

Reforming Low-Income Housing Policy to Reduce Child Poverty

Prepared for Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 Years, National Academies of Sciences, Engineering, and Medicine

Edgar O. Olsen, Professor of Economics and Public Policy, University of Virginia; Visiting Scholar, American Enterprise Institute

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The purpose of this memo is to propose reforms of low-income housing policy that would substantially reduce child poverty within 10 years without additional public spending. These reforms would ultimately result in offering housing assistance to all poor families with children. Much of the transition to this end would occur within 10 years.

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 (HCV) is HUD's largest low-income housing program. It provides tenant-based housing vouchers to about 2.3 million low-income families. HUD also serves about 2.4 million low-income households in subsidized housing projects – both public housing and privately-owned. The U.S. Department of Agriculture (USDA) subsidizes about a half million low-income households in privately-owned subsidized projects. The Low-Income Housing Tax Credit program (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 housing projects. 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. About 44 percent of all households that receive low-income housing assistance are not poor according to the official definition.¹

Among children in poor families of the same size and composition and with the same income from private sources, the greatest difference in consumption levels is between children in families with and without low-income housing assistance. Medicaid, SNAP, and the EITC provide assistance to all of these families who ask for it, and participation rates in these programs are extremely high among poor families. 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 of the families that are 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 26 percent of the children in poor families receive housing assistance.²

The current system of low-income housing assistance creates substantial differences in consumption levels for otherwise identical poor families because the lucky minority who get it receive large subsidies. In the HCV, the subsidy available to a household with a given countable income and family composition varies greatly across the country to account for geographic price differences. The national average 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

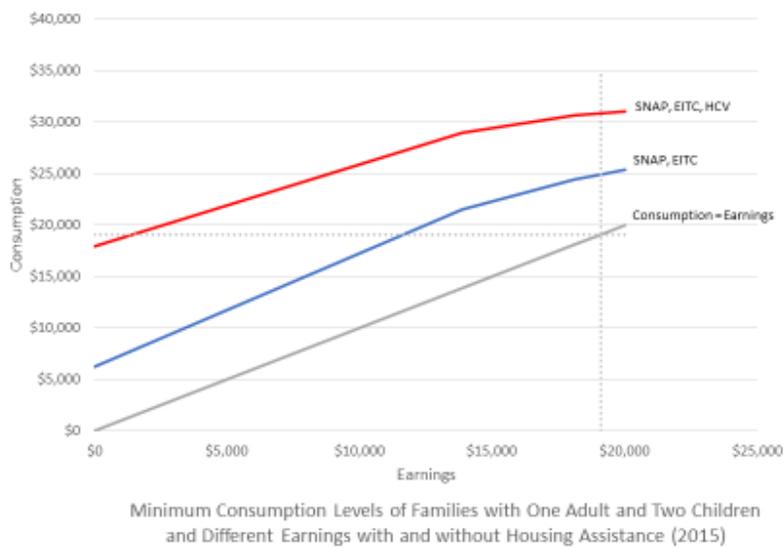
¹ Author's calculation based on data from 2013 American Housing Survey. All statements about poverty and the poor in this memo are based on the official poverty measure.

² Author's calculation based on data from 2013 American Housing Survey.

places to live like New York City, Los Angeles, Boston, and San Francisco, 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. The best units in the most desirable neighborhoods have high market rents. The worst units in the least desirable neighborhoods have low market rents. Because tenant rents in subsidized housing projects do not depend on the desirability of the unit or its neighborhood, the magnitude of the subsidy is highly variable across families with the same characteristics living in different projects. Systematic evidence that compares the mean market rents of units occupied by voucher recipients with the mean market rents of units in subsidized housing projects has not been produced for many years. The older evidence suggests that voucher units have somewhat higher market rents on average.³ Although the relative magnitudes of the subsidies to occupants of housing projects versus voucher recipients is in doubt, there is no doubt that on average HUD-subsidized housing projects provide substantial subsidies.

The figure illustrates how much housing assistance adds to the consumption levels of poor households who are fortunate enough to receive it. It shows the market value of goods consumed at each level of earnings below the official poverty threshold for a family with one adult and two children living in a locality with an average HCV subsidy. The higher line is the consumption level of a family that receives benefits from SNAP, EITC, and HCV; the lower one the consumption level of a family that receives benefits from SNAP and EITC only.



These lines understate benefits received from SNAP and HCV because they ignore deductions from earnings allowed in determining the magnitude of the subsidy. These are substantial for

³ Edgar O. Olsen, “Getting More from Low-Income Housing Assistance,” The Brookings Institution, Hamilton Project, [Discussion Paper 2008-13](#), pp. 12-13 summarizes the evidence.

SNAP (about 50 percent of earnings), and much more modest for HCV (about 10 percent). The lines also ignore social security taxes paid by all families with labor earnings and many other programs that increase consumption levels of these families such as Medicaid, SSI, TANF, WIC, and the national school lunch program. Accounting for these complexities would not change the qualitative conclusions. Housing assistance of the current generosity adds greatly to the consumption levels of the poor households who get it. It lifts the consumption levels of almost all families with children who have earnings less than the official poverty threshold above the threshold, indeed well above it at most levels of labor income.

We could reduce child poverty within ten years by offering housing vouchers of the current generosity to all poor families, but that would be extremely expensive. Alternatively, we could offer housing assistance to these households by subsidizing the construction of subsidized housing projects. That would be much more expensive. This goal could also be achieved 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 tenant-based housing vouchers less generous than the current HCV program. The rest of the memo describes the supporting evidence and proposed reforms.

The best evidence on the cost-effectiveness of housing programs in providing housing pertains to HUD's public housing program, its two largest programs that subsidized the construction and operation of privately owned projects, and its housing voucher program.⁴ The best study of HUD's largest program that subsidized the construction of privately owned projects (the Section 8 New Construction Program) found an excess total cost of at least 44 percent. That is, 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 translates into excessive 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 LIHTC, the largest and fastest growing low-income housing program. The best evidence available suggests that tax credit projects cost 16 percent more than the voucher program to provide units with the same number of bedrooms in the same metro area. This study unambiguously understates the cost of the tax credit program because it omits some public subsidies such as land sold to developers by local governments at below-market prices, local property tax abatements received by some developers, subsidies from the housing voucher program, and later subsidies for renovating tax credit projects. Whether the present value of the market rents of tax credit units over their 30-year use agreement is greater or less than the present value of the market rents of voucher units is an open question. The best evidence available also indicates that occupants of tax credit projects capture a small fraction of the subsidies provided to developers. This evidence indicates that the present value of the rent

⁴ [Olsen](#) (2008, pp. 9-15) summarizes the evidence on the cost-effectiveness of low-income housing programs..

saving to tenants (the difference between the market rent of the unit and the rent paid by its tenant) is less than a fourth of the present value of the subsidies provided to developers.⁵

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 families with children. This is the largest opportunity to reduce child poverty through housing policy reform without spending more money. The following specific reforms will achieve this outcome. 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 tenant-based 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.

The best opportunity to reduce child poverty rapidly is to divert money from the construction of new LIHTC projects to the tenant-based housing voucher program. The tax credit program is a highly cost-ineffective method for delivering housing assistance, and new tax credit projects serve few extremely low-income families. Only 30 percent of households in these projects have extremely low incomes on HUD's definition.⁶ Using data from the 2013 American Housing Survey, I estimate that if the \$7 billion allocated to building new tax credit projects in that year had been used to provide regular housing vouchers to a random sample of poor families with children, this would have provided annual subsidies averaging about \$9,500 to about 740,000 families with about 1,600,000 children. This is 14 percent of all poor families with children that didn't receive low-income housing assistance. Because current law increases the magnitude of the tax credits available for new projects by the rate of inflation each year, we could continue to provide this many families with vouchers of the same real generosity by spending this money on housing vouchers rather than the construction of tax credit projects. It would take a little time for housing authorities to expand their staff to handle these vouchers, but not as long as it takes to build housing projects.

HUD's Housing Choice Voucher Program also offers opportunities for reform in the interest of alleviating child poverty. As mentioned 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. The poverty threshold for this family was about \$20,000. A voucher subsidy of this magnitude enables its recipient to occupy a rental unit of about average desirability among two-bedroom units, that is, a unit with about the

⁵ This is based on evidence in Gregory S. Burge, "Do Tenants Capture the Benefits from the Low-Income Housing Tax Credit Programs?" *Real Estate Economics*, 2011, 39(1), 71-96 and Jean L. Cummings and Denise DiPasquale, "The Low-Income Housing Tax Credit: An Analysis of the First Ten Years," *Housing Policy Debate*, 1999, 10, 251-307.

⁶ Katherine M. O'Regan and Keren Horn, "What Can We Learn about the Low-Income Housing Tax Credit Program by Looking at the Tenants?" *Housing Policy Debate*, 2013, 23(3), 597-613, Table 4. Extremely low income and poverty status are highly correlated. About 95 percent of households are classified as either poor and extremely low income or neither.

median market rent. From the viewpoint of poverty alleviation correctly conceived, it is 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. The current welfare system provides recipients of housing vouchers with resources well above the relevant poverty threshold, while leaving many others without housing assistance well below it.

In the interest of ameliorating this inequity and reducing poverty without harming current recipients, new recipients could be offered less generous subsidies so that more households could be served with a given budget, while current recipients could be allowed to receive the generous subsidies that are offered by the current program. Since more than ten percent of voucher recipients exit the program each year, this initiative will allow more families to be served each year without spending more money. Eventually, all participants in the same economic circumstances would receive the same lower subsidy. Reducing the program's payment standard (that is, the subsidy to a family with no countable income) by 20 percent would enable us to serve about 40 percent more families similar to current recipients with the same budget.⁷

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.⁸ It shows how reforms of HUD's low-income housing programs would enable us to offer housing assistance to all of the poorest households without spending more money. These reforms would gradually replace HUD's largest low-income housing programs with an alternative tenure-neutral housing voucher program that serves all eligible families that apply for assistance. The payment standards for the programs involved are 20 to 30 percent less than current payment standards. 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 basic reform considered would serve 89 percent more people in total and many more in families of each type – white, black, and Hispanic; elderly and nonelderly; families living in metropolitan and nonmetropolitan areas; small, medium, and large families; and families in the first two real income deciles. Most important for present purposes, I estimate that about twice as many people in the first income decile would be served (over 6.3 million people) and about 180 percent more people in households with 5 or more members (over 3.5 million). The latter surely contain many children.

In its recent [report](#) on housing policy, the Bipartisan Policy Center's Housing Commission co-chaired by Kit Bond, Henry Cisneros, Mel Martinez, and George Mitchell 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 AMI who apply for such assistance.

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

⁷ Author's calculation based on data in HUD's Picture of Subsidized Households.

⁸ Edgar O. Olsen, "The Effect of Fundamental Housing Policy Reforms on Program Participation," University of Virginia, January 14, 2014.