Reducing Poverty by Reforming Housing Policy

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Low-income housing assistance is fertile ground for reforms that would provide better outcomes with less public spending. 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 and reduce taxes.[1]

Furthermore, the current system of low-income housing assistance provides enormous subsidies to some households while offering none to others that 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 substantially alleviate poverty with less public spending.

Overview of Current System

To appreciate the potential for alleviating poverty through housing policy reforms, it is essential to know the nature of current programs and the evidence about their performance.[2] The bulk of low-income housing assistance in the United States is funded by the federal government through a large number of programs with a combined cost of more than $50 billion a year. Unlike other major means-tested transfer programs in the US, low-income housing programs do not offer assistance to many of the poorest families that are eligible for them. Eligible families that want assistance must get on a waiting list.

Most low-income housing assistance in the US is for renting a unit, and the most important distinction among 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, families must accept the particular unit offered to receive assistance and lose the subsidy if they move, unless they 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, that rents for less than the program's ceiling, that is affordable with the help of the subsidy, and whose owner is willing to participate in the program. Families retain the subsidy if they move to another unit meeting these conditions. Figure 1 indicates the percentage of households that receive rental assistance of various types.

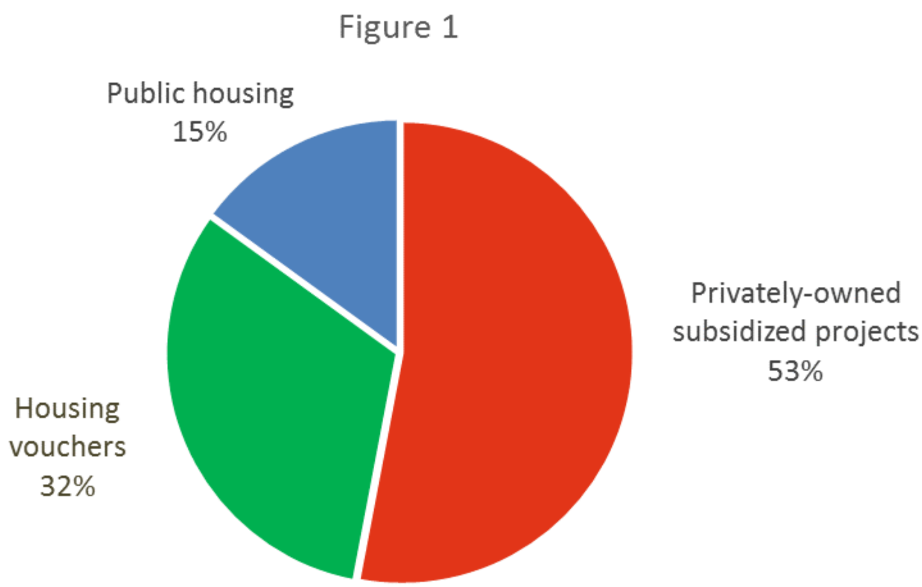

Figure 1. Percentage of Households That Receive Each Type of Rental Assistance

Source: Author's calculations based on 2013 American Housing Survey.

Note: Includes assistance from US Department of Housing and Urban Development and other sources.

The Department of Housing and Urban Development (HUD) housing voucher program is the only significant program that provides tenant-based assistance. It is the second-largest low-income housing program, serving about 2 million households and accounting for about 32 percent of all households that receive low-income rental assistance.

There are two broad types of project-based rental assistance: public housing and privately owned subsidized projects. Both types have usually involved constructing 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 68 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. For example, regulations limit the circumstances under which housing projects can be sold and what can be done with the proceeds. In the public housing program, government employees make most of the decisions that unsubsidized for-profit firms would make in the private market—what to build, how to maintain it, and when to tear it down.

Decisions about where to build projects have been heavily influenced by local political bodies. The public housing stock has declined by about 400,000 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. The largest programs of this type are the IRS's Low-Income Housing Tax Credit, HUD's Section 8 New Construction and Substantial Rehabilitation and Section 236 Rental and Cooperative Housing for Lower-Income Families programs, and the US Department of Agriculture'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. Subsidies to selected sellers lead to excessive profits and much greater wasteful rent seeking. About 4 million households live in projects of this type.

Performance of US Low-Income Housing Programs

Many aspects of the performance of low-income housing programs have been studied, such as their effects on recipients' labor earnings and the types of neighborhoods occupied by them.[3] We certainly do not 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. Enough evidence exists to give policymakers confidence that certain changes would move the program in the right direction. Making no change in current policies is a decision.

Of all the differences in the performance of various methods for delivering housing assistance to low-income families, differences in cost-effectiveness are by far the most consequential for poverty alleviation. Evidence on housing programs' performance indicates that project-based assistance is much more costly 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 same locality in the unsubsidized market. This measure accounts for the desirability of the neighborhood and the housing itself. In the best studies, the estimated magnitude of the excess cost is enormous.[4]

The best study of Section 8 New Construction and Substantial Rehabilitation, HUD's largest program that subsidized the construction of privately owned projects, found an excess total cost of at least 44 percent.[5] 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 of at least 72 percent for the same outcome. It implies that housing vouchers could have served all the people served by this program equally well and served 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.[6] More recent evidence has confirmed the large excess cost of the Section 8 New Construction and Substantial Rehabilitation Program, and US 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.[7] 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 modest cost of administering the program.[8]

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. In most cases, owners are paid substantially more than market rents for their units.[9]

The results concerning the cost-effectiveness of different housing programs illustrate the virtue of substantially relying on market mechanisms to achieve social goals, especially the virtue of forcing sellers to compete for business. 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 he or 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.

Recent events in Washington, DC, vividly illustrate the pitfalls of providing subsidies to selected suppliers.[10] The mayor has proposed spending about $4,500 per month per apartment to lease units in buildings owned mainly by contributors to her campaign. This cost does not include services to these families, and most units are dormitory style. It has been estimated that these agreements would increase the market value of the properties tenfold. At the same time, families with HUD’s Section 8 housing vouchers have been able to find regular two-bedroom apartments for rents around $1,600 a month. These are better than average rental units that meet HUD’s housing standards. The median rent of two-bedroom units in DC is about $1,400.

The evidence on cost-effectiveness argues strongly for phasing out project-based assistance in favor of tenant-based assistance. This would contribute greatly to poverty alleviation without spending more money by increasing the number of poor families that receive housing assistance.

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 more desirable 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 contribute 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 *PBS NewsHour* revealed that $500,000 had been spent per apartment to build a housing project for the homeless in San Francisco.[11] This is expensive even by Bay Area standards. The median value of owner-occupied houses in the San Francisco metro area was $558,000, and the median household income of their occupants was $104,000. So this government program provided apartments to the poorest families that were almost as expensive as the houses occupied by the average homeowner.

Ensuring 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 San Francisco 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 were vacant at the time.

In Portland, Oregon, 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.[12] These cases are not anomalies. The HUD website is filled with photographs of such housing. The desire of the people involved in the current system to provide the best possible housing for their clients is understandable. However, this is not costless. Dollars spent on these high-cost projects are dollars not spent providing housing to more people.

Tenant-based assistance has other important advantages in addition to its greater equity and its much lower cost for providing equally desirable housing. For example, it allows recipients to choose housing that better suits their preferences and circumstances, such as living close to their jobs. This increases their well-being without increasing taxpayer cost.

In contrast to occupants of subsidized housing projects, voucher recipients have chosen to live in neighborhoods with lower poverty and crime rates. Susin found that public housing tenants live in census tracts with poverty rates 8.8 percentage points higher than in the absence of assistance, tenants in HUD-subsidized privately owned projects live in tracts with poverty rates 2.6 percentage points higher, and voucher recipients live in tracts with poverty rates 2.3 percentage points lower.[13] Michael C. Lens, Ingrid Gould Ellen, and Katherine O'Regan found that occupants of tax-credit projects live in neighborhoods with crime rates about 30 percent higher than voucher recipients and only slightly lower than the crime rates in public housing neighborhoods.[14] Because voucher recipients have much more choice concerning the location of their housing, this suggests that subsidized housing projects are poorly located from the viewpoint of recipient preferences.

Voucher recipients have exercised this choice in a way that benefits their children. A widely cited, recent paper shows that better neighborhood environments lead to better adult outcomes for children in recipient households.[15] They have higher college attendance rates and labor earnings and are less likely to be single parents.

Before considering reforms of low-income housing policy, it is important to address a bit of folklore that has been influential in housing policy debates: that construction programs perform better than housing vouchers in tight housing markets. Todd Sinai and Joel Waldfogel show that additional housing vouchers result in a larger housing stock than the same number of newly built units in subsidized, privately owned housing projects.[16]

In light of other evidence, the most plausible explanations are that subsidized construction crowds out unsubsidized construction considerably and that the housing voucher program induces more recipients to live independently. The voucher program serves poorer households that are more likely to be doubled up in the absence of housing assistance. Crowding out is surely greatest in the tightest housing markets. In the absence of subsidized construction in these markets, unsubsidized construction would be high, and unemployment among construction workers would be low. Subsidized construction would divert workers from unsubsidized construction.

Furthermore, it is reasonable to believe tenant-based vouchers get families into satisfactory housing much faster than any construction program, even in the tightest housing markets. For example, the amount of time from when new vouchers are allocated to housing authorities to when they are used by voucher recipients is surely less than the amount of time from when new tax credits are allocated to state housing agencies to when tax-credit units are occupied.

Even though some households do not use the vouchers offered, housing authorities can put all, or almost all, their vouchers to use in less than a year in any market condition. They can fully utilize available vouchers by over-issuing vouchers early in the year and then adjusting the recycling of the vouchers that are returned by families that leave the program late in the year. No production program can hope to match this speed in providing housing assistance to low-income households.

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 that 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 phase out active construction programs.

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—active construction programs, existing privately owned housing projects, public housing, and the housing voucher program.

Active Subsidized Construction Programs. The Low-Income Housing Tax Credit (LIHTC) is the largest active construction program. It subsidizes the construction of more units each year than all other programs combined. LIHTC 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 2015. However, these projects received additional development subsidies from state and local governments, usually funded through federal intergovernmental grants, accounting for one-third of total development subsidies.[17] Therefore, the total development subsidies were about $9 billion a year.

Furthermore, the GAO 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.[18] The magnitude of these subsidies has never been documented. If their per-unit cost were equal to the per-unit cost of tenant-based housing vouchers in 2015, they would have added more than $8 billion a year to the cost of the tax-credit program. If so, the full cost of housing people in tax-credit projects would have been about $17 billion in 2015.

Unlike HUD's programs, the LIHTC is poorly targeted to the poorest households. Some tax credits are used to rehabilitate older housing projects built under HUD and US Department of Agriculture 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 do not receive these deep subsidies related to their income. Their average income is more than twice the average for the occupants who receive the deep subsidies, and they are well above poverty thresholds.[19]

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 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. About 25 percent of all unassisted households in the lowest real-income decile are homeowners.[20] To avoid excess profits to sellers, it is extremely important that buyers are able to purchase from any seller.[21]

Existing Privately Owned Subsidized Projects. The second broad proposal to reform low-income housing policy in the interest of poverty alleviation is to not renew contracts with the owners of private subsidized projects. The initial agreements that led to building or substantially rehabilitating these projects called for their owners to provide housing that meets 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 end their use agreements 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, 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. We should not repeat these mistakes. Instead we should give their tenants portable vouchers and force the owners to compete for their business. 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 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. Because these subsidies are provided to selected private suppliers, the market mechanism does not ensure 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—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 so: 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 income to rent, and it would offer the family other options that it might prefer.

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. 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. Contrary to the arguments of lobbyists for project-based housing assistance, failing to renew use agreements on subsidized housing projects increases rather than decreases the stock of housing that is affordable to low-income households.

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 reducing the concentration of the poorest families 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 give each housing authority the same amount of federal money as it would have gotten with the old system, so no authority would be able to object on the grounds that it would have less to spend on its clients. However, the proposal would alter greatly the restrictions on the use of this money and increase the total revenue of housing authorities.

The proposal requires every public housing authority to offer current tenants the option of a portable housing voucher or remaining in their current unit on the previous terms, unless the housing authority decides to demolish or sell its project. To ensure that housing authorities can pay for these vouchers with the money available, the generosity of the voucher subsidy 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. The generosity of these vouchers would almost always differ from the generosity of regular Section 8 vouchers, although the difference would be small in most cases.

Housing authorities would be allowed 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. 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.

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 is reasonable to expect that the vouchers will be accepted by more 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. 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 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, the standard procedure when projects are demolished or substantially rehabilitated. 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 reduce poverty concentrations 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 current regulations, at least 40 percent of new occupants must have extremely low incomes. 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 who 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 ensure 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 increasing 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 who remain in public housing would benefit from better maintenance of their units.

The only public housing tenants who might be hurt by the proposal are tenants who want to remain in the projects that housing authorities decide to sell. Since it is 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 prevent benefits to the majority. Generally, public housing redevelopment has not required occupants' consent.

Given the difficulty of predicting all of the consequences of such far-reaching changes, we should 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 consequences and achieve better outcomes.

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. The Housing Choice Voucher Program provides very large subsidies to its recipients while offering nothing to other families in similar circumstances.

In 2015, the national mean subsidy for a household with one adult, two children, and no countable income was almost $12,000. The poverty threshold for this family was about $20,000.

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 more 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 without housing assistance well below it.

In the interest of ameliorating this inequity and reducing poverty without harming current recipients, new recipients could be offered less generous subsidies so that more households could be served with a given budget, and current voucher recipients could receive the generous subsidies that are offered by the current program. Because more than 10 percent of voucher recipients exit the program each year, this initiative will allow more families to be served each year without spending more money and will improve the program's equity. Eventually, all participants in the same economic circumstances would receive the same lower subsidy.

The new subsidy level could be chosen so that the voucher program could serve all of the poorest households that asked for assistance. At current subsidy levels, many more people want to participate than can be served with the existing budget. Reducing the voucher subsidy by the same amount for households at all income levels would make families currently eligible for subsidies less than this amount ineligible for voucher assistance. These are the currently eligible households with the largest incomes. This would free up money to provide vouchers to needier households that would not have been served by the current system.

By reducing the subsidies sufficiently, we would reach a point where all of the poorest household that ask for assistance would get it. Olsen analyzes the effect of alternative reforms of this type on who is served by the voucher program.[22] This reform would surely reduce evictions and homelessness, although these effects have not been studied.

Conclusion

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, and subsidizing selected suppliers 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 the poorest families ineligible for assistance. The proposed reforms will gradually move the system of low-income assistance toward 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 ensures 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 is not 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 in homeless shelters, which are also subsidized. The best provide good housing.

Reducing the substantial differences in subsidies across identical households that characterize the current system would contribute further to poverty alleviation. It would help fill the gap between poverty thresholds and the resources of the poorest households. The current system provides substantial subsidies to recipients while failing to offer housing assistance 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. Because the most cost-effective program offers the same subsidy to identical recipients, the shift away from other programs toward it will focus more of the system's resources on the poorest families.

Notes

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[2] For a detailed overview of the current system of low-income housing assistance and a summary of the evidence, see Edgar O. Olsen, "Housing Programs for Low-Income Households," in *Means-Tested Transfer Programs in the U.S.*, ed. Robert Moffitt (Chicago: University of Chicago Press, 2003); and John C. Weicher, *Housing Policy at a Crossroads: The Why, How, and Who of Assistance Programs* (Washington, DC: AEI Press, 2012). For a more detailed account of the evidence, see Edgar O. Olsen and Jeff Zabel, "U.S. Housing Policy," in *Handbook of Regional and Urban Economics*, ed. Giles Duranton, J. Vernon Henderson, and William Strange, vol. 5 (Amsterdam: North-Holland, 2015).

[3] Olsen and Zabel, "U.S. Housing Policy."

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[8] Mayo et al., *Housing Allowances and Other Rental Assistance Programs—A Comparison Based on the Housing Allowance Demand Experiment, Part 2: Costs and Efficiency*; Wallace et al., *Participation and Benefits in the Urban Section 8 Program: New Construction and Existing Housing*; Mireille L. Leger and Stephen D. Kennedy, *Final Comprehensive Report of the Freestanding Housing Voucher Demonstration*, vol. 1 and 2 (Cambridge, MA: Abt Associates Inc., 1990); and ORC Macro, *Quality Control for Rental Assistance Subsidies Determination*, US Department of Housing and Urban Development, Office of Policy Development and Research, 2001, chap. 5.

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