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Oral Testimony

Hearing on Housing Vulnerable Families and Individuals: Is There a Better Way?

Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
U.S. Senate Appropriations Committee

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I'm delighted to be here today to share with the members of the committee what I know about the performance of low-income housing programs and some ideas about how to get better outcomes from the money spent on low-income housing assistance. I speak from the perspective of a taxpayer who wants to help low-income families, albeit a taxpayer who has spent more than 40 years studying the effects of low-income housing programs. What I know is based in part on the research of hundreds of other researchers who like me have no financial interest in particular ways of delivering housing assistance. I'm particularly pleased that this hearing will consider major reforms of the current system because low-income housing assistance is fertile ground for reforms that would allow us to serve many more of the poorest households without greater public spending.

As you know, the federal government provides two broad types of housing assistance – housing vouchers that allow families to find their own units in the private market and subsidized housing projects. About 2 million households have housing vouchers and about 5 million live in subsidized projects. The oldest type of subsidized project is public housing, but today privately owned projects house about four times as many assisted households. My proposed reforms deal with all parts of the system.

In my view, the current system has two main defects.

The first is that the majority of current recipients are served by programs of project-based assistance whose cost is enormously excessive for the housing provided. The best study of HUD's largest program that subsidized the construction of privately owned projects indicated an excess taxpayer cost of at least 72%. The best study of public housing indicated an even larger excess cost.

The second major defect of the current system is that it provides large subsidies to some households while offering none to others in the same economic circumstances, and it provides

subsidies to many people who are not poor while offering none to many of the poorest. Less than 35% of families with extremely low incomes on HUD's definition receive housing assistance.

Phasing out programs of project-based assistance in favor of the system's most cost-effective program the housing voucher program would ultimately free up the resources to provide housing assistance to millions of additional people or reduce taxes or both. I'll offer several specific proposals to that end.

The low-income housing tax credit (LIHTC) is the largest and fastest growing low-income housing program. Its costs are excessive for the housing provided, and most families served aren't poor. Therefore, I think that we should phase out funding for new tax credit projects and replace these tax credits with a refundable tax credit for the poorest homeowners.

The best evidence also indicates that above-market rents are paid when the government renews use agreements with owners of privately owned subsidized projects. Therefore, when existing housing projects come to the end of their use agreements, we should not renew them but instead give their tenants portable vouchers.

I also have some proposals for public housing reforms that would better use the funds and assets currently available to public housing authorities. First, we should require each public housing authority to offer a housing voucher to each public housing tenant using its current budget for public housing. Second, we should allow public housing authorities to charge market rents for units vacated by families that accept vouchers and use the increased revenue to improve their housing projects. Third, we should allow public housing authorities to sell any of their projects to the highest bidder with the restrictions that they must provide occupants with housing vouchers and use the net proceeds of the sale to improve their remaining projects.

Finally, the Housing Voucher Program provides very large subsidies to its recipients while offering nothing to other families in similar circumstances. The national mean subsidy for a household with one adult, two children, and no countable income is about \$12,000 a year. A voucher subsidy of this magnitude enables its recipient to occupy a rental unit of about average desirability. From the viewpoint of poverty alleviation and basic fairness, it's surely better to provide somewhat more modest housing to more of the poorest households rather than housing of this quality to a fortunate few. Therefore, we should provide new voucher recipients with a less generous subsidy and use the savings to provide vouchers to more of the poorest households.

I realize that this subcommittee does not have the authority to implement many of these suggestions. So I'll make one recommendation that is clearly within the committee's authority and that would, I believe, have an enormous positive effect on future course of low-income housing policy. Specifically, I recommend that the committee appropriate the money for analyses of the highest quality that compare the cost-effectiveness of housing vouchers with the various types of low-income housing tax credit projects, including ones that renovate projects built under HUD programs and ones involved in public housing's rental assistance demonstration program. The cost of these studies would be trivial compared with the amount spent on these programs each year.

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.