THE HAMILTON PROJECT
Advancing Opportunity, Prosperity and Growth

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Edgar O. Olsen

Getting More from Low-Income Housing Assistance

The Brookings Institution

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Abstract

This paper argues that the two most serious structural shortcomings of the current system of low-income housing assistance are (1) its excessive reliance on unit-based assistance and (2) its failure to provide housing assistance to all of the poorest eligible families who ask for help. Evidence on the performance of housing programs indicates that unit-based assistance has a much greater cost than tenant-based assistance for providing equally good housing, and it needlessly restricts recipient choice. Unit-based assistance has no advantage over tenant-based assistance to offset these disadvantages. The nonentitlement nature of the current system is inconsistent with plausible assumptions about taxpayer preferences. The paper argues for a transition to an entitlement housing assistance program that relies exclusively on tenant-based assistance. It describes concrete actions that would achieve this result without spending additional money, and it shows that the major objections to these proposals are inconsistent with the evidence on program performance. The proposed transition would benefit most current recipients of housing assistance, and the reforms would give those taxpayers who want to help low-income families with their housing more for their money. After the transition is complete, millions of additional families would receive housing assistance that enables them to occupy better housing in nicer neighborhoods, and to consume more of other goods. Millions of other families that would have received unit-based assistance with the continuation of the current system would live in housing, neighborhoods, and locations that they prefer to their units in subsidized projects.

Contents

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 the U.S. Department of Housing and Urban Development's (HUD's) direct expenditure. This figure ignores the large and rapidly growing Low-Income Housing Tax Credit (LIHTC), major U.S. Department of Agriculture (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 directly or indirectly spend roughly $50 billion a year on low-income housing programs. This means that they spend substantially more on housing subsidies to the poor than on other better-known parts of the welfare system such as Temporary Assistance for Needy Families (TANF) and Food Stamps.

The purpose of this paper is to describe the major structural shortcomings of the current system of low-income rental housing assistance and to propose how these shortcomings can be remedied without spending more money. The most serious structural 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, by shifting resources from unit-based to tenant-based assistance it would be possible to serve current recipients equally well (that is, provide them with equally good housing for the same rent) and serve many additional families without spending more money. 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 other similar households.

This paper does not address the issue of how much to spend on low-income housing assistance. Instead, it deals with how to deliver any amount of assistance—whether more, less, or the same amount as the current system. 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.

The paper also does not deal with the fundamental issue of whether housing assistance to low-income households is preferable to unrestricted cash grants for these households. Several coherent arguments for housing assistance have been offered (Olsen 2003, pp. 368–70). For example, many taxpayers want to help low-income households but think that some low-income households undervalue housing and therefore might not provide adequate housing for themselves or their children. The proposals in this paper are based on the assumption that it is desirable to induce at least some low-income families to occupy housing that is better in at least certain respects than the housing that they would occupy if they were given cash grants with no strings attached, even though the recipients themselves would prefer the unrestricted cash grants.

The paper is organized as follows. Section 2 provides an 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, presents evidence on the magnitude of the increase in the number of households that could be served with the current budget for low-income housing assistance by shifting from unit-based to tenant-based assistance, and discusses household choice, the other major advantage of tenant-based housing assistance. Section 4 describes concrete proposals for phasing out unit-based housing assistance. Section 5 argues that taxpayer preferences call for an entitlement housing assistance program for the poorest eligible families and shows how this can be achieved without spending more money. Section 6 summarizes the major effects of the proposed reforms. Section 7 addresses the main objections to exclusive reliance on tenant-based assistance. Section 8 concludes the paper.

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

The U.S. government provides assistance to some households who live in rental and owner-occupied housing.[1] 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 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. Homeownership programs fall into two analogous categories. Some programs 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. Other homeownership programs provide subsidies to eligible families that are free to buy from any seller whose unit meets the program's housing standards.

Unit-based rental assistance is the dominant form of direct federal housing assistance to low-income families. The overwhelming majority of housing assistance recipients receives rental assistance, and more than 70 percent of these renting families receive unit-based assistance. HUD provides unit-based rental assistance to about 2.7 million families, LIHTC 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 Voucher program, which accounts for almost all tenant-based rental housing assistance in the United States, serves about 2 million households.

There are two broad types of unit-based rental assistance: (1) public housing and (2) privately owned subsidized projects. Public housing projects are owned and operated by local public housing authorities established by local governments. The overwhelming majority of projects were newly built for the program. Until 1969, with minor exceptions, federal taxpayers paid the initial development cost of public housing while tenants and local taxpayers paid the operating cost. However, the federal government now provides local housing authorities with substantial operating and modernization subsidies. In the public housing program, local and federal government officials and employees make all of the decisions that are made by private owners in the unsubsidized housing market.

The federal government also has contracted with private parties to provide unit-based assistance in subsidized housing projects. The majority of these private parties have been for-profit firms, but non-profit organizations also have had a significant presence. The largest programs of this type are the IRS's LIHTC, HUD's Section 8 New Construction and Substantial Rehabilitation programs and Section 236 Rental and Cooperative Housing for Lower-Income Families programs, and USDA's Section 515/521. Under most programs, these private parties agree to provide rental housing meeting certain standards at restricted rents to households with particular characteristics for a specified number of years. The overwhelming majority of the projects have been newly built under a subsidized construction program. Almost all of the rest were substantially rehabilitated as a condition for participation in the program.

It is important to realize that none of these programs provides subsidies to all suppliers who would like to participate. Since subsidies are provided to

1. See Olsen (2003, pp. 370–94) for a more detailed description of the system of low-income rental housing programs, and Olsen (2007) for a more detailed account of homeownership programs that serve low-income households.

selected private suppliers, competition among these suppliers does not ensure that subsidies will be passed along to occupants of the subsidized units in full, or indeed at all. The only way to ensure that subsidies are passed down is through administrative mechanisms. Without these mechanisms, for-profit suppliers would charge rents and provide a level of services so that the marginal occupant of the project would receive no net benefit from the program and no additional eligible families would want to live in the project. Furthermore, these suppliers would receive a higher return on their investment of time and money than they could earn in the unsubsidized market.

The federal government has administered two large homeownership programs for low-income households: (1) USDA's Section 502 Single Family Direct Loan Housing program, and (2) HUD's Section 235 Homeownership program. Section 502 provides assistance directly to homeowners for houses of their own choice. Section 235 has not made new commitments for the past two decades, but continues to provide subsidies on behalf of a small number of families. Its larger component provided assistance tied to construction of particular dwelling units. The smaller existing housing component used a procedure for allocating subsidies that had elements of unit-based and tenant-based assistance. Over their histories, these programs have subsidized housing for about 2.5 million families.[2]

The federal government also provides funds to state and local governments intended to subsidize the housing of low-income families. The HOME Investment Partnerships program is a housing block grant that has been used to provide rental and homeownership subsidies. Under the Mortgage Revenue Bond program, state housing agencies issue bonds whose interest is not subject to the federal individual income tax and use the proceeds to provide below-market rate loans to low-income, first-time homebuyers. The smaller Multifamily Housing Bond program provides below-market rate loans for the construction of rental housing projects for low-income households. Finally, about one-fourth of the funding of the Community Development Block Grant program is used to provide housing assistance to low- and moderate-income families. State and local governments operate programs of unit-based and tenant-based assistance with the funding from these programs.

2. According to Mikesell and colleagues (1999, p. 3), Section 502 had served about 1.9 million families through 1998. Carliner (1998, pp. 313–14) reports that about 525,000 households received Section 235 subsidies over its history.

3. Comparing Unit-Based and Tenant-Based Housing Assistance

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 housing assistance has provided equally good housing at a much lower cost than any type of unit-based assistance.[3] Given these cost savings, a nationwide tenant-based assistance program would serve at least 20 percent and more likely 70 percent more families than today's unit-based assistance program, without spending more money. In addition, a tenant-based housing program would afford eligible families more housing choice, allowing them to choose a home more suited to their specific tastes and circumstances.

Evidence on Cost-Effectiveness

The best cost-effectiveness analyses of housing programs involve a comparison of the total cost of providing the housing with its *market rent* (an index of the overall desirability of the dwelling).[4] For tenant-based vouchers and certificates, the approach is straightforward. All costs associated with providing the housing during a period occur in that period, and all those costs are in the records of the administering agency. To estimate the market rents of the units occupied by subsidized households, analysts first estimate a statistical relationship between the rent and characteristics of unsubsidized apartments, and then substitute the characteristics of the subsidized units into this estimated equation.

Dealing with construction or rehabilitation programs is more difficult because the time path of cost bears no particular relationship to the time path of the market rent of a unit and all of these programs involve indirect costs that are not in the records of the administering agency. The most widely accepted measure of cost-effectiveness for programs of this type is the ratio of A to B, where A is the present value of the rents paid by tenants and all direct and indirect costs incurred by federal, state, and local governments and B is the present value of the market rents of the units over the period that the units are used to house subsidized families. If a government owns the project at the time that it stops being used to house subsidized families, the present value of the project's market value at that time should be subtracted from the present value of the costs.

Four major studies have estimated both the cost per unit and the mean market rent of apartments provided by tenant-based housing certificates and vouchers and the largest older production programs, namely, Public Housing, Section 236, and the Section 8 New Construction program.[5] These studies are based on data from a wide variety of housing markets and for projects built in many different years. Two are detailed studies conducted for HUD by a respected research firm during the Nixon, Ford, Carter, and Reagan administrations. The four studies 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 do, even though all of these studies are biased in favor of the production programs, to some extent, by the omission of certain indirect costs.

3. Other aspects of program performance have been studied. In some cases, the differences between the estimated effects of different programs are small. In other cases, the differences could be eliminated without fundamental modifications of the programs involved. For example, if recipients of housing vouchers occupied better housing, on average, than public housing tenants, then this difference could be eliminated without spending more money by reducing the generosity of the voucher subsidy and devoting the savings to greater subsidies to housing authorities for the maintenance and renovation of their public housing projects. Olsen (2008) provides a brief summary of the evidence, and Olsen (2003, pp. 394–427) provides a more detailed account.
4. Alternative indices are possible, but have not been used in cost-effectiveness analyses. For almost a decade, HUD's Real Estate Assessment Center has produced an overall index of the physical condition of units in each of HUD's subsidized projects. Unlike market rent, this index does not cover all aspects of the unit of value to occupants such as the quality of local public schools and the convenience of the location to jobs, shopping, and recreation. However, it does cover many important matters in great detail. This index has not been used to compare the cost-effectiveness of different methods of delivering housing assistance.

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) estimate the excessive cost of public housing compared to housing vouchers for providing equally desirable housing to be 64 percent and 91 percent, respectively, in the two cities studied (Phoenix and Pittsburgh) and the excessive cost of Section 236 to be 35 percent and 75 percent, respectively, in those two cities. Another study with excellent data on housing characteristics estimates the excessive cost of the Section 8 New Construction program compared to the tenant-based Section 8 Certificates program to be between 44 percent and 78 percent (Wallace et al. 1981).[6]

Recent evidence supports these older findings. Several studies (Leger and Kennedy 1990; Mayo et al. 1980; Wallace et al. 1981; Weinberg 1982) have found that the total cost of various types of tenant-based housing assistance have exceeded the market rent of the units involved by only the cost of administering the program. In contrast, the total cost of the Section 8 New Construction and Substantial Rehabilitation programs, HUD's largest program that subsidized the construction of privately owned projects, has exceeded the market rents of the units by much more than the program's administrative cost. Based on a large random sample of HUD-insured Section 8 programs, Finkel and colleagues (1999, Exhibit 5–1) report that property owners received payments from tenants and the government in 1995 that exceeded market rent for 86 percent

TABLE 1

Excess Cost of Older Production Programs for Equally Good Housing

Program and study	Localities	Projects built (years)	Excess cost (percent)
Public Housing			
Olsen and Barton (1983)	New York City	1937–1965	14
Olsen and Barton (1983)	New York City	1937–1968	10
HUD (1974)	Baltimore, Boston, Los Angeles, St. Louis, San Francisco, Washington (DC)	1953–1970	17
Mayo et al. (1980)	Phoenix	1952–1974	64
Mayo et al. (1980)	Pittsburgh	1952–1974	91
Section 236			
Mayo et al. (1980)	Phœnix	1969–1975	35
Mayo et al. (1980)	Pittsburgh	1969–1975	75
Section 8 New Construction and Substantial Rehabilitation programs			
Wallace et al. (1981)	National	1979	44–78

Source: Author's calculations.

5. The studies are HUD (1974), Mayo et al. (1980), Olsen and Barton (1983), 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.
6. This study made predictions of the market rents of subsidized units based on two different data sets including 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 include Government National Mortgage Association (GNMA, or Ginnie Mae) Tandem Plan interest subsidies for Federal Housing Administration–insured (FHA-insured) projects and the forgone tax revenue due to the tax-exempt status of interest on the bonds used to finance state housing finance agency 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 on the lower and upper limits on the indirect costs.

of their units. Two-thirds of the units received payments that exceeded market rent by more than 20 percent. But even these calculations understate the excess cost for two reasons: (1) The predicted market rents are based on the assumption that all property systems are restored to their original working condition and hence overstate the market rents of the units in their current condition. (2) They ignore other subsidies received by these projects, such as the Ginnie Mae Tandem Plan interest subsidies received by all projects and the local property tax exemptions received by many projects. Shroder and Reiger (2000) produce similar results in a direct comparison of the total payments to property owners under the Section 8 Certificate program, and the Section 8 New Construction and Substantial Rehabilitation programs, finding that Section 8 projects are about 35 percent more expensive than certificates.

Recent U.S. General Accounting Office (GAO) studies have 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.[7] The excess total cost estimates range from 12 percent for Section 811 to 27 percent 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, some projects under each program receive local property tax abatements. The preceding results ignore this cost to local taxpayers. Other projects are built on land sold to the developer by a government at a below-market price.

TABLE 2
Excess Cost of Active Production Programs

Program	Excess cost (percent)
LIHTC	16
Hope VI	27
Section 202	19
Section 811	12
Section 515	25

Source: GAO 2001.

It is often argued that production programs work better than tenant-based vouchers in the tightest housing markets. The GAO study includes evidence concerning whether production programs are more cost-effective than tenant-based vouchers in housing markets with low vacancy rates. In 1999, the rental vacancy rates in the seven metropolitan areas studied ranged from 3.1 percent in Boston to 7.2 percent in Baltimore and Dallas, meaning that all of the specific markets studied were tighter than the U.S. average of 7.8 percent. 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).

7. 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 excessive 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.

TABLE 3

Excess Cost of Tax Credits in Markets with Different Vacancy Rates

Metropolitan area	Vacancy rate (all units) (percent)	One bedroom (percent)	Two bedroom (percent)
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

Source: GAO 2002.

Unlike most of the earlier cost-effectiveness studies, the GAO study does not compare the total cost of dwellings under the different programs that were the same with respect to many characteristics. Instead, it simply compares the average cost of dwellings that have 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. However, evidence from earlier construction programs casts doubt on this view. This evidence does not indicate a significant difference in overall desirability between units in recently completed projects under construction programs and units occupied by households with certificates and vouchers. Moreover, the relevant issue is not the quality of the housing under a construction program when it is new but rather the average quality of housing provided over the time that the project serves assisted households. This quality has typically declined over time, at least until additional subsidies are provided for major renovation.

In fact, 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. Mayo et al. (1980) estimate 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. At the time of the study, none of these units had reached the midpoint of their useful lives. The results in Table 4 indicate that these public housing units were no better than the units occupied by recipients of housing allowances. In addition, the Section 236 units, which were only a few years old at the time, were not much better than the units occupied by recipients of housing allowances. In a study of sixteen randomly selected metropolitan areas in 1979, Wallace et al. (1981) find a difference of less than 10 percent in the estimated market rents of Section 8 existing units and Section 8 New Construction program units.

A similar picture emerges from David Vandenbroucke's unpublished tabulations based on the 1991 American Housing Survey Metropolitan Sample. (Vandenbroucke is with the Office of Policy Development and Research, HUD.) He estimates separate statistical relationships between market rent and numerous characteristics of unsubsidized units and their neighborhoods in a number of metropolitan areas and then uses 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 his results. In eight of eleven metropolitan areas the median market rent of the units occupied by recipients of certificates and vouchers was greater than the median market rent of units in public and privately owned HUD-subsidized projects. Based on the median age of public housing units at the time, 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 that the majority of privately owned projects were much younger than public housing projects.

TABLE 4

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

	Program		
City	**Section 236**	**Public housing**	**Housing allowance**
Pittsburgh	$1,826	$1,748	$1,626
Phoenix	$2,417	$1,918	$2,084

Source: Mayo et al. (1980).

TABLE 5

Median Monthly Market Rents of Subsidized Units, 1991

	Program		
City	**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	N/A
New York	$605	$578	$520
Newark	$568	$570	$500
San Diego	$480	$410	N/A
Seattle	$475	$455	$445
St. Louis	$403	$378	$380

Source: David Vandenbroucke's (Office of Policy Development and Research, HUD) unpublished tabulations.
N/A = not applicable.

The GAO study will not be the last word on the cost-effectiveness of the programs studied. Data on the condition, amenities, and neighborhoods of subsidized units over time are essential for accurately assessing the cost-effectiveness of alternative methods of delivering housing assistance. Other improvements in the GAO's implementation of the life cycle methodology are possible and desirable. However, the GAO study provides the only independent cost-effectiveness analysis of active subsidized construction programs.

The preceding evidence on the cost-effectiveness of project-based assistance applies to units built or substantially rehabilitated under a subsidized construction program and still under their initial use agreement. In contrast, the Mark-to-Market program provides evidence on the cost-effectiveness of renewing use agreements for privately owned subsidized projects, and the Experimental Housing Allowance program (EHAP) provides evidence on the cost-effectiveness of project-based assistance to existing, previously unsubsidized housing.

Congress created the Mark-to-Market program in the 1997 Multifamily Assisted Housing Reform and Affordability Act to reduce the excess subsidies under the project-based Section 8 programs. Early evidence on the experience with this initiative indicates that it failed to eliminate the excessive cost, however. Only one-third of the projects that had been restructured by July 31, 2003 received the market rent with no additional subsidies (Hilton et al. 2004, p. xiii). HUD repaid all or a part of the outstanding balance on the mortgages of the remaining projects. For more than one-fourth of these projects, HUD also agreed to monthly payments in excess of market levels. For 35 percent of the projects with above-market rents, the initial monthly payments exceeded market rents by more than 20 percent (Hilton et al., p. 40). Furthermore, we can expect the excess of the cost relative to market rent to increase over time because the projects receive automatic rent increases that are independent of the condition of their units.

EHAP provides additional evidence on the cost-effectiveness of project-based assistance. One type of housing allowance tested in EHAP was essentially identical to the housing voucher program that operated between 1983 and 1998: it offered each eligible family a subsidy that depended on the family's characteristics, on the condition that the family occupies a unit meeting minimum housing standards. At the time of EHAP, HUD operated the national Section 23 Existing Housing program, the first program of tenant-based rental housing assistance in the United States. Under one variant of this program, housing authorities rented existing apartments and sublet them to eligible families. This is analogous to the project-based component of the Section 8 Voucher program.

The results for one of the metropolitan areas studied provide clear evidence on the cost-effectiveness of tenant-based versus project-based assistance for existing housing (Mayo et al. 1980, pp. 134–39). All Section 23 units in Pittsburgh were leased by the housing authority and sublet to tenants. The ratio of total cost to market rent for these units was 1.67. For example, it cost $835 to rent a unit with a market rent of $500. The ratio for the tenant-based housing allowance program was 1.15.[8] Therefore, it cost 45 percent more to provide equally good housing when the housing authority found the units and negotiated the rent than when tenants found their own units and negotiated the rent.

What accounts for the large differences in the total cost of providing equally good housing under programs of tenant-based and unit-based assistance? Among the plausible explanations are the absence of a financial incentive for good decisions on the part of civil servants who operate public housing,

8. The administrative cost of the housing allowance program was about 15 percent of the total cost. This implies that landlords of housing allowance recipients received market rents for their units. Subsequent research has indicated that this is a common characteristic of all tenant-based rental assistance (Leger and Kennedy 1990; Wallace et al. 1981; Weinberg 1982).

the excessive profits that inevitably result from allocating subsidies to selected developers of private subsidized projects, the resources that developers devote to securing the subsidies, and the distortions in usage of inputs resulting from the subsidy formulas. A special case of the latter is that unit-based assistance is usually tied to the construction of new units. The least-expensive approach to improving the housing conditions of low-income households involves heavy reliance on upgrading the existing housing stock, the primary mechanism through which tenant-based assistance achieves this goal.

The results concerning the cost-effectiveness of different housing programs illustrate the virtue of substantial reliance on market mechanisms for achieving social goals, especially the virtue of forcing sellers to compete for the business of buyers. Under a program of tenant-based assistance, only suppliers who provide housing at the lowest cost given its features can remain in the program. If the property owner attempts to charge a voucher recipient a rent in excess of the market rent, the tenant will not remain in the unit indefinitely because she can move to a better unit without paying more for it. Under programs of project-based assistance, suppliers who receive payments in excess of market rents for their housing can remain in the program indefinitely because their tenants would lose their subsidies if they moved. These suppliers have a captive audience.

Number of Households Served

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 provide recipients with equally good housing for the same rent, the tenant-based programs will serve many more families with a given budget. Indeed, as will be shown later, it is possible to design a tenant-based voucher program that would serve more families in each major group and more of the poorest families of each size without spending more money. 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 5 million families, a total shift from unit-based to tenant-based assistance would enable us to serve at least 1 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 that those vouchers could have served at least 72 percent more families with similar characteristics equally well without any additional budget. In an 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, Olsen and Tebbs (in progress) find that the voucher program would serve an additional 2.4 million families. Section 5 of this paper summarizes the methods and presents some results of that research.

Household Choice

In addition to providing equally desirable housing at a lower cost, tenant-based assistance allows each recipient to occupy a dwelling unit with a combination of characteristics preferred to the specific dwelling unit offered under a program of unit-based assistance, without adversely affecting taxpayer interests. All low-income housing programs have minimum housing standards that reflect the interests of taxpayers in ensuring that low-income families live in adequate housing. Unit-based assistance forces each family to live in a particular unit in order to receive a subsidy, greatly restricting recipient choice among units meeting minimum housing standards, whereas tenant-based assistance allows recipients to occupy any unit meeting the program's minimum housing standards. Units that meet the program's standards and that are affordable to assisted families differ greatly with respect to their condition, amenities, size, neighborhood, and location. Each family will choose the option that best suits its tastes and circumstances. When its circumstances change markedly, the family can move to another unit. Since all of these units are adequate as judged by the program's minimum housing standards, restricting the family's choice further serves no public purpose. If the subsidy is the same, it is reasonable to expect recipients of tenant-based assistance to be significantly better off than they would be with unit-based assistance.

4. 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 (as reported by Guy Gugliotta, "Dole Urges Abolition of Public Housing," *Washington Post*, April 30, 1996, p. A05).[9] The evidence on program performance that has accumulated in the dozen years since then has confirmed the wisdom of the main thrust of these proposals. It is time to refine and act on them. This section proposes some concrete steps to achieve the desired results.

Transitioning from Public Housing Assistance to Tenant-Based Assistance

First, the money currently spent on operation 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 operation and modernization subsidies. This is about one-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 by mandating the conversion of public housing projects to tenant-based assistance under certain circumstances, and by allowing 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 operation 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 with which to serve its clients. With one caveat mentioned below, 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 provision ensures that no public housing tenant is harmed by the legislation. Families that accept a voucher would benefit from it. They would be able to move to housing that they prefer to their public housing units. These vouchers would be funded from each agency's 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.

Given the difficulty of predicting the consequences of these far-reaching changes, it would be desirable to start with a demonstration program involving public housing authorities willing to implement these proposals for a randomly selected subset of their public housing projects. This demonstra-

9. See Weicher (1997) for a detailed analysis of proposals for vouchering out unit-based assistance.

tion would produce evidence on the effects of the proposals, and would provide useful information for modifying them to avoid unforeseen negative consequences and to achieve better outcomes. The housing authorities that volunteer should receive additional administrative funds to compensate for the extra workload associated with this radical transformation of public housing, and HUD's Office of Policy Development and Research should receive funding for the research component of the demonstration so that we learn from the experiences of these pioneering housing authorities.

The remainder of this subsection spells out the details of the proposal and some options of the basic plan. It also anticipates some problems and discusses possible solutions to them.

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 Voucher program.[10] To ensure 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 the 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. Evidence from HUD's latest Picture of Subsidized Households (HUD 2000) indicates that the national average payment standard in the regular voucher program was $653 a month in 2000, and it would have been $628 a month in the proposed voucher program for public housing tenants. However, this small average difference does not preclude large differences for individual housing authorities.

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 (MTO) for Fair Housing Demonstration program show that public housing projects would retain the overwhelming majority of their tenants, at least initially.[11] The families eligible to participate in the experiment lived in public housing projects in census tracts where the poverty rate exceeded 40 percent prior to the experiment. Only one-fourth of the families in the projects involved signed up to participate in the experiment within the specified time limit (Goering et al. 1999, p. 32). 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 if for no other reason than public housing tenants in lower poverty neighborhoods live in better neighborhoods. Nationally, about one-third of public housing tenants live in neighborhoods with poverty rates as high as those experienced by MTO participants (Newman and Schnare 1997, Table 3). Public housing projects in better neighborhoods probably also are newer and provide better housing.

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 these projects. These are also 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. Thus, the proposal

10. This proposal does not affect the regular Section 8 Housing Choice Voucher Program.
11. See Orr et al. (2003) for a description of the experiment and a summary of its results to date.

is consistent with clear congressional intent in this regard.

To be sure, some public housing tenants could be hurt by the proposal. Some tenants might want to remain in the projects that housing authorities decide to sell, even if they sell their worst projects. Some of these tenants might later discover that they prefer their new housing to their current units, but that does not preclude initial opposition to the sale. In evaluating this proposal, the losses to certain 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. Through 2005, about seventy-eight thousand distressed public housing units had been torn down and another ten thousand had been slated for demolition under HOPE VI (HUD 2007). Others have been demolished with funding from other sources. The number of public housing units has declined by more than 223,000 since its peak in 1991.

To minimize the number of public housing tenants forced to move, Congress could place restrictions on housing authority discretion with respect to selling its projects. The decade-long struggle to write the regulations to implement the 1998 QHWRA provisions concerning the mandatory and voluntary vouchering out of public housing projects argues for simple and unambiguous legislative provisions. One possible restriction on housing authority discretion is to require at least a certain percent of the tenants in a building to approve the sale. The higher the percentage, the smaller the number of projects that could be sold. Another possibility is to limit the number of units sold to the number of units vacated by families that accept vouchers. Since it is not practical to sell individual units within buildings, this rule should not be applied separately to each building. If 350 families living in projects operated by a housing authority leave public housing with vouchers, the housing authority would be allowed to sell buildings with up to this many units.

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. The Uniform Relocation Act requires housing agencies to provide each family that is forced to move with relocation assistance. Although out-of-pocket moving expenses within a metropolitan area are modest (about $250 a room in a locality with an average price level), the housing authority would have to spend whatever is required by the Uniform Relocation Act. Some of the proceeds of the sale would have to be used for this purpose. The rest of the sales proceeds could be used to improve the housing authority's other projects or to 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 thus raising their household income and making them ineligible, and some will be offered a preferred unit in a private subsidized project or a regular Section 8 voucher. When this happens, 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 vouchers. These requirements will expand the choices of families who are offered housing assistance and will ensure that there is no reduction in the number of subsidized families.

When a current public housing tenant accepts a voucher, or when a family on the public housing waiting list rejects a public housing unit in favor of a voucher, the proposal requires the housing authority to charge the highest rent that the market would bear for the unit. This will be greater than the rent paid by the previous tenant in almost all cases and hence provides additional revenue to housing agencies without additional government subsidies and without reducing the number of assisted families. It also will make the housing agency's revenue depend in part on the desirability of the housing provided, thereby encouraging better maintenance of public housing units. This aspect of the proposed reform will almost surely lead to some unsubsidized families living in each public housing project. The fraction will be different in different projects and will increase over time.

Under current law, occupancy of vacated public housing units is 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, applying this occupancy restriction to new tenants paying market rents 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. Meeting 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 might want to eliminate the income targeting rules for families that pay market rents for public housing units. Indeed, it might 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.

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 ensure that the tax money spent on public housing will continue to support at least the same number of families.

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 proposals would benefit many current public housing tenants without greater cost to taxpayers. Only public housing tenants who initially want to remain in units in projects sold by housing authorities and who do not prefer their new situation after their displacement would be hurt. 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 preferences and circumstances. Under the 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 ensures 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 additional money.

Transitioning from Private Subsidized Projects to Tenant-Based Assistance

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 on the terms of the new 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 theirs 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. This has been the primary purpose of the Section 8 Loan Management Set-Aside, the Preservation Incentives, and the Mark-to-Market program (Hilton et al. 2004, pp. 1–2).

We should not repeat the mistakes of these programs by continuing to subsidize private housing 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 provides. If the owner is offered a lower profit than in the unsubsidized market, the owner will leave the program. Therefore, government subsidies can only err in the direction of providing excess profits to these private projects. We should leave the job of getting value for the money spent to the people who have the greatest incentive to do it: the recipients of housing assistance.

It is often argued that giving families that live in privately owned subsidized housing projects portable housing vouchers at the end of the use agreement will force them to move. This concern is certainly not valid unless the payment standard is below the market rent of the unit. If the payment standard is equal to the market rent, it would enable the family to continue to live in its current unit without devoting more of its income to rent, and it would offer the family options to its current unit that it might prefer. The evidence on the cost-effectiveness of renewing use agreements versus tenant-based housing vouchers indicates that offering such vouchers would reduce the taxpayer cost of assisting these families. The savings could be used to assist additional families.

Others argue that the failure to renew use agreements on privately owned subsidized projects reduces the number of affordable housing units. In fact, portable vouchers make many units affordable to low-income families since they can use these vouchers outside of designated housing projects. When use agreements are extended, the only unit that is made affordable to an assisted family living in the project is its current unit. Terminating use agreements does not change the number of households or the number of dwelling units and has no effect on the overall vacancy rate.

Phasing Out Current Production Programs and Avoiding New Production Programs

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.[12]

The LIHTC is the largest active production program. It subsidizes more units than all of the other active production programs combined. The Tax Credit program is already the nation's second largest low-income housing program, and it is the fastest growing. In 2006, the tax credits themselves involved a tax expenditure of about $4 billion. However, these projects received additional development subsidies from state and local governments (usually funded through federal intergovernmental grants) accounting for one-third of total development subsidies (Cummings and DiPasquale 1999, p. 299). Therefore, the total development subsidies were about $6 billion a year. Furthermore, GAO (1997, p. 40) found that owners of tax credit projects received subsidies in the form of unit-based or tenant-based Section 8 assistance on behalf of 40 percent of their tenants. If the per unit cost of these subsidies was equal to the per unit cost of tenant-based housing vouchers in 2006, those subsidies would add more than $4 billion a year to the cost of the tax credit program. Thus, the cost of the program to taxpayers was about $10 billion in 2006.

The GAO results on the cost-effectiveness of the Tax Credit program, combined with the results of studies of similar earlier programs, suggest that money currently spent on the LIHTC would be better spent on expanding the Section 8 Voucher program. It might be argued that the GAO results are not sufficiently compelling to justify immediate termination of this program, and that the Tax Credit program is sufficiently different from older production programs to make evidence of their effects of little relevance for this decision. The GAO results are convincing enough, however, to justify rescinding the indexing of the tax credit for inflation and immediately launching a careful, independent analysis of the cost-effectiveness of the Tax Credit program. The reduced tax expenditures on the LIHTC could be diverted to a refundable tax credit for low-income first-time homebuyers, thereby offsetting to some extent the antihomeownership bias of the current system of low-income housing assistance (Olsen 2007).

Similar remarks apply to other active production programs. For example, no additional money should be allocated to HOPE VI. This program has been HUD's major production program over the past decade. It 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 Voucher program or added to the budget of each housing authority to operate its reformed public housing program.[13] 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 would allow us to 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, families with higher incomes occupy some of the units built, and the most troublesome tenants are not allowed to return. Therefore, it is reasonable to

12. Under the cover of dealing with the current housing crisis, the Housing and Economic Recovery Act of 2008 signed by the president on July 30, 2008, moved the current system in the opposite direction. It established an affordable housing trust fund financed by Federal National Mortgage Association (FNMA, or Fannie Mae) and Federal Home Mortgage Corporation (FHMC, or Freddie Mac) and increased subsidies delivered through low-income housing tax credits and tax-exempt housing bond authority.

13. 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.

expect HOPE VI projects to make neighborhoods in which they are located 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 have a much lower taxpayer cost. 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 almost surely lead to private redevelopment that would improve the neighborhood, and this sale would generate additional revenue to provide vouchers to more households. Since public housing projects pay only a small fraction of full property taxes, it also would generate more revenue for local governments to deal with a host of problems.

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 LIHTC.[14] It also should reject the Millennial Housing Commission's (2002) 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, 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.[15] Any additional money for housing assistance should be used to expand the Housing Choice Voucher program.

14. The administration's American Dream Program to provide a part of the down payment 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.
15. See http://www.census.gov/hhes/www/housing/hvs/qtr307/q307tab1.html.

5. Justification and Design of an Entitlement Housing Voucher Program

The argument for replacing unit-based with tenant-based assistance is based on evidence on program performance. This section argues for an entitlement program of housing assistance based on taxpayer preferences. In combination, these arguments imply that we should have an entitlement program of tenant-based housing assistance.

Unlike other major means-tested transfer programs, housing assistance as mandated by the Housing Act of 1949 is not an entitlement, despite its stated goal of "a decent home and suitable living environment for every American family." Millions of the poorest families are not offered any housing assistance, while a smaller number of equally poor families receive large subsidies. For example, an assisted family with one child and an adjusted annual income of $10,000 living in an area with the program's 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 at least 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. This is not because the poorest families do not want assistance on the terms offered: 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.[16]

It is difficult to reconcile these features of the low-income housing programs with plausible taxpayer preferences. How would taxpayers who want to help low-income families with their housing feel about dividing a fixed amount of assistance between two families that are identical in his or her eyes? Surely, almost all would divide the money equally between the two families.

Another strong argument for an entitlement housing assistance program for the poorest individuals and families is its effect on homelessness (Khadduri 2008). The homeless are the poorest of the poor. Almost all would be eligible for an entitlement housing voucher program that could be funded with the current budget for low-income housing assistance. Without extraordinary outreach, an entitlement program of housing assistance for the poorest individuals and families would eliminate homelessness except possibly for the chronic homeless—those who suffer from serious mental illness and substance abuse (Early and Olsen 2002).[17] The results of the recently completed Welfare to Work Voucher Experiment provide further evidence of the power of housing vouchers to address homelessness (Abt Associates et al. 2006). Housing vouchers also have proven extremely effective in getting the chronic homeless off the streets, though it requires a proactive approach to reach these people. These individuals are much more willing to live in a regular apartment than in a homeless shelter, and it is much easier to deliver other services to them when they have a fixed address than when they live on the streets.[18] One of the country's leading experts on homelessness argues that "the current system of providing temporary shelter in lieu of rental assis-

16. This information is in the annual plans that public housing authorities submit to HUD each year. See http://www.hud.gov/offices/pih/pha/.

17. Existing homeless shelters will certainly be a part of the solution to dealing with homelessness. Due to the time necessary to determine eligibility and find regular housing, an entitlement housing assistance program for the poorest households will not eliminate the desirability of some short-term facilities to house people who would otherwise live on the streets. Although we might want to fund them in a different manner, existing shelters would surely be among the short-term facilities used.

18. This is the thrust of the promising Housing First approach. See http://www.endhomelessness.org/section/tools/housingfirst.

tance would appear to be relatively inefficient, since it is a less direct method of addressing the affordability gap and since, compared with independent housing, it carries such significant administrative and facility costs in addition to the social costs of disruptive shelter stays on families and children" (Culhane et al. 2007, p. 26).

The preceding argues strongly that a program of housing assistance should be an entitlement for the poorest families. To say that housing assistance should be an entitlement is not to say that it should be designed to ensure that all eligible families participate. It is inevitable that the participation rate will be less than 100 percent even 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 requirements are all inherent in operating a means-tested housing program. Furthermore, few enjoy accepting public or private charity. For all of these reasons, many eligible families will choose not to participate in an entitlement housing assistance program.

What would be the participation rate in an entitlement housing program? The participation rate in the tenant-based entitlement housing assistance programs operated in the 1970s in Green Bay and South Bend as a part of EHAP was about 32 percent. However, evidence from EHAP indicates clearly that participation depends on the generosity of the subsidy, among other things. Studies of the success rate in the Section 8 Certificate and Voucher programs also accord with this commonsensical result (Finkel and Buron 2001). Thus, the participation rate would be different in different entitlement housing programs.

In ongoing revisions of their 2006 paper, Olsen and Tebbs have estimated the effects on the number of families served that would result from replacing HUD's major low-income housing programs with several entitlement housing voucher programs that have the same direct taxpayer cost. These estimates are based on data from HUD's administrative records and the 5 percent Public Use Microdata Sample from the 2000 Decennial Census.[19] The participation rate in the entitlement program for families of each type is based on experience from the only entitlement housing assistance program that has been operated in the United States: the Housing Assistance Supply Experiment. Like the Supply Experiment, the entitlement programs analyzed by Olsen and Tebbs provide a subsidy conditional on occupying a unit meeting certain minimum housing standards. The magnitude of the subsidy is equal to a payment standard minus 30 percent of the recipient's adjusted income. Payment standards are larger for families whose size and composition justifies more bedrooms, and they are different in different localities. They are designed so that recipients who occupy units renting for the local payment standard live in equally good housing in all locations. The upper-income limit for eligibility is the lowest income at which the subsidy is zero. Unlike the current system, then, income limits are the same in real terms in all localities. In Washington, DC in 2000, the upper-income limits for the proposed program analyzed below would range from $17,479 a year for families entitled to an efficiency apartment to $49,642 a year for families entitled to eight bedrooms. For families entitled to two bedrooms, it is $19,421.

19. For reasons that are not important for present purposes, single nonelderly households are excluded from the calculations. It is assumed that these households continue to be served by current programs. The money used to serve them is not available for the entitlement program.

Tables 6 through 9 report the results for one of the entitlement voucher programs analyzed. There were 88.2 million households in the United States in 2000 who were not single nonelderly households. About 13.3 million (15 percent) of these households would have been eligible for the proposed entitlement program. It is estimated that 5.8 million households would have participated in it, so the participation rate would have been about 44 percent. This is a low participation rate compared with existing entitlement welfare programs. However, it is reasonable to expect that the participation rate in an entitlement housing voucher program would be lower than in programs that provide equally generous subsidies for other goods because many families must move in order to satisfy the program's minimum housing standards. Subsidies for other goods do not have this cost of participation. The participation rate would be even lower for an equally generous entitlement program of unit-based housing assistance because all families must move in order to participate.

Table 6 reports the percentage of all households of each size in each real income decile that are served by the HUD programs replaced by the proposed entitlement housing voucher program. Even in the lowest real income decile, the highest fraction served is less than 40 percent.[20] Table 7 displays participation rates in the HUD programs replaced for various subgroups by real income and household size. The most striking feature of these results is that participation rates are much higher for blacks than for whites or Hispanics with the same real income and household size. Table 8 reports the number of households in each real income and household size category served by the HUD programs replaced and the estimated number that would be served by the entitlement housing voucher program. It indicates that more households of each size in the lowest two deciles would be served by the entitlement program. Table 9 summarizes the overall results. It indicates that the proposed entitlement program would assist about 2.4 million more families than the HUD programs replaced, and it would serve more families of each type—white, black, or Hispanic; elderly or nonelderly; and families living in metropolitan or nonmetropolitan areas. Other entitlement voucher programs with somewhat different parameters would produce the same general pattern but different numerical results.

TABLE 6

Participation Rates in HUD Programs Replaced in 2000 (percent)

Real income decile	Household size					
	1	2	3	4	5	6+	All
1	32.6	28.3	38.5	35.5	30.1	26.2	32.2
2	8.0	8.9	15.6	16.0	15.8	16.3	11.0
3	0.7	1.4	3.3	3.8	4.3	5.0	2.2
4	0.1	0.2	0.5	0.7	1.0	1.3	0.4
5	0.0	0.0	0.1	0.2	0.2	0.4	0.1

Sources: HUD's Multifamily Tenant Characteristics and Tenant Rental Assistance Certification Systems.
Note: Since they account for only one-tenth of a percent of all participants, all tables exclude households with real incomes greater than the median. Table also excludes single nonelderly households.

20. The percentage served by all low-income housing programs would be larger in each cell, but probably not that much larger for the lowest real incomes because the largest program not included in the calculations, the LIHTC, serves few extremely poor households who do not receive assistance from one of the HUD programs replaced.

TABLE 7

Subgroup Participation Rates in HUD Programs Replaced in 2000 (percent)

	Household size						
	1	2	3	4	5	6+	All
Group	**First decile of real income**						
White	30.3	21.9	31.7	29.7	26.7	25.8	27.8
Black	43.9	52.4	64.1	62.5	51.0	44.1	53.4
Hispanic	45.4	28.6	28.5	24.6	18.2	13.7	28.2
Elderly	32.6	17.0	14.9	14.9	12.2	8.5	30.0
Nonelderly	N/A	31.1	39.6	36.0	30.5	26.7	33.9
Metro	35.3	29.0	38.6	35.7	30.4	26.9	33.5
Nonmetro	24.3	25.7	38.1	34.8	28.9	22.5	27.8
	Second decile of real income						
White	7.7	6.6	11.7	12.5	13.9	15.6	8.7
Black	11.7	20.4	32.1	35.3	31.7	30.3	25.1
Hispanic	5.8	9.5	11.6	10.8	9.8	8.3	9.9
Elderly	8.0	6.1	6.2	8.0	8.1	6.6	7.4
Nonelderly	N/A	10.4	16.5	16.3	16.1	16.6	14.1
Metro	8.4	9.8	16.4	16.7	16.3	16.7	11.8
Nonmetro	6.8	6.4	12.8	13.6	13.7	14.0	8.7

Source: Author's calculations with Jeff Tebbs.
Note: Table excludes single nonelderly households. N/A = not applicable

TABLE 8

Number of Households Served by HUD Programs Replaced and Entitlement Housing Voucher Program with Same Taxpayer Cost, 2000

Real income decile	Household size						
	1	2	3	4	5	6+	All
Programs replaced							
1	838,989	587,152	441,722	260,064	113,117	67,458	2,308,501
2	208,467	233,394	192,975	135,183	69,608	50,004	889,630
3	11,545	42,441	44,826	37,182	21,693	18,024	175,711
4	674	6,662	8,002	7,889	5,599	5,123	33,947
5	114	1,760	2,141	2,365	1,673	1,570	9,622
Entitlement program							
1	971,552	915,576	680,436	437,317	215,067	128,449	3,348,398
2	263,148	419,661	498,664	384,732	220,462	138,459	1,925,126
3	0	24,658	106,245	121,934	115,044	114,582	482,464
4	0	0	562	3,453	7,754	35,661	47,430
5	0	0	0	0	124	7,617	7,741
Absolute increase							
1	132,563	328,424	238,714	177,253	101,951	60,992	1,039,897
2	54,682	186,267	305,689	249,549	150,854	88,455	1,035,496
3	–11,545	–17,783	61,419	84,753	93,352	96,559	306,753
4	–674	–6,662	–7,440	–4,435	2,155	30,538	13,483
5	–114	–1,760	–2,141	–2,365	–1,549	6,048	–1,881

Sources: Data from PUMS5 2000 Decennial Census; participation prediction equation from Housing Assistance Supply Experiment
Note: Single nonelderly households are excluded from the reform. Under the proposed entitlement voucher program, the payment standard for two-bedroom units is adjusted across localities for differences in the rents of identical units. The payment standard for an efficiency is 90 percent of the two-bedroom payment standard. The payment standard for a one-bedroom unit is 95 percent of the payment standard for a two-bedroom unit. For other numbers of bedrooms, standard adjustments in HUD's Section 8 Voucher program are used.

TABLE 9

Summary of Effects of Proposed Reform on Number of Households Served, 2000

Group	Programs replaced	Entitlement voucher	Absolute increase	Increase (percent)
All	3,442,113	5,812,601	2,370,488	69
White	1,886,970	3,358,501	1,471,531	78
Black	1,408,461	1,541,332	132,871	9
Hispanic	452,415	1,196,278	743,863	164
Elderly	1,224,730	1,588,103	363,373	30
Nonelderly	2,197,383	4,224,498	2,027,115	92
Metro	2,767,870	4,737,794	1,969,924	71
Nonmetro	654,243	1,074,807	420,564	64

Source: Author's calculations with Jeff Tebbs.

The main argument against making housing assistance an entitlement is that it would be too expensive. Delivering housing assistance to all currently eligible families using the current mix of housing programs would almost surely greatly increase the amount spent on housing assistance, 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. Furthermore, 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.[21] If we reduce the fraction of the population eligible for housing assistance, increase the fraction of families served by tenant-based assistance, or reduce the subsidy to new recipients under each housing program, the cost of an entitlement housing assistance program would be less than commonly assumed. Olsen and Tebbs's (in progress) analysis shows that it is possible to design an entitlement housing voucher program that serves many more households in each major group and more of the poorest households of each size without spending more money.

21. It is extremely difficult to determine how many households are eligible for low-income housing assistance under the current system because housing programs have implicit as well as explicit income limits, different explicit limits for admission into a program and continued receipt of assistance, and implicit limits within a program that depend on the particular dwelling unit involved. The most common explicit limit for initial receipt of assistance is HUD's very low income limit based on 50 percent of the local median income. In 2005, about 29 percent of all households (owners and renters) had incomes less than these limits. The most common explicit limit for continued receipt of assistance is HUD's low income limit based on 80 percent of the local median income. About 47 percent of all households had incomes less than these limits. See HUD's Housing Affordability Data System at http://www.huduser.org/datasets/hads/hads.html.

6. Major Effects of Proposed Reforms

The proposals in this paper involve shifting money from one method of delivering housing assistance to another. Since taxpayers continue to pay the same taxes to support housing assistance, they gain only because people whom they care about are better served. This section summarizes the effects of these reallocations on low-income households.

One major effect of the proposed shifts is that millions of additional households will receive housing assistance. Evidence indicates that these households would live in better housing and neighborhoods, and they would have more money to spend on other goods (Abt Associates et al. 2006). In addition, millions of households that would have received assistance under the old budgetary allocation would live in housing and neighborhoods that they prefer to the units in housing projects that they would have occupied with the continuation of the current system. The MTO demonstration provides direct evidence on the effects of the public housing reform proposal for public housing tenants living in census tracts with high poverty rates (Orr et al. 2003). Since the vouchers involved in the public housing reform proposal in this paper are about as generous as regular Section 8 vouchers on average across all housing authorities, this evidence should provide a good indication of the proposed reform's average effects for this subset of public housing projects. On average, the families that accepted the regular Section 8 voucher in MTO moved into a better dwelling unit, a safer and nicer neighborhood, and a census tract with a much lower poverty rate.

The effect of the proposed reforms on the type of neighborhood occupied is not limited to public housing tenants living in high poverty neighborhoods. In general, families with tenant-based housing vouchers are much less likely to live in high poverty areas than families in subsidized projects, and they are much more dispersed geographically. Newman and Schnare (1997, Table 3) report that only 5.3 percent of voucher recipients live in census tracts where the poverty rate exceeds 40 percent. In contrast, 10.4 percent of occupants of private subsidized projects and 36.5 percent of public housing tenants live in such census tracts. Devine et al. (2003, p.12) find that more than 80 percent of census tracts in the fifty largest metropolitan areas have some recipients of Section 8 vouchers, whereas only 17 percent of census tracts have private subsidized projects and 8 percent have public housing projects. Based on the preceding information, it seems likely that the proposed reforms will promote economic integration in housing with its associated benefits.

7. Objections to Exclusive Reliance on Tenant-Based Assistance

Tenant-based rental assistance has a much lower total cost than any program of unit-based assistance for providing equally desirable housing, and it offers recipients much greater choice concerning the characteristics, neighborhood, and location of their housing. This makes a strong case for exclusive reliance on tenant-based assistance. Objections to this reform have been raised. This section addresses the main objections.

First, some are concerned that tenant-based assistance will not work well in markets with the lowest vacancy rates because these markets do not have enough affordable vacant apartments that meet minimum housing standards to house all families who are offered vouchers. In fact, it is not necessary for the number of vacant apartments that meet minimum housing standards and are affordable to voucher recipients to exceed the number of new and recycled vouchers available in order to use all 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. 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 the standards. In short, a tenant-based voucher program increases the supply of apartments meeting minimum housing standards.

The evidence from the tenant-based Section 8 Certificate and Voucher programs illustrates these general points. One detailed analysis is based on data from a national random sample of thirty-three public housing authorities in 1993 (Kennedy and Finkel 1994). Thirty percent of all recipients outside New York City continued to live in the apartments that they occupied prior to participating in the program (Kennedy and Finkel, p.15).[22] Forty-one percent of these apartments already met the program's standards and 59 percent were repaired to meet the standards (Kennedy and Finkel, p. 83). About 70 percent of all recipients outside New York City moved to a new unit. About 48 percent 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 standards. Therefore, the apartments occupied by about half of the families that received certificates and vouchers outside New York City during this period were repaired to meet the program's standards. The previously mentioned sources have similar results for New York City. 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 EHAP 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 includes South Bend) and Brown County, Wisconsin (which includes Green Bay). About 20 percent of the families in the two counties were eligible to receive assistance (Lowry 1983, pp. 92–93). These sites were chosen because of the great difference 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 in 1973–1974, the vacancy rates in Brown County and St. Joseph County were 5.1 percent and 10.6 percent, respectively (Lowry, p. 53). In 2000, only 26 percent of the seventy-five largest metropolitan areas had vacancy rates less than the vacancy rate

22. The authors analyzed New York City separately from the other housing authorities.

in Brown County, and only 20 percent had vacancy rates greater than the vacancy rate in St. Joseph County. Contrary to widely held expectations, the participation rate differed little between the two sites. Indeed, it was higher in the locality with the lower vacancy rate (Lowry, p. 122).

Data for analysis were collected during the first five years of the experiment in each site. During that period, about eleven thousand dwellings were repaired or improved to meet program standards entirely in response to tenant-based assistance and about five thousand families improved their housing by moving into apartments already meeting these standards (Lowry 1983, p. 24). The former represented more than a 9 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 sixty-five years (Cutts and Olsen 2002, p. 232). The annual cost per household was less than $4,000 in today's prices.

Some argue that the low success rates in the Section 8 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. However, it is important to distinguish between a housing authority's voucher *success rate* and its voucher utilization rate. An authority's *success rate* is defined as the percentage of the families authorized to search for a unit that receive a subsidy by occupying 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. However, housing market tightness does not explain most of the variation in success rates. Success rates also vary with family characteristics and program parameters. For example, families that are eligible for larger subsidies due to lower incomes or higher payment standards have a higher success rate, presumably because they have a greater incentive to find a unit meeting the program's standards.

For many years, public housing authorities have overissued vouchers and thereby achieved high utilization rates despite low success rates. By overissuing 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 2004 Performance and Accountability Report (HUD 2004), the voucher utilization rate was 98.5 percent in that year.[23]

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 limit, other eligible families in the same locality use these vouchers. This indicates clearly that the problem is not a lack of vacant apartments that meet program standards and

23. Although housing authorities could achieve a voucher utilization rate close to 100 percent each year by adjusting the extent to which they overissue vouchers, they have not always done so. 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 and Coven (2006) analyze the effect of proposed changes in federal regulations intended to induce housing authorities to use all of their vouchers.

are affordable to voucher recipients or apartments whose owners are willing to upgrade them to meet program standards. In the tightest housing markets, these apartments are more difficult to locate for everyone; families who do not receive subsidies also have trouble locating apartments in tight housing markets. The real issue is not whether tenant-based vouchers can be used in all market conditions, but rather whether it would be better to use new construction or substantial rehabilitation programs in tight housing markets. Evidence from the 2001 and 2002 reports from the GAO (2002) study 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 overissuing 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 does tenant-based assistance. The evidence suggests that there is little difference between housing programs in this regard.

The evidence from the EHAP is that even an entitlement housing voucher program will have modest effects on neighborhoods. The small literature on the Section 8 Voucher program confirms these findings for a similar nonentitlement program (Galster, Tatian, and Smith 1999; Lowry 1983, pp. 205–17). These programs result in the upgrading of many existing dwellings, but this is almost surely concentrated on their interiors.

It is plausible 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. To compare the performance of different programs, however, it is important to consider the magnitude of neighborhood upgrading across all projects under each 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. Therefore, 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 (Ericksen and Rosenthal 2007; Galster, Smith, et al. 1999, Chapter 4; Lee, Culhane, and Wachter 1999). The excellent study by Schwartz and colleagues (2006) is an exception. They find 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.

Third, it is often argued that we need to subsidize the construction of housing projects because some types of individuals and families—especially the elderly, persons with disabilities, and large families—have difficulties using housing vouchers. In fact, the tenant-based voucher program serves many families of these types. According to HUD's "Resident Characteristics Report," 45 percent of families in this program include either an elderly member or a member with a disability, and about 25 percent of the families served have at least four members. Thus, the objection that housing vouchers cannot be used to serve the disabled, elderly, and large families is counterfactual.

It is true that public housing and private subsidized projects tend to serve the elderly to a greater extent than the voucher program. About 31 percent of the families in public housing include an elderly person, as opposed to 18 percent in the voucher program. Public housing serves more elderly families (and hence smaller families) primarily because neighborhood opposition to the building of projects for the elderly has been much less than opposition to building projects for families with children. As a result, a disproportionate number of public housing projects were built for the elderly. Similarly, private projects serve more elderly people, perhaps because they tend to be better tenants—they generally do less damage to the property, they generally do not disturb their neighbors, and so on. The owners of these projects are not paid more to serve tenants who are more troublesome.

However, housing vouchers serve persons with disabilities and large families to a greater extent. Around 33 percent of households in public housing include a disabled person, compared with 38 percent in the voucher program. Only 18 percent include at least four members, as opposed to 25 percent in the voucher program. The qualitative difference between vouchers and privately owned subsidized projects is similar.

Furthermore, if Congress felt that the current Section 8 Voucher program underserved certain groups, it could easily modify the program to increase the number of families of these types served using targeting requirements similar to the income targeting requirements that apply to HUD's programs. The income targeting regulations require that at least a certain fraction of new recipients have extremely low incomes according to HUD's definition of this term. Participation in the voucher program by members of a group also could be increased by increasing the maximum subsidy available to these households and thereby increasing their success rate (Finkel and Buron 2001).

Finally, it has been argued that economies of scale in providing services other than housing to the elderly and disabled justify project-based housing assistance. Although the magnitude of these scale economies has not been studied, their existence is beyond doubt. They explain the existence of housing combined with assisted care in the unsubsidized market.

This does not argue, however, for project-based housing assistance: these economies can be achieved under a system of tenant-based housing assistance. The scale economies involved are surely smaller than scale economies in the provision of services in nursing homes. Medicaid subsidizes low-income individuals to live in nursing homes. This is not done by subsidizing their construction and requiring recipients to live in particular nursing homes in order to receive assistance. Instead, eligible individuals can choose any nursing home that meets the program's minimum standards for care and charges less than the program's maximum payment. Private business firms and not-for-profit organizations have built nursing homes in response to the demand created by this subsidy. A similar approach could be used to provide low-income housing assistance to individuals with special needs. These individuals could be offered vouchers that are more generous on the condition that they live in a building that provides the desired extra services. As is the case under current housing programs that provide extra services, the extra subsidy would not have to be sufficient to pay for them. Under HUD's Section 202 Supportive Housing for the Elderly program, project owners are required to provide certain supportive services. However, the program places an upper limit of $15 per unit per month on the amount of the HUD subsidy and standard tenant rent that can be used for supportive services. The bulk of the money for supportive services comes from other public and private sources. HUD's Section 811 Supportive Housing for Persons with Disabilities is a similar program. As in the case of these programs, the purpose of the more-generous voucher subsidy is to pay for the staff needed to arrange and maintain the subsidies for supportive services.

This section has addressed the major objections to exclusive reliance on tenant-based housing assistance. It argues that a tenant-based voucher program can be used to get recipients into adequate housing faster than production programs even in the tightest housing markets, in part because it rapidly increases the supply of adequate housing. We do not need production programs for this purpose. Production programs have not had a perceptibly greater effect on neighborhood revitalization than tenant-based vouchers. The housing voucher program serves well the disabled, elderly, and large families. If we want to serve more families of these types in a nonentitlement housing voucher program we can do so easily with targeting rules. In an entitlement program, that goal is easily achieved with higher subsidies. Finally, achieving economies of scale in the provision of services other than housing to recipients of low-income housing assistance can be achieved as easily with tenant-based as with project-based housing assistance.

8. Conclusion

Given the many competing demands on the federal budget in coming 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? The answer is that we must use the money available more wisely.

The stated goal of the Housing Act of 1949 is "a decent home and suitable living environment for every American family." We can move closer to this goal 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. Research on the effects of housing programs 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 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 farther and terminate current production programs, and disengage from unit-based assistance to existing apartments as soon as current contractual commitments permit.

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 also must 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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