

Alleviating Poverty through Housing Policy Reform

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Abstract

The purpose of this paper is to describe proposals for reform of low-income housing assistance that will alleviate poverty without increasing public spending. Low-income housing assistance is fertile ground for such reforms. The majority of current recipients are served by programs whose cost is enormously excessive for the housing provided. Phasing out these programs in favor of the system's most cost-effective program would ultimately free up the resources to provide housing assistance to millions of additional people (Olsen 2014). Furthermore, the current system of low-income housing assistance provides enormous subsidies to some households while offering none to others who are equally poor, and it provides subsidies to many people who are not poor while offering none to many of the poorest. Avoiding these excessive subsidies and focusing assistance on the poorest families will contribute further to poverty alleviation. Well-designed reforms of the current system of low-income housing assistance would produce substantial poverty alleviation without greater public spending.

For presentation on March 27, 2014 at a conference "Innovating to End Urban Poverty" sponsored by the Bedrosian Center on Governance and the Public Enterprise and the Price Center for Social Innovation at the University of Southern California. This paper borrows heavily from a 2008 discussion paper for the Brookings Institution's Hamilton Project entitled Getting More from Low-Income Housing Assistance that presents in more detail the evidence that justifies the proposed reforms and addresses some common objections to them.

Alleviating Poverty through Housing Policy Reform

Introduction

Given the inexorable growth in the share of the population over age 65, the political difficulties of reducing the benefits that these people receive from social insurance programs, and the future interest payments on the recently incurred federal debt, it's clear that little additional money will be available for poverty alleviation in the near future. In this situation, it's important to ask how we can reduce poverty without spending more money and use any additional resources most effectively. The solution is to use the money available more wisely.

The purpose of this paper is to describe proposals for reform of low-income housing assistance that will alleviate poverty without increasing public spending. Low-income housing assistance is fertile ground for such reforms. The majority of current recipients are served by programs whose cost is enormously excessive for the housing provided. Phasing out these programs in favor of the system's most cost-effective program would ultimately free up the resources to provide housing assistance to millions of additional people (Olsen 2014). Furthermore, the current system of low-income housing assistance provides enormous subsidies to some households while offering none to others who are equally poor, and it provides subsidies to many people who are not poor while offering none to many of the poorest. Avoiding these excessive subsidies and focusing assistance on the poorest families will contribute further to poverty alleviation. Well-designed reforms of the current system of low-income housing assistance would produce substantial poverty alleviation without greater public spending.

To help readers understand the potential for poverty alleviation through housing policy reforms, I provide an overview of the current system of low-income housing assistance and a brief summary of the most relevant evidence on its performance.¹

Overview of Current System

The bulk of low-income housing assistance in the United States is funded by the federal government through a large number of programs that cost over \$50 billion a year. Unlike other major means-tested transfer programs in the U.S., low-income housing programs don't offer assistance to many of the poorest families who are eligible for them. Eligible families that want assistance must get on a waiting list.

Most low-income housing assistance in the U.S. is for renting a unit, and the most important distinction between rental housing programs is whether the subsidy is attached to the dwelling unit (project-based assistance) or the assisted household (tenant-based assistance). 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 its subsidy if it moves to unit with a different owner unless it is able to obtain alternative housing assistance before moving. Each family offered tenant-based assistance is free to occupy any unit that meets the program's minimum housing standards, rents for less than the program's ceiling applicable to the family, is affordable with the help of the subsidy, and whose owner is willing to participate in the program. The family retains its subsidy if it moves to another unit meeting these conditions.

¹ Olsen (2003) and Weicher (2013) provide more detailed accounts.

HUD's housing voucher program is the only significant program of tenant-based assistance. It is the second largest low-income program, serving about 2 million households and accounting for about 30 percent of all households that receive low-income rental assistance.

There are two broad types of project-based rental assistance, namely, public housing and privately-owned subsidized projects. Both types have usually involved the construction of new projects. In almost all other cases, they have required substantial rehabilitation of existing buildings. Many of these programs no longer subsidize the construction of projects, but most projects built under them still house low-income households with the help of subsidies for their operation and renovation. Overall, project-based assistance accounts for about 70 percent of all households that receive low-income rental assistance.

Public housing projects are developed and operated by local public housing authorities established by local governments, albeit with substantial federal subsidies and regulations that restrict their choices. In the public housing program, government employees make most of the decisions made by unsubsidized for-profit firms in the private market – what to build, how to maintain it, and when to tear it down. Decisions about where to build projects has been heavily influenced by local political bodies. The public housing stock has declined by about 300,000 units since its peak in 1991. About 1 million households live in public housing projects.

Government agencies also contract with private parties to provide housing in subsidized projects. Most are for-profit firms, but not-for-profits have a significant presence. This is the largest part of the system, involving a number of different programs. The largest programs of this type are the IRS's Low-Income Housing Tax Credit (LIHTC), HUD's Section 8 New Construction and Substantial Rehabilitation program and Section 236 Rental and Cooperative Housing for Lower-Income Families program, and USDA's Section 515 and 521 programs.

Under these programs, in exchange for certain subsidies, private parties agree to provide rental housing meeting certain standards at restricted rents to eligible households for a specified number of years. None of these programs provide subsidies to all suppliers who would like to participate. This is highly relevant for their performance. In general, subsidies to selected sellers of a good have very different effects than subsidies to all sellers. About 4 million households live in projects of this type.

Most housing programs are designed to increase recipient consumption of other goods as well as improve their housing, and they have had these effects on most recipients. The main exception is the LIHTC. This program has had little effect on consumption of other goods, except when combined with HUD programs.

Performance of U.S. Low-Income Housing Programs

Many aspects of the performance of low-income housing programs have been studied such as their effects on the types of housing and neighborhoods occupied by recipients, their overall consumption of other goods, and their labor earnings. We certainly don't have evidence on all aspects of performance for all programs, and the evidence leaves much to be desired in many cases. However, we cannot avoid making a decision about reforms until we have excellent evidence on all aspects of performance for all programs. Making no change in current policies is a decision, and in my view it's a very bad one.

Of all of the differences in the performance of different methods for delivering housing assistance to low-income families, differences in cost-effectiveness are, by far, the most consequential for poverty alleviation. By comparison, differences in other aspects of performance across programs are relatively small.

Evidence on the performance of housing programs indicates that project-based assistance has a much greater cost than tenant-based assistance when it provides equally good housing. These studies define equally good housing to be housing that would rent for the same amount in the unsubsidized market in the same locality. This measure accounts for the desirability of the neighborhood as well as the housing itself. In the best studies, the estimated magnitude of the excess cost is enormous.

The best study of HUD's largest program that subsidized the construction of privately-owned projects (Section 8 New Construction and Substantial Rehabilitation) found an excess total cost of at least 44 percent (Wallace et al. 1981). That is, the total cost of providing housing under this program was at least 44 percent greater than the total cost of providing equally good housing under the housing voucher program. This translates into excessive taxpayer cost for the same outcome of at least 72 percent. It implies that it would have been possible using housing vouchers to serve all of the people served by this program equally well and serve at least 72 percent more people with the same characteristics without any increase in public spending. The best study indicates even larger excess costs for public housing (Mayo et al. 1980). In contrast, a succession of studies over the years have found that the total cost of various types of tenant-based housing assistance have exceeded the market rent of the units involved by no more than the cost of administering the program (Mayo et al. 1980; Wallace et al. 1981; Leger and Kennedy 1990; ORC/Macro 2001, Chapter V).

More recent evidence has confirmed the large excess cost of the Section 8 New Construction and Substantial Rehabilitation Program (Finkel et al. 1999, Exhibit 5-1; Shroder and Reiger 2000), and 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 811.²

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. Evidence from the Mark-to-Market program indicates the excessive cost of renewing use agreements for privately owned subsidized projects (Hilton et al. 2004), and the Experimental Housing Allowance program (EHAP) provides clear evidence on the superior cost-effectiveness of tenant-based versus project-based housing vouchers (Mayo et al. 1980, pp. 134–39).

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.

Project-based assistance is not only highly cost-ineffective but also needlessly restricts recipient choice. Both argue strongly for phasing out project-based assistance in favor of tenant-based assistance. This would contribute greatly to poverty alleviation without spending more

² Olsen (2008, pp. 9-15) provides a detailed summary of the evidence on the cost-effectiveness of low-income housing programs. Olsen (2009) provides a description and critical appraisal of the data and methods used.

money by increasing the number of poor families that receive housing assistance and the well-being of recipients.

Phasing out project-based assistance will contribute to poverty alleviation for another reason. Under the current system, the best units in new projects in the best locations have very high market rents. They are much better than the average rental unit. The worst units in the oldest projects in the worst locations have very low market rents. Identical families living in the best and worst projects pay the same rent. Therefore, the current system provides enormous subsidies to some families and small subsidies to others in the same economic circumstances. Equalizing these subsidies would be a contribution to poverty alleviation. Under the housing voucher program, identical households within the same housing market are offered the same assistance on the same conditions. Therefore, providing incremental housing assistance in the form of housing vouchers rather than subsidized housing projects would contribute to poverty alleviation by giving larger subsidies to the families that would have received the smallest subsidies in the absence of reform and smaller subsidies to similar families that would have received the largest subsidies.

These inequities have not been carefully documented but are obvious to all knowledgeable observers. A recent segment on the PBS News Hour (Oct. 9, 2013) illustrates the excessive subsidies. It revealed that \$500,000 per apartment had been spent to build a housing project for the homeless in San Francisco. This is expensive even by S.F. standards. The median value of owner-occupied houses in the S.F. metro area was \$558,000, and the median household income of their occupants was \$104,000. So this government program provides apartments to the poorest families that are almost as expensive as the houses occupied by the average homeowner. Insuring that the homeless occupy housing meeting reasonable minimum

standards does not require anything like the amount of money spent on these units. More than 20 percent of owner-occupied houses in the S.F. area sell for less than \$300,000. Furthermore, almost half of the families in the area are renters whose median income is about \$50,000. They live in much less expensive units than homeowners. We do not need to build new units to house the homeless. They can be housed in satisfactory existing units at a much lower taxpayer cost. More than 6 percent of the dwelling units in the area are vacant. In Portland where the median value of owner-occupied houses was \$249,000, \$360,000 per apartment was spent to build another housing project for the homeless (Portland Tribune, Jan. 9, 2014). These cases are not anomalies. They are repeated throughout the country. The desire of the people involved in the current system to provide the best possible housing for their clients is understandable. However, this is a luxury that we can ill afford.

Proposed Reforms of Low-Income Housing Policies to Alleviate Poverty

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 project-based to tenant-based housing assistance as soon as current contractual commitments permit and should not authorize any new programs involving project-based assistance.

This section describes proposals for reform of low-income assistance that will alleviate poverty without spending more money. The reforms deal with all parts of the current system – public housing, existing privately-owned housing projects, active construction programs, and the housing voucher program. I hope that even people who favor some role for project-based

assistance or subsidized construction of low-income housing projects will find some of the proposed reforms attractive.

Public Housing

The public housing reform proposals are proposals to better use the funds and assets currently available to public housing authorities. They are designed to alleviate poverty by delivering better housing to tenants who remain in public housing, providing current public housing tenants with more choice concerning their housing, assisting additional households, and promoting economic integration in public housing projects. The proposals would require congressional action to change the restrictions on housing authorities except possibly for those participating in HUD's Moving to Work Demonstration.

Currently, HUD provides public housing authorities with more than \$6 billion each year in operating and modernization subsidies for their public housing projects. My proposal would not change the amount of federal money available to any housing authority. It would give each housing authority the same amount of federal money as it would have gotten with a continuation of the old system so that no authority would be able to object to the proposal on the grounds that it would have less to spend on its clients. However, it would alter greatly the restrictions on the use of this money and increase the total revenue of housing authorities.

With one exception, the proposal requires every public housing authority to offer each current tenant the option of a portable housing voucher or remaining in its current unit on the previous terms. With one caveat, this insures that no public housing tenant is harmed by the reforms.

To insure that housing authorities can pay for these vouchers with the money available, their payment standards would be set to use the housing authority's entire federal subsidy in the highly unlikely event that all public housing tenants accepted the vouchers. These payment standards would almost always differ from regular Section 8 Housing Choice Voucher payment standards. My calculations indicate that they would be only 4 percent less on average across the country, though the difference could be much larger for some public housing authorities.

The proposal would not require housing authorities to sell their projects beyond what is required under the regulations implementing the relevant provisions of the 1998 Housing Act. However, it would *allow* them to sell any of their projects to the highest bidder with no restrictions on its future use. This would provide additional revenue to improve their remaining projects or provide vouchers to additional households.

Many housing authorities would surely choose to sell their worst projects. With uniform vouchers offered to families living in all of a housing authority's projects, it's reasonable to expect that the vouchers will be accepted by a higher fraction of tenants 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 the 1998 Housing Act.

When a project is sold, the remaining tenants in that project would be offered the choice between vacant units in other public housing projects or a housing voucher. This has been the standard procedure when projects are demolished or substantially rehabilitated.

By selling the public housing projects on which they would have spent the most money and providing their occupants with vouchers that have the same cost as the authority's average

net expenditure on public housing units, the public housing authority would free up money to better maintain its remaining units or provide vouchers to additional households.

When public housing units are vacated by families that accept vouchers, the housing authority would offer the next family on the waiting list the option of occupying the unit or a portable housing voucher.

If the family takes the voucher, the housing authority would be allowed to charge whatever rent the market will bear for the vacant unit. This would provide additional revenue to housing authorities without additional government subsidies. 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.

Each year some former public housing tenants that had used the proposed vouchers to leave their public housing units would give up these vouchers for a variety of reasons. The money saved from their departure should be used to offer similar vouchers to other families eligible for housing assistance. The recycling of voucher funds would insure that the tax money spent on public housing will continue to support at least the same number of families.

The preceding proposals would benefit many current public housing tenants without greater taxpayer cost. The public housing tenants who 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. Tenants that remain in public housing would benefit from better maintenance of their units.

The only public housing tenants who would be hurt by the proposal are tenants who want to remain in the projects that housing authorities decide to sell. Since it's impossible to justify renovating structures that reach a certain level of obsolescence and dilapidation, the initial opposition of a small minority of public housing tenants should not be allowed to prevent benefits to the majority. To the best of my knowledge, HOPE VI redevelopment didn't require the consent of the occupants of a project.

To summarize my proposals, each housing authority 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 structures and land on which they are located. However, these assets would be better used, and the proposal would provide housing authorities with more money to better serve assisted families who remain in public housing. The additional money would come from selling some of their projects or charging market rents for the units vacated by current public housing tenants or both. 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 maximizes the money available to help low-income families with their housing. It also avoids scandals associated with sweetheart deals. The traditional public housing program would shrink, but public housing authorities would do a much better job in helping low-income families with their housing without any additional federal subsidy.

The results of the HUD-funded Moving to Opportunity for Fair Housing Demonstration Program (MTO) provide evidence on some effects of the proposed reform.³ They show, for example, that this proposal would not lead to an immediate mass exodus from public housing. The families eligible to participate in the experiment lived in public housing projects in census

³ See Sanbonmatsu et al. (2011) for a description of the experiment and a summary of its results.

tracts 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 options under the current system.⁴ One experimental group was offered regular Section 8 housing vouchers. Only a 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). Therefore, only 16 percent of the households in these projects used the vouchers to leave their public housing units. 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. If the payment standards for the proposed vouchers are less generous than regular Section 8 vouchers, the takeup rate would be lower for these vouchers. These results suggest that fewer than 16 percent of public housing tenants would use the vouchers offered to leave their public housing units in the early years of the proposed reform.

Given the difficulty of predicting the all of consequences of such far-reaching changes, it would be desirable to start with a controlled experiment involving innovative public housing authorities willing to implement these proposals for a randomly selected subset of their public housing projects. This experiment would produce evidence on the effects of the proposals, and it would provide useful information for modifying them to avoid unforeseen negative

⁴ These options included trying to find alternative housing assistance. For many, they included the options offered when their projects were demolished under the HOPE VI redevelopment program.

consequences and to achieve better outcomes. The housing authorities that volunteer would 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 would receive funding for the research component of the demonstration so that we learn from the experiences of these pioneering housing authorities.

I should mention that the San Diego Housing Commission received an award of excellence at the 2008 NAHRO conference for adopting reforms similar to what I have just proposed and that the Atlanta Housing Authority has implemented them to some extent.⁵ It might be possible to learn something from their experiences.

Existing Privately-Owned Subsidized Projects

The second broad proposal to reform low-income housing policy in the interest of poverty alleviation 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 come to the end of their use agreement each year. When use agreements are not renewed, current occupants are provided with other housing assistance, almost always tenant-based vouchers. Up to this point,

⁵ Robbie Brown, "Atlanta Is Making Way for New Public Housing," New York Times, June 21, 2009. The title is misleading because Atlanta Housing Authority (AHA) has demolished all of its nonelderly public housing projects and given almost all of their tenants housing vouchers. The AHA did not, however, sell its land. Instead, it leased the land to private developers who built mixed-income housing projects and commercial structures on it. The mixed-income projects serve only a small fraction of the number of households previously living in public housing.

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 a succession of programs (Hilton et al., 2004, pp. 1-2). We should not repeat these mistakes. 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. Since these subsidies are provided to selected private suppliers, the market mechanism does not insure that rents paid for the units will be driven down to market levels. If this is to be achieved at all, administrative mechanisms must be used. Administrative mechanisms can err in only one direction, namely, providing excess profits. If the owner is offered a lower profit than in the unsubsidized market, the owner will leave the program. We should leave the job of getting value for the money spent to the people who have the greatest incentive to do it, namely, 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 would not be the case if tenants are offered the same options as they are offered under the current system when the project's owner opts to leave the program. HUD will pay the market rent for the unit as long as the tenant wants to remain in it but offers the tenant the option of a regular housing voucher. This 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.

It is also argued that the failure to renew use agreements on privately owned subsidized projects reduces the number of affordable housing units. If the occupants of these projects are offered portable vouchers, this could not be further from the truth. Terminating use agreements has no effect on the stock of housing. When use agreements are extended, the only unit that is made affordable to an assisted family living in the project is its own unit. If that family is offered a portable voucher, many units become affordable to the family.

Active Subsidized Construction Programs

The Low-Income Housing Tax Credit is the largest active construction program. It subsidizes the construction of more units each year than all other programs combined. The Tax Credit Program recently became the nation's largest low-income housing program serving 2.4 million households, and it is the fastest growing. The tax credits themselves involved a tax expenditure of about \$6 billion in 2012. However, these projects received additional development subsidies from state and local governments (usually funded through federal intergovernmental grants) accounting for a third of total development subsidies (Cumming and DiPasquale, 1999, p. 299). Therefore, the total development subsidies were about \$9 billion a year. Furthermore, GAO (1997, p.40) found that owners of tax credit projects received subsidies in the form of project-based or tenant-based Section 8 assistance on behalf of 40 percent of their tenants. If the per-unit cost of these subsidies were equal to the per-unit cost of tenant-based housing vouchers in 2012,

they would add more than \$ 8 billion a year to the cost of the tax credit program. So this program cost taxpayers about \$17 billion in 2012.

Unlike HUD's programs, the LIHTC is poorly targeted on the poorest households. Some tax credits are used to rehabilitate older housing projects under HUD and USDA programs that continue to provide deep subsidies to their occupants. Other tax credit units are occupied by families with portable Section 8 housing vouchers. The families in these units typically have very low earnings. However, the majority of occupants of tax credit projects don't receive these deep subsidies related to their income. Their average income is more than twice the average of the occupants who receive the deep subsidies, and they are well above poverty thresholds (GAO, 1997, p. 146).

The poor targeting of its subsidies and the evidence on its cost-ineffectiveness argue strongly for the cessation of subsidies for additional LIHTC projects. Reducing new authorizations under the program by 10 to 20 percent each year would achieve this outcome in an orderly fashion. The money spent on this program would be better spent on expanding HUD's well-targeted and cost-effective Section 8 Housing Choice Voucher Program. Because the congressional committees that oversee the two programs are different, this transfer of funds would be extremely difficult to arrange. However, the committees that oversee the LIHTC could divert the reduced tax expenditures on the LIHTC to a refundable tax credit for the poorest low-income homeowners, thereby offsetting to some extent the anti-homeownership bias of the current system of low-income housing assistance (Olsen 2007). About 25 percent of all unassisted households in the lowest real income decile are homeowners (Olsen 2007, Table 1). To avoid excess profits to sellers, it is extremely important that buyers are able to purchase from any seller (Olsen and Ludwig 2013, pp. 218-221).

Housing Voucher Program

Even though HUD's Housing Choice Voucher Program is the country's most cost-effective and equitable low-income housing program, it too offers opportunities for reform in the interest of poverty alleviation. It provides very large subsidies to its recipients while offering nothing to others in the same circumstances. In 2012, a household in Los Angeles with one adult, two children, and no countable income was entitled to an annual voucher subsidy of \$17,364. The national mean was about \$11,000. The poverty threshold for this family was \$18,498. A voucher subsidy of this magnitude enables its recipient to occupy a rental unit of about average desirability among two-bedroom units, that is, a unit with about the median market rent. From the viewpoint of poverty alleviation correctly conceived, it is surely better to provide somewhat more modest housing to a larger number of the poorest households rather than housing of this quality to a fortunate few. The current welfare system provides recipients of housing vouchers with resources well above the relevant poverty threshold, while leaving others well below it.

Local housing agencies can avoid this outcome to some extent using their discretionary authority to set payment standards up to 10 percent below the program parameters misleadingly called Fair Market Rents.⁶ With HUD approval, they could go further in this direction. These lower payment standards would not apply to current recipients. They would be grandfathered. These skinny housing vouchers would be funded with the money freed as current recipients of regular vouchers leave the program. More than ten percent of voucher recipients exit each year.

Conclusion

⁶ This phrase is misleading because these parameters have nothing to do with whether landlords are overpaid for their units.

The rapid growth of spending on entitlement programs for the elderly that will occur until they are substantially reformed will create pressure to reduce spending on programs such as low-income housing programs whose budgets are decided each year by Congress. In this situation, we should be focusing on how to get more from the money currently allocated to these programs. Building new units is an extremely expensive way to provide better housing to low-income households. Subsidizing selected suppliers to do it is especially expensive. Renting existing units that meet minimum standards is much cheaper. This also avoids providing recipients of low-income housing assistance with better housing than occupied by the poorest families ineligible for assistance. The proposed reforms will gradually move the system of low-income assistance towards more cost-effective approaches and enable us to provide housing assistance to millions of additional people without spending more money.

It is often argued that a shortage of affordable housing calls for subsidizing the construction of new units. This argument is seriously flawed. Almost all people are currently housed. If we think that their housing is too expensive (commonly called unaffordable), the cheapest solution is for the government to pay a part of the rent. The housing voucher program does that. This program also insures that its participants live in units that meet minimum standards. Building new units is a much more expensive solution to the affordability problem. Furthermore, it isn't necessary or desirable to construct new units to house the homeless. The number of people who are homeless is far less than the number of vacant units, indeed, far less than the number of vacant units renting for less than the median. In the entire country, there are only about 600,000 homeless people on a single night and more than 3.6 million vacant units available for rent. Even if all homeless people were single, they could be easily accommodated in vacant existing units, and that would be much less expensive than building new units for them.

Furthermore, most of the 600,000 people who are homeless each night already have roofs over their heads. They live in a special type of subsidized housing called homeless shelters. The best shelters provide good housing.

Reducing the substantial differences in the subsidies across identical households that characterize the current system would contribute further to poverty alleviation. It would help to fill the gap between poverty thresholds and the resources of the poorest households. The current system fails to offer housing assistance to many of the poorest households while providing substantial subsidies to many others who are equally poor. Even among the fortunate minority who are offered assistance, the variation in the subsidy across identical households living in subsidized housing projects is enormous. The best housing projects offered by a particular program are much more desirable than the worst, but tenants with the same characteristics pay the same rent for units in either. Even when new, the projects were not equally desirable, especially with respect to location. As they aged, further divergences emerged. Because the most cost-effective program offers the same subsidy to identical recipients, the shift away from other programs towards it will focus more of the system's resources on the poorest families.

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