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VOUCHERS: A WAY TO PROVIDE BETTER HOUSING FOR AMERICA'S POOR

INTRODUCTION

It has become increasingly evident to lawmakers that America's low-income housing programs need a drastic overhaul. Most major cities are blighted by public housing projects that have become neighborhoods of hopelessness and decay. And the cost of public sector-financed housing typically is 40 percent higher than private costs--meaning the same expenditures serve fewer families.

The Reagan Administration has sought to change the direction of federal low-income housing policy by a voucher program designed to help families obtain housing in the private sector at lower cost. This program is the cornerstone of the Reagan Administration's housing policy. Housing vouchers would provide low-income Americans with the funds to exercise real choice in the rental market. Vouchers also would tackle the two main housing problems of low-income Americans. The first of these is rental costs. Since there now exists an adequate national stock of decent housing, the issue for poor families is affordability, not supply. The second problem is that the poor find it difficult to move to new neighborhoods for better jobs or education when they are effectively confined to public housing and other government-sponsored projects. These supply-based programs prevent families from pursuing the best employment, educational, and social opportunities.

Affording Market Rents. Both problems are alleviated by vouchers, which provide families with the means to pay market rents and place few limits on their movement or place of residence. Moreover, because of the enormous cost of housing families in newly constructed buildings, vouchers enabling the poor to use the existing rental market make it possible to house more than twice as many families for the same outlays.

Congress approved a fledgling voucher program in 1983. As of this February, however, fewer than 20,000 vouchers were in use, although over 5 million federally assisted families hypothetically qualified for vouchers. The slow pace at which vouchers have been made available to poor families raises serious questions about the willingness of Congress to consider practical alternatives to the disastrous housing policies of the past. It also casts doubt on the Reagan Administration's sincerity regarding vouchers and on the chances for establishing a permanent national voucher program.

Make or Break. Politically, the next two years will probably make or break the voucher program. In January 1989, the new Administration will submit the Fiscal 1990 federal budget, which must reauthorize Section 8 Existing certificates, the precursors to vouchers. Under the Section 8 program, in which the housing is built and operated by the private sector, landlords must enroll, and the government then pays them the difference between 30 percent of a tenant's income (which he or she must pay to the landlord) and the assessed "fair market rent" for the unit. Currently there are about 880,000 Section 8 certificates in the field. Compared with vouchers, these certificates are very attractive to public housing authority (PHA) bureaucrats, because they provide larger administrative fees. In addition, Section 8 certificates are lucrative for private landlords. So there is strong support for the program.

Thus, should Congress in 1989 be faced with the choice of converting 880,000 Section 8 certificates into vouchers or abandoning a fledgling voucher program, it is unlikely that the voucher program, which provides more benefits to the poor family, will survive. This would be a grave loss for America's poor families and taxpayers. The poor stand to lose the advantages of mobility and the opportunity to match their housing desires with their budgets.

Congressional Footdragging. The Reagan Administration and Congress have been aware of the advantages of vouchers at least since the 1982 Report of the President's Commission on Housing. Since then, much of the delay in establishing a nationwide voucher program has been caused by congressional footdragging. But the Administration also must share the blame, for it failed to ask Congress for any new vouchers for FY 1986 and FY 1987 in its FY 1986 budget.

Because of this, there will be just 125,000 vouchers available for use when the current fiscal year ends on September 30. This relatively small number of participants means that a significant political constituency has not yet been created for vouchers. The program thus is in jeopardy. To prevent this, the Reagan Administration must press Congress to establish a full-scale voucher program and to make a commitment to replace Section 8 certificates and deteriorating public and assisted housing with vouchers. To achieve this:

1) In the FY 1988 and FY 1989 budgets, new housing units should be made available to the poor only through vouchers, at a level of 100,000 additional vouchers per year.

2) The FY 1989 budget should replace expiring Section 8 certificates with vouchers.

3) The U.S. Department of Housing and Urban Development (HUD) should move rapidly to deliver the 125,000 available vouchers to the poor.

4) Fee disparities, which induce Public Housing Authorities (PHAs) to issue Section 8 certificates before vouchers, should be eliminated, preferably by reducing the fatter Section 8 fees--a move that Congress so far has prevented.

5) Plans should be developed to use vouchers to replace units constructed under Section 8 and other new construction programs as their financing and contracts expire.

6) Deteriorating public housing stock should be replaced with vouchers.

Without such measures, which establish vouchers as the dominant, and ultimately the only, federal housing assistance program, the current hodgepodge of expensive housing programs is likely to continue as a disservice to the poor and a burden to the taxpayer.

VOUCHERS AND THE ALTERNATIVES

It is now widely accepted that successful welfare reform hinges on the availability of employment and training for welfare recipients. Employment opportunities depend in large part on the ability of those seeking jobs to relocate near available jobs. U.S. history is a testimony to the extraordinary geographical mobility of the American worker. Yet public housing and other construction programs limit the mobility of the poor and thus their access to employment and training. The use of housing vouchers is the only current housing strategy that can give poor families the flexibility to pursue jobs.

Another advantage of vouchers is their cost effectiveness, compared to alternative housing programs. Construction of housing under federal programs, for example, has been costing 20 to 40 percent more per unit than privately built and operated units. In all, the taxpayer cost of new housing for a typical low-income family was over $6,000 per year in 1981, more than twice the cost of housing a family with Section 8 certificates or vouchers. On an equivalent basis, housing a family through new construction today would cost over $8,000 per year.

Poorly Serving Poor Families. The trouble is that despite this high cost, poor families have not been well served. Those who could obtain federally owned or assisted housing often found themselves in badly located, dismal projects, far away from available jobs and education. Federal and local governments, concerned about the concentration of poor families in the cities, attempted to force low-income housing into middle-class and suburban areas--with no great success and much vocal resistance.

Earlier recognition of these problems had already led to the exploration of alternatives. In 1972, Congress launched the Experimental Housing Allowance Program (EHAP). This demonstration was designed to test all the aspects of a voucher-style program in 16 sites across the nation, from the effects on demand for housing and supply of housing, to the success of families in finding units, using vouchers and the effect of including a "shoppers incentive" by allowing families to keep the money they saved on rent. In fact, EHAP aid proved the potential for success of a nationwide voucher program over seven years of exhaustive data gathering. In 1974, even while the EHAP was being conducted, Congress authorized the Section 8 Existing housing program, which provided rent subsidies for families living in certain existing private rental housing. By 1981 this program was providing housing for less than half the cost of new construction programs.

Building on these experiences and on studies revealing that there is an adequate supply of standard housing, the President's Commission on Housing in 1982 recommended that housing assistance rely primarily on a voucher program.[1]

Two Choices. Since most lawmakers have recognized that new housing construction is much too costly, Congress and the Administration since 1981 have had only two practical choices for providing housing to the poor: vouchers or the Section 8 Existing program. Both address the needs of poor families, those whose household incomes fall below 50 percent of the median in the area in which they live.

The Section 8 program provides certificates to renters that allow the landlord to obtain a subsidy for housing the certificate holder. Both the voucher program and the certificate program supplement the tenant's direct payment of rent, thereby allowing poor families to obtain affordable housing.

How Section 8 Works

A Section 8 family can rent any apartment within the jurisdiction of its Public Housing Authority (PHA) that is available at a rent below what is known as the "Fair Market Rent" (FMR). The FMR is set at the rent paid by at least 45 percent of the families moving within a market area in the most recent two years. This means that poor families theoretically can reside in housing units at least as good as those occupied by 45 percent of the area's inhabitants.

In recent years, the PHA has had the flexibility to write contracts with any landlord the tenant wishes--so long as the unit's rental is below the FMR. In practice, however, tenants and the PHAs deal mainly with already participating Section 8 landlords. One reason for this is that under the Section 8 program landlords must rent their units initially for no more than the FMR. However, rent of each unit is automatically adjusted each year to compensate for inflation--regardless of the state of the rental market, in which rents might even be falling. The federal subsidy to landlords rises according to this rent adjustment. If these adjusted rents rise significantly above the actual market, HUD can require that they be brought back into line with market conditions when the units are vacated or rerented. But in practice there is always a tendency for such action to lag behind rent increases, and further, HUD can be fiercely resisted by well-connected local landlords and politicians. The result is that in most markets the annual adjustment effectively means a guaranteed rent increase and more money from Uncle Sam. Not surprisingly, landlords like Section 8.

A second reason why PHAs stay with existing landlords is that paperwork and inspection requirements are greatly simplified for officials who deal with an established stable of landlords.

How Vouchers Work

A poor family using a housing voucher is not constrained by the Section 8 conditions that prevent a family from paying more than 30 percent of its income for rent. With a

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1. The Report of the President's Commission on Housing (Washington, D.C.: U.S. Government Printing Office, 1982), p. 18.

voucher, a family could choose to pay more and locate in a suburban section of its PHA's market area, near good schools and employment prospects. The vouchers thus provide valuable economic, educational, and social flexibility. In contrast to a Section 8 certificate, a voucher has universal "portability."

The value of the voucher paid to a family is based on the difference between the Payment Standard (identical to the Section 8 FMR in the first year) and 30 percent of the family's income, after the income is adjusted for the number of dependents and such items as high medical costs. The Payment Standard can be adjusted by the PHA twice in five years, but cannot exceed the FMR. The voucher amount is thus a fixed value for the family. Because the voucher amount is independent of actual rents in a particular location, it is simpler to administer than Section 8, with its complex FMR standard and annual rent adjustments for the landlords. Because the voucher calculations are only a fraction of the family's income and the fixed local Payment Standard, it is easier for families to move, not just within the city of their PHA's jurisdiction--or even within a single metropolitan area--but anywhere in the U.S. where jobs, educational opportunities, or family or community ties beckon. Project-based programs, such as public housing, do not allow this mobility nor does the Section 8 program.

Consumer Power For the Poor. While a few PHAs have established some Section 8 arrangements to allow limited mobility in a few metropolitan areas, the arrangements involve very complicated contracting, and current law allows HUD only to encourage, not require, PHAs to use certificates in this way. A PHA participating in the voucher program, on the other hand, is required to accept any voucher holder who wishes to move into the PHA's jurisdiction. Currently, however, the overwhelming majority of PHAs do not yet participate in the voucher program; nonparticipating PHAs cannot be required to accept vouchers.

Since the eligible family pays every dollar of the rent above the value of the voucher, the program encourages tenants to bargain with their prospective landlords. This gives the poor family consumer power and thus creates a true housing market. Under Section 8, by contrast, tenants do not care what the rent is, because it is the federal government who pays any rental costs exceeding 30 percent of family income. While the voucher also is designed to enable the family to pay no more than 30 percent of its income for housing in most areas, the family can pay more if it desires. The family also can accept cheaper but sound housing and keep the difference. This too encourages the family to seek out and bargain for the best housing buy at the lowest price. Preliminary figures from the current voucher demonstration indicate that a significant percentage of families--as high as 40 percent--may be able to take advantage of this opportunity to shop around and pay less than 30 percent of their income.

Cutting Housing Costs. Vouchers are also an effective way to reduce the cost of housing to the poor. Private sector costs for building and maintaining housing units are as much as 40 percent lower than public sector costs, because of bureaucratic red tape costs associated with federal programs as well as cost increases rising from Davis-Bacon wage rates and other construction regulations.[2]

Vouchers are the fastest way to house poor families, since vouchers avoid the three to five year lead time required to plan and build new units. And except for New York City

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2. Schnare, et al., The Cost of HUD Multifamily Housing Programs (Cambridge, Massachusetts: Urban Systems Research and Engineering Inc., May 1982), Vol. 1, pp. S-6, S-15.

and a few other locales, which suffer from rental housing shortages because the supply is artificially constricted by rent and development controls, the private market across the U.S. has created vast supplies of inexpensive, standard quality housing. Indeed, the national vacancy level exceeds 6 percent. Thus there is a plentiful supply of housing to be rented with vouchers.

Criticisms of Vouchers

Most of the criticism of housing vouchers comes from PHAs and so-called tenants' advocates. PHAs resist vouchers because they thereby lose control of housing units; tenants' advocates tend to trust direct government construction programs rather than market situations. What critics of vouchers really seem to be after is a resumption of housing construction programs--despite the huge cost, the delays of such programs, and the fact that building new units could serve only one-third as many families as would be served by vouchers. Congress is already considering a housing authorization bill for 10,000 new units of public housing, a subsidy program of unknown real costs called Nehemiah projects, and additional funding for the Housing Development Grant program. Congress in 1986 despaired of new construction and diverted funds for new public housing units into modernization of existing public housing units, which are deteriorating and dropping out of the available stock faster than they can be replaced. Such pressure for new construction will continue each year until vouchers are established as a full program and have had a chance to work in harmony with the private market.

Families With Many Children. The arguments against the voucher program typi the private market will not provide adequate housing supplies. [3]This is belied by the actual market surpluses of housing. Another argument is that there is a portion of the market that cannot be served by the private market. Here critics point to families with vouchers who are unable or unwilling to locate acceptable units to rent, but such failures to find housing are usually related to renters' intense desire to remain in their current apartments or neighborhoods. [4]

Admittedly, minority families and those with many children have experienced greater difficulty in finding new units. But this does not mean that an inherent flaw exists in the voucher program, since exactly these families also are very difficult to serve adequately in other housing programs. Project-based housing programs, for instance, have been plagued with segregation, vandalism, and violence against minority families. All that is needed is an adjustment in the voucher subsidy to account for special needs. In fact, HUD is attempting to compensate for those difficulties by providing increased subsidies for larger families so they can afford larger apartments. HUD is now also paying PHAs a bonus to provide extra help to hard-to-house families.

Benefits of Improved Mobility. Some PHAs and tenant advocates argue that a voucher system with no limits on mobility will mean that some PHAs will lose vouchers as families leave the jurisdiction, leaving fewer vouchers in these jurisdictions for other families' housing. Given the nature of the congressional system, where representatives are judged by their ability to secure federal largess for their districts, this is a powerful political

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3. W. John Moore, "Expiring Subsidies," National Journal, August 2, 1986, pp. 1887-1888; Mary K. Nenno and Cecil E. Sears, "Rental Housing: Outlook for the Low-Income," Journal of Housing, September/October 1985, pp. 174-176; Joann Lublin, "Uncertain Solution: Vouchers for Housing Help Some of the Poor, Fail to Benefit Others," The Wall Street Journal, November 19, 1986, p. 1.

4. Wallace, et al., Participation and Benefits of the Urban Section 8 Program: New Construction and Existing Housing (Cambridge, Massachusetts: Abt Associates, Inc., January 1981), Vol. 1, p. 259.

argument, even though from a national standpoint the housing needs of the total population of poor families are being addressed by vouchers. Simply put, it is impossible to provide mobility without some PHAs losing control over the lives of some resident poor families. But experience indicates that few voucher holders are likely to leave a jurisdiction in any one year.

In response to congressional pressure, HUD has allowed PHAs to limit to 15 percent of their allotment the number of vouchers that can be used by families to move to another jurisdiction. PHAs have been lobbying to reduce the percentage even further. But this would undermine the benefits of improved mobility associated with vouchers. Thus HUD should strenuously oppose any decrease in this percentage when it develops final regulations for a comprehensive program.

HOW CONGRESS AND THE WHITE HOUSE UNDERMINE VOUCHERS

The voucher pilot program so far has issued only 20,000 vouchers, almost all in limited demonstrations. There thus has been little opportunity to show the benefits of vouchers and little or no opportunity to make effective use of interjurisdictional mobility, even within metropolitan areas. This situation is the result of actions by Congress and unwise budget decisions by the Reagan Office of Management and Budget. The situation can be remedied, but immediate action is required.

Congressional Roadblocks : Congress has tried to scuttle the voucher program by insisting in 1983 that vouchers be operated as a demonstration, rather than a full program. The value of vouchers already has been demonstrated. In fact, vouchers are one of the most fully demonstrated housing programs in history.

By requiring yet another demonstration in the Fiscal 1984 HUD appropriations, Congress delayed the start of a full program by over a year. The year was the length of time required for HUD to design a "scientific" demonstration to test all the factors Congress wished tested and then to contract with a research firm that would select PHAs for the demonstration. Only after this was done could the demonstration begin. But Congress permitted only about 5,000 vouchers to be used for the demonstration, a tiny proportion of all the federally subsidized families.

Congress found yet another way to delay vouchers in tying another 40,000 vouchers to the Administration's Rental Rehabilitation program. By this, Congress required that a unit first be rehabilitated by the federal government before a voucher could be issued and used. This added another 18 months of delay; predictably, almost none of these vouchers have yet been used. The only reason the number of vouchers in force has reached 20,000 is that officials at HUD managed to create a second demonstration to "test" vouchers in smaller PHAs, to which they allocated an extra 4,500 vouchers.

Mistakes by OMB : In search of quick deficit relief, the Office of Management and Budget insisted on a Fiscal 1986 budget that allowed for no new housing support in Fiscal 1986 and 1987, in the form of vouchers or any other approach. Although Congress ignored the Administration's zero request, this put the Reagan White House in the curious position of lobbying against the launching of its own housing policy. In fact, Congress sided with HUD over OMB by voting for some vouchers. The final FY 1986 and FY 1987 housing appropriations included new public housing, Indian housing, Section 202 (elderly) housing, Section 8 Existing housing, and moderate rehabilitation units, as well as vouchers tied to the Rental Rehabilitation program. It was a hodgepodge in search of a policy. Total vouchers agreed to by Congress for the two years were less than 90,000, one-quarter of them for rehabilitation and other designated uses.

Seizing the Initiative: Federal funding for the construction of all the units built under the Section 8 New Construction and other new construction programs will end between now and the year 2005, and these units, free of federal debt, will pass out of the subsidized housing stock. Low-income housing advocates already have begun pressing Congress to keep the stock under federal subsidy and to provide incentives for developers. This stock will be increasingly expensive to subsidize as it deteriorates. It would be much more economical to allocate vouchers to replace those units as they go into the private market or are demolished. To date, however, the Administration has no plans to replace these units with vouchers.[5]

HUD currently is awaiting a study of the modernization needs of public housing. During the Reagan Administration's term of office, almost $8 billion has been authorized to rehabilitate public housing. It is expected that rehabilitating all public housing just to minimal standards will cost at least another $10 billion, and potentially up to $20 billion.

Expensive New Construction. Instead of spending $18 billion to $28 billion on reconstructing public housing projects of little real service to the poor, Congress and the Administration should consider the proposal by the President's Commission on Housing to allow public housing to be integrated into local housing markets under local control. Eventually, this would make it possible to replace public housing with vouchers, selling units to tenants and tenant management organizations where possible, allowing PHAs and private market forces to manage the units under normal market incentives. If the Administration does not propose such a solution for the replacement of low-income housing, it will leave the field open to advocates of expensive new construction.

RECOMMENDATIONS

If the voucher program is to continue beyond 1988, new momentum is needed. The advocates of new construction for years have been unable to make a persuasive case. The choice thus should be between Section 8 certificates and vouchers. In such a choice, vouchers should win. It would be unfair to leave poor families with the restricted options of the Section 8 program and to leave taxpayers with the unnecessary costs of an inferior program.

The Reagan Administration and Congress can take a number of steps to put vouchers on solid footing. The Administration has taken the first of these steps by building into its federal budget projections the assumption that vouchers will replace the expiring Section 8 certificates. That at least focuses the debate.

Beyond this, the Administration should:

◆◆ Press for full allocations of vouchers in its remaining budgets, at a level of at least 100,000 per year. If the currently available vouchers can be put into force, that would bring the voucher program to a respectable 300,000 units, large enough to build up a powerful

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5. Ibid.

constituency and thus discourage a future Congress from ending the program. Such a switch to vouchers would cost $1.2 billion each year, compared with more than $1.7 billion for housing those 300,000 families under the current mix of programs. It would be impossible to house these families entirely with new construction within three to five years, but, if attempted, would cost far in excess of $2 billion per year.

◆◆ Avoid quick budget fixes by cuts from the voucher program. This action by OMB would undermine long-term savings.

◆◆ Work with Congress to plan replacement of subsidized multifamily units with vouchers by the year 2005. In particular, planning should begin to carry out the recommendation of the President's Commission on Housing that public housing be converted to local responsibility, and that vouchers be used to enable public housing units to enter the local housing markets with the goal of including an item in the FY 1989 budget and out-year projections.

◆◆ See that HUD pressures Congress to speed the voucher program, so that more low-income families can be housed at reduced cost to the taxpayer. In addition, the Administration must seek amendments to decouple vouchers from the Rental Rehabilitation program. And a final voucher regulation must be promulgated as soon as possible so that the program will not appear to be transient.

CONCLUSION

The Administration must establish vouchers as the centerpiece of the nation's low-income housing policy. By giving poor families the right to choose where they live and the incentive to bargain for top value for their rent dollar, vouchers would introduce market pressures, and better rental housing at lower cost to the taxpayer would follow. The improved flexibility and mobility associated with vouchers would help poor families to pursue optimum employment and education opportunities.

A full voucher program would be an historic change in America's low-income housing policy. It would mean a shift from a policy of subsidizing expensive construction to one of helping families to become powerful consumers in the existing and adequate rental market. That change of direction is long overdue.

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