

**Housing and Community Development Needs:
The FY 2003 HUD Budget**

Ed Olsen

Professor of Economics

University of Virginia

Charlottesville, Virginia

Testimony before the United States Senate
Committee on Banking, Housing, and Urban Affairs
November 29, 2001

Thank you, Mister Chairman. I welcome this opportunity to talk with you and the members of your committee about the HUD budget. I speak from the perspective of a taxpayer who wants to help low-income families, albeit a taxpayer who has spent the last 30 years studying the effects of low-income housing programs. My testimony will focus on the HUD budget for these programs.

Given the current economic slowdown and the added expense of fighting international terrorism, it is clear that little additional money will be available for low-income housing programs over the next few years. The question is: How can we continue to serve the families who currently receive housing assistance and serve the poorest families who have not been offered assistance without spending more money. The answer is that we must use the money available more wisely.

Research on the effects of housing programs provides clear guidance on this matter. It shows that tenant-based housing vouchers provide equally desirable housing at a much lower total cost than any type of project-based assistance. My written testimony contains references to these studies and a brief description of them.

These results imply 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 without any increase in the budget by shifting resources from project-based to tenant-based assistance.

The magnitude of the gain from this shift would be substantial. The smallest estimates of the excess costs of project-based assistance imply that a total shift from project-based to tenant-based assistance would enable HUD to serve at least 600,000 additional families with no additional budget.

These findings have important implications for how the HUD budget should be spent.

First, the money currently spent on operating and modernization subsidies for public housing projects should be used to provide tenant-based vouchers to public housing tenants, as proposed by the Clinton Administration and by Senator Dole during his presidential campaign. If housing authorities are unable to compete with private owners for their tenants, they should not be in the business of providing housing.

Second, contracts with the owners of private subsidized projects should not be renewed. Instead we should give their tenants portable vouchers and force the owners to compete for their business. There is no reason to believe that the Mark-to-Market initiative will improve the cost-effectiveness of the programs involved.

Third, the construction of additional public or private projects should not be subsidized. No additional money should be allocated to HOPE VI, and there should be no new HUD production program.

These reforms will give taxpayers who want to help low-income families more for their money by greatly increasing the number of families served without spending more money or reducing support for current recipients.

Two main objections have been raised to exclusive reliance on tenant-based assistance. Specifically, it has been argued that tenant-based assistance will not work in markets with the lowest vacancy rates and construction programs have an advantage compared with tenant-based assistance that offsets their cost-ineffectiveness, namely they promote neighborhood revitalization to a much greater extent. My written testimony explains the conceptual problems with these arguments and more importantly shows that they are inconsistent with the available evidence.

We do not need production programs to increase the supply of units meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated beyond any doubt that the supply of units meeting minimum housing standards can be increased rapidly by upgrading the existing stock of housing even in tight markets. This happened without any rehabilitation grants to suppliers. It happened entirely in response to tenant-based assistance that required families to live in units meeting the program's standards in order to receive the subsidy. In the Housing Allowance Supply Experiment, tenant-based assistance alone produced a much greater percentage increase in the supply of adequate housing in these localities in 5 years than all of the federal government's production programs for low-income families have produced in the past 65 years.

The available evidence also shows that housing vouchers enable us to move eligible families into adequate housing faster than any construction program under any market conditions.

The consequence of using the costly construction and substantial rehabilitation programs has been that more than a million of the poorest families who could have been provided with adequate housing at an affordable rent with the money appropriated for housing assistance have continued to live in deplorable housing or no housing at all.

I urge the Committee to take the bold steps necessary to serve these families.

I appreciate the willingness of members of the Committee to listen to the views of a taxpayer whose only interest in the matters under consideration is to see that tax revenues are used effectively and efficiently to help low-income families.