

## **Reforming Low-Income Housing Policy to Reduce Deep Poverty**

Conference on Deep Poverty in the U.S.

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I welcome this opportunity to share some ideas about how to reduce deep poverty both in terms of current consumption and labor earnings. These ideas all involve reforms of low-income housing policy that don't require additional public spending and would ultimately result in offering housing assistance to all of the poorest families.

The structural challenges to providing adequate housing for the poorest households and increasing their earnings have little to do with the workings of private markets. They reflect failures of public policy. I'm going to talk about the structural defects of low-income housing policy in these regards and how they can be remedied.

To appreciate these opportunities requires an understanding of the current system of low-income housing assistance and the key evidence on its performance. Most low-income housing assistance is for renting a unit, and I'll focus on rental housing programs. The U.S. Department of Housing and Urban Development (HUD) provides the bulk of low-income housing assistance in the U.S. The Housing Choice Voucher Program is HUD's largest low-income housing program. It provides tenant-based housing vouchers to about 2.3 million households. HUD serves about the same number of low-income households in subsidized housing projects – both public housing and privately-owned. The U.S. Department of Agriculture (USDA) serves an additional half million low-income households in privately-owned subsidized projects. The Low-Income Housing Tax Credit (LIHTC) is the largest and fastest growing low-income housing program but serves few of the poorest households except when tax credits are used to renovate older HUD- and USDA-subsidized projects. LIHTC has subsidized the construction of about 1.8 million units and the renovation of about 1.0 million units in subsidized projects including older tax credit projects themselves. Overall, about two thirds of subsidized households live in housing projects and one third have tenant-based housing vouchers.

In total, the federal government spends about \$50 billion a year on low-income housing assistance. The upper income limits for eligibility in these programs greatly exceed official poverty thresholds, and about 44 percent of all households that receive low-income housing assistance are not poor according to the official definition.

Housing assistance is an anomaly among the largest parts of the welfare system. Unlike other major means-tested transfer programs, low-income housing programs don't offer assistance to all families eligible for them. Eligible families that want assistance must get on a waiting list, and waiting lists are often long and usually closed to new applicants. Only about a fourth of the poorest families receive housing assistance. Among the poorest families of the same size and with the same income from private sources, the greatest difference in consumption levels is between families with and without housing assistance. Medicaid, SNAP, and the EITC provide assistance to all of these families that ask for it, and participation rates in these programs are extremely high among poor families.

The current system of low-income housing assistance creates substantial differences in consumption levels for otherwise identical poor families because the lucky minority who are helped receive large subsidies. The national average housing voucher subsidy to the poorest families with a size and composition appropriate for a two-bedroom unit was about \$1,000 a month in 2016. In the most expensive places to live like New York City and Los Angeles, it was about 50 percent greater. The subsidies received by the poorest households in HUD-subsidized housing projects are more variable, but still large on average.

Housing assistance of the current generosity lifts the consumption levels of almost all families that would be poor in the absence of housing assistance above the official poverty threshold, indeed well above it for most of these families. Many otherwise similar families without housing assistance have consumption levels below the threshold.

For reducing deep poverty, the two most important findings of research on the performance of low-income housing programs are:

- It costs much more to provide equally good housing in equally desirable neighborhoods in subsidized housing projects than with tenant-based housing vouchers.
- The subsidy formula in most low-income housing programs induces recipients to earn less.

We could substantially reduce deep poverty correctly measured by offering housing vouchers of the current generosity to all of the poorest families, but that would be extremely expensive. Alternatively, we could offer housing assistance to these households by subsidizing the construction of housing projects. That would be much more expensive. Substantial reductions in deep poverty could also be achieved promptly by reforms of the current system of low-income housing assistance without greater public spending. This involves phasing out cost-ineffective project-based housing assistance and offering housing vouchers less generous than the current HCV program to an increasing fraction of the poorest households each year.

This would gradually eliminate most evictions and probably increase earning among the deep poor because forced moves often lead to job loss.

Evidence also supports the view that simple changes in the subsidy formula in low-income housing programs would induce recipients to increase their labor earnings.

The rest of my talk describes the supporting evidence and proposed reforms in more detail.

The best study of HUD's largest program that subsidized the construction of privately owned projects (the Section 8 New Construction Program) found that the total cost of providing housing under this program was at least 44 percent greater than the total cost of providing equally good housing under the housing voucher program. This translated into an excess taxpayer cost of at least 72 percent for the same outcome. It implies that housing vouchers could have served all the people served by this program equally well (that is, provided them with equally good housing for the same rent) and served at least 72 percent more people with the same characteristics without any increase in public spending. The best study indicates an even larger excess cost for public housing.

We don't have a study of this quality for the largest and fastest growing low-income housing program, the LIHTC. The best evidence available indicates that tax credit projects cost 16 percent more than the housing voucher program to provide units with the same number of bedrooms in the same metro area, but this study unambiguously understates the cost of the tax credit program because it omits significant public subsidies. The best evidence available also indicates that occupants of tax credit projects capture only a fourth of the subsidies provided to developers. A recent PBS Frontline documentary called Poverty, Politics, and Profit illustrates some of the reasons for this outcome.

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 individuals and families. This is the largest opportunity to reduce deep poverty through housing policy reform without spending more money.

Specifically, 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 housing vouchers. When private subsidized projects come to the end of their use agreements, we should give their occupants housing vouchers rather than renewing the contract. Finally, we should not build new subsidized projects. Instead we should serve additional families with tenant-based vouchers.

The best opportunity to reduce deep poverty rapidly is to divert money from the construction of new tax credit projects to the housing voucher program. The tax credit program has greatly excessive cost, and new tax credit projects serve few extremely low-income families. I estimate that if the \$7 billion allocated to building new tax credit projects in 2013 had been used to provide housing vouchers with the current generosity to a representative group of deep poor families, this would have provided annual subsidies averaging about \$10,000 to about 625,000 families. This is 13% of all deep poor families that didn't receive housing assistance. Because current law increases the magnitude of the tax credits available for new projects each year by the rate of inflation, we could continue to provide this many families with vouchers of the same real generosity each year by spending this money on housing vouchers rather than tax credit projects.

HUD's housing voucher program also offers opportunities for reform in the interest of alleviating deep poverty. As I said earlier, the voucher program provides very large subsidies to its recipients. In 2015, the national mean annual subsidy for a household with one adult, two children, and no countable income was almost \$12,000. A voucher subsidy of this magnitude enables its recipient to occupy a rental unit of about average desirability among two-bedroom units.

From the viewpoint of poverty alleviation correctly conceived, it's surely better to provide somewhat more modest housing to a larger number of the poorest households rather than housing of this quality to a fortunate few. This could be achieved without harming current recipients by offering new recipients less generous subsidies so that more households could be served with a given budget, while allowing current recipients to receive their current subsidies until they leave the program. Reducing the program's payment standard by 20 percent would enable us to serve about 40 percent more families similar to current recipients with the same budget.

I've written a paper that estimates the effects of alternative reforms of the current system of low-income housing assistance on the number of people of various types who would receive assistance. These reforms would gradually replace HUD's largest low-income housing programs with an alternative housing voucher program that serves all eligible families that apply for assistance. The alternative voucher programs considered would have payment standards 20 to 30% less than the current voucher program. The estimated effects on program participation are long-run effects after the transition to the new system has been completed. The results indicate that the primary reform considered would serve 89 percent more people in total and many more in families of each type without greater public spending. Most important for present purposes, I estimate that it would serve about twice as many people in the first real income decile.

In its recent report on housing policy, the Bipartisan Policy Center's Housing Commission said:

We do not believe our nation's most impoverished families should be subject to a lottery system or spend years on a waiting list to obtain access to federal rental assistance. ... More specifically, we recommend that federal rental assistance be made available to all eligible households with incomes at or below 30 percent of Area Median Income ...

Doing that is long overdue, and it is not necessary to spend more money to do it.

The effect of the preceding reforms on self-sufficiency is theoretically ambiguous, and the empirical evidence available has not been used to shed light on it. I'll close by suggesting a reform of low-income policy that would induce recipients of housing assistance to increase their earnings.

Excellent evidence indicates that HUD's low-income housing programs induce their recipients to earn 10 to 15% less. The most obvious explanation is that these programs reduce their subsidy to the recipient by 30 cents for each dollar of countable income. For households that don't receive TANF or SSI assistance, the subsidy is reduced by 30 cents for each dollar earned. For households that participate in one of these programs, the benefit reduction rate is less but still positive. These studies have explored and rejected a variety of other explanations for the work

disincentive effect. What these housing programs have in common is their subsidy formula. My conclusion is that the subsidy formula is the primary reason for their work disincentive effects, and it could be altered to induce recipients to increase their earnings.

In the housing voucher program, work could be encouraged by reducing the program's payment standard (that is, its subsidy to a household with no countable income) and introducing a substantial earnings disregard. If the household earned less than a certain amount, its subsidy would be the new lower payment standard. If it earned more than that amount, its subsidy would be the same as under the current subsidy formula. Minimum rents in public housing would have the same effect.

I look forward to a good discussion of these and other proposals to reduce deep poverty.