HAWAIIAN HOME LANDS
PROPOSALS FOR REFORM

by

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ABSTRACT

The paper first notes the possible cultural and economic benefits to individual Native Hawaiians of extending the current DHHL public housing program on trust lands. Next it explains the benefits of an alternative policy: fee entitlement of existing homesteaders, and the liquidation of land and other program assets with distribution of the sales revenues in cash to Native Hawaiians not currently homesteaded. Then it explains the benefits of a more modest policy: the sale and/or management of program assets to finance supplementary housing allowances for tenants and assistance for first-time home buyers.

The paper tentatively sets aside difficult-to-measure cultural benefits of the existing program to make rough estimates of its potential waste. In other words, it estimates the dollar cost of the existing program's cultural benefits to Native Hawaiians.
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For almost three quarters of a century the Hawaiian Home Lands (HHL) program has served as the cornerstone of government policy towards Native Hawaiians. However, this program to provide small farms and residential lots on government-owned land to Native Hawaiians has performed inefficiently and benefited relatively few Hawaiians. The current impetus for Hawaiian self-determination creates possibilities for reform of this program. Most critics have merely argued that the program needs better administration and more money. Our goal in this paper is to present and analyze two quite different alternative uses of the HHL program’s resources that could improve the welfare of its intended beneficiaries and provide the foundation for a major reform of this important, yet troubled program.

Section 1 briefly reviews the history of the program, traces its implementation from 1920 to the present, and summarizes the value of program resources currently available to serve Native Hawaiians. Section 2 describes the benefits of continuing a program similar to the existing Hawaiian Home Lands program. These are the direct benefits enjoyed by lot recipients and indirect cultural benefits enjoyed by the larger Hawaiian community. Section 3 explains the benefits of an alternative policy (1) entitling existing homesteaders to fee simple rights and (2) liquidating the trust lands and other program assets and distributing the cash to individuals who have not yet received homesteads. Section 4 explains the direct benefits of still another policy: the sale and/or management of program assets to finance supplementary housing allowances for tenants and first-time home buyers. We explain that the divisibility of cash, whether

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unrestricted or specified for housing, enables a fairer distribution of benefits.

In Section 5 we summarize empirical estimates of the waste in past public housing and other programs in the United States. Then tentatively setting aside difficult-to-measure cultural benefits of government’s continuing control of trust lands and equity benefits from using cash grants rather than indivisible, in-kind grants, we draw the following implications for programs like the Hawaiian Home Lands program: (1) they are exceedingly wasteful; (2) greater benefits can be delivered to individual families in the form of home rental or first-time purchase assistance; and (3) even greater benefits can be delivered in the form of unrestricted cash grants.

The final section poses the question: if there are substantial cultural benefits from holding the land in trust, are they worth the sacrificed benefits of an alternative program? If a change in the structure of the HHL program would significantly improve Native Hawaiians’ welfare, then the existing constitutional and legislative foundations of the HHL program should be reassessed. Individual Native Hawaiians, or their directly elected representatives, should formulate and vote on constitutional and legislative changes to the current program. Reform will have opponents, and we indicate some obstacles to HHL reform within the State of Hawaii or within a sovereign Hawaiian nation.

We suspect there are large gains to be claimed through reform of the HHL program. This belief derives partly from the economic literature on inelienability of land assigned to Native Americans. Libecap and Johnson, Carlson, and Anderson and Lueck have analyzed how restricted land rights produced inefficient land use. Another recent strain in the literature analyzes how public housing programs and

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the lack of land and housing markets in socialist economies caused waste. Our primary purpose is to call attention to certain inefficiencies of the HHL program, and to indicate how the program might be restructured to bring substantial benefits to Native Hawaiians.

SECTION 1. THE HAWAIIAN HOME LANDS PROGRAM

Origins of the Program

Between Captain Cook's arrival in 1778 and enactment of the Hawaiian Homes Commission Act of 1921, the Hawaiians were a dying race. Estimates of the population in 1778 range between 110,000 and 100,000. The first accurate census in 1849 revealed a Native Hawaiian population of 78,854 and an additional Hawaiian population of 471. (A Native Hawaiian is one with 50 percent or more Hawaiian blood. The more inclusive Hawaiian is one with any amount of Hawaiian blood.) By 1920, there were 23,723 Native Hawaiians and 18,027 additional Hawaiians. This decline, largely due to a series of epidemics, coupled with an influx of immigrants reduced the Hawaiians from 97.1 percent of the population in 1853 to 16.3 percent in 1920.

When Cook arrived, ruling chiefs held lands in trust for the use of their subjects. The chiefs made temporary land use grants to lesser chiefs who made such grants to land managers who made such grants to commoners to farm the land. Lands were transferred by one chief's conquest of another, or by a king's natural successor. In 1848 a land reform law along with government land sales soon provided several hundred Hawaiian chiefs with alienable title to

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approximately 1.9 million acres. 6 By 1893 individual Hawaiians had sold, abandoned or otherwise lost all but 369,000 acres. 7 In 1893, Hawaiians paid 18.6 percent of all taxes, primarily real and personal property taxes; 8 however, by 1919, Hawaiians owned only 9.8 percent of the value of assessed real property. 9

By 1920 Hawaiians with their own farms had declined to less than 3 percent of the Hawaiian workforce. 10 Landless Hawaiian workers faced stiff competition from Chinese and Japanese workers leaving the sugar and pineapple plantations. The 1920 Census reveals that Hawaiian labor force participation rates and secondary school enrollment lagged behind other ethnic groups. 11 Urbanization led in 1920 to over 36 percent of Native Hawaiians and 50 percent of other Hawaiians taking residence in Honolulu, compared to 33 percent of the entire population. 12 Many Hawaiians lived in crowded tenements where death rates were abnormally high. 13

The Hawaiian Homes Commission Act

The Hawaiian Homes Commission Act (HHCA) was signed into law by the President of the United States in 1921. Its purpose was in part the rehabilitation of the Hawaiian race. The Act set aside over

7 The decline in Hawaiian land ownership includes the acreage transferred to the Bishop Estate by a Hawaiian ali`i, Princess Bernice Pauahi Bishop, in her will.
8 U. S. Department of Interior (1920), Report of the Governor of the Territory of Hawaii to the Secretary of the Interior, Washington: G. P. O., p. 22. Because the Bishop Estate was a charitable estate, it did not pay state taxes. Reliable statistics on land ownership by ethnic group do not exist after 1893.
9 Id. at p. 22. We include the value of assessed land owned by corporations and firms ($88,999,410) in the American/European total, as Hawaiians possessed no significant holdings in Hawaii's major corporations. If we exclude corporate lands from the calculations, then 26.8 percent of assessed land value was held by Hawaiians.
11 Id. at Tables 14 and 16.
203,000 acres of public lands (ceded by the Republic of Hawaii to the U.S. Government in 1898 along with 1.2 million additional acres) to be held in trust under the control of the Hawaiian Homes Commission comprised of the Governor of the Territory of Hawaii and his appointees. When the territory became the State of Hawaii in 1959, the state, through its Department of Hawaiian Home Lands (DHHL), became the executor of the trust.

The Commission's task was to lease the lands as homesteads to Native Hawaiian applicants for a term of 99 years for $1 per year. The homesteaders were to return to their prior way of life by residing on and farming or pasturing the land. Their access to capital was severely constrained because they could not mortgage the land and could obtain only a modest loan from the Commission. They could not sublet the land. They could not bequeath the lease to a relative with less than 50 percent Hawaiian blood.14

The Act dedicated certain territorial revenues to the HHL program: (1) revenues from the leasing of Hawaiian Home Lands not yet homesteaded; (2) 30 percent of the revenue from the leasing of the ceded territorial lands leased to or cultivated by sugar companies; and (3) 30 percent of the receipts from territorial water licenses. The Act and subsequent amendments controlled the amount of such revenues available to the program by the use of caps on cumulative revenues from these sources. Under the Act, the Commission could also request the territorial legislature to issue revenue bonds for water and other development projects. Beginning in 1937, the legislature was empowered to provide additional funds for operations, as well as capital improvement projects.

Between 1921 and the mid-1930s, the Commission experimented. It developed infrastructure and awarded homesteads on Molokai and the Big Island primarily to demonstrate the attractiveness and economic viability of a farming and pasturing homestead program. This test failed largely because of (1) the poor quality of HHL lands and the lack of a dependable water supply; (2) the long-term demise of small farming due to advancing technology and changing economic conditions; and (3) the attractiveness of urban jobs and lifestyles. In another test the Commission provided improved residential lots of less than one-half acre with loans to build homes on the lots at

14 The program now allows homesteads to pass to blood-related children one-quarter Hawaiian.
below-market rates. These residential subdivision lots attracted numerous applicants, and afforded a feasible way to induce Native Hawaiians to leave the crowded tenements. This was the genesis of what proved to be the primary purpose of the HHL program: to plan, develop, and finance residential subdivisions.

Government Support for Native Hawaiians

Government support for the HHL program, measured in constant-dollar program expenditures, has varied greatly over the past 74 years. In the fiscal year ending in June 1994, program expenditures totaled $21 million. A rough (due to data limitations) comparison of the constant-dollar territorial/state expenditures on the HHL program shows a dramatic decline in program support. Program expenditures comprised 11 to 18 percent of the budget in the 1920s. At the beginning of World War II, program expenditures dropped significantly, never again amounting to more than 6 percent of the budget. Since 1980, state expenditures have remained below 1 percent of the budget.

Another way of viewing the trend of government support is to examine how HHL expenditure per Native Hawaiian eligible for the program has changed relative to government expenditure per Hawaii resident. The comparison is complicated by a lack of data on Hawaiians eligible for the HHL program, i.e., Hawaiians with at least a 50 percent blood quantum. Native Hawaiians with a 100 percent blood quantum have declined from 24,000 in 1920, about 9 percent of the population, to 9,000 in 1990, less than 1 percent of the population. Hawaiians, defined as any Hawaii resident with any Hawaiian blood, increased from 42,000 in 1920, about 16 percent of the population, to 205,000 in 1990, about 19 percent of the population. These figures provide a rough indication that the percentage of Hawaii residents eligible for HHL assistance has fallen significantly. Suppose, for example, that the percentage of the total Hawaii population eligible for HHL benefits has fallen by 50 percent. Combining this assumption with data on HHL and overall government expenditure, we find that the ratio of HHL expenditure per Native Hawaiian to government expenditure per Hawaii resident has fallen by an order of magnitude, from about 2 in the 1920s to .2 in the 1980s.

Still another way of viewing the program suggests relative success since statehood. A key performance variable is the number of
leaseholds. In 1959 there were just under 1,700. As of November 1994 there were 6,068, although about 800 to 1,000 of these were issued without improvements. The average annual addition of improved leaseholds to stock since statehood is 99, compared with only 45 prior to statehood.

The 1978 state constitutional convention established the Office of Hawaiian Affairs (OHA). Its presence complicates the assessment of state support for Native Hawaiians. It is the principal public agency responsible for the performance, development, and coordination of programs and activities relating to all Hawaiians, some of whom are also eligible for homesteads under the HHCA. OHA receives 20 percent of the revenues from the lease or sale of ceded lands (excluding the 200,000 acres set aside for the HHL trust), and it (like DHHL) receives appropriations from the state legislature. OHA's total expenditure in 1993 was $10.2 million, or about one-third that of DHHL. OHA's importance in the future will be much larger. In 1993 its equity increased from $26 million to $163 million due to a settlement from the state for past revenues received by the state from the lease, sale, or other disposition of ceded lands. Some portion of OHA expenditures since its creation has benefited Native Hawaiians (as distinct from Hawaiians), and should be taken into account when assessing State support for their welfare.

Recent Policy Changes

Past critiques and recommendations regarding the performance of the HHL program have been offered in the context of restrictions stipulated by the HHCA. Critics have argued that DHHL's performance could be improved if it had more revenues and if it used its revenues more efficiently.

There are five main sources of revenue:

1. general lease rents on trust lands
2. sugar rents/sales and water license fees on public lands
3. general fund and general obligation bond appropriations
4. loan principal repayments
5. interest on loans, investments and short-term instruments.

16 id. at p. 60, 61.
Since 1959 the State has been safeguarding or pursuing additional revenues in several ways. Prior to 1965 the Department of Land and Natural Resources (DLNR) administered approximately 70 percent of the trust lands under general lease. DLNR’s management policy was based on multiple objectives not all consistent with revenue maximization. Beginning in 1965 with the passage of Act 271, as DLNR-administered leases expired, the responsibility for general leasing of these lands gradually passed to DHHL. In 1995 almost all general leases are administered by DHHL. The department’s clear operational objective of maximizing revenues from management of the general leasing program suggests that it is generating more revenues than would have been likely under DLNR management.

In 1978 a state constitutional convention observed that as the sugar industry declined, DLNR could dispose of previously leased sugar lands without compensation to the DHHL trust. To protect this revenue source, the state passed a constitutional amendment requiring that 30 percent of the revenue obtained from the sale, development, or other disposition of these so-called “protected lands” would be given to the Hawaiian Home Lands trust.

The HHL program has been somewhat more successful in obtaining general fund and general obligation bond appropriations in the post-statehood period (especially in the 1970s) than in the territorial years. However, when one takes into account OHA’s post-1978 competition for funds, it is remarkable that DHHL has fared as well as it has.

DHHL has also used its revenues more efficiently in recent years. From the program’s inception in 1921, a large portion of the revenues were used to finance Hawaiians’ purchase of improvements. (Hawaiians could not obtain mortgage loans from the private sector because they did not own the land and could not pledge it as collateral.) In the mid-1980s the department pledged its general lease revenues to the purchase of foreclosed homesteads, thereby providing backup insurance for FHA- and VA-insured bank mortgages. This leveraging of lease rents has been more effective than direct financing of homesteaders, and has released additional funds for development.

Although some aspects of performance have improved, many critics of the program, including some of the more than 16,000 individuals or families wait-listed for developed homesteads, believe that it

During the 1980s DHHL began to reclaim certain trust lands that had been illegally set aside by executive orders and proclamations for purposes not benefiting the trust. In October 1994 the state corrected many of these past wrongs by signing over to the Hawaiian Home Lands trust 16,518 acres of land. This brought the HHL trust up to 203,500 acres, the amount specified by the HHCA of 1921. In December 1994 the state administration proposed a major settlement for past breaches of the trust. If approved by the legislature, it will pay $600 million at $30 million a year over a period of 20 years to the trust. It remains to be seen whether and the extent to which legislators will view such future payments as substitutes for the normal annual and biennial appropriations.

These recent policy advances promise greater benefits for Native Hawaiians in the context of a continuing homestead program on trust lands. Before describing these benefits and the benefits of dramatically different policies, we should take stock. Realistic policy proposals must be formulated within the limitations of state resources available to the HHL program or a sovereign Hawaiian government.

Resource Constraints

DHHL has a considerable stock of resources at its disposal. As of mid-1994 the DHHL had a bureaucracy of 142 permanent (plus additional temporary) personnel, 40,000 acres leased to homesteaders, 104,000 acres in general leases, licenses and other

17 Hawaii Revised Statutes, Chapter 674.
19 It is also possible that legislators will view their 1993 payment of $129 million to OHA for past revenues from ceded lands as a substitute for future HHL program appropriations.
20 Our accounting for DHHL resources is based on its Annual Report FY 1993-94 and other recent annual reports and session laws of the State of Hawaii Legislature. We also consulted with DHHL personnel.
income-earning uses, 43,000 additional unleased acres, $107 million in cash, $39 million in direct homesteader loans, $36 million in loan guarantees, entitlement to the rents and sale proceeds of state sugar lands and water license fees, the state's recent proposal (not yet passed into law) to provide $600 million over 20 years for breaches of the trust, and the expectation (founded on the HHCA and the state's constitutional obligation to support the homesteading program) of continuing annual appropriations for operations and capital investment projects.

An estimate of the value of program resources would be useful. Using DHHL's mid-1994 balance sheet and recent income statements and session law appropriations, we construct a very rough estimate of the value of DHHL's resources. The balance sheet shows $157 million in equity; this includes $107 million in cash, homestead loans of $38 million, and some property and equipment valued at $14 million, but it does not include the value of the trust lands. The major annual revenues from sources not included in the equity are revenues from general leases and licenses on trust lands and legislative appropriations for capital improvement projects. The amounts have varied considerably from year to year. In recent years the lease and license revenues have been about $10 million, and appropriations have been about $13 million; these typical amounts totalling $23 million are expressed in 1995 dollars. The state is obligated by the HHCA and the state constitution to continue providing such revenues into the indefinite future. The capital value of $23 million of annual revenues, discounted at a six percent rate, is $383 million.21 Annual revenues from sugar rents and water licenses derived from public lands under the administration of the DLNR have dwindled to only $.5 million in recent years, implying a relatively negligible capital value. However, the sugar lands are in a state of transition, and the capital value of these lands in alternative uses may be quite substantial. The other major asset is former Governor Waihee's proposed $600 million over 20 years for breaches of the trust, which has a capital value of $344 million.

The total assets of the HHL program can be approximated as the sum of $157 million in equity, $383 million in capital value of revenues, $344 million for breaches of the trust, and an unknown value of the program's interest in the sugar lands. If we neglect the latter value,

21 The six percent discount rate is a plausible real (inflation component removed) opportunity cost of capital. We use this rate for calculations throughout the paper.
or assume that it will offset a failure of the legislature to deliver the full value of the governor's proposal, the total is $884 million. This amount does not include thefee value of the 40,000 acres of improved lands homesteaded by 6000 households.

To place the $884 million in HHL assets in proper perspective, we compute the per capita shares of individuals and families who are eligible for, but have not received, homesteads. As we noted above, data on the number of Hawaiians eligible for HHL benefits do not exist. We proceed by using the number of current applicants as a lower bound estimate of eligible Hawaiians. Thus we divide $884 million by the 16,000 current applicants to obtain a per applicant figure of $55,000. This can be viewed as a very rough measure of the amount of program resources available to Native Hawaiian applicants who have not yet benefited from the program.

Throughout this paper we make rough estimates of the benefits and/or costs associated with alternative uses of HHL assets. The estimates are based on indicated sources and clearly stated assumptions, so that the reader can understand their basis and, if he so desires, recalculate the estimates with new assumptions or numbers. Our estimates are clearly not definitive, but hopefully can make our arguments more tangible and provide the framework for a more detailed study of these issues.

DHHL resources could conceivably be put to many different uses which are likely to affect Native Hawaiian welfare in vastly different ways. In the next three sections we describe the benefits of three alternative uses of these resources.

SECTION 2. BENEFITS OF HOMESTEADING ON TRUST LANDS

Direct Benefits

There are two types of benefits to Native Hawaiians under a public housing program on lands held in trust by the government. The first type is direct benefits delivered to homestead subsidy recipients. The second is indirect benefits to Hawaiians who value collective Hawaiian ownership of land. We consider these two types of benefit in turn.
DHHL provides three types of subsidy for each homestead. First, it leases the unimproved land to the homesteader for 99 years for $1 per year; typically the unimproved land would have a market value of $35,000. Second, DHHL develops the lot at a cost of $58,000. Third, it provides backup mortgage insurance on the homesteader’s purchase of the structure, typically for $90,000. A half-point reduction in the interest rate attributable to the backup insurance on a typical $90,000 loan over 30 years is worth an additional $4,000. In sum, the market value of a typical homestead subsidy is the sum of these three components, or approximately $97,000.

A sharp distinction must be drawn between the cost of the government’s subsidy per homestead and the direct benefits to the recipient of the homestead. A meaningful measure of the benefit is the maximum that the household would be willing to pay for the homestead subsidy. Later in the paper, we shall present evidence from U.S. mainland public housing projects suggesting that the actual benefit of the subsidy to the homesteader at the time of receipt is only 43 percent of its $97,000 cost, or $42,000.

Of course, only a few applicants expect to receive homesteads in the immediate future; most anticipate many years of delay. Expected direct benefits of $42,000 to be delivered in future years are not worth that much today, and must be reduced to present value to evaluate their worth properly. A study of Honolulu homeowners indicates that their median real personal discount rate is about 13 percent. Another study indicates that Hawaiians have real personal discount rates higher than the population generally. We assume

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22 There is a wide range of such market values. This figure is a median of estimates provided by real property consultants and DHHL staff members.
24 Homeowners’ 13 percent real rate of time preference means they are so anxious to have future benefits in the present that even if they anticipated no general price inflation, they would be willing to pay approximately 13 cents to have a dollar due in one year paid to them now. See Maxwell J. Fry and James Mek, “Is Land Leasing a Solution to Unaffordable Housing?,” Economic Inquiry, vol. XXII; see p. 544-546 in particular.
25 James Mek and Edwin T. Fujii, A Cost-Benefit Study Relating to the Native Hawaiian Education Act, November 1979 (unpublished report). In their study of Native Hawaiians’ educational choices, the authors suggest that Hawaiians’ high school drop-
that prospective homesteaders have a real personal discount rate of 15 percent. At this rate, $42,000 delayed 5 years has a present value of $21,000. Delayed 10 years, the subsidy has a present value of $10,000.

If development of homesteads were to continue at the same rate that it has since statehood, and if there were no additions to the current list of 16,000 applicants, it would take 160 years to get to the bottom of the list. The median delivery time would be 80 years from now or 2075. Alternatively, let us suppose that DHHL or a sovereign Hawaiian government were to quadruple the rate of development to 400 units per year, so that the median waiting time would be only 20 years. The present value of direct benefits from a homestead subsidy for someone half-way down the current application waiting list would then be $2,500.

Indirect Benefits of Inalienability Per Se

In addition to the direct benefits of homestead occupancy, some homesteading and non-homesteading Hawaiians derive three types of benefits indirectly from the government’s ownership of specific lands reserved permanently for the present and/or future use of Native Hawaiians.

First, underlying some Hawaiians’ desire to retain land ownership for Hawaiians is a deeply held cultural belief that ‘aina or the land is more than a mere commodity to be traded for other valued goods. Although some have traded their land away, many Hawaiians (and Polynesians generally) have respected and revered the land as a form of spiritual and emotional as well as physical wealth. Those who still do will benefit from the knowledge that government’s holding of the land in trust keeps it Hawaiian, forever out of the hands of foreigners.

Indirect Benefits of Ethnically Pure Hawaiian Communities

Another argument explaining indirect benefits of holding the lands in trust is based on the relative ease with which people living in close proximity to one another can preserve and enhance their culture.

out rates are principally due to cultural factors. Relative to the population as a whole, Hawaiians are impatient. Non-Hawaiians have a stronger preference to forego income today for the purpose of obtaining the education that yields higher income tomorrow.
This argument is applicable to both farm developments and residential subdivision projects. The argument is not as strong today as it was in 1921 because, due to technological advances, people can transport themselves and communicate across distances at greatly reduced costs. These costs are likely to continue to fall indefinitely. Nevertheless, if Hawaiian homesteads were contiguous, there would be more opportunities for the occupants to interact as Hawaiians. Community centers, schools and churches, some businesses, and neighborhood associations in a purely Hawaiian community on Hawaiian Home Lands would permit traditions to be passed along from one generation to another in an environment sheltered from the rest of society and enable a unity within the community.26 Such a pure community could be fostered by a government that set aside land for Hawaiians only, encouraged Hawaiians to live on the land by subsidizing them to do so, and banned individual occupants from relinquishing the land for use by non-Hawaiians.

Holding the land in trust is one way to establish and maintain an ethnically pure community. Implementing this policy has established 18 communities on trust lands scattered throughout the Hawaiian Islands. Of course, in many cities and rural areas there are spontaneously-evolved ethnic communities. Such neighborhoods do come and go in the long run. It can be reasonably argued that it is less costly for government than for individuals to initiate such communities, and that government is the only institution that can preserve the ethnic purity of the communities in the long run.

Native Hawaiians are not united in their preferences for residing in ethnically pure versus ethnically mixed communities. Some of them believe that there is a net benefit in living in a trust lands subdivision. Others would prefer to take the homestead subsidy amount and find an alternative location integrated with the rest of the population. The jury is still out on whether isolating Hawaiians from non-Hawaiians is likely to be altogether successful. The experience of Native Americans isolated on U.S. mainland reservations has not been a wholly satisfactory means of conserving a culture. The assimilation alternative has not been entirely beneficial either.

In sum, if a people’s goal is the preservation of a culture, this optimally requires a collective endeavor. If individual Native Hawaiians relinquish their ways of thinking, relating, and doing things, this weakens the collective endeavor and adversely affects the welfare of other Hawaiians who value the traditions. One way for the community to deter individuals from undermining the collective interest is to subsidize their residence in close proximity to other Hawaiians and prohibit them from transferring ownership or use of their homes to non-Hawaiians. Leasing trust lands to Hawaiians is a sensible way to achieve this goal.

The Role of Land in Reestablishing Sovereignty

Many Hawaiians view their dispossession from the land as synonymous with their loss of sovereignty. They now look to land ownership as an essential part of reestablishing sovereignty.\(^{27}\)

There are two lines of reasoning as to how continuing the HHL program will help to reestablish sovereignty. The first is based on the political importance of the HHCA and the HHL program in validating the independent status of Native Hawaiians in the eyes of the federal and state governments. Some Native Hawaiians believe their rightful political status is like that of other Native American tribes. The federal government treats these tribes as separate sovereigns because, unlike other racial minorities, they once exercised complete sovereignty. Because of U.S. involvement in the overthrow of the monarchy and enactment of the HHCA, they should be viewed in the same way as other Native American groups.

In dealing with the lands and resources of other Native American tribes, the federal government is viewed as a trustee with certain fiduciary responsibilities. Native Hawaiians argue that the HHCA recognized a similar trust relationship between the United States and them, and that this constitutes an implicit recognition of their inherent sovereignty. To the extent that this argument is persuasive, it implies an indirect benefit from continuing the HHL program -- it strengthens attempts to reestablish sovereignty. This argument holds for sovereignty in the eyes of the state as well as the federal

\(^{27}\) At this time there is no consensus among Hawaiians regarding the meaning of sovereignty. It is sufficient for our purposes that sovereignty is some unspecified degree of independence from the existing state and federal governments.
government. After sovereignty has been reestablished, the political leverage of the HHL program will be dispensable.

There is a second line of reasoning as to how continuing the HHL program would help to reestablish sovereignty. For the sovereignty movement to succeed, there must be an ambitious and powerful leadership. The HHL program is a concentration of $884 million in resources that feeds the ambition to control, for through control of these resources, the leaders can consolidate support. On the other hand, if the program were dismantled and its assets distributed to the people, the leaders would be less willing and able to reestablish a new government. After sovereignty has been established, the HHL program as a political power base becomes dispensable. The leaders could then distribute program resources to the people in exchange for votes and the taxing and regulating powers of government.

Indirect Benefits of the Farming Lifestyle

One can argue that farming is requisite to preserve what remains today of the Hawaiian lifestyle. This argument goes beyond the direct benefits to the farmer, and focuses on the indirect benefits realized by non-farmers from knowledge that farm-homesteaders are preserving a lifestyle based on the land. The Hawaiian culture was originally land-based. As late as the nineteenth century, most Hawaiians derived their own food and income directly from the more fertile and watered lands to which they had access, and gathering and cultivating were a way of life.

However, land ownership is neither necessary nor sufficient for farming. Sugar growers have not found it necessary to own land; they have leased it instead. One could argue that Hawaiians could do the same. Nor is land ownership sufficient for farming. Despite an HHCA clause prohibiting subleases of homestead lands, farmers on Molokai subleased their lands to Dole Pineapple as early as the 1930s, and other farmers there subleased to non-Hawaiians in 1992. Other Hawaiian farmers left their farms because it was not an economically viable activity. We should also note that ownership of almost all of the particular lands now in the trust is not conducive to farming. That is because they are “left-over” lands, infertile or without water.28 Thus, the argument for continuing government

28 Some Hawaiians have argued, however, that they have been cheated out of water which was diverted to sugar plantations rather than to DHHL lands.
ownership of lands -- particularly the HHL acreage now held -- to foster Hawaiian farming is not at all compelling.29

Summary

The HHL program yields direct benefits to homestead lot recipients typically valued at $2,500 and three possible indirect benefits: inalienability per se, ethnically pure Hawaiian communities, and support for the reestablishment of sovereignty. We do not attempt to measure the value of indirect benefits.

The problem with the HHL program is that there are alternative uses to which the resources could be put, and they may be more highly valued by the beneficiaries. Ultimately it should be left to the Native Hawaiians to determine whether the sum of direct and indirect benefits from continuation of the program is greater than that conferred by alternative programs using the same resources. In the next two sections, we set forth two alternative policies that yield much higher direct benefits than the direct benefits of homesteading on trust lands. In the final section we reincorporate the indirect benefits.

SECTION 3. LIQUIDATION OF PROGRAM ASSETS AND DISTRIBUTION OF CASH

Direct Benefits

A practical policy with many advantages for Hawaiians who have not received homesteads is to liquidate the program's assets estimated at $884 million and distribute the proceeds in cash. For this policy to deliver most of the $884 million, the State of Hawaii must make certain commitments to future funding. It must commit to continue annual appropriations at recent levels according to a specified formula. It must also commit to pay on schedule (with penalties for delayed payment) the $600 million for past breaches of the trust. It

29 Subsidies for farmers who lease as well as buy land provide an alternative approach that may enhance the Hawaiian lifestyle to a greater extent by not confining the homesteaders to low-quality trust lands. While this paper focuses on residential housing as the primary use of land, and does not develop further this line of reasoning, we can at least encourage the serious consideration of government programs to encourage Hawaiian farming without confining the homesteaders to trust lands.
must continue the current dedication of 30 percent of sugar land rents and sales and water license fees. Given these agreements, the state's ongoing funding obligations could then be capitalized and sold in the financial markets. Next, the outstanding homestead mortgages, loans, investments and bonds in the DHHL portfolio and all of the trust lands could be sold. (The 6,000 homesteaded parcels should be sold for $1 to their occupants.) Asset sales should probably be staggered over several years so as not to depress the market price.

The objective of the asset sales is to obtain cash for distribution to Native Hawaiians in the very near future -- within two to four years instead of within the next century. In view of Hawaiians' high rate of time preference, the hastening of distribution would be enormously beneficial. A rough estimate of cash benefits for each of the 16,000 homestead applicants is calculated by compounding $884 million at six percent for three years, subtracting 10 percent for costs of liquidation and distribution, and dividing by 16,000. The amount to be distributed to each current applicant in three years is $59,000. The present value of this amount discounted at 15 percent is $39,000.

Cash distribution would enable those who want to buy or rent housing to escape the monopolies held by the state legislature and DHHL in funding, planning, and developing subsidized housing for Hawaiians. With cash some Hawaiians could purchase new or used homes from the entire stock of housing in Hawaii, over 400,000 units.30 They would also be able to use the cash to purchase or lease farm land, finance higher education, buy health care, or purchase other highly valued goods and services. The latter point suggests an even more important advantage to which we now turn.

Liquidation and cash distribution enable individual self-determination and welfare maximization. To appreciate these benefits, one must begin with the proposition that all individuals who are of legal age and mentally competent should be allowed to use and trade all of their resources as they see fit. They should have the right to choose the location, type, and size of their homes. This principle assumes not only that individuals are better informed than either State bureaucrats or sovereign Hawaiian bureaucrats

regarding their desires and opportunities, but that they are also better motivated to make choices most beneficial to themselves.

In contrast, the HHCA established a paternalistic program that has restricted the freedom of individual Hawaiians. This program has allocated specific sites for homesteads, then planned, developed, and often constructed the housing. Hawaiians who avail themselves of the program subsidies must do so in accord with the government’s timetable and occupy the government’s assigned lots and homes. Homesteaders are currently allowed to sell their leaseholds, but only to other Native Hawaiians, and only with the approval of the Hawaiian Homes Commission. We have not researched the extent to which the approval requirement may have restricted homesteaders’ freedom. However, the closed market for resale has probably reduced the market value of homesteads and made it more difficult for homesteaders to sell and move to preferred open-market housing. A household may prefer to live near the Kamehameha Schools on non-HHL land while the children are growing up; at a later stage in life, the smaller household may prefer to live in a condominium, and ultimately in a nursing home. The reduced market value of the homestead hampers the owner’s mobility. This reasoning reveals not only the direct benefits of cash to those who have not yet received homesteads, but also the direct benefits of vesting unrestricted fee simple rights in those who have already received homesteads.

An Indirect Benefit of Cash

There has been some resentment within the Hawaiian community about the resale of homesteads. The recipient of an improved homestead lot obtains a subsidy valued at $42,000. If he is allowed to sell the leasehold (with or without a structure) he can profit from the subsidy and does not fulfill a perceived obligation to occupy and use the land. Also, the buyer of the homestead side-steps the existing waiting line. With his money, he is able to buy his way onto the land instead of waiting his turn. Third parties in the waiting line have objected, and are currently lobbying at the legislature to curb the practice.

The frustration and community divisiveness associated with waiting in a long line could be ended by the distribution of cash. Cash not only avoids the legislative-bureaucratic homestead development logjam, but its divisibility creates the possibility of adopting fairer rules for the distribution of resources. Subsidies in the form of
homestead lots are distributed in large bundles costing $97,000. Because they cost so much, they can be distributed only to some, leaving others who are equally qualified with none. In contrast, because cash is divisible, it is possible to distribute equal amounts to all who are equally qualified.

There are several alternative rules embodying different equity criteria that could be adopted if cash were the form of entitlement. Many Native Hawaiians judge the current system, which distributes homesteads by a first-come, first-served rule, to be unfair. Perhaps it is fairer if all people with 50 percent or more Hawaiian blood who have not yet received homesteads were given equal amounts of cash. Alternatively, it might be fairer if all Hawaiians received cash in proportion to their blood quantum. Other rules could take into account the financial status or family size of the recipient. Native Hawaiians (or Hawaiians) should be given the opportunity to revise the rules for distribution of program assets. Cash makes possible an indirect unifying benefit to the community, viz., an appreciation that people are being treated more equitably. This indirect benefit would also result from implementation of the housing assistance program described in the next section.

We conclude that the state government or a sovereign Hawaiian government should consider (1) assigning unrestricted fee simple rights to existing homesteaders, so that they have the freedom to use or dispose of their property at will, and (2) liquidating program assets and distributing cash to those who have not received homesteads in accord with distribution rules determined by the Native Hawaiian (or Hawaiian) people. We have not estimated the direct benefits to the existing 6,000 homesteaders or the indirect

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31 There are historical precedents in the homesteading program for changing the rules. An early resolution of the territorial legislature introduced prior to passage of the HHCA called for homesteads for all with at least 1/32 blood quantum. During certain periods of the HHL program's administration, those with 100 percent Hawaiian blood were given preference over those with only 50 percent Hawaiian blood. Also, Native Hawaiians who owned their own home or who had substantial financial resources were placed in a deferred file, so that priority could be given to those in greater need of assistance. However, currently the DHHL policy is to assign homesteads to Native Hawaiians at the head of the line, regardless of their characteristics. See Oversight Hearings on the Hawaiian Homes Commission Act of 1920 Before the U.S. Senate Select Committee on Indian Affairs and the U.S. House Committee on Interior and Insular Affairs, Testimony of Ilima A. Piliamele, Chairman, Hawaiian Homes Commission, August 9, 1989.
benefits of a more equitable distribution to the community. The
direct benefits of cash to each of the 15,000 current homestead
applicants have a present value of $39,000.

SECTION 4. ALTERNATIVE HOUSING PROGRAMS

Since the 1930s the HHL program has been predominantly a public
housing program. It differs from the federally subsidized Public
Housing\textsuperscript{32} program on the U.S. mainland in that it provides only
detached, single-family units, and they are all for owner-occupancy.
In contrast, Public Housing on the mainland is comprised of mostly
high-rise units for rental.\textsuperscript{33}

Public Housing projects are a long-established means of inducing
targeted low-income groups to consume more (better quality)
housing. Public Housing projects are normally planned, developed,
and built by government on government land, and owned and operated
by a local public housing agency; financing is through tax-free bonds.
The HHL projects are likewise planned, developed and sometimes
built by the government on government land. However, the occupant
"owns and operates" his structure; although he receives no operating
subsidy, he does receive a mortgage guarantee equivalent to a small
interest rate subsidy.

There are other types of federal housing programs that are also
designed to induce low- and moderate-income households to
consume more housing. All subsidize tenants rather than owners.
Section 236 housing and Section 8 New Construction housing are
both programs in which private sector organizations plan, develop,
own, and operate the housing. Subsidies are given through mortgage
interest reductions (partly due to mortgage insurance and secondary
market mortgage purchases) and accelerated depreciation tax
deductions.

\textsuperscript{32} The terms are capitalized because they are not generic but refer to a particular
program. The same is true of subsequently-described Existing Housing and Housing
Allowances programs.
\textsuperscript{33} DHHL is currently planning with OHA to develop its first multi-family rental public
housing project.
In contrast to housing programs designed to expand housing supply, other housing programs are designed to influence housing demand. The federal government's former Section 23 housing consisted of units from the existing private stock leased by a local public housing agency and sublet to tenants. Section 8 Existing Housing (which supersedes Section 23) consists of units leased jointly by a local public housing agency and tenants from private existing housing or units in other producer-oriented housing programs. Rent subsidies are equal to the difference between actual market rent and a fraction of tenant income that depends on household size. The federal government's former experimental Housing Allowances program consisted of direct cash payments to households. Although subsidy mechanisms varied, the principal subsidy was a "housing gap" allowance -- the difference between the estimated cost of standard housing (which varied with household size) and a fraction of income.

These federal housing programs for tenants rather than homeowners raise central questions: Why should the assets of the HHL continue to be used solely to promote home ownership? Why shouldn't Hawaiians be given an amount of cash earmarked for housing and allowed to apply it to the tenure of their choice? There are undoubtedly some Native Hawaiians who would prefer to have the homestead subsidy in the form of housing assistance applicable to rental units. Included among these Hawaiians are those with the lowest income who, even with the homestead subsidy, are not financially prepared to become owners. The direct benefits of rental housing assistance are greater, the more flexibility the recipient is given in the use of the money. He will benefit the most if there are no restrictions on the type or location of residence or the total amount that he can pay the landlord. The recipients of flexible housing allowances would be able to select any type or size of housing in any neighborhood in the private sector consistent with family preferences and the rental price.

SECTION 5. INEFFICIENCY IN SUBSIDIZED HOUSING PROGRAMS

Sources of Waste

Estimates of waste in subsidized housing programs are based on measures of direct housing benefits in relation to costs. If costs
exceed these benefits, a program is inefficient. It is useful to identify two major sources of waste. The first is consumption inefficiency, sometimes called "deadweight loss" which results when the cash equivalent value of housing provided to program beneficiaries, B, is less than the housing's market value, R.

Consumption inefficiency occurs because recipients of any in-kind transfer value it less than the good's market value. To illustrate, suppose a hypothetical State Department of Clothing is charged with clothing its subjects in new suits. It buys a large number of suit coats on the open market at a price of $100 and presents you (one of the subjects) with a coat at no charge. Suppose you can neither rent nor sell the coat, but must use it yourself. You would never have spent $100 for the coat because it is not the size, fabric, or color that you would have selected and besides, in accepting the coat you are obligated to purchase the matching pants. The maximum that you would be willing to pay for the coat would certainly be less than $100.

Likewise, a cash grant of less than the market value of an in-kind housing subsidy would make the recipient just as well off. That is because the recipient of an HHL homestead must take as given the homestead characteristics, and although he may be able to sell or lease, the price may be depressed by Commission rules or the closed market for homesteads. An approximate measure of consumption efficiency is the value to the recipient divided by the market value, B/R. The smaller the fraction, the greater the waste in the program.

The second major source of waste is production inefficiency. A State Department of Clothing could waste far more resources if, instead of buying privately produced coats on the market, it manufactured them. The same is true of government housing programs. A measure of production efficiency is the fraction R/C, where R is housing's market value and C is the cost of resources used in its production. There are numerous sources of waste in production. One source is the cumbersome bureaucratic administration of housing assistance programs. The waste is even more serious in producer-oriented programs, especially public housing. A few examples applicable to the HHL program will illustrate. The difficulty of exchanging HHL program lands results in project locations determined by historical accident rather than economic considerations. The use of tax-free bonds to finance infrastructure wastefully biases expenditures in favor of initial
capital expenditures over recurrent maintenance expenses. Regulations requiring that union wages be paid on publicly supported housing projects increase costs. Probably the greatest source of production inefficiency is the lack of high-powered incentives within the public sector to control housing costs and to maintain quality. The private sector's construction industry is motivated by profit and undertakes new construction only if prospective benefits exceed costs. The DHHL is not required to satisfy such a test, and even if it were, bureaucratic incentives to enforce it effectively are weak. It is well documented that government agencies tend to misuse the conceptually sound benefit-cost analysis to justify public projects.

Estimates of Inefficiency in Subsidized Housing Programs

While a number of reasons for production inefficiency can be rationalized in the name of social objectives, it should be obvious that alternative programs which achieve those objectives equally well should be adopted if they are more efficient. In view of this, we excerpt from Stephen Mayo's review article careful empirical estimates of consumption inefficiency and production inefficiency in the major U.S. housing programs. We present his measures as an indication of the waste in public housing and alternative programs in Hawaii.

Table 1 divides the programs into consumer- and producer-oriented programs and shows for each of them consumption efficiency and production efficiency ratios. (Note that each type of program is subject to both types of waste.) It further shows in the last column the overall efficiency of each program. Overall efficiency is the product of consumption and production efficiencies: $B/C = B/R \times R/C$. It is the “bottom-line” benefit/cost ratio.

The table's third column strikingly displays the inefficiency of all housing programs (relative to cash). For example, take the federal government's major rent supplement program, Section 8 Existing Housing. For every dollar expended on this program, 72 cents of value

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are delivered to the beneficiary. In the case of Public Housing, for every dollar expended, 43 cents of value are delivered.

Almost equally impressive is the comparison between the efficiency of consumer- and producer-oriented housing programs. All consumer-oriented or demand-side programs are more efficient than all producer-oriented or supply-side programs. This comparison holds across-the-board in terms of consumption, production, and overall efficiency.

Implications for Use of HHL Program Resources

A careful study of the efficiency of the HHL public housing program has not been done, so one cannot say precisely how wasteful the program is. Although the HHL program differs in several respects from the producer-oriented programs in the table, it also contains the same features that generate waste in these programs. Suppose that for every dollar the HHL program expends, it delivers 43 cents of value to the Hawaiian homesteader. It would be more than twice as beneficial to the individual Hawaiians were they given $97,000 in cash instead of the improved lot and mortgage subsidy costing that much. Of course, this argument is made in the context of present delivery of the subsidy when, in fact, government’s schedule for delivery runs well into the future. A prior computation is worth repeating. Suppose that, due to the logjam of government planning, funding and development, the delivery of a homestead lot valued at $42,000 is deferred 20 years for the median of 16,000 applicants. After discounting at 15 percent, the present value is only $2,500.

To appreciate how potentially wasteful this program is, we must compare the $2,500 with the cash value of the program assets to potential beneficiaries. Again a prior estimate is worth repeating. If all of the program assets could be distributed in cash three years from now, the amount available for each of the 16,000 applicants would be $59,000. The present value of cash is $39,000, whereas the present value of the homestead lot is $2,500. In the absence of indirect benefits, the difference of $56,500 in direct benefits would be waste.

Now suppose the HHL program switched from its producer-orientation to a consumer-orientation with the objective of inducing Hawaiians to consume better housing, either as tenants or owner-
occupants. Hawaiians could be given a choice between cash earmarked for the purchase of housing for owner-occupancy or cash earmarked for renting a home. With dollars and access to the new and used private housing market, there are far better opportunities for the buyer than occupying an assigned new unit costing the same amount of dollars. The renter who now receives no housing allowance from the HHL program would also benefit. The table's figures on rental allowances suggest that for every dollar formerly expended on rental allowances, the value delivered to the tenant would be (a maximum of) 82 cents. Perhaps purchase allowances would yield similar results. Then if it took three years to make purchase allowances available, the amount available in three years would be 82 percent of $884 million compounded at six percent and divided by 16,000, or $54,000 per applicant. Discounting at 15 percent yields a present value of $35,500. For a tenant, this is equivalent to $270 per month beginning in three years and lasting indefinitely. If this could be provided to low-income Native Hawaiians without affecting their eligibility for federal housing assistance, it would substantially improve their welfare. In sum, a flexible housing allowance for rental or purchase would deliver direct benefits now worth $35,500, whereas a cash program is presently worth $39,000 and a homestead program $2,500.35

A Program Offering Choices

Although this paper has described the benefits of three programs as if they were mutually exclusive, the slate of alternative programs that might be prepared for a Hawaiian vote could conceivably include a combination of programs. One combination program would provide the opportunity for Native Hawaiians to reside in purely Hawaiian communities by (1) giving Native Hawaiians who have not yet received a homestead unrestricted cash, (2) making undeveloped land contiguous to existing Hawaiian settlements available only for Hawaiians to purchase at market price, and (3) requiring that such lands can never be leased, sold or pledged as collateral to any non-Native Hawaiian. Alternatively, the latter restriction could be

35 The appropriate extent and rate of HHL program asset liquidation to support a housing allowance program depends on the time pattern of allowance commitments to the two objectives of increasing owner-occupancy and rental consumption. The purchase allowance program would require a larger amount of money in the first few years. The rental allowance program would require a relatively steady amount of money over the program's time horizon.
relaxed to allow transfers to any Hawaiian, regardless of blood quantum. Those who have already received homesteads would be given fee simple rights with similar transfer restrictions.

The combination program just described allows the recipient of cash to apply it to the construction of a new house or the purchase of a used house or condominium, either inside or outside of a Hawaiian community. Alternatively, he could apply the cash towards the rental of a home and/or health care, education, travel, etc. This program would eliminate the government as planner, funder and developer of housing projects, and give the individual a wide range of options. Over time individuals would reveal their preferences for residence in Hawaiian or mixed neighborhoods, and the program could accordingly retain the undeveloped lands around Hawaiian settlements or sell them to non-Hawaiians at market value and channel the proceeds to Hawaiians.

SECTION 6. POLITICAL POSSIBILITIES OF REFORM

The Effect of Reform on Appropriations for Hawaiians

The discussion of the preceding sections assumed not only a given endowment of land and other assets but a continuing annual legislative appropriation formerly used primarily for the development of Hawaiian Home Lands. Here we consider the possible linkage between our suggested reforms and the level of appropriations. In other words, we acknowledge the possibly endogenous nature of appropriations, and the difficulty of getting the state legislature to make commitments to support the program fully in the future.

One can argue that the sale of trust lands would reduce the level at which the government is willing to continue appropriations. The existence of the available lands and the purpose for which they are held legitimates the annual appropriations for many political leaders and their taxpayer-clients. The history of how the Hawaiian monarchy, ali'i, and commoners came to be dispossessed of their land makes this legitimacy more effective. As long as the land is held in trust for ultimate homesteading by the descendants of the dispossessed, arguments for annual appropriations for land development may be more compelling.
One can further argue that the elimination of public housing projects will make it more difficult to maintain the level of annual appropriations. A major part of total appropriations has been for capital improvement projects on the Hawaiian Home Lands. These appropriations have been more attractive to legislators playing pork-barrel politics than would be cash distribution or housing allowances.

An additional argument can be made regarding the effect on appropriations of cash distribution vs. housing allowances. It is possible that taxpayer-donors will prefer that Hawaiian beneficiaries spend the appropriations on housing rather than on anything of their choice. If so, then the level of appropriations might be lower for a cash subsidy than for a housing allowance. All three of these arguments suggest that reform would reduce annual appropriations for Hawaiians.

A Positive-Sum Game

One might think that Hawaiians would balk at the opportunity to implement reform in order to forestall a loss of appropriations. Fortunately, another line of reasoning overrides all of these arguments: reform is a positive-sum game, and the large efficiency gains associated with abandonment of public housing in favor of cash distribution creates a large surplus that can be so divided that it makes everyone better off. The more moderate gains associated with housing allowances can also benefit everyone, though to a lesser extent. Hawaiians and non-Hawaiian taxpayers can both obtain net benefits from the surplus through legislative log-rolling. Even pork-barrel politicians' complicity can be obtained. The only groups that are likely to lose are the existing and potential politicians and bureaucrats who have or seek control of the assets to be liquidated.

Let us estimate the magnitude of the surplus value that would be created by eliminating the wasted direct benefits from the existing program. In a previous section, under the assumption that appropriations would continue at the same level in the future, we estimated that the homesteading program would deliver direct benefits of $2,500 to the median of 16,000 applicants. We also estimated that the cash program under continuing government support would deliver direct benefits now worth $39,000 to each of the applicants. The difference in direct benefits between the two programs is $624 million less $40 million or $584 million.

28
The $584 million comprises a surplus that could be divided among Hawaiians, taxpayers and others as the reward for switching from the most wasteful (homestead) program to the most efficient (cash) program. The diversion of some of the surplus to taxpayers and others will, of course, reduce payments to individual Native Hawaiian applicants to amounts with present values less than $39,000 in cash or $35,500 in housing assistance. To be sure, additional applicants for benefits beyond the currently listed 16,000 will appear and this will further reduce the benefits per applicant.

A Look into the Future

It is problematic whether the majority of individual Native Hawaiians will support the suggested reforms. If they become well-informed about the much larger direct benefits of cash or housing allowances, and base their preferences strictly on a comparison of direct benefits, they will most surely express a preference for the cash program over housing assistance, and wholly reject the homesteading program. We must acknowledge that this tendency is countered by Hawaiians' appreciation of the three indirect benefits from continuing the homesteading program: knowledge of inalienability, ethnically pure Hawaiian neighborhoods, and support for the sovereignty movement. On the other hand, they will also perceive the indirect benefits of cash or allowance programs, viz., the potential for implementation of new unifying fairness rules. Ultimately, each Native Hawaiian (Hawaiian) should weigh the direct and indirect benefits of each program and then decide for himself.

The primary resistance to proposals to liquidate and distribute the program's assets in the form of either cash or allowances will understandably come from two groups of Hawaiians. The first group is comprised of political leaders who now control the assets and do not want to relinquish that control. This is the DHHL management and bureaucracy which are committed to continuing the existing program with hoped-for additional appropriations from the state. The second group is comprised of political leaders who hope to control the program's assets in the future. This group includes Hawaiians at the forefront of the sovereignty movement who want a land base and other program resources to help establish the new government. While a new Hawaiian government in place of the current state government would be an improvement in the eyes of
many Hawaiians, in the absence of the basic reforms we are suggesting, it would still result in a bureaucracy making wasteful housing decisions for individual Hawaiians.

The evolution of future control of the Hawaiian Home Lands may parallel that explained in a recent political analysis of Native American land rights.36 Fred McChesney investigated the U.S. legislative-bureaucratic provision of concentrated land holdings for Native Americans and the subsequent placement of alienability constraints on those lands. One argument that had been set forth as an explanation for these federal policies was that they would assist in the preservation of the Native American culture. However, after studying the behavior of the U.S. Congress and the Bureau of Indian Affairs, he concluded that conservation of the Native American culture was not the underlying motive. Rather, the land policies stemmed from the desire of politicians and bureaucrats to obtain power over the lives of Native Americans.

Our analysis of the HHL program leads us to conclude that, for the sake of individual Native Hawaiians, it probably ought to be fundamentally reformed. At least, we believe that an informed Hawaiian people, if given the opportunity, would express a preference for a different form of entitlement. The current program is not only highly inefficient in terms of direct benefits, but it operates unfairly, dispensing large housing subsidies to a few at the head of the line and virtually nothing to the others. Fundamental reform is unlikely until the sovereignty issue settles because Hawaiian leaders want to use the HHL program and trust lands to strengthen their bid for sovereignty. Individual Hawaiians are not sufficiently vocal or well-organized to impose their preferences on the leadership at this time.

There is no reason to believe that the establishment of a new Hawaiian government, and the transfer of the HHL program to this government, will yield even the slightest improvement in efficiency or equity. Until the program is constitutionally reformed, individual Native Hawaiians - especially those who have not received homesteads - will continue to make enormous sacrifices for the program's indirect benefits. A direct vote on alternative programs by Native Hawaiians or their directly elected representatives could put a new program in place which more fairly distributes higher

36 See supra McChesney, p. 297-335.
benefits to a larger number of Native Hawaiians. Our perception of the political reality is that notwithstanding the benefits of reform, it will have to wait until sovereignty is established. After three-quarters of a century of waiting, and this one last delay, hopefully the new Hawaiian leaders will not only "lead their people to the promised land," but to a more beneficial, flexible form of entitlement.
### TABLE 1

**INEFFICIENCY OF U. S. HOUSING PROGRAMS**

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