, Democrat of Minnesota, and more than 350 organizations nationwide, suggests reforming the deduction by converting it to a credit, capping eligible mortgages at $500,000 and using the proceeds to finance the National Housing Trust Fund.

This is a good idea: it would increase the number of middle-income families qualified for homeowners' aid but reduce expenditures over all by cutting spending for the wealthy. Were about $30 billion in saved funds redirected to the poor, as the coalition proposes, federal funding for affordable housing could be almost doubled with no change in the deficit.

A governor named Romney once supported expanding access to affordable housing. The N.L.I.H.C.'s straightforward plan would do just that — without depriving most moderate- and middle-income families of a much-cherished tax break.

It's time to touch that third rail.

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