

Whither Public Housing?

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Testimony before the House Committee on Government Reform
Subcommittee on Federalism and the Census

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Chairman Turner and members of the House Government Reform Subcommittee on Federalism and the Census, I welcome this opportunity to provide my views on the future of the public housing program. I speak from the perspective of a taxpayer who wants to both help the less fortunate members of our society and see that the money currently appropriated for this purpose is well used. I have no other interests in the matters under consideration at this hearing.

My views are influenced not only by this perspective but also by my knowledge of the systematic evidence about the performance of low-income housing programs. I have been involved in housing policy analysis since the late 1960s. Since then, I have done many empirical studies of the effects of low-income housing programs, and I have read a very large number of other studies. My publications include a lengthy survey of what is known about the effects of low-income housing programs for a 2003 National Bureau of Economic Research volume on means-tested transfer programs in the United States and articles in professional journals on the effects of public housing, the adequacy of Fair Market Rents in the Section 8 Housing Voucher Program, the effects of different types of housing assistance on participant earnings and employment, and the causes of homelessness.

During the Nixon Administration, I was an analyst on the Housing Policy Review Task Force that led to the Section 8 Housing Certificate Program. As a visiting scholar at HUD during the Carter Administration, I worked on an evaluation of this program and reviewed the final reports from the Experimental Housing Allowance Program. More recently, I did a substantial amount of work as a consultant to the GAO on their study

comparing the cost-effectiveness of tenant-based vouchers and the major active construction programs such as the Low Income Housing Tax Credit and HOPE VI.

My testimony is right up the alley of this committee. It concerns how to get more for the money spent on current programs. In the case of public housing, it is possible to get much more. The evidence indicates that it costs much less to provide equally good housing with housing vouchers than with public housing projects. Therefore, shifting the budget for public housing to housing vouchers would allow us to serve all of the families served by public housing equally well (that is, provide them with equally good housing for the same rent) and serve hundreds of thousands of additional families. Alternatively, it would allow us to serve current recipients better without spending more money or equally well at a lower taxpayer cost. The Quality Housing and Work Responsibility Act of 1998 (QHWRA) made a small step in that direction. However, it did not go nearly far enough to realize large gains. This paper proposes a much more significant initiative that would gradually lead to the elimination of the public housing program in its current form.

Housing Vouchers Have Outperformed Public Housing

The housing voucher program has outperformed the public housing program in every respect.¹ The voucher program has a much lower total cost for providing equally good housing. It offers recipients a much wider range of choice among units that meet HUD's minimum housing standards. Over most of the life of a public housing project, public housing units are worse than the units occupied by voucher recipients. The public housing program has had a larger work disincentive effect than housing vouchers. Unlike housing vouchers, public housing projects have typically made their neighborhoods worse places to live.

The largest difference between different housing programs is in their cost for providing equally good housing. The evidence is unanimous that it costs much more to provide equally good housing with any program of unit-based assistance than with the housing voucher program.² Traditional public housing was especially bad in this regard, and

¹ Olsen (2003, pp. 394-427) provides the most comprehensive summary the evidence on the performance of different housing programs. Olsen (2006, pp. 14-15) reports estimates of the difference in the desirability of public housing units and units occupied by housing voucher recipients. Patterson et al. (2004) and Olsen et al. (2005) provide the best evidence on the work disincentive effects of low-income housing programs.

² Olsen (2006, pp. 9-17) summarizes the evidence. 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. In the best studies, market rent

HOPE VI is the least cost-effective active production program.³ The studies with detailed information about the characteristics of the housing provided find that public housing costs between 64 and 91 percent more than housing vouchers to provide equally good housing. The only study of the cost-effectiveness of HOPE VI found an excess cost of 27 percent even though it omitted major elements of the cost of this program. Most notably, the opportunity cost of the land and the cost of preparing the site for redevelopment were omitted. These are real costs to society of providing housing under the program. Furthermore, public housing projects receive substantial local property tax abatements. The HOPE VI results ignore this cost to local taxpayers.

Tenant-based housing vouchers have another major advantage over public housing in addition to providing equally desirable housing at a lower cost. Voucher recipients have much greater choice among units meeting HUD's minimum housing standards than families offered public housing units. With a voucher, a recipient can occupy any unit meeting HUD's minimum housing standards that the family can afford with the help of the subsidy. These units differ greatly with respect to their characteristics, neighborhood, and location. Assisted families whose options are the same under the voucher program are not indifferent among the units available to them. Each family will choose the best available option for their tastes and circumstances. Since all of these units are adequate as judged by reasonable minimum housing standards, restricting their choice further serves no public purpose. The public housing program severely restricts the choice of families offered a unit. At most, a family can decline three offers before being dropped from the waiting list. Restricting choice to three particular units serves no public purpose. If the subsidy is the same, it is reasonable to expect voucher recipients to be significantly better off than they would be in their assigned public housing unit.

The empirical evidence on program performance and the advantages of housing vouchers compared with any type of unit-based assistance in providing recipients with choice imply that shifting resources from the public housing program to housing vouchers would

is used to measure the desirability of the housing within a single housing market. This is an overall index that captures the desirability of the neighborhood and location as well as the size, amenities, and condition of the dwelling unit.

³ The studies of traditional public housing are U.S. Department of Housing and Urban Development (1974, Chapter 4), Mayo et al. (1980), and Olsen and Barton (1983). U.S. General Accounting Office (2001, 2002) provides results for HOPE VI.

allow us to better serve current public housing tenants without spending any additional money. My testimony contains a proposal to achieve this goal. With simple modifications, the proposal could simultaneously achieve this goal, increase the number of families assisted, and reduce taxpayer cost.

It is important to realize that the poor performance of the public housing program relative to the housing voucher program is not due to differences in administrative competence. Both are administered by local public housing agencies. At HUD, the Assistant Secretary for Public and Indian Housing oversees both programs.

The difference in performance is due to fundamental differences in the design of the programs. The voucher program relies on the incentives of recipients to get the best housing possible for the money spent on it. The public housing program relies on civil servants who have weak incentives for good decisions and who do not even know whether they have made bad decisions unless their decisions are extremely bad. If owners of unsubsidized rental housing projects make maintenance and renovation decisions that increase the market rents of their units by more than they cost, their profits increase and they get to keep this money. Such decisions are good decisions because the market rent of a unit reflects its value to occupants. If a civil servant makes the same decision for a public housing project, he or she receives no financial reward, in part because no one knows how much the decisions have influenced the desirability of the housing from the viewpoint of tenants. These civil servants receive no good signal concerning the success of their decisions. They can make bad decisions year after year without suffering any negative consequences. Due to the deep subsidy, the people who run public housing projects can fill their projects even if they provide poor oversight of their workforce and make bad decisions about what maintenance and modernization to undertake. Private businessmen who repeatedly make bad decisions are driven out of business.

Budget-Neutral Proposal to Offer All Public Housing Tenants a Housing Voucher

In light of the evidence on program performance, the most important provisions of QHWRA required public housing agencies to voucher out some of their projects under certain circumstances and allowed them to do it under other circumstances. Unfortunately, HUD has been slow to implement these legislative provisions. More than seven years after the passage

of this legislation, the final regulations have not yet been issued. Furthermore, the proposed regulations are unlikely to lead to much vouchering out of public housing. New legislation is needed to realize the large gains that would result from a major shift of resources from public housing to housing vouchers. The following proposal will achieve these large gains in an orderly fashion.

Congress should require every local public housing agency to offer each current tenant the option of a portable housing voucher or remaining in its current unit on the previous terms. The latter provision insures that no public housing tenant is harmed by the legislation. Families that accept a voucher would benefit from it. They will move to housing, neighborhoods, and locations that they prefer to their public housing units. Housing agencies should be required to pay for the vouchers from their current public housing operating and modernization subsidies. This insures that each housing agency receives the same amount of federal money as it would have received under the current system. Housing agencies should 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 will generate the maximum amount of money to operate and modernize their remaining projects.

Since the devil often is in the details, the remainder of my testimony deals with some of the more important details.

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 Housing Choice Voucher Program. However, the legislation should specify a method for determining the payment standards to prevent housing agencies and civil servants from thwarting its purposes. For example, a housing agency could thwart the purposes of the legislation by offering such a small voucher subsidy that few, if any, public housing tenants would accept it. Civil servants could thwart its purposes by writing regulations that allowed small voucher subsidies. Alternatively, a housing agency could set payment standards so high that it could not fund the vouchers with its entire public housing operating and modernization budget and then argue for additional subsidies for that reason. A reasonable set of payment standards for families of different sizes is a set that would use all of the housing agency's operating and modernization

subsidies if all public housing tenants accepted the vouchers. A set of payment standards that satisfies this criterion is easily calculated.

Another design issue is whether the voucher option should be available to current public housing tenants indefinitely. Placing no time limit on their exercise of the voucher option maximizes their choice. Since I favor maximizing the choices of assisted families within the constraints of the current budget, I favor this option. If housing agencies are allowed to have a time limit, legislation should require them to give current public housing tenants a substantial amount of time to exercise the voucher option, say at least six months. Since many households in public housing have school-age children and moving during the school year is difficult for these families, the voucher offers should be made in the early spring so that families with vouchers can move into their new apartments during the summer. For the same reason, when public housing projects are sold, the deadline for vacating the units should be early in the summer after the end of the school year.

The HUD-funded Moving to Opportunity for Fair Housing Demonstration Program (“MTO”) provides some insight into the fraction of public housing tenants that would accept the voucher option.⁴ In MTO, there were two experimental groups and one control group. All participants lived in public housing projects in a census tract where the poverty rate exceeded 40 percent prior to the experiment. Nationally, about 36 percent of public housing tenants live in neighborhoods with such high poverty rates (Newman and Schnare, 1997, Table 3). The experiment offered families assigned to the control group no alternative to their current circumstances. One experimental group was offered regular Section 8 housing vouchers. The other experimental group was offered Section 8 vouchers on the condition that the family must move to a neighborhood with a poverty rate less than 10 percent and remain there for at least a year. 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 because public housing tenants in lower poverty neighborhoods live in better neighborhoods. Public housing projects in better neighborhoods are probably also newer and provide better housing. Nevertheless, it is clear that hundreds of thousands of public housing tenants would accept vouchers as generous as

⁴ See Orr et al. (2003) for a description of the experiment and a summary of its results to date.

regular Section 8 vouchers. The payment standards for the vouchers proposed earlier would be less generous than regular Section 8 vouchers. So the takeup rate would be lower for these vouchers.

My proposal would not require housing agencies to sell their projects beyond what will be required under the final 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 the worst projects. These are 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. So the proposal is consistent with clear Congressional intent in this regard.

When a project is sold, the remaining tenants in that project should be offered the choice between vacant units in other public housing projects and a housing voucher. The housing agency should be required to use a small fraction of the proceeds of the sale to provide each family that is required to move with a modest moving allowance that depends on family size.

When public housing units are vacated for whatever reason, the housing agency should be allowed to charge whatever the market will bear for them. This will provide additional revenue to housing agencies without additional government subsidies. More importantly, it will make their revenues depend in part on the desirability of the housing provided. The absence of this connection is the primary source of the excessive cost of the public housing program. The proposal will not eliminate the excessive cost because housing agencies will still have the ownership of their land and structures without payment and local property tax abatements to allow them to incur excessive costs without losing their tenants. However, adoption of the proposal will increase the incentive for efficient operation.

Under current law, occupancy of vacated public housing units would be 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, this restriction 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. 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 may want to eliminate the income targeting rules for families that move into vacated public housing units. Under the proposal, the new occupants will receive little or no public subsidy, and so income targeting would serve little or no public purpose. However, this is a separate issue.

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 and their household income will make them ineligible for housing assistance, and some will be offered a preferred unit in a private subsidized project or a regular Section 8 voucher. Public housing agencies should charge the highest rent that the market will bear for these vacated units subject to satisfying the income-targeting requirement. This will increase their reliance on revenue from their tenants to pay the expenses of operating public housing projects.

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. The money saved from their departure should be put into a fund to offer similar vouchers to public housing tenants that moved into public housing after the implementation of the proposed reforms. Priority should be given to the families that have been in their public units the longest. These are the families whose circumstances are likely to have changed the most since they moved into public housing. The recycling of voucher

funds will insure that the tax money spent on public housing will continue to support at least as many families.

The findings on the cost-effectiveness of the HOPE VI program have clear implications for its future. This program should be terminated, and the money that would have been spent on it should be allocated to the much more cost-effective Section 8 Housing Choice Voucher Program. This shift in the budget for housing assistance would allow us to provide all of the families that would have lived in HOPE VI units with rental units of average quality and 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, and families with higher incomes occupy some of the units built. Therefore, I would expect HOPE VI projects to make their neighborhoods 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 and a park built on the site. Many low-income neighborhoods have a dearth of recreational facilities. Many alternative uses of the land might improve the neighborhood more than HOPE VI redevelopment and cost much less. 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. Indeed, selling the old projects to the highest bidder would almost surely lead to private redevelopment that would improve the neighborhood, and this would generate additional revenue to provide vouchers to even more households.

Conclusion

The preceding proposal will benefit many current public housing tenants without harming other public housing tenants and without greater cost to taxpayers. The public housing tenants that accept vouchers will obviously be better off because they could have stayed in their current units on the old terms. They will move to housing meeting HUD's housing standards that better suits their needs. Under this proposal, each housing agency will receive

the same amount each year from the federal government as under the current system, and each will have the same assets, namely, the land and structures on which its projects are located. However, these assets will 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 their 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 insures that the land and structures are put to their highest valued use and maximizes the money available to help low-income families with their housing. The termination of the HOPE VI program and the transfer of its funding to the Section 8 Housing Choice Voucher Program will greatly increase the number of low-income families that receive housing assistance and live in adequate housing. Public housing agencies will gradually shed the dysfunctional public housing program of the twentieth century and focus their efforts in the twenty-first century on making their cost-effective housing voucher program even better. The public housing program will wither, but public housing agencies will do a much better job in helping low-income families with their housing without spending any additional money.

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