

Reforming housing assistance to better respond to recipient needs

Robert Collinson, Ingrid Gould Ellen, and Jens Ludwig

TAKEAWAYS

Only a fraction of people whose incomes qualify them for housing assistance receive help.

The types of housing assistance available have changed over time but still do not meet the need as effectively as it could.

Housing assistance should be designed to better reflect local and regional realities, including differences in cost of living, availability of rental properties, and unemployment rates.

Expansions of housing assistance should be carefully designed to reduce inflationary effects and broaden the set of neighborhoods open to recipients.

If resources continue to be limited, government should experiment with providing smaller or more time-limited subsidies to a larger number of people.



**Institute for
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UNIVERSITY OF WISCONSIN-MADISON

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Federal housing policy in the United States is complex in both its structure and its implementation. It is enacted through a variety of programs at the federal level, but administered in many cases at the state, county, or local level. In addition, it is intended to achieve several goals, including reducing homelessness, alleviating the budgetary strains on low-income families when their rental costs consume an unsustainable portion of their income, and improving both the quality of housing that families occupy and surrounding neighborhood conditions.

In our paper “Reforming Housing Assistance,”¹ we review evidence on the effectiveness of the three main federal vehicles for providing housing assistance to low-income families, lay out current challenges and potential improvements to each program, and propose further research needed to fully inform future policy initiatives.

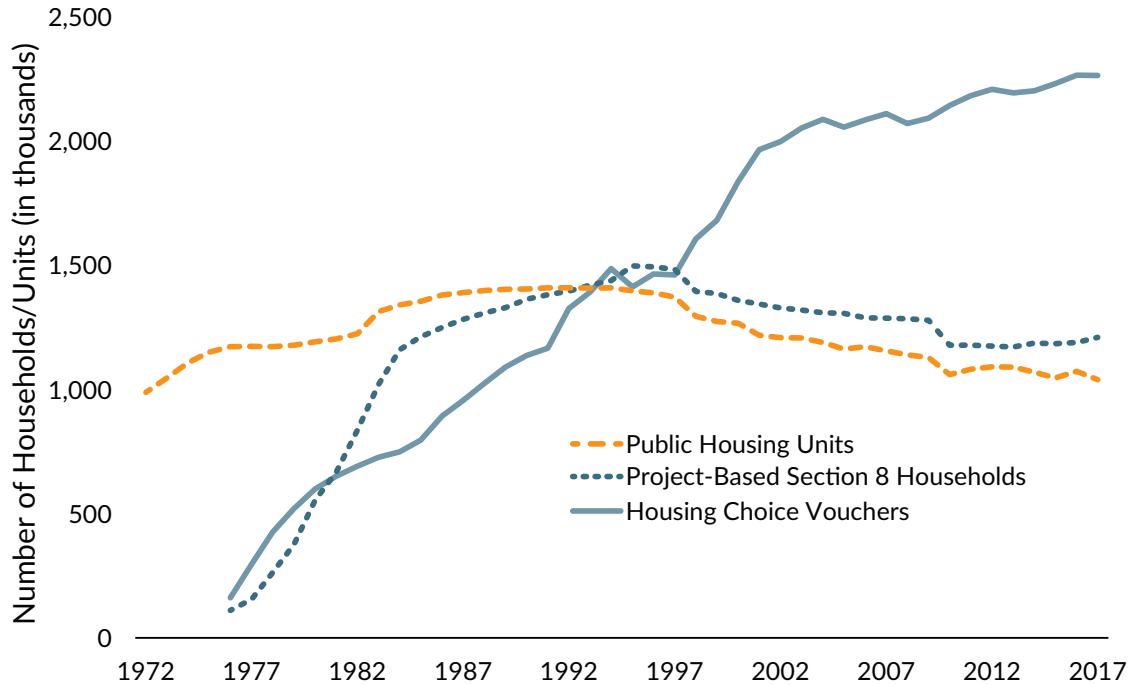
We recommend changes to current federal housing assistance programs so that they can more effectively serve people living in poverty. These include improving how programs take into account regional and state-level variations in the cost and availability of housing, reassessing the level and duration of assistance and to whom it should be targeted, and broadening the set of homes available to recipients of housing assistance beyond those located in areas that are low-income and predominantly Black or Hispanic.

Each year, almost 10 million people in about 4.5 million households receive one of these forms of housing assistance through HUD. The average income of households receiving this assistance falls between \$12,000 and \$15,000, and many are either headed by an elderly individual or include a person living with a disability.

The landscape of housing assistance

Of the three main federal housing programs, two—public housing and subsidies for privately-owned housing—are tied to location, while the third—housing vouchers—can move with the tenant. While there are some differences in eligibility criteria by program, all forms are limited to low-income households. Each year, almost 10 million people in about 4.5 million households receive one of these forms of housing assistance through HUD. The average income of households receiving this assistance falls between \$12,000 and \$15,000, and many are either headed by

Figure 1. Public housing and project-based households have declined slightly since 1992, while the number of housing choice vouchers has grown substantially.



Source: Public Housing, Tenant-Based Voucher, and Project-Based Section 8 come from HUD's Annual Performance Report 1999–2013. See https://www.hud.gov/program_offices/spm/appr. Pre-1998 numbers for HUD programs come from Olsen (2003).

an elderly individual or include a person living with a disability. The Low-Income Housing Tax Credit (LIHTC) meanwhile subsidizes 2.2 million housing units.

The number of public housing units grew steadily from the mid-1950s until the mid-1970s, at which point the preference shifted to subsidies for privately-owned low-income housing, and vouchers given directly to low-income renters. Voucher provision saw the most growth through the 1990s, but since 2000, spending on public housing has stagnated.

Any examination and assessment of housing assistance must be viewed through the lens of availability. While other means-tested supports are available to anyone who qualifies, given current funding levels, only about 25% of households that meet the eligibility criteria for housing assistance receive it, and wait lists can be long. To further compound the challenges faced by voucher holders, the most recent study² estimated that three in ten households with vouchers are unsuccessful in using them, and found that close to four in ten households were unable to use their vouchers in more competitive housing markets.

One reason that those who receive voucher-based housing assistance may face difficulties in finding suitable housing is that they experience discrimination from landlords, even when it is illegal to do so. This discrimination has been documented in particular in areas in which few poor people are living. This means that the goal of reducing high concentrations of very poor residents is harder to achieve because they are shut out of more affluent neighborhoods.

Public housing

Public housing was the first large-scale housing program to provide support to low-income families in the mid-20th century. For many, it is these large-scale developments, or “the projects,” that epitomize public housing, and have negative connotations as substandard, segregated, and dangerous places to

live. That image obscures the reality of the conditions out of which people were moving and ignores the fact that many of the worst public housing developments were demolished under the Housing and Urban Development (HUD) HOPE VI program, which began in 1993. But racial segregation was a reality, with 72% of public housing in the 1960s being occupied by people of a single racial group, African Americans, which was often encouraged and enforced by local politicians.³

Established by the Housing Act of 1937, construction of public housing was meant to be paid for by the federal government, after which local housing authorities were to operate and maintain the buildings and units. The expectation was that the rents collected at the local level would pay for management, operation, and upkeep. But that revenue proved insufficient and, in 1974, HUD stepped in to help close resource gaps and to assist with renovations and capital improvements. Even so, a HUD study released in 2010 found that the 1.1 million public housing units nationwide were severely lacking, needing \$25 billion in capital improvements.⁴

Another challenge for public housing is location. Organized resistance to public housing siting proposals was more successful in higher-income neighborhoods with smaller minority populations. As a result, public housing developments were more frequently located in lower-income, minority neighborhoods with fewer public resources and often including lower-performing schools.⁵

Trying to find ways to stretch housing dollars further and addressing the issue of access in the absence of expanding available funding is essential. Housing is expensive, and at current funding levels, existing programs can only serve one in four eligible households.

Public housing and children

According to 2017 data compiled by HUD⁶, 38% of households in public housing include children. Past research has found that regardless of race, families in public housing were 16% less likely to experience overcrowding, which can have positive effects on children.⁷ Academic achievement measured by rates of being held back a grade were no worse for White children in public housing, and their Black peers experienced a 19% reduction in having to repeat a grade relative to Black children from families with similar incomes but not living in public housing. It is important to note, however, that there is evidence that some schools in higher-poverty areas are less likely to hold children back.

Recent research compared siblings who had spent time living in public housing in order to draw conclusions about how the housing situation influenced their experiences later in life.⁸ While the study design could not completely eliminate other factors that might contribute to siblings having different outcomes, the comparisons are suggestive.

The data show that longer stays in public housing had a positive effect on earnings as an adult. In fact, they found that every year spent as a teenager in public housing added 4 to 5% in earnings at age 26. And when that effect is extended over a public housing resident's working life, each of those years adds more than \$40,000 in lifetime earnings. In addition, time spent living in public housing as a child correlates with lower levels of adult incarceration, which is especially significant given that the populations of both public housing and prisons and jails are disproportionately people of color.

Public housing and labor

One economic consideration of public housing is whether there is an impact on labor supply. The thinking on this has shifted significantly over the years. In the early years of public housing programs, economists believed these high-density developments would provide local businesses access to employable adults. But a review of literature done within the last two decades asserted that housing assistance in general does not tend to augment the workforce.⁹ In fact, a more comprehensive study that used data from the Survey of Income and Program Participation (SIPP) found that public housing residents had earnings that were 19% lower than their SIPP counterparts who lived in a different type of residence.¹⁰ One explanation for their lower earnings is the high percentage of public housing residents who are living with a disability, as noted above.

Federally subsidized private developments

The limitations and shortcomings of public housing called for a different location-based approach. In the 1960s, the federal government began giving subsidies to private developers in exchange for agreements to provide a prescribed number of low-income units to eligible renters for a set number of years. This Section 8 New Construction and Substantial Rehabilitation program served a population with slightly higher incomes than those in public housing until the mid-1980s.

As project-based Section 8 was phased out, a new program was developed to support construction of new housing with guaranteed access for those qualifying for housing assistance. The Low-Income Housing Tax Credit (LIHTC) was established in the Tax Reform Act of 1986 and is administered by the Treasury Department. Instead of a cash subsidy paid to developers, LIHTC provides tax credits to states each year on a per capita basis. Each state then grants the tax credits to developers who are either building or rehabilitating housing that will be available to low-income renters according to federal formulas. In order to receive the tax credit for the maximum ten years, developers must meet the program requirements for at least 30 years.

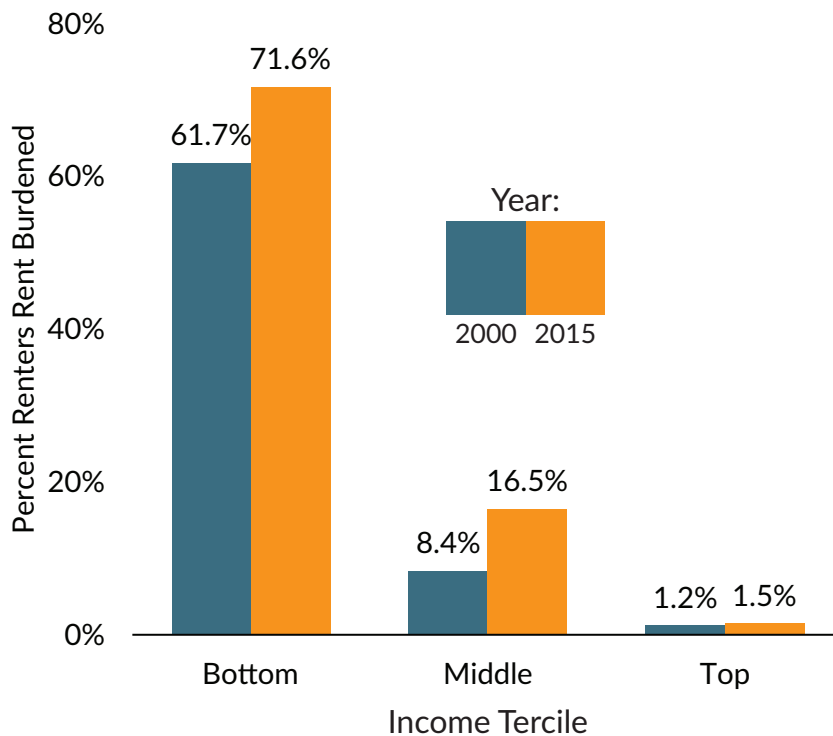
There are significant gaps in available data on how families in LIHTC housing fare, and what is available shows mixed results. Some LIHTC incentives encourage development in poorer areas (QCT) and others in potentially better-off areas (DDA). LIHTC renters' neighborhoods appear to have virtually the same poverty levels and slightly higher minority populations and crime levels than average neighborhoods where poor people live.

Research suggests that the effect of LIHTC developments on surrounding neighborhoods varies with context. For example, when LIHTC housing is built in a low-income neighborhood, it tends to increase housing values, lower crime, and attract nonminority home buyers. When a LIHTC project is located in a higher-income, predominantly White neighborhood however, it has a small negative effect on housing values, brings in more lower-income homeowners, but does not have detectable effects on the crime rate or the racial make-up.

Housing vouchers

Housing vouchers are the only active form of federal housing assistance tied to the recipient instead of the location. According to 2017 HUD data, this program serves over 5 million individuals compared to slightly more than 2 million people each who utilize either public housing or project-based Section 8 housing. While the populations across the three types of housing are quite similar in terms of average household income and percentage of local area median income, other significant demographic differences exist. For example, 44% of households receiving housing vouchers include children, compared to 38% in

Figure 2. Renters in the bottom third of income levels are much more likely than higher income renters to be rent burdened, and the rate of rent burden has grown since 2000.



Source: Authors' calculations using data are from Integrated Public use microdata Series (IPUMS) American Community Survey (ACS) 2000, 2015 (Ruggles et al. 2019).

public housing and 28% in project-based Section 8. Forty percent of the family units using housing vouchers are a female head of household with children, versus 38 and 28% for the other types of housing assistance, respectively.

Several positive outcomes can be traced to using housing vouchers. Two HUD-supported, random-assignment studies (the Family Options Study and the Welfare to Work experiment) show that the receipt of a voucher relative to not having a housing subsidy reduces homelessness and the probability of being overcrowded or doubling up with another household.

Research also shows that housing vouchers are an important way to reduce the portion of a family's income spent on rent because the program is structured to limit rent expenses to 30%. In fact, when comparing voucher recipients to those who did not get a subsidy in greater Chicago, one study found that households with vouchers paid about 27% of their reported income on rent, compared to approximately 58% by the other group.¹¹ Again, research from the Welfare to Work (WtW) experiment found similar results.

Evidence of other effects of housing voucher use are more mixed. When the same Chicago population was analyzed, those with vouchers were slightly more likely to move overall, and the WtW study found that the group receiving vouchers was slightly less likely. Other conditions are negligibly affected by whether a household receives a housing voucher or

not. Those include the poverty rate of the neighborhood to which they move, and the proficiency rates of students in the local school.

In terms of the impact on use of the Temporary Assistance for Needy Families program (TANF), both the earlier WtW data and the Chicago housing voucher study found an increase in TANF receipt. This held true through eight years, though newer research indicates that the effect went away after 14 years. That research also examined effects on children whose families receive housing vouchers. The results are mixed. Data on children in Chicago show that there were no detectable changes in school achievement, overall health, or whether children would be involved in the criminal justice system.¹²

By contrast, other research found a small overall improvement on math and English testing for students in New York City who lived in a household with a housing voucher.¹³ But drilling down in the data shows that improvement was true for White, Hispanic, and Asian children, but not for Black children. Further, for families who go from living in a shelter to using a housing voucher, there is evidence that children may fare better in terms of executive functioning and better sleep and behavior.¹⁴

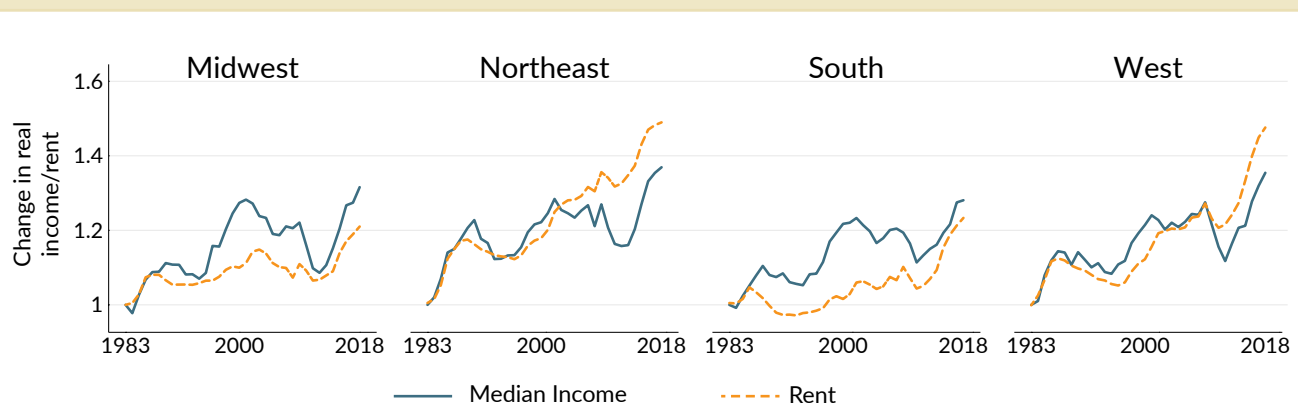
Policy recommendations

Any reforms to housing assistance programs should be undertaken with the goal of maximizing the positive effects on households living in poverty while minimizing negative impacts. While federal housing programs reduce rent burdens and help many people remain stably housed, we identify several ways in which they fall short of their promise. We recommend a set of reforms that address three key challenges:

- market conditions and availability of housing stock that vary greatly in different areas of the country, and even in different parts of individual states;
- determining who should be prioritized for assistance, the amount of support and the length of time that it is available; and
- the likelihood that homes available to recipients of housing assistance are located in areas that are low-income and racially segregated.

Housing assistance should move away from a “one size fits most” model to account for differences in regional housing availability and costs, as well as different conditions that can occur in urban vs. suburban vs. rural markets. A revised formula could also incorporate local employment statistics and available rental unit scarcity or abundance. We also recommend moving away a system that provides the same type of subsidies regardless of market conditions.

Figure 3. Growth costs have outpaced the growth in income in the Northeast and West.



Source: Rent Series: Consumer Price Index, Residential Rent index and Less-Shelter Index. Bureau of Labor Statistics. <https://www.bls.gov/cpi/data.htm> Income Series: Authors' calculation: Data are from Integrated Public use microdata Series (IPUMS) Current Population Survey (CPS) 1980–2017 (Flood et al. 2018).

Instead, we call for federal programs to prioritize tenant-based assistance and renovation subsidies in markets with high vacancy rates while targeting subsidies for new construction to areas with low vacancy rates.

To help more families with children reach high-opportunity neighborhoods, we recommend that Congress add source of income (such as paying rent with a housing voucher) as a protected class under the Fair Housing Act, mandate broader adoption of neighborhood-based rent subsidies (which offer larger subsidies in higher rent neighborhoods), and provide additional support to local housing authorities to recruit voucher landlords. Counseling and other supports for voucher holders with children could also help them successfully use their vouchers in a broader set of neighborhoods.

Trying to find ways to stretch housing dollars further and addressing the issue of access in the absence of expanding available funding is essential. Housing is expensive, and at current funding levels, existing programs can only serve one in four eligible households. Given present funding constraints, we call for greater attention to targeting subsidies to the neediest households and encourage more experimentation with shallower or shorter-term subsidies to reach more households, more quickly.

Finally, if the political environment allows for the expansion of the housing choice voucher program that the Biden campaign proposed, we recommend moving to a subsidy in which renters can pocket the difference between the maximum subsidy and some share of their income, to limit inflationary impacts. ■

Robert Collinson is the Wilson Family LEO Assistant Professor in the Department of Economics at University of Notre Dame.

Ingrid Gould Ellen is the Paulette Goddard Professor of Urban Policy and Planning at New York University and a faculty director at the NYU Furman Center.

Jens Ludwig is the Edwin A. and Betty L. Bergman Distinguished Service Professor at the University of Chicago, research associate of the National Bureau of Economic Research, director of the University of Chicago Crime Lab, and codirector of the Urban Education Lab.

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