

## **Getting More from the HUD Budget**

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## **Getting More from the HUD Budget**

### **1. Introduction**

Low-income housing programs are an important part of the U.S. welfare system. The most widely cited figure for government expenditure on these programs, about \$30 billion a year, refers to HUD's direct expenditure. This figure ignores the large and rapidly growing Low Income Housing Tax Credit, major USDA programs, expenditures of state and local governments, and the many indirect subsidies that account for a large part of the cost of the system. In fact, governments in the United States spend directly or indirectly roughly \$50 billion a year on low-income housing programs. So they spend substantially more on housing subsidies to the poor than on other better-known parts of the welfare system such as Food Stamps and TANF.

The purpose of this paper is to describe the major shortcomings of the current system of low-income rental housing assistance and how these shortcomings can be remedied without spending more money. The most serious shortcomings of the current system are its excessive reliance on unit-based programs that serve about two thirds of assisted households and its failure to provide housing assistance to all of the poorest eligible families who ask for help. Evidence indicates that tenant-based housing vouchers have a much lower total cost than any program of unit-based assistance for providing equally good housing. Therefore, it would be possible to serve current recipients equally well (that is, provide them with equally good housing for the same rent), serve many additional families, and reduce taxes by shifting resources from unit-based to tenant-based assistance. This would involve terminating or phasing out current

production programs, disengaging from unit-based assistance to existing apartments as soon as current contractual commitments permit, and avoiding new programs of unit-based assistance. The savings from these actions would make it possible to create an entitlement housing assistance program serving millions of additional households without spending more money, thereby avoiding the inequity of providing assistance to some households and denying it to others with the same characteristics.

The paper is organized as follows. Section 2 provides a brief overview of the current system of low-income housing assistance. Section 3 summarizes the most important evidence on the performance of different rental housing programs, namely, evidence on cost-effectiveness. Section 4 discusses the other major advantage of tenant-based housing assistance, specifically, the wide range of choice that it offers to recipients. Section 5 addresses the main objections to exclusive reliance on tenant-based assistance. Section 6 describes concrete proposals for phasing out unit-based housing assistance. Section 7 argues that taxpayer preferences call for an entitlement housing assistance program for the poorest families. Section 8 shows how this can be achieved without spending more money. Section 9 summarizes the paper.

## **2. Overview of Current System of Low-Income Housing Assistance**

The U.S. government provides assistance to live in rental and owner-occupied housing.<sup>1</sup>

The most important distinction between rental housing programs is whether the subsidy is attached to the dwelling unit or the assisted household. If the subsidy is attached to a rental dwelling unit, each family must accept the particular unit offered in order to

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<sup>1</sup> See Olsen (2003, pp. 370-394) for a more detailed description of the system of low-income rental housing programs. Olsen (2007) provides a more detailed account of homeownership programs that serve low-income households.

receive assistance and loses the subsidy when it moves. Each family offered tenant-based rental assistance has a choice among many units that meet the program's standards, and the family can retain its subsidy when it moves. The analogous distinction for homeownership programs is between programs that both authorize selected developers to build a limited number of houses to sell to eligible families of their choosing and require eligible families to buy from these builders in order to receive a subsidy, and programs that provide subsidies to eligible families that are free to buy from any seller.

Unit-based rental assistance is the dominant form of direct federal housing assistance to low-income families. The overwhelming majority of recipients receive rental assistance, and more than 70 percent of families served by low-income rental housing programs receive unit-based assistance. HUD provides unit-based rental assistance to about 2.7 million families, Low-Income Housing Tax Credit projects house about 1.6 million families, and the USDA's Section 515/521 and HUD's HOME block grant program each serve almost a half million families in subsidized projects. HUD's Section 8 Housing Voucher Program that accounts for almost all tenant-based rental housing assistance in the United States serves about 2 million households.

### **3. Evidence on Cost-Effectiveness of Different Housing Programs**

The most important finding of the empirical literature on the performance of low-income housing programs from the viewpoint of housing policy is that tenant-based vouchers and

certificates provide equally good housing at a much lower cost than any type of unit-based assistance.<sup>2</sup>

Four major studies have estimated both the cost per unit and the mean market rent of apartments provided by housing certificates and vouchers and the largest older production programs, namely Public Housing, Section 236, and Section 8 New Construction.<sup>3</sup> These studies are based on data from a wide variety of housing markets and for projects built in many different years. Two were expensive studies conducted for HUD by a respected research firm during the Nixon, Ford, Carter, and Reagan administrations. They are unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any of these production programs, even though all of these studies are biased in favor of the production programs to some extent by the omission of certain indirect costs.

Table 1 summarizes the results of these studies. The studies with the most detailed information about the characteristics of the housing provided by the programs found the largest excess costs for the production programs. Specifically, Mayo et al. (1980) estimated the excessive cost of public housing compared to housing vouchers for providing equally desirable housing to be 64% and 91% in the two cities studied and the excessive cost of Section 236 to be 35% and 75% in these two cities. Another study with excellent data on housing characteristics estimated the excessive cost of Section 8 New

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<sup>2</sup> See Olsen (2003, pp. 399-427) for a summary of the evidence on other aspects of program performance.

<sup>3</sup> The studies are Mayo et al. (1980), Olsen and Barton (1983), U.S. Department of Housing and Urban Development (1974), and Wallace et al. (1981). Olsen (2000) provides a description and critical appraisal of the data and methods used in these studies as well as a summary of their results.

Construction compared to tenant-based Section 8 Certificates to be between 44% and 78% [Wallace et al., 1981].<sup>4</sup>

Recent GAO studies produced similar results for the major active construction programs – LIHTC, HOPE VI, Section 202, Section 515, and Section 811. Table 2 reports results based on the conceptually preferable life cycle approach.<sup>5</sup> The excess total cost estimates range from 12% for Section 811 to 27% for HOPE VI [GAO, 2001, p. 3]. These estimates are lower bounds on the excessive cost because some costs of the production programs were omitted. Most notably, the opportunity cost of the land and cost of preparing the site were omitted from the cost of HOPE VI projects. These are real costs to society of HOPE VI redevelopment. More generally, some costs of each production program were omitted. For example, all HOPE VI projects and some projects under each other program receive local property tax abatements. The preceding results ignore this cost to local taxpayers. Some projects are built on land sold to the developer by a government at a below-market price.

It is often argued that production programs work better than tenant-based vouchers in the tightest housing markets. The GAO study contains evidence concerning

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<sup>4</sup> This study made predictions of the market rents of subsidized units based on two different data sets containing information on the rent and characteristics of unsubsidized units. The study did not collect information on the indirect costs of the Section 8 New Construction Program. These indirect subsidies included GNMA Tandem Plan interest subsidies for FHA insured projects and the forgone tax revenue due to the tax-exempt status of interest on the bonds used to finance SHFA projects. Based on previous studies, the authors argue that these indirect costs would add 20 to 30 percent to the total cost of the Section 8 New Construction Program. The range of estimates reported in the text is based on the four combinations of the two predictions of market rent and the lower and upper limits on the indirect costs. Using cruder methods that do not account as well for differences in the condition and amenities of the housing, Shroder and Reiger (2000) find similar results in a comparison of Section 8 certificates with Section 8 NC/SR projects that have been in existence for 15 to 20 years.

<sup>5</sup> The GAO study also reports first-year excess costs of the production programs. The first-year cost of a production program is the sum of the annualized development subsidies and the tenant rent and other government subsidies during the first year of operation. The GAO estimates of excess cost of production programs based on this method are much higher than estimates based on the life-cycle approach. Olsen (2000, pp. 18-21) explains the shortcomings of first-year-cost methodology and how this approach can bias the results in either direction.

whether production programs are more cost-effective than tenant-based vouchers in housing markets with low vacancy rates. In addition to the national estimates, the GAO produced estimates for seven metropolitan areas. The data for the GAO study refer to projects built in 1999. In that year, the rental vacancy rates in the seven metropolitan areas ranged from 3.1% in Boston to 7.2% in Baltimore and Dallas, with a median of 5.6%. The overall rental vacancy rate in U.S. metropolitan areas was 7.8%. So all of the specific markets studied were tighter than average. Only five of the largest seventy-five metropolitan areas had vacancy rates lower than Boston's. In each market, tenant-based vouchers were more cost-effective than each production program studied. Table 3 reports the results for Tax Credit Program. The results for Section 202 and 811 are similar [GAO, 2002, pp.19-20].

Unlike the earlier cost-effectiveness studies, the GAO study did not compare the total cost of dwellings under the different programs that were the same with respect to many characteristics. Instead it simply compared the average cost of dwellings with the same number of bedrooms in the same metropolitan area or the same type of location (metropolitan or nonmetropolitan). This has led to the criticism that the results overstate the excessive costs of the production programs for providing equally desirable housing because these programs provide better housing than the units occupied by voucher recipients.

No evidence on this matter exists for active production programs. However, evidence from earlier construction programs casts doubt on this view. Although it is true that units in recently completed projects under construction programs have typically been better than units occupied by households with certificates and vouchers, the existing

evidence suggests that this difference is not great. Furthermore, the relevant quality of the housing under a construction program is not its quality when it is new but rather the average quality of housing provided over the time that the project serves assisted households. This quality typically declines over the life of a subsidized project. The existing evidence suggests that well before the units in subsidized projects reach the midpoint of their service to assisted households, they provide housing worse than the housing occupied by recipients of tenant-based vouchers and certificates.

Results from a number of previous studies illustrate these general points. Mayo et al. (1980) estimated the market rents of units under several housing programs in Pittsburgh and Phoenix in 1975 based on data on the market rent and numerous characteristics of unsubsidized units and their neighborhoods. Table 4 reports the results. The public housing units involved were built between 1952 and 1974. Therefore, none of these units were more than 23 years old in 1975. Since public housing units typically remain in service for more than 50 years, none of these units had reached the midpoint of their useful lives. Table 4 indicates that these public housing units were no better than the units occupied by recipients of housing allowances. The Section 236 units were built between 1969 and 1975. So, none of these units were more than a few years old at the time. Table 4 indicates that Section 236 units were not enormously better than the units occupied by recipients of housing allowances even when they were quite new.

Wallace et al. (1981) used similar methods and data to estimate the market rents of randomly selected Section 8 Existing and New Construction units in 16 randomly selected metropolitan areas in 1979. Although none of the units under the Section 8 New Construction Program were more than a few years old at that time, the difference in the

mean market rents of units under the two programs was less than 10 percent, namely \$291 per month for Section 8 New and \$265 for Section 8 Existing.

David Vandembroucke's (U.S. Department of Housing and Urban Development, Office of Policy Development and Research) unpublished tabulations based on the 1991 American Housing Survey Metropolitan Sample paint a similar picture. He too estimated separate statistical relationships between market rent and numerous characteristics of unsubsidized units and their neighborhoods in a number of metropolitan areas and then used these relationships to predict the market rents of public housing units, units in privately owned HUD-subsidized projects, and units occupied by certificate and voucher holders. Table 5 reports the results. In eight of eleven metropolitan areas, the median market rents of the units occupied by recipients of certificates and vouchers was greater than the median market rents of units in public and privately owned HUD-subsidized projects. Vandembroucke did not report the median age of the units of each type in his sample. However, the median age of public housing units in the United States in 1991 was about 23 years and the median age of the units in privately owned subsidized projects was about 14 years. So, it is plausible to believe the majority of public housing units in his sample had not reached the midpoint of their service to assisted households and the majority of privately owned projects were much younger.

In short, the available evidence does not support the view that the GAO study understated the cost-effectiveness of the production programs because these programs provide better housing than tenant-based vouchers on average over the lives of subsidized projects. Indeed, it suggests the opposite.

The GAO study will not be the last word on the cost-effectiveness of the programs studied. Improvements in its implementation of the life-cycle methodology are possible and desirable. A more careful analysis that captures all of the subsidies associated with each program and accounts for the differences in the housing services provided is long overdue. However, at the moment, the GAO study provides the only independent cost-effectiveness analysis of active production programs.

The difference in cost-effectiveness between tenant-based and unit-based housing assistance has major implications for the number of households that can be served with the current budget. If we compare programs of tenant-based and unit-based assistance that serve recipients equally well (that is, provides them with equally good housing for the same rent), the unit-based programs will serve many fewer families with a given budget. No credible evidence shows that any type of unit-based assistance is as cost-effective as tenant-based vouchers in any market conditions or for any special groups. Therefore, many eligible families and the taxpayers who want to help them will gain if tenant-based assistance replaces unit-based assistance.

The magnitude of the gain from shifting from unit-based to tenant-based rental assistance would be substantial. Even the smallest estimates of the excess costs of unit-based assistance imply that shifting ten families from unit-based to tenant-based assistance would enable us to serve two additional families. Since the federal government provides unit-based rental housing assistance to more than five million families, a total shift from unit-based to tenant-based assistance would enable us to serve at least a million additional families with no additional budget. The most reliable estimates in the literature imply much larger increases in the number of families served.

For example, the results in Wallace et al. (1981) imply that tenant-based vouchers could have provided all of the families who participated in the Section 8 New Construction Program with equally good housing for the same rent and served at least 72 percent more families with similar characteristics equally well without any additional budget. A preliminary analysis of the effect on program participation of replacing HUD's low-income housing programs with an entitlement housing voucher program that has the same cost to taxpayers indicates that the voucher program would serve an additional 2.2 million families [Olsen and Tebbs, 2006].

#### **4. Other Major Advantage of Tenant-Based Housing Assistance**

Tenant-based assistance has another major advantage over unit-based assistance in addition to providing equally desirable housing at a lower cost. It allows each recipient to occupy a dwelling unit with a combination of characteristics preferred to the specific unit offered under a program of unit-based assistance, without affecting adversely taxpayer interests. With tenant-based assistance, a recipient can occupy any unit meeting the program's minimum housing standards. The program's standards reflect the interests of taxpayers who want to insure that low-income families live in housing meeting certain minimum standards. Units that meet the program's standards and are affordable to assisted families differ greatly with respect to their size, condition, amenities, neighborhood, and location. Assisted families whose options are the same under a program of tenant-based assistance are not indifferent among the units available to them. Each family will choose the best available option for their tastes and circumstances. Since all of these units are adequate as judged by the program's minimum housing

standards, restricting their choice further serves no public purpose. Unit-based assistance forces each family to live in a particular unit in order to receive a subsidy. So it greatly restricts recipient choice among units meeting minimum housing standards without serving any public purpose. If the amount of the subsidy is the same, it is reasonable to expect that recipients prefer tenant-based to unit-based assistance.

## **5. Objections to Exclusive Reliance on Tenant-Based Assistance**

Tenant-based rental assistance has outperformed every program of unit-based assistance, namely, it provides equally desirable housing at a much lower total cost, it produces significantly better outcomes in certain other respects, and it is not perceptibly worse in any respect. This makes a strong case for exclusive reliance on tenant-based assistance.

Two main objections have been raised to this reform. Specifically, it has been argued that tenant-based assistance will not work in markets with the lowest vacancy rates and construction programs have an advantage compared with tenant-based assistance that offsets their cost-ineffectiveness, namely they promote neighborhood revitalization to a much greater extent. The evidence supports neither view.

Taken literally, the first argument is clearly incorrect in that Section 8 Certificates and Vouchers have been used continuously in all housing markets for almost three decades. One more precise version of this argument is that tenant-based assistance will not work well in some markets because these markets do not have enough affordable vacant apartments that meet minimum housing standards to house all additional families offered vouchers. The conceptual defects of this argument are easy to understand, and it is inconsistent with the empirical evidence.

All vouchers authorized in a locality can be used even if the number of vacant apartments that meet minimum housing standards and are affordable to voucher recipients is less than the number of new and recycled vouchers available. Many families offered vouchers already occupy apartments meeting the program's standards. We do not need vacant apartments for these families. They can participate without moving. In the absence of assistance, these recipients often devote a high fraction of their income to housing and skimp on other goods. The housing voucher reduces their rent burden. Other families who are offered vouchers live in housing that does not meet Section 8 standards. However, these apartments can be repaired to meet the standards. Similarly, vacant apartments that do not initially meet the program's standards can be upgraded to meet them. In short, we do not need new construction to increase the supply of apartments meeting minimum housing standards.

The evidence shows that these are not theoretical curiosities. The tenant-based Section 8 Certificate and Voucher Programs have substantially increased the supply of affordable housing meeting minimum housing standards. One detailed analysis is based on data from a national random sample of 33 public housing authorities in 1993 [Kennedy and Finkel, 1994]. Thirty percent of all recipients outside of New York City continued to live in the apartments that they occupied prior to participating in the program [Kennedy and Finkel, p.15].<sup>6</sup> Forty one percent of these apartments already met the program's standards and 59% were repaired to meet the standards [Kennedy and Finkel, p.83]. About 70% of all recipients outside of New York City moved to a new unit. About 48% of these apartments were repaired to meet the program's standards [Kennedy and Finkel, p.84]. The rest moved to vacant apartments that already met the

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<sup>6</sup> The authors analyzed New York City separately from the other housing authorities.

standards. Therefore, the apartments occupied by about half of the families that received certificates and vouchers outside NYC during this period were repaired to meet the program's standards. The previously mentioned sources contain similar results for NYC. In this city, only 31 percent of the apartments occupied by recipients had to be repaired to meet the program's standards.

The Housing Assistance Supply Experiment of the Experimental Housing Allowance Program provides additional evidence on the ability of tenant-based vouchers to increase the supply of apartments meeting minimum housing standards even in tight housing markets. The Supply Experiment involved operating an entitlement housing allowance program for ten years in St. Joseph County, Indiana (which contains South Bend) and Brown County, Wisconsin (which contains Green Bay). These were smaller than average metropolitan areas with populations of about 235,000 and 175,000 people, respectively. The general structure of the housing allowance program in the Supply Experiment was the same as the Section 8 Voucher Program that HUD operated from 1983 until its merger with the new Housing Choice Voucher Program, except that homeowners were eligible to participate in the Supply Experiment. About 20 percent of the families in the two counties were eligible to receive assistance [Lowry, 1983, pp. 92-93]. By the end of the third year when participation rates leveled off, about 41 percent of eligible renters and 27 percent of eligible homeowners were receiving housing assistance [Lowry, 1983, pp.24-25].

The Supply Experiment sites were chosen to differ greatly in their vacancy rates in order to determine whether the outcomes of an entitlement housing allowance program depend importantly on this factor. At the outset of the Supply Experiment, the vacancy

rates in Brown and St. Joseph County were 5.1% and 10.6% [Lowry, 1983, p. 53]. So the average vacancy rate in the two sites was almost exactly the average vacancy rate in 2000 for U.S. metropolitan areas (7.7%). In 2000, only 26% of the 75 largest metropolitan areas had vacancy rates less than the vacancy rate in Brown County at the outset of the experiment and 20% had vacancy rates greater than the vacancy rate in St. Joseph County. The participation rate differed little between the two sites. Indeed, it was higher in the locality with the lower vacancy rate [Lowry, 1983, p.122].

Data for analysis was collected during the first five years of the experiment in each site. During that period, about 11,000 dwellings were repaired or improved to meet program standards entirely in response to tenant-based assistance and about 5,000 families improved their housing by moving into apartments already meeting these standards [Lowry, 1983, p. 24]. The former represented more than a nine percent increase in the supply of apartments meeting minimum housing standards. Tenant-based assistance alone produced a greater percentage increase in the supply of adequate housing in these localities in five years than all of the federal government's production programs for low-income families have produced in the past 65 years [Cutts and Olsen, 2002, p. 232]. The annual cost per household was less than \$3000 in today's prices.

We do not need production programs to increase the supply of apartments meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated beyond any doubt that the supply of apartments meeting minimum housing standards can be increased rapidly by upgrading the existing stock of housing even in tight markets. This happened without any rehabilitation grants to suppliers. It happened

entirely in response to tenant-based assistance that required families to live in apartments meeting the program's standards in order to receive the subsidy.

Some argue that the low success rates in the Section 8 Housing Voucher Program in areas with low vacancy rates implies that the available vouchers cannot be used in these areas and hence new construction must be subsidized in order to serve additional low-income households.

In discussing this matter, it is important to distinguish between a housing authority's so-called success rate and its voucher utilization rate. An authority's success rate is the percentage of the families authorized to search for a unit that occupy a unit meeting the program's standards within the housing authority's time limit. Its utilization rate is the fraction of all vouchers in use.

An authority's success rate depends on many factors including the local vacancy rate. One careful study of success rates [Kennedy and Finkel, 1994] indicates that among localities that are the same with respect to other factors those with the lowest vacancy rates have the lowest success rates. Obviously, it is more difficult to locate a suitable unit when the vacancy rate is low.

An authority's success rate bears no necessary relationship to the fraction of the authority's vouchers in use at any point in time. No matter what an authority's success rate, the authority can fully use the vouchers allocated to it by authorizing more families to search for apartments than the number of vouchers available or the number that can be supported with its voucher budget. For example, if an authority has a success rate of 50 percent, authorizing twice as many families to search as the number of vouchers available will result in full utilization of the vouchers on average. If each housing authority

adjusted its issuance of vouchers to its success rate in this manner, some authorities would exceed their budget and others would fall short in a given year. However, the national average success rate would be very close to 100 percent.

For many years, public housing authorities have over-issued vouchers and thereby achieved high usage rates despite low success rates. By over-issuing vouchers early in the year and adjusting the recycling of the vouchers that are returned by families who leave the program late in the year, housing authorities are able to come close to using their voucher budget. Their ability to use the money allocated to them is further enhanced by federal regulations that allow housing authorities to exceed their voucher budgets in a given year by modest amounts using their reserves and borrowing against next year's allotment. According to HUD's Fiscal Year 2004 Performance and Accountability Report, the voucher utilization rate was 98.5 percent in that year.<sup>7</sup>

Although it is true that some families who are offered vouchers do not find housing that suits them and meets the program's standards within their housing authority's time limits, other eligible families in the same locality use these vouchers. This indicates clearly that the problem is not that there are no vacant apartments that meet program standards and are affordable to voucher recipients or apartments whose landlords are willing to upgrade them to meet program standards. In the tightest housing markets, these apartments are more difficult to locate. Unsubsidized families also have trouble locating apartments in tight housing markets.

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<sup>7</sup> Although housing authorities could achieve a voucher utilization rate close to 100 percent each year by adjusting the extent to which they over-issue vouchers, they have not always done it. Like others, directors of housing authorities respond to incentives and disincentives. In recent years, they have faced disincentives that have led to lower voucher utilization rates. Sard (2006) analyzes the effect of proposed changes in federal regulations intended to induce housing authorities to use all of their vouchers.

The real issue is not whether tenant-based vouchers can be used in all market conditions but whether it would be better to use new construction or substantial rehabilitation programs in tight housing markets. Evidence from the GAO study mentioned earlier indicates that tenant-based vouchers are more cost-effective than production programs even in markets with low vacancy rates. Another key question is which type of assistance gets eligible families into satisfactory housing faster. If the choice is between authorizing additional vouchers or additional units under any construction program, the answer is clear. Tenant-based vouchers get families into satisfactory housing much faster than any construction program even in the tightest housing markets. By over-issuing vouchers, housing agencies can put all of their vouchers to use in less than a year in any market conditions. No production program can hope to match this speed.

The second major objection to the exclusive reliance on tenant-based assistance is that new construction promotes neighborhood revitalization to a much greater extent than tenant-based assistance. The evidence suggests that there is little difference between housing programs in this regard.

The evidence from the Experimental Housing Allowance Program is that even an entitlement housing voucher program will have modest effects on neighborhoods and the small literature on the Section 8 Voucher Program confirms these findings for a similar non-entitlement program [Lowry, 1983, pp. 205-217; Galster, Tatian, Smith, 1999B]. These programs result in the upgrading of many existing dwellings, but this is almost surely concentrated on their interiors.

It is plausible to believe that a new subsidized project built at low-density in a neighborhood with the worst housing and poorest families would make that neighborhood a more attractive place to live for some years after its construction. The issue is not, however, whether some construction projects lead to neighborhood upgrading. The issues are the magnitude of neighborhood upgrading across all projects under a program over the life of these projects, the identity of the beneficiaries of this upgrading, and the extent to which upgrading of one neighborhood leads to the deterioration of other neighborhoods.

The primary beneficiaries of neighborhood upgrading will be the owners of nearby properties. Since the majority of the poorest families are renters, it is plausible to believe that most of the housing units surrounding housing projects located in the poorest neighborhoods are rental. Therefore, if a newly built subsidized project makes the neighborhood a more attractive place to live, the owners of this rental housing will charge higher rents and the value of their property will be greater. Since the occupants of this rental housing could have lived in a nicer neighborhood prior to the project by paying a higher rent, they are hurt by its construction. The poor in the project's neighborhood will benefit from the neighborhood upgrading only to the extent that they own the property surrounding the project.

With the passage of time, the initial residents will leave the improved neighborhood and others who value a better neighborhood more highly will replace them. In short, housing programs involving new construction will shift the location of the worst neighborhoods to some extent. The aforementioned possibilities are rarely recognized in discussions of housing policy, let alone studied.

What has been studied is the extent to which projects under various housing programs affect the desirability of the neighborhood. If a housing project makes its neighborhood a better place to live, it will increase neighborhood property values. Most existing studies find small positive effects on neighborhood property values on average for some programs and small negative effects for others [Lee, Culhane, and Wachter, 1999; Galster, Smith, Tatian, and Santiago, 1999A, Chapter 4; Eriksen and Rosenthal, 2007]. Schwartz, Ellen, Voicu, and Schill (2006) is an exception. They conclude that a number of construction and rehabilitation programs in New York City have substantial positive effects on neighborhood property values. However, the weight of the evidence still favors the view that no federal housing program has substantial effects on neighborhood property values on average across all of its units.

In short, the usual objections to exclusive reliance on tenant-based vouchers have little merit. Tenant-based vouchers can get recipients into adequate housing faster than production programs even in the tightest housing markets, and they are more cost-effective than production programs in all market conditions. We do not need production programs to increase the supply of adequate housing. Production programs have not had a perceptibly greater effect on neighborhood revitalization than tenant-based vouchers.

## **6. Proposals to Shift Budget from Unit-based to Tenant-Based Assistance**

The available evidence on program performance has clear implications for housing policy reform. To serve the interests of taxpayers who want to help low-income families with their housing and the poorest families who have not been offered housing assistance, Congress should shift the budget for low-income housing assistance from unit-based to

tenant-based housing assistance as soon as current contractual commitments permit and should not authorize any new programs involving unit-based assistance.

The Clinton Administration made detailed proposals to Congress to achieve this transition [HUD, 1995], and Senator Dole supported the general concept during his presidential campaign against President Clinton.<sup>8</sup> It is time to refine and act on these proposals. This section proposes some concrete steps to achieve the desired results.

First, the money currently spent on operating and modernization subsidies for public housing projects should be shifted gradually to provide tenant-based vouchers to public housing tenants. HUD provides housing authorities with about \$7 billion each year in operating and modernization subsidies. This is about a fourth of the total HUD budget for low-income housing assistance. The evidence indicates that we can get more for this money by giving it to public housing tenants in the form of housing vouchers.

The Quality Housing and Work Responsibility Act of 1998 (QHWRA) made a small step in that direction. It mandated the conversion of public housing projects to tenant-based assistance under certain circumstances and allowed it under other circumstances. However, it did not go nearly far enough to realize large gains. The following proposal will achieve these large gains in an orderly fashion.

The proposal would allocate to each housing agency the same amount of federal money as it would have received in operating and modernization subsidies under the current system so that no housing agency can argue against the proposal on the grounds that it would have less to serve its clients. With one minor caveat, it would require every local housing agency to offer each current public housing tenant the option of a portable housing voucher or remaining in its current unit on the previous terms. The latter

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<sup>8</sup> See Weicher (1997) for a detailed analysis of proposals for vouchering out unit-based assistance.

provision insures that no public housing tenant is harmed by the legislation. Families that accept a voucher would benefit from it. They would move to housing that they prefer to their public housing units. These vouchers would be funded from their current public housing budget. Housing agencies would be allowed to charge whatever rent the market will bear for the units vacated by families that accept the voucher offer, and sell any of their projects to the highest bidder. This would generate the maximum amount of money to operate and modernize their remaining projects. Since the devil is often in the details, I address some important details below.

The most important requirement of the proposal is that each housing agency must offer a housing voucher to each family currently living in a public housing project. The payment standards for families of each size (that is, the subsidy to a family with zero adjusted income) need not be the payment standards of the regular Section 8 Housing Choice Voucher Program.<sup>9</sup> To insure that housing authorities can pay for these proposed vouchers with the money available, payment standards for families of different sizes should be set to use housing agency's entire public housing budget in the highly unlikely event that all public housing tenants accepted vouchers. A set of payment standards that satisfies this criterion is easily calculated.

It is important to realize that this proposal would not lead to an immediate mass exodus from public housing. The results of the HUD-funded Moving to Opportunity for Fair Housing Demonstration Program (MTO) show that public housing projects would retain the majority of their tenants at least initially.<sup>10</sup> The families eligible to participate in the experiment lived in public housing projects in census tracts where the poverty rate

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<sup>9</sup> The proposal does not affect the regular Section 8 Housing Choice Voucher Program.

<sup>10</sup> See Orr et al. (2003) for a description of the experiment and a summary of its results to date.

exceeded 40 percent prior to the experiment. Nationally, about 36 percent of public housing tenants live in neighborhoods with such high poverty rates (Newman and Schnare, 1997, Table 3). In MTO, there were two experimental groups and one control group. The experiment offered families assigned to the control group no alternative to their current circumstances. One experimental group was offered regular Section 8 housing vouchers. The other experimental group was offered Section 8 vouchers on the condition that the family must move to a neighborhood with a poverty rate less than 10 percent and remain there for at least a year. Only a third of the families in the projects involved signed up to participate in the experiment. About 62 percent of the families offered regular Section 8 vouchers as an alternative to staying in their public housing unit used the voucher and left public housing [Orr et al., 2003, p. 26]. This surely exceeds the fraction of all public housing tenants that would accept a regular Section 8 voucher because public housing tenants in lower poverty neighborhoods live in better neighborhoods. Public housing projects in better neighborhoods are probably also newer and provide better housing. If the payment standards for the proposed vouchers are less generous than regular Section 8 vouchers, the takeup rate would be lower for these vouchers.

The proposal would not require housing agencies to sell their projects beyond what will be required under the regulations implementing the relevant QHWRA provisions. However, it would allow them to sell any of their projects to the highest bidder, and many housing agencies would surely choose to sell their worst projects. With uniform vouchers offered across all of a housing agency's projects, it is reasonable to expect that the fraction of all public housing tenants that accept the vouchers would be

greatest in the worst projects. These are the projects that would be the most expensive to renovate up to a specified quality level. They are the types of projects that have been demolished under the HOPE VI program and that Congress intended to voucher out under QHWRA. So the proposal is consistent with clear Congressional intent in this regard.

When a project is sold, the remaining tenants in that project would be offered the choice between vacant units in other public housing projects and a housing voucher.<sup>11</sup> The housing agency might be required to use some of the proceeds of the sale to provide each family that is required to move with relocation assistance. The rest of the sales proceeds could be used to improve the agency's other housing projects or offer housing vouchers to additional families on its waiting lists.

Each year some current public housing tenants that have not accepted the proposed vouchers will move from their units without these vouchers. For example, some will get jobs that pay so much that they are no longer eligible for housing assistance, some single mothers will get married and their household income will make them ineligible for housing assistance, and some will be offered a preferred unit in a private subsidized project or a regular Section 8 voucher. Public housing agencies should be required to offer the family at the top of its public housing waiting list the option of occupying the vacated unit on the standard terms or accepting one of the new housing

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<sup>11</sup> This is a possible exception to the assertion that no tenants would be hurt by the proposal. Some tenants might want to remain in the projects that the housing authority decides to sell, even if the housing authority sells its worst projects, though some may later discover that they prefer their new housing to their current units. In practice, designing reforms that hurt no one is impossible. The losses to these tenants must be weighed against the gains to other tenants. It is difficult to justify renovating structures that reach a certain level of obsolescence and dilapidation, and the Congress has made a policy decision to tear down the worst public housing projects even if some tenants would like to remain in them. About 80,000 distressed public housing units have been torn down under HOPE VI, and others have been demolished with funding from other sources.

vouchers. These requirements will expand the choices of families who are offered housing assistance and insure that there is no reduction in the number of families subsidized.

If the family accepts the voucher, the housing authority would be free to charge the highest rent that the market would bear for the vacated unit. This will provide additional revenue to housing agencies without additional government subsidies and without reducing the number of assisted families. It will also make the housing agency's revenue depend in part on the desirability of the housing provided, thereby encouraging better maintenance of public housing units.

Each year some public housing tenants that used the proposed vouchers to leave their public housing units will give up these vouchers for the same reasons that some tenants leave public housing. A new voucher should be offered to a family on the public housing waiting list to replace each such family that leaves the program. This will insure that the tax money spent on public housing will continue to support at least as many families.

Under current law, occupancy of vacated public housing units would be limited to families eligible for low-income housing assistance. Given the socioeconomic characteristics of the families living in public housing and the condition, amenities, and locations of these projects, this restriction would surely have little impact. For a family of four, the upper income limit for eligibility is 80 percent of the local median income of all families. It is unlikely that many families with higher incomes would want to live in most existing public housing projects.

Current law also requires that at least 40 percent of new tenants of public housing projects have incomes less than limits based on 30 percent of the area's median income. This requirement might reduce the maximum rent that the housing agency can charge for its vacated units, but this does not affect the proposal in any fundamental way. Each housing agency would simply charge the highest rent that the market will bear for its vacated units subject to satisfying the income-targeting requirement. This would lead to the same income targeting as the current system.

To promote economic integration in public housing projects, Congress may want to eliminate the income targeting rules for families that pay market rents for public housing units. Indeed, it may want to eliminate upper income limits for these families. Under the proposal, the new occupants will receive no public subsidy, and so income targeting would serve no public purpose. Eliminating these requirements would promote economic integration in public housing projects without reducing the number of families that receive housing assistance.

Offering the voucher option to all tenants requires additional administrative resources. The revenues generated by renting some units at market rates might be more than adequate for this purpose. However, the reforms would yield such large benefits to so many low-income families that they easily justify additional administrative fees from the federal government.

The preceding proposal would benefit many current public housing tenants without harming other public housing tenants and without greater cost to taxpayers. The public housing tenants that accept vouchers would obviously be better off because they could have stayed in their current units on the old terms. They would move to housing

meeting HUD's housing standards that better suits their needs. Under this proposal, each housing agency would receive the same amount each year from the federal government as under the current system, and each would have the same assets, namely, the land and structures on which its projects are located. However, these assets would be better used, and the proposal would provide housing agencies with more money to better serve assisted families who remain in public housing. The additional money would come from selling projects and charging market rents for the units vacated by current public housing tenants. The proposal would greatly facilitate the sale of projects that are not worth renovating. The requirement that these projects must be sold to the highest bidder insures that the land and structures would be put to their highest valued use and maximizes the money available to help low-income families with their housing. It also avoids scandals associated with sweetheart deals. The dysfunctional public housing program of the twentieth century would wither, but public housing agencies would do a much better job in helping low-income families with their housing without spending any additional money.

The second broad proposal is that contracts with the owners of private subsidized projects should not be renewed. The initial agreements that led to the building or substantial rehabilitation of these projects called for their owners to provide housing meeting certain standards to households with particular characteristics at certain rents for a specified number of years. At the end of the use agreement, the government must decide whether to change the terms of the agreement and the private parties must decide whether to participate on these terms. A substantial number of projects have come to the end of their use agreement in recent years and many more will come to the end of their

use agreements over the next decade. When use agreements are not renewed, current occupants are provided with other housing assistance, usually tenant-based vouchers. Up to this point, housing policy has leaned heavily in the direction of providing owners with a sufficient subsidy to induce them to continue to serve the low-income households in their projects. Instead we should give their tenants portable vouchers and force the owners to compete for their business.

It is important to realize that for-profit sponsors will not agree to extend the use agreement unless this provides at least as much profit as operating in the unsubsidized market. Since these subsidies are provided to selected private suppliers, the market mechanism does not insure that profits under the new use agreement will be driven down to market levels. If this is to be achieved at all, administrative mechanisms must be used. Administrative mechanisms can err in only one direction, namely, providing excess profits. If the owner is offered a lower profit than in the unsubsidized market, the owner will leave the program. We should leave the job of getting value for the money spent to the people who have the greatest incentive to do it, namely, the recipients of housing assistance.

Third, the construction of additional public or private projects should not be subsidized. This involves terminating or phasing out current production programs and avoiding new production programs.

HOPE VI has been HUD's major production program over the past decade. This is an initiative within the public housing program under which some of the worst public housing projects have been torn down and replaced by new housing built at lower density on the same site. This program is an improvement over traditional public housing in that

it avoids concentrating the poorest families at high densities in projects. However, the GAO study reveals that it is highly cost-ineffective compared with tenant-based vouchers that also avoid these concentrations. Therefore, the money that would have been spent on HOPE VI is better allocated to the much more cost-effective Section 8 Housing Choice Voucher Program or added to the budget of each housing authority to operate its reformed public housing program.<sup>12</sup> This shift in the budget for housing assistance would allow us to provide all of the families that would have lived in HOPE VI projects with rental units meeting minimum housing standards and assist tens of thousands of additional families that would otherwise live in deplorable housing.

It might be argued that this recommendation ignores the positive effect of HOPE VI projects on their neighborhoods. HOPE VI projects are much more attractive than the housing projects that they replaced, the density of the housing is much lower, and families with higher incomes occupy some of the units built. Therefore, I would expect HOPE VI projects to make their neighborhoods more attractive places to live. However, the same beneficial effect on the neighborhood could surely be achieved at a small fraction of the cost of HOPE VI redevelopment. For example, the old public housing project could be torn down, some of its land devoted to public facilities such as parks, and the rest sold to the highest bidder. Many alternative uses of the land would surely improve the neighborhood as much as HOPE VI redevelopment and cost much less. The savings could be used to provide housing vouchers to a larger number of low-income households than were served by the old public housing project, let alone the HOPE VI redevelopment of that project. Selling much of the land to the highest bidder would

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<sup>12</sup> This money could be divided among public housing authorities using a formula that accounts for the size of their public housing program and the ages of its units.

almost surely lead to private redevelopment that would improve the neighborhood, and this sale would generate additional revenue to provide vouchers to more households.

Finally, there should be no new production programs. Congress should reject the Administration's proposal for a tax credit to selected builders of housing for low-income homeowners modeled after the Low Income Housing Tax Credit.<sup>13</sup> It should also reject the Millennial Housing Commission's proposals to create new programs of unit-based assistance such as tax incentives to preserve and expand the stock of existing units providing unit-based assistance, a new rental production program with a 100 percent capital subsidy, and elimination of limits on the amounts of Mortgage Revenue Bonds that states can issue to finance low-income housing projects. For the same reason, the Congress should reject the National Housing Trust Fund Act of 2007 (H.R. 2895) until it is modified to direct the funds involved to tenant-based assistance. Launching a new construction program is particularly inappropriate when rental vacancy rates are at historic high levels.<sup>14</sup> Any additional money for housing assistance should be used to expand the Housing Choice Voucher Program.

## **7. Housing Assistance Should Be an Entitlement for the Poorest Eligible Families**

Unlike other major means-tested transfer programs, housing assistance is not an entitlement despite its stated goal of “a decent home and suitable living environment for every American family” [Housing Act of 1949]. Millions of the poorest families are not offered any housing assistance, while a smaller number of equally poor families receive

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<sup>13</sup> The Administration's American Dream Program to provide a part of the downpayment on a house for low-income families is not subject to the same criticisms. Since this program is well designed to benefit low-income families and increase their homeownership rate without creating other distortions, a good case can be made for it.

<sup>14</sup> See <http://www.census.gov/hhes/www/housing/hvs/qtr307/q307tab1.html>.

large subsidies. For example, an assisted family with one child and an adjusted annual income of \$10,000 living in an area with the average Payment Standard would have received an annual housing subsidy of \$6,600 from the Housing Choice Voucher Program in 2007 if it occupied an apartment renting for the Payment Standard. The majority of families with the same characteristics living in that locality would receive no subsidy from any low-income housing program. Furthermore, the majority of the poorest eligible families receive no assistance while many families with considerably greater income are assisted [Olsen and Tebbs, 2006, Tables 8 and 9]. The waiting lists of public housing authorities are long, would be much longer in many cases if they were open continuously for new applicants, and consist largely of families with extremely low incomes.

The non-entitlement nature of housing assistance is a historical accident. Because the first significant housing program for low-income households involved the construction of housing, it was not possible to make it an entitlement for any significant number of families. Building millions of public housing units over a short period of time was infeasible. The income limits for eligibility were not designed to be consistent with the amount of money that the Congress wanted to devote to housing assistance.

Now that vouchers are used to provide housing assistance, the impossibility of building enough units to serve an enormous number of families provides no justification for maintaining a non-entitlement program. Almost all families eligible for housing assistance already live in housing. The majority of these units already meet housing standards. Other vacant units meeting housing standards are available. Many units can be inexpensively upgraded to meet housing standards. New construction is not needed to

provide adequate housing for all of the poorest families who would want to participate in the entitlement housing program that could be funded with the current budget for housing assistance.

No one has attempted to explain why we should offer assistance to some, but not other, families with the same characteristics, and no one has provided a persuasive argument for denying assistance to the poorest families while providing it to otherwise identical families in the same locality whose income is many times as large.<sup>15</sup> It is difficult to reconcile these features of the Housing Choice Voucher Program and all other low-income housing programs with plausible taxpayer preferences.

In thinking about whether housing assistance should be an entitlement, it is helpful to think about how a taxpayer who wants to help low-income families with their housing feels about dividing a fixed amount of assistance between two families that are identical in his or her eyes. Surely, few would give the entire amount to one person and nothing to the other. Almost everyone would divide the money equally between two families that are identical in all respects.

Another strong argument for an entitlement housing assistance program for the poorest individuals and families is its effect on homelessness. The homeless are the poorest of the poor. An entitlement program of housing assistance for the poorest individuals and families would eliminate homelessness except for the chronic homeless who suffer from serious mental illness and substance abuse [Early and Olsen, 2002]. The

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<sup>15</sup> It is often argued that we should not limit assistance to the poorest families because it is desirable to avoid concentrations of the poorest families in subsidized housing projects. Obviously, this argument is not applicable to tenant-based assistance. Families with housing vouchers are very dispersed. Indeed, more than 80 percent of all census tracts in the 50 largest metropolitan areas have at least one voucher recipient (Devine et al., 2003, p. 10). The conflict between the desire to serve the poorest families and to avoid concentrating them in projects in programs of unit-based assistance can be avoided by vouchering out these programs.

results of the recently completed Welfare to Work Voucher Experiment provide further evidence of the power of housing vouchers to address homelessness [Mills et al., 2006]. Housing vouchers have also proven extremely effective in getting the chronic homeless off the streets, though this requires a proactive approach to reach these people.

To say that housing assistance should be an entitlement for the poorest families is not to say that they have a natural right to it. Although some people hold this view, many others who think that housing assistance should be an entitlement reject it. They believe that the poorest families are entitled to whatever assistance their fellow citizens are willing to provide. To favor an entitlement program of housing assistance is to reject the notion that we should provide assistance to one family and deny it to another family with the same characteristics. Time limits, work requirements, and subsidy formulas that provide greater subsidies to families with some labor earnings rather than no labor earnings are completely consistent with an entitlement housing assistance program. They simply specify what a family is entitled to.

## **8. Proposal to Create an Entitlement Program of Housing Assistance**

The preceding argues strongly that a program of housing assistance should be an entitlement for the poorest families. The usual argument against making housing assistance an entitlement is that it would be too expensive. Those who make this argument seem to have in mind delivering housing assistance to all currently eligible families using the current mix of housing programs and the current rules for the tenant's contribution to rent. This would indeed increase the amount spent on housing assistance greatly, though this magnitude has not been estimated. However, we do not have to make

more than 40 percent of the population eligible for low-income housing assistance, we can reduce the fraction of housing assistance delivered through programs that are cost-ineffective, and we can provide new recipients of housing assistance with smaller subsidies.<sup>16</sup> If we reduce the fraction of the population eligible for housing assistance, increase the fraction of families served by tenant-based assistance, and reduce the subsidy to new recipients under each housing program, the cost of an entitlement housing assistance program would be less than commonly assumed.

Indeed, it is easy to develop an entitlement housing assistance program with any level of cost desired. For example, we could achieve an entitlement housing assistance program within a reasonable time without spending any additional money by a simple change in the Housing Choice Voucher Program, namely, offering new recipients smaller subsidies. At current subsidy levels, there are many more families willing and able to use vouchers than can be funded with the current budget. As we reduce the subsidy at each income by the same amount for new recipients, the number of families who want to participate will decline and waiting lists will shrink. If we reduce subsidies sufficiently and adjust the number of families served so as to spend the same amount on the program, all families who want to participate on the terms offered will receive assistance. We will then have an entitlement housing assistance program for the poorest eligible families, thereby ameliorating the horizontal inequities of the current program. Since about 12 percent of voucher recipients leave the program each year, this transition will take about eight years.

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<sup>16</sup> See U.S. Department of Housing and Urban Development (2000, Table A-1) for the fraction of households eligible for housing assistance.

In discussions of housing policy, a common objection to this proposal is that no one would be able to find housing meeting the program's standards with the lower subsidies. This objection is logically flawed. With current subsidy levels, many more people want to participate than can be served with the existing budget. If we reduce subsidy levels slightly, it will still be the case that more people want to participate than can be served. If we decrease the subsidy levels so much that no one wants to participate, we have decreased them more than the proposed amounts.

A more sophisticated argument against the proposal is that the poorest households will be unable to participate in the proposed program. The simple proposal above calls for reducing the guarantee under the Voucher Program (called the Payment Standard). This is the subsidy received by a household with no income. If the Payment Standard is less than the rent required to occupy a unit meeting the Program's minimum housing standards, then a household whose income and assistance from other sources is just sufficient to buy subsistence quantities of other goods would be unable to participate in the proposed voucher program.

Previous studies have shown that a considerable reduction in the payment standard could occur without precluding participation by the poorest of the poor. Olsen and Reeder (1983) and Cutts and Olsen (2002) find that the Payment Standard exceeds the market rent of units just meeting the Program's minimum housing standards in all of the many metropolitan areas and bedroom sizes studied. The median excess varied between 33 to 80 percent between 1975 and 1993. Although refined estimates have not been made with more recent data, a rough estimate is that the median excess over all

combinations of metropolitan area and number of bedrooms was 68 percent in 2001 [Cutts and Olsen, 2002, pp. 224-225].

If the preceding proposal leads to a particularly low participation rate by the poorest households, this could be counteracted by a smaller reduction in the payment standard combined with an increase in the fraction of adjusted income that tenants are expected to contribute to their rent. This would result in a smaller decrease in the subsidies offered to the poorest households and a larger decrease for the richest eligible households. For a given program budget, this would yield a higher participation rate by the poorest of the poor and a lower participation rate by other eligible households.

To say that housing assistance should be an entitlement is not to say that it should be designed to insure that all eligible families participate. It is inevitable that the participation rate will be less than 100 percent in a well-designed entitlement housing assistance program. An entitlement housing assistance program should provide no subsidy to families with incomes at the upper limit for eligibility to avoid the inequity that results from offering families with incomes just below the upper income limit a higher standard of living than families with incomes just above it. This implies that families with incomes just above the income limit for eligibility will be eligible for small subsidies. In order to get this subsidy, they will have to occupy a unit meeting particular housing standards, spend time filling out paperwork and dealing with program administrators, and reveal personal information. These are all inherent in operating a means-tested housing program. Furthermore, few enjoy accepting public or private charity. For all of these reasons, many families will choose not to participate in an entitlement housing assistance program.

A popular view is that many families offered vouchers do not participate because there are no vacant units meeting the program's standards in the area. Although market conditions play some role in program participation, the factors mentioned in the preceding paragraph are more important. The participation rate in the food stamp program has been about 60 percent in recent years [Castner and Shirm, 2004]. This is not because eligible families could not find a grocery store or because there was no food on the shelves of grocery stores.

What would be the participation rate in an entitlement housing program? The participation rate was much less than 50 percent in the entitlement housing assistance programs operated in the 1970s in Green Bay and South Bend as a part of the Experimental Housing Allowance Program. However, this is not to say that the participation rate in any entitlement housing assistance program would be less than 50 percent. The evidence from the Experiment indicates clearly that participation depends on the generosity of the subsidy and the program's minimum housing standards. The average annual subsidy in the sites where the entitlement programs were operated was about \$3000 in today's prices. The average annual subsidy in the Housing Choice Voucher Program exceeds \$6000. These numbers are not entirely comparable because the experiment was conducted in smaller than average metropolitan areas where housing prices were lower than average. Nevertheless, we should expect a higher participation rate with the current subsidy schedule of the Housing Choice Voucher Program.

## **9. Conclusion**

Given the current economic slowdown, the added expense of fighting international terrorism and the impending rapid growth in the Social Security and Medicare programs, it is clear that little additional money will be available for housing assistance over the next few years. The question is: How can we continue to serve current recipients equally well and serve some of the poorest families who have not yet been offered assistance without spending more money? The answer is that we must use the money available more wisely.

Research on the effects of housing programs provides clear guidance on this matter. It shows that we can serve current recipients equally well (that is, provide them with equally good housing for the same rent) and serve many additional families without any increase in the budget by shifting resources from unit-based to tenant-based assistance. We should learn from our past mistakes and not heed the call for new production programs. Indeed, we should go further and terminate current production programs and disengage from unit-based assistance to existing apartments as soon as current contractual commitments permit.

The stated goal of the Housing Act of 1949 is “a decent home and suitable living environment for every American family.” It is time that we delivered on that commitment. Contrary to popular opinion, this does not require spending more money on housing assistance. It can be achieved without additional funds by transferring funds from less cost-effective methods for delivering housing assistance to the most cost-effective approach and providing smaller subsidies to new recipients of housing assistance than received by current recipients.

In assessing the political feasibility of the type of fundamental reform considered in this paper, it is important to realize that this reform need not be implemented overnight. A politically feasible reform would involve a transition that does not harm, or even benefits, the overwhelming majority of current recipients of low-income housing assistance. For example, public housing tenants could be offered a choice between housing vouchers and staying in their current units on the same terms. This will benefit some without hurting others. Current recipients of Section 8 vouchers could be allowed to receive the generous subsidies that are now offered by the program while new recipients receive less generous subsidies so that more households can be served. Reform must also honor legal commitments. For example, payments on current terms will be provided to owners of private subsidized projects until the end of their use agreements. Occupants of these projects will not be offered vouchers until that time, and they might be provided with relocation assistance if they decide to move.

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**TABLE 1****Excess Cost of Older Production Programs**

Program/Study	Localities	Projects Built	Excess Cost
<b>Public Housing</b>			
Olsen and Barton	NYC	1937-1965	14%
Olsen and Barton	NYC	1937-1968	10%
HUD	Baltimore, Boston, L.A., St. Louis, S.F., D.C.	1953-1970	17%
Mayo et al.	Phoenix	1952-1974	64%
Mayo et al.	Pittsburgh	1952-1974	91%
<b>Section 236</b>			
Mayo et al.	Phoenix	1969-1975	35%
Mayo et al.	Pittsburgh	1969-1975	75%
<b>Section 8 NC/SR</b>			
Wallace et al.	National	1979	44%-78%

**TABLE 2**

**Excess Cost of Active Production Programs  
(GAO, 2001, Life Cycle Approach)**

Program	Excess Cost
Low-Income Housing Tax Credit	16%
Hope VI	27%
Section 202	19%
Section 811	12%
Section 515	25%

**TABLE 3**

**Excess Cost of Tax Credits in Markets with Different Vacancy Rates  
(GAO, 2002, Life Cycle Approach)**

Metropolitan Area	Vacancy Rate	One Bedroom	Two Bedroom
Baltimore	7.2%	24%	24%
Boston	3.1%	6%	19%
Chicago	6.5%	34%	25%
Dallas/Fort Worth	7.2%	21%	21%
Denver	5.6%	40%	21%
Los Angeles	5.1%	11%	21%
New York	4.7%	21%	17%
All Metro Areas	7.8%	19%	14%

**TABLE 4**

**Market Rents of Units under Production Programs in Their Early Years Compared  
with Voucher Units**

City	Program		
	Section 236	Public Housing	Housing Allowance
Pittsburgh	\$1826	\$1748	\$1626
Phoenix	\$2417	\$1918	\$2084

**TABLE 5****Median Monthly Market Rents of Subsidized Units (1991)**

City	Program		
	Voucher and Certificate	Privately Owned Projects	Public Housing
Atlanta	\$505	\$400	\$328
Baltimore	\$460	\$458	\$373
Chicago	\$475	\$550	\$440
Columbus	\$375	\$395	\$340
Hartford	\$593	\$570	\$543
Houston	\$365	\$325	NA
New York	\$605	\$578	\$520
Newark	\$568	\$570	\$500
San Diego	\$480	\$410	NA
Seattle	\$475	\$455	\$445
St. Louis	\$403	\$378	\$380