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Oral Testimony

Roundtable on Examining Federal Housing Programs

U.S. Senate Budget Committee

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Thank you, Senator Enzi. I'm delighted to be here today to share with you and the members of your committee what I know about the performance of low-income housing programs and some ideas about how to get better outcomes from the money spent on them.

Low-income housing assistance is fertile ground for reforms that would provide better outcomes for the money spent. Most current recipients are served by programs whose cost is enormously excessive for the housing provided. Phasing out these programs in favor of the system's most cost-effective program would ultimately free up the resources to provide housing assistance to millions of additional people without any increase in taxes.

The second major defect of the current system is its failure to offer housing assistance to most of the poorest households. About two thirds of families with extremely low incomes receive no housing assistance, while others with the same incomes receive large subsidies. Offering modest assistance to all these families would not only eliminate this inequity but also largely end homelessness and evictions.

The path to remedying these defects at a reasonable cost to taxpayers is to phase out cost-ineffective programs in favor of the cost-effective housing voucher program. This would enormously simplify the system of low-income housing assistance.

In papers for AEI and Brookings, I've suggested steps that would provide a smooth transition to a system that would offer housing assistance to all the poorest households. They deal with all parts of the system – active construction programs, existing privately owned housing projects, public housing, and the housing voucher program. The desirability of the proposed reforms does not depend on how much is spent on low-income housing assistance. If more money is spent on it, more families will be helped, and the families assisted will receive larger benefits.

Today most low-income housing assistance in the U.S. is delivered by subsidizing the construction, renovation, and operation of housing projects. The Low-Income Housing Tax Credit Program is the largest and fastest growing program of this type.

Tax credit projects have a much greater cost than most people realize. They receive subsidies from many sources, considerable resources are devoted to getting these subsidies and trying to enforce their restrictions, and the layering of subsidies from multiple sources enables the building of very expensive units. The development cost of units in tax credit projects is about equal to the median value of owner-occupied houses in the same locality. This complexity is totally unnecessary to achieve the purposes of low-income housing assistance, and it's one reason for the program's excessive cost.

The simplest approach to providing housing assistance is to provide a subsidy to the people we want to help that is conditional on occupying housing meeting certain standards. HUD's Housing Choice Voucher Program does that. This simple method can be used to subsidize homeowners as well as renters, and it can be combined easily with down-payment assistance to induce more recipients to be homeowners.

This is not only the simplest approach but also by far the most cost-effective. We don't need to build subsidized housing projects to solve a housing affordability problem. All people who spend a high fraction of their income on housing are housed. The least expensive way to reduce how much they spend on housing is to pay a part of their rent. The housing voucher program does that. Building new housing for these households and charging the same rent as they would pay under the voucher program is much more expensive.

Furthermore, it's neither necessary nor desirable to construct new units to house the homeless. The number of people who are homeless is far less than the number of vacant rental units. In the entire country, there are only about 600,000 homeless people on a single night and more than 3 million vacant units available for rent. Even if all homeless people were single, they could easily be accommodated in vacant existing units, and that would be much less expensive than building new units for them. The reason they're homeless is that they don't have the money to pay the rent for an existing vacant unit. A modest housing voucher would solve that problem. It would also prevent evictions for financial reasons. If a voucher recipient loses income, the subsidy is increased to offset the loss.

I look forward to your questions about these important issues.