

Congressional Briefing on AEI Volume Entitled A Safety Net That Works
Chapter on Reducing Poverty through Housing Policy Reform

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Low-income housing assistance is fertile ground for reforms that would produce better outcomes with less public spending. The federal government provides two broad types of housing assistance – housing vouchers that allow families to find their own units in the private market and subsidized housing projects. About 2 million households have housing vouchers and about 5 million live in subsidized projects. The oldest type of subsidized project is public housing, but today privately owned projects house about four times as many assisted households. My proposed reforms deal with all parts of the system.

In my view, the current system has two main defects.

First, the majority of current recipients are served in housing projects that have enormously excessive cost for the housing provided. The best study of HUD's largest program that subsidized the construction of privately owned projects indicated their total cost exceeded their market rents by at least 44%. The best study of public housing indicated an even larger excess cost.

The second major defect of the current system is that it provides large subsidies to some households while offering none to others in the same economic circumstances, and it provides subsidies to many people who are not poor while offering none to many of the poorest. Less than 35% of families with extremely low incomes receive housing assistance.

Phasing out housing projects in favor of the cost-effective housing voucher program would ultimately free up the resources to provide housing assistance to millions of additional people or reduce taxes or both. This has important policy implications.

When the time comes to demolish or substantially renovate public housing projects, we should sell these properties to the highest bidder rather than redevelop them, and give their tenants portable vouchers.

When private subsidized projects come to the end of their use agreements, we should give their occupants portable vouchers rather than renewing the contract. It's a mistake to preserve the so-called affordable housing stock, that is, to keep subsidies tied to particular units. The units will not disappear when we fail to renew the use agreement. Instead their owners will be forced to compete for the business of their tenants.

Finally, we should not build new subsidized projects. Instead we should serve additional families with tenant-based vouchers.

In addition to proposals along these lines, my paper contains specific proposals for reform of the housing voucher program.

However, given the time available and current legislative initiatives, I'll focus on the Low-Income Housing Tax Credit (LIHTC). LIHTC is the largest and fastest growing low-income housing program. This program subsidizes the construction and renovation of housing projects. Proposed legislation in the Senate would greatly expand it.

It's billed as a solution to a housing affordability problem, but building new projects is a very expensive solution to this problem. The per-unit cost of tax credit projects is large, indeed, so large that Senator Grassley has asked the GAO to investigate. New tax credit projects provide housing much better than the housing occupied by many households who have incomes too high to live in them. The cost of tax credit projects is also high relative to the market rents of its units.

We don't need to build new housing projects to help households that spend a large fraction of their income on housing. They are already housed. If we think that their housing is unaffordable, the cheapest solution is for the government to pay a part of the rent. HUD's housing voucher program does just that at a much lower cost than the tax credit program.

It's often argued that the large expense of subsidizing the construction of new tax credit projects is justified by low vacancy rates that prevent potential recipients from using housing vouchers. The location of new tax credit projects is inconsistent with this justification. Over the past decade, the majority of tax credit units were built in metro areas with vacancy rates in excess of 8%. Almost 40% were built in metro areas with vacancy rates in excess of 10%. Contrary to this argument for its existence, the construction of tax credit projects is not focused on metro areas with low vacancy rates.

Expanding the LIHTC is also inconsistent with focusing support on the people who need it the most. New tax credit projects serve families with incomes twice as high as the voucher program. If we want to provide housing assistance to more of the poorest households, we should use the money available to expand the cost-effective housing voucher program rather than subsidizing the construction of additional housing projects.