

Should the Housing Choice Voucher Program Be Converted to a Block Grant?

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Abstract

The stated goal of the Housing Act of 1949 is “a decent home and suitable living environment for every American family.” It is time that we delivered on that commitment. Contrary to popular opinion, this does not require spending more money on housing assistance. It can be achieved without additional funds by shifting all funds from less cost-effective methods for delivering housing assistance to choice-based vouchers as soon as current contractual commitments permit and reducing gradually the large subsidies received by current voucher recipients. The proposal to replace the Housing Choice Voucher Program with a block grant to states can contribute to this goal by precluding the use of the block grant funds for project-based assistance, increasing the targeting of assistance on the poorest families, and including the fraction of recipients with extremely low incomes in the formula for determining the performance rating of state programs.

Introduction

Jill Khadduri has provided a thorough and balanced analysis of the advantages and disadvantages of converting the Housing Choice Voucher Program to a program of block grants to the states. Her analysis brings to bear on the issue considerable knowledge of the systematic evidence on the effects of housing programs. Overall, she supports the conversion of the Voucher Program to a block grant to the states provided that certain conditions are satisfied.

The purposes of my paper are to (1) amplify on her major point, namely, the importance of maintaining the choice-based nature of the Voucher Program, and (2) address a major shortcoming of the Housing Choice Voucher Program and indeed the entire system of housing assistance, specifically, its non-entitlement nature. An appropriately designed state block grant program can address each of these concerns.

In my judgment, if the conversion of the Voucher Program to a block grant does not specify explicitly that the money allocated to each state must be used exclusively for choice-based assistance, it will not be in the interest of taxpayers who are not directly involved in provision of project-based housing assistance and it will be extremely harmful to many of the poorest members of our society. Its advantages will be swamped by the disadvantages of the shift from choice-based to project-based assistance that will surely result from leaving this decision to state housing agencies.

Khadduri (p. XX) mentions that “the superiority of choice-based rental housing assistance for most types of households in most housing markets has been well established through years of research and program experience.” She does not, however,

provide details or references to the literature. Since this is central to the discussion and the overwhelming majority of people currently involved in housing policy debate have not seen this evidence, it is important to review it here.

Unlike other major means-tested transfer programs, housing assistance is not an entitlement despite its stated goal of “a decent home and suitable living environment for every American family” (Housing Act of 1949). This feature of housing assistance is a historical accident related to the nature of the first major federal housing program, and it is not defensible given the methods currently available for delivering housing assistance. That is, it is impossible to reconcile this feature of the Voucher Program and all other low-income housing programs with plausible taxpayer preferences. If we provide housing assistance at all, it should be an entitlement to everyone who is eligible. If anyone is eligible, it should be the families with the lowest incomes. Section 3 explains how we can convert the Voucher Program to an entitlement housing assistance program for the poorest families without spending more money and how a housing block grant can be structured to promote the movement of the program in this direction.

The Block Grant Should Be Limited to Choice-Based Housing Assistance

The Housing Choice Voucher Program is by far the most cost-effective program of housing assistance in the United States. Four major studies have estimated both the cost per unit and the mean market rent of apartments provided by housing certificates and vouchers and the largest older production programs, namely Public Housing, Section 236,

and Section 8 New Construction.¹ The cost per unit includes the tenant's rent and all direct and indirect costs incurred by federal, state, and local governments. These studies are based on data from a wide variety of housing markets and for projects built in many different years. Two were expensive studies conducted for HUD by a respected research firm during the Nixon, Ford, Carter, and Reagan administrations. They are unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any of these production programs, even though all of these studies are biased in favor of the production programs to some extent by the omission of certain indirect costs.

Table 1 summarizes the results of these studies. The studies with the most detailed information about the characteristics of the housing provided by the programs found the largest excess costs for the production programs. Specifically, Mayo et al. (1980) estimated the excessive cost of public housing compared to housing vouchers for providing equally desirable housing to be 64% and 91% in the two cities studied and the excessive cost of Section 236 to be 35% and 75% in these two cities. Another study with excellent data on housing characteristics estimated the excessive cost of Section 8 New Construction compared to tenant-based Section 8 Certificates to be between 44% and 78% (Wallace et al., 1981).²

¹ The studies are Mayo et al. (1980), Olsen and Barton (1983), U.S. Department of Housing and Urban Development (1974), and Wallace et al. (1981). 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.

² This study made two predictions of the market rents of subsidized units based on different data sets containing information on the rent and characteristics of unsubsidized units. The study did not collect information on the indirect subsidies of the Section 8 New Construction Program. These indirect subsidies include GNMA Tandem Plan interest subsidies for FHA-insured projects and the forgone tax revenue due to the tax-exempt status of interest on the bonds used to finance SHFA projects. Based on previous studies, the authors argue that these indirect costs would add 20 to 30 percent to the total cost of the Section 8 New Construction Program. The range of estimates reported in the text is based on the four combinations of the two predictions of market rent and the lower and upper limits on the indirect subsidies.

The recently completed GAO study produced similar results for the major active construction programs – LIHTC, HOPE VI, Section 202, Section 515, and Section 811. Table 2 reports results based on the conceptually preferable life cycle approach.³ The excess total cost estimates range from at least 12% for Section 811 to at least 27% for HOPE VI. These estimates are lower bounds on the excessive cost because some costs of the production programs were omitted. Most notably, the opportunity cost of the land and the cost of preparing the site are omitted from the cost of HOPE VI projects. These are real costs to society of HOPE VI redevelopment. More generally, some costs of each production program were omitted. For example, some projects under each program receive local property tax abatements. The preceding results ignore this cost to local taxpayers.

The GAO study will not be the last word on the cost-effectiveness of the programs studied. Improvements in its implementation of the life-cycle methodology are possible and desirable. However, it provides the only independent cost-effectiveness analysis of these programs.

The preceding evidence combined with other evidence on the effects of alternative methods of delivering housing assistance makes a strong case for total reliance on choice-based assistance.⁴ If we compare programs of choice-based and project-based assistance that serve recipients equally well (that is, provide them with equally good housing for the same rent), the project-based programs will serve many fewer families

³ The GAO study also reports first-year excess costs of the production programs. The first-year cost of a production program is the sum of the annualized development subsidies and the tenant rent and other government subsidies during the first year of operation. The GAO estimates of excess cost of production programs based on this method are much higher than estimates based on the life-cycle approach. Olsen (2000, pp. 18-21) explains the shortcomings of first-year-cost methodology.

⁴ See Olsen (forthcoming) for a summary of the evidence on a wide range of effects of housing programs. Section V analyzes the two major objections to exclusive reliance on tenant-based housing assistance.

with a given budget. Therefore, many eligible families and the taxpayers who want to help them will lose if project-based assistance replaces choice-based assistance.

Evidence indicates clearly that states would devote the bulk of an unrestricted housing block grant to project-based assistance. The HOME Investment Partnerships Program is a block grant to states and localities that permits either project-based or choice-based assistance. Contrary to the implications of the systematic evidence on the effects of different types of housing programs, states and localities have chosen to spend the bulk of their funds on project-based assistance. In 1995, states allocated 94% of their rental assistance to specific projects (Urban Institute, 1999, p. 86). Left to their own devices, it is reasonable to expect that they will do the same with the proposed block grant. Being close to the people does not provide any insight into the design of efficient housing programs. Therefore, it is essential that any conversion of the Housing Choice Voucher Program to a block grant should contain an explicit prohibition on the use of block grant funds for project-based assistance.

The Block Grant Should Encourage Movement Towards an Entitlement Housing Assistance Program for the Poorest Families

Unlike other major means-tested transfer programs, housing assistance is not an entitlement despite its stated goal of “a decent home and suitable living environment for every American family” (Housing Act of 1949). Millions of the poorest families are not offered any housing assistance, while a smaller number of equally poor families receive large subsidies. For example, an assisted family with one child and an adjusted annual income of \$8000 living in an area with the average Fair Market Rent would have

received an annual housing subsidy of \$6000 from the Housing Choice Voucher Program in 2002 if it occupied an apartment renting for the FMR. The majority of families with the same characteristics living in that locality would receive no subsidy from any low-income housing program. Furthermore, the majority of the poorest eligible families are offered no assistance while many families with considerably greater income are assisted. About 34 percent of the families who receive tenant-based vouchers and certificates are above the poverty line, while 70 percent of families below the poverty line do not receive housing assistance from any HUD program.

The non-entitlement nature of housing assistance is a historical accident. Because the first significant housing program for low-income households involved the construction of housing, it was not possible to make it an entitlement for any significant number of families. Building millions of public housing units over a short period of time was infeasible. The income limits for eligibility were not designed to be consistent with the amount of money that the Congress wanted to devote to housing assistance. Now that vouchers are used to provide housing assistance, the impossibility of building enough units to serve an enormous number of families provides no justification for maintaining a non-entitlement program. Almost all families eligible for housing assistance already live in housing. The majority of these units already meet housing standards. Other vacant units meeting housing standards are available. Many units can be inexpensively upgraded to meet housing standards. Little new construction is needed to provide adequate housing for all of the poorest families who would want to participate in the entitlement housing program that could be funded with the current budget for housing assistance.

In recent times, no one has attempted to explain why we should offer assistance to some, but not other, families with the same characteristics, and no one has provided a persuasive argument for denying assistance to the poorest families while providing it to otherwise identical families in the same locality whose income is two, three, or four times as large. It is often argued that we should not limit assistance to the poorest families because it is desirable to have a mix of incomes in subsidized housing projects. Obviously, this argument is not applicable to tenant-based assistance. Furthermore, the conflict between the desire to serve the poorest families and to avoid concentrating them in projects in other programs can be avoided by vouchering out these programs.

It is difficult to reconcile these features of the Housing Choice Voucher Program and all other low-income housing programs with plausible taxpayer preferences. In thinking about whether housing assistance should be an entitlement, it is helpful to think about how a nonrecipient who pays the taxes to support housing programs feels about dividing a fixed amount of assistance between two families that are identical in his or her eyes.

At one extreme, we could give one of the families the entire amount available for housing assistance. At the other extreme, we could divide it equally between them. The former is inconsistent, and the latter consistent, with plausible assumptions about taxpayer preferences. To say that two potential recipients are the same in the eyes of a taxpayer is to say that the taxpayer is willing to sacrifice the same amount for the same change in the consumption pattern of either family.

It is also reasonable to conclude that taxpayers place the highest value on helping the poorest families. Why else would almost all means-tested housing programs provide the largest subsidy to families with the smallest income?

Another strong argument for an entitlement housing assistance program for the poorest individuals and families is its effect on homelessness. The homeless are the poorest of the poor. Research indicates that an entitlement program of housing assistance for the poorest individuals and families would eliminate homelessness except for the chronic homeless who suffer from serious mental illness and substance abuse (Early and Olsen, 2002, p. 19).⁵

The preceding argues strongly that a program of housing assistance should be an entitlement for the poorest families. The usual argument against making housing assistance an entitlement is that it would be too expensive. Those who make this argument seem to have in mind delivering housing assistance to all currently eligible families using the current mix of housing programs and the current rules for the tenant's contribution to rent. This would indeed increase the amount spent on housing assistance greatly, though this magnitude has not been estimated. However, we do not have to make more than 40 percent of the population eligible for low-income housing assistance, we can reduce the fraction of housing assistance delivered through programs that are cost-ineffective, and we can reduce subsidies at every income level.⁶ If we reduce the fraction of the population eligible for housing assistance, increase the fraction of families served

⁵ The chronic homeless require a more comprehensive approach. Existing supportive housing facilities will certainly be a part of the solution to dealing with these people. Due to the time necessary to determine eligibility, an entitlement housing assistance program for the poorest households will not eliminate the desirability of short-term facilities to house people who would otherwise live on the streets. Although we might want to fund them in a different manner, existing shelters would surely be among the short-term facilities used.

⁶ See U.S. Department of Housing and Urban Development (2000, Table A-1) for the fraction of households eligible for housing assistance.

by choice-based assistance, and reduce the subsidy at each income level under each housing program, the cost of an entitlement housing assistance program would be less than commonly assumed.

Indeed, it is possible to develop an entitlement housing assistance program with any level of cost desired. For example, we could have an entitlement housing assistance program without spending any additional money by a simple change in the Housing Choice Voucher Program, namely, reducing the subsidy available to each eligible family by the same amount. At current subsidy levels, there are many more families willing and able to use vouchers than can be funded with the current budget. As we reduce the subsidy at each income by the same amount, the number of families who want to participate will decline and waiting lists will shrink. If we reduce subsidies sufficiently and adjust the number of families served so as to spend the same amount on the program, all families who want to participate on the terms offered will receive assistance. We will then have an entitlement housing assistance program for the poorest eligible families, thereby eliminating the horizontal inequities of the current program.

In discussions of housing policy, a common objection to this proposal is that no one would be able to find housing meeting the program's standards with the lower subsidies. This objection is logically flawed. We start from a position where many more people want to participate than can be served with the existing budget. If we reduce subsidy levels slightly, it will still be the case that more people want to participate than can be served. If we decrease the subsidy levels so much that no one wants to participate, we have decreased them more than the proposed amounts.

A more sophisticated argument against the entitlement housing assistance plan described above is that the poorest households will be unable to participate in the proposed program. The simple proposal above calls for reducing the guarantee under the Voucher Program (called the Payment Standard). This is the subsidy received by a household with no income. If the Payment Standard is less than the rent required to occupy a unit meeting the Program's minimum housing standards, then a household whose income and assistance from other sources is just sufficient to buy subsistence quantities of other goods would be unable to participate in the proposed Voucher Program. Previous studies (Olsen and Reeder, 1983; Cutts and Olsen, 2002) have shown that the Payment Standard exceeds the market rent of units just meeting the Program's minimum housing standards in all of the many metropolitan areas and bedroom sizes studied. The median excess varied between 33 to 80 percent between 1975 and 1993. Although refined estimates have not been made with more recent data, a rough estimate is that the median excess over all combinations of metropolitan area and number of bedrooms was 68 percent in 2001 (Cutts and Olsen, 2002, pp. 224-225). So a considerable reduction in the payment standard could occur almost everywhere without precluding participation by the poorest of the poor. However, the preceding proposal might lead to a particularly low participation rate by these households. This could be counteracted by a smaller reduction in the payment standard combined with an increase in the fraction of adjusted income that tenants are expected to contribute to their rent. For a given program budget, this would yield a higher participation rate by the poorest of the poor and a lower participation rate by other eligible households.

Since reducing current subsidies at each income level enough to implement immediately an entitlement housing assistance program for the poorest families would excessively disrupt the lives of current recipients, a phase-in period is essential. Cutts and Olsen (2002, pp. 236-238) discuss how the transition to an entitlement housing program for the poorest families might be handled.

In order to contribute to the movement towards an entitlement housing assistance program for the poorest families, a housing block grant should contain strict targeting requirements and incentives for serving the poorest families. The fraction of new admissions with incomes less than 30 percent of the local median should be increased beyond current levels, all additional new admissions should be limited to families with incomes less than 50 percent of the local median, and the HUD Secretary should not be given discretion to waive these rules. Incentives should reward states that serve a greater fraction of families with incomes less than 30 percent of the local median income, perhaps through higher performance ratings. Ultimately, these measures would result in a much greater focus of subsidy resources on the poorest households, while minimizing disruption to current recipients.

Conclusion

The stated goal of the Housing Act of 1949 is “a decent home and suitable living environment for every American family.” It is time that we delivered on that commitment. Contrary to popular opinion, this does not require spending more money on housing assistance. It can be achieved without additional funds by shifting all funds

from less cost-effective methods for delivering housing assistance to choice-based vouchers as soon as soon as current contractual commitments permit and reducing gradually the large subsidies received by current voucher recipients. The proposal to replace the Housing Choice Voucher Program with a block grant to states can contribute to this goal by precluding the use of the block grant funds for project-based assistance, increasing the targeting of assistance on the poorest families, and including the fraction of recipients with extremely low incomes in the formula for determining the performance rating of state programs.

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Table 1. **Excess Cost of Older Production Programs**

Program/Study	Localities	Projects Built	Excess Cost
Public Housing			
Olsen and Barton	NYC	1937-1965	14%
Olsen and Barton	NYC	1937-1968	10%
HUD	Baltimore, Boston, L.A., St. Louis, S.F., D.C.	1953-1970	17%
Mayo et al.	Phoenix	1952-1974	64%
Mayo et al.	Pittsburgh	1952-1974	91%
Section 236			
Mayo et al.	Phoenix	1969-1975	35%
Mayo et al.	Pittsburgh	1969-1975	75%
Section 8 NC/SR			
Wallace et al.	National	1979	44%-78%

**Table 2. Excess Cost of Active Production Programs
(GAO, 2001, Life Cycle Approach)**

Program	Excess Cost
Low-Income Housing Tax Credit	16%
Hope VI	27%
Section 202	19%
Section 811	12%
Section 515	25%