

Improving the Housing Provisions of the Stimulus Package

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President Obama has insisted that elements of the stimulus package provide either substantial immediate stimulus to the economy or some stimulus combined with a start towards addressing important social problems. The low-income housing provisions of the American Recovery and Reinvestment Act of 2009 recently passed by the House of Representatives are seriously deficient on both counts. The Act provides about \$11 billion to expand low-income housing programs. The only major HUD program that is not expanded—the Section 8 Housing Voucher Program—is the only program whose expansion would have a significant immediate impact in stimulating the economy. This program is also the most cost-effective means of delivering housing assistance over the long run.

The public housing proposal illustrates the shortcomings of this legislation. The Act authorizes the expenditure of \$5 billion for the renovation of public housing projects. Based on past experience, this funding will lead to little additional employment over the next few years because housing authorities have historically taken a long time to complete building and renovation projects.

How long has it taken housing authorities to build and renovate projects? One major study found an average lag of 53 months between HUD's approval for building new public housing and completion of the work. More recent experience with HOPE VI, the major initiative under which public housing projects have been either renovated or replaced, is no more encouraging. While this program began allocating funds to housing authorities in FY 1993, no money was actually spent until FY 1995. By 2002, only 15 of 165 approved HOPE VI projects were fully completed.

The Congressional Budget Office estimates that less than 4 percent of the money appropriated for low-income housing assistance will be spent by this October, and less than 30 percent by October 2010. By then, we will be well on our way out of the recession.

The President has challenged critics of particular provisions of the stimulus package to suggest better alternatives. Expanding HUD's Section 8 Housing Voucher Program fits the bill. Unlike authorizing additional money for the modernization of public housing projects, this immediately puts money into the hands of the country's poorest families who will spend it promptly. Housing authorities have long waiting lists for vouchers: they could simply issue more vouchers and hire a few more staff to deal with additional paperwork and inspections.

This initiative would reduce the current housing glut by increasing the demand for dwelling units. About a fourth of voucher recipients share housing with others prior to getting a voucher. Additional vouchers would induce more families to live in their own units. Expanding the voucher program would also stimulate other sectors of the economy because the voucher program reduces the amount that recipients spend on their housing, thereby freeing money to spend on other goods.

Expanding the housing voucher program is also superior to spending money on the modernization of public housing projects from the longer run perspective of providing decent housing to low-income households. The systematic evidence is unanimous that it costs much more to provide equally good housing in public housing than with housing vouchers. Therefore, it's possible to provide more families with equally good housing for the same rent with housing vouchers than with public housing.

President Obama has emphasized the importance of ending programs that work poorly and replacing them with programs that work better. Phasing out public housing in favor of housing vouchers achieves these goals.

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