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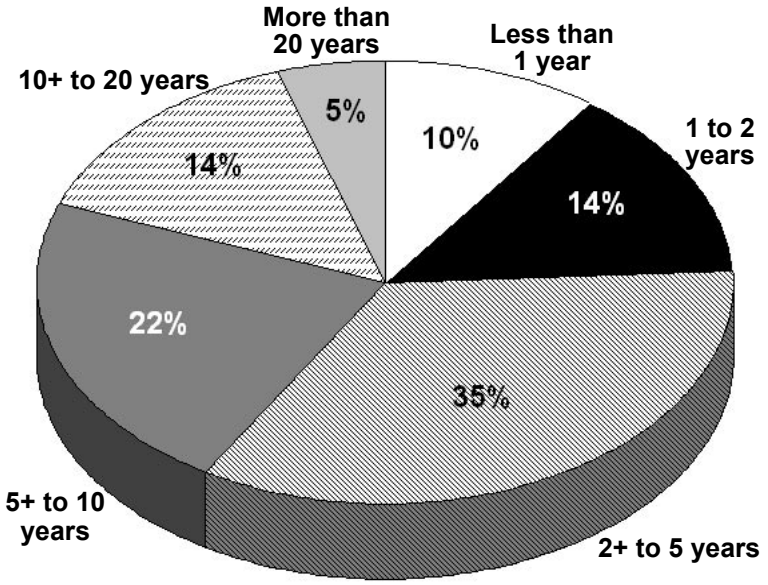
Public Housing Reform

by Joe Barnett and Todd Gabel

In 1996, for the first time in modern history, Congress ended a welfare entitlement. It replaced Aid to Families with Dependent Children (AFDC), the federal-state program that provided cash assistance to poor families, with Temporary Assistance to Needy Families (TANF). An entitlement provides benefits to anyone meeting eligibility requirements, such as income. TANF put conditions on the receipt of cash, including time limits and work requirements — and in just a few years, enrollment fell by 54 percent.

Federal housing assistance is another entitlement with many of the same defects as AFDC — inefficiency, disincentives to work and chronic dependency — and it is almost three times as expensive. Applying successful welfare reform policies to public housing programs has a tremendous potential to both improve the lives of recipients and save taxpayers money.

Length of Stay on Housing Assistance
(current beneficiaries)



Source: Department of Housing and Urban Development, "Resident Characteristics Report," October 2004. All Public and Indian Housing programs.

Federal Housing Programs. The federal government funds most low-income public housing in the United States. In 2004, the U.S. Department of Housing and Urban Development (HUD) spent $45 billion on housing-related programs, primarily for low-income families, and roughly $1 trillion (in 2003 dollars) over the past 35 years.

Federal funds are distributed to local public housing authorities who in turn provide poor families with 1) apartments in government-owned housing projects, or 2) Section 8 vouchers that they can use to lease apartments in the private market. Vouchers carry a maximum value equal to the median market rent in the metropolitan area — called the "fair market" rent. Landlord participation in the program is voluntary; many participate because the government provides them loans to build or renovate low-income apartment complexes.

Some 3 million families, or about 7 million people, receive housing assistance. Since the 1980s, voucher usage has grown dramatically, while the number of public housing units has remained fairly flat. Today, approximately 60 percent of families on housing assistance receive vouchers.

Families whose household income is less than 80 percent of their neighborhood's median income qualify for housing assistance. Most recipient families have incomes less than 50 percent of the median. Nationally this is about one and half times the poverty level ($28,750 for a family of four). Since many families are eligible and they can apply at multiple housing authorities, housing units must be rationed. In 1998, the average wait for public housing was 11 months, and for vouchers, 28 months. Waiting times can run more than a decade in larger cities.

Inefficiency of Public Housing Projects. The sorry track record of government-owned housing projects has driven the shift to vouchers:

- Public housing units cost about 30 to 100 percent more to build than comparable privately built units due to the program's inefficiencies, according to a National Bureau for Economic Research (NBER) study.
- Tens of thousands of public housing units have been razed over the last 30 years at a cost of billions of dollars; these include some relatively new projects — in 1974, for example, the Pruitt-Igoe complex in St. Louis was demolished only 15 years after it won awards for architectural excellence.

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By contrast, the only added cost for privately-built units used by voucher recipients is the cost of program administration.

Marginal Tax on Work. Like welfare, housing policies can be reformed to encourage work. Recipients typically pay a fixed 30 percent of their monthly household income for rent (with vouchers, government funds cover the difference in rental costs up to the fair market rent). Local housing authorities can disregard additional earned income when calculating rental payments for certain recipients, such as families on TANF, but most recipients pay more rent if they earn more, without any increase in housing quality. This means that housing policy effectively imposes a marginal tax on work of up to 30 percent, in addition to other taxes. This reduces incentives to find full-time employment or better paying jobs:

- Participation in the labor market by households on assistance is reduced by 5.4 to 6.8 percent, according to housing expert Will Fischer.
- Public housing (together with other benefits, such as welfare and food stamps) reduces the labor supply of female-headed households by 42 percent, according to economist Barbara Steinberg Schone.

Notably, able-bodied individuals (neither elderly nor disabled) head 55 percent of families receiving housing assistance. But many of these do not work. A 2000 study by the Millennial Housing Commission (MHC) found that 43 percent of these families had no earned income.

Fostering Dependency. By discouraging work, federal housing programs foster continuing dependency. In 2000, the MHC found that:

- Families headed by an able-bodied individual with children spend an average of about 5.6 years (median of 3.2 years) in public housing.
- The average length of stay for similarly able families without children is about 9.8 years on average (median of 5.1 years).

Families using vouchers appear to spend less time on assistance, but their average stay is understated due to the recent influx of half a million new voucher families in the 1990s. Overall, about 41 percent of families have received housing assistance for more than 5 years. [See the figure.] Some have received assistance for generations. Welfare reform demonstrated that even harder-to-serve beneficiaries can become self-sufficient if given the right incentives; similarly, many families receiving housing assistance can make the transition to work and the private housing market.

Promising Reforms. In 1996, Congress enacted the Moving to Work (MTW) program, which let 32 public housing authorities experiment with reforms to encourage independence. More recently, the Bush administration has proposed additional measures. These promising reforms should be adopted widely:

Time Limits. Welfare reform imposed a five-year time limit on the receipt of benefits, with encouraging results. Likewise, restricting able-bodied housing recipients to a limited stay would encourage their transition to self-sufficiency. The Gateway program in Charlotte, N.C., for example, has a seven-year voluntary time limit on housing assistance; recipients are encouraged to participate by rewarding them with newer housing units. Meanwhile, the Delaware State Housing Authority has adopted a mandatory five-year limit for able-bodied recipients.

Flexible Rent Policy. To reduce the marginal taxes on work imposed by current housing policy, the Bush administration wants to give housing authorities greater administrative flexibility over vouchers. For example, housing authorities would be allowed to set flat rents that do not rise with income.

Some housing authorities have already addressed this issue by allowing recipients whose incomes rise above a certain threshold to contribute a portion of their rent into an escrow account for future housing needs. In Delaware, for instance, about 84 percent of its MTW participants have savings accounts, with an average balance close to $2,000.

Block Grants. Similar to TANF's state block grants, consolidating funds for housing assistance into a lump sum to local housing authorities would provide incentives to stretch resources as far as possible.

Conclusion. About 70 percent of poverty-level families are able to provide for their own housing without government assistance. Through work, the majority of poor families gradually increase their incomes to rise above poverty. Welfare reform demonstrated that putting conditions on benefits is an effective first step toward this transition. Housing assistance reform has the potential to do even more.

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