

The Millennial Housing Commission Report: An Assessment

Edgar O. Olsen
Department of Economics
University of Virginia
P.O. Box 400182
Charlottesville, VA 22904-4182
434-924-3443(W)
434-924-7659(F)

Prepared for AREUEA Mid-Year Meeting
Washington, DC
May 28, 2003

1. Introduction

The U.S. Congress established the Millennial Housing Commission in December 2000 to conduct a study that examines, analyzes, and explores –

- a. the importance of housing, particularly affordable housing which includes housing for the elderly, to the infrastructure of the United States;
- b. the various possible methods for increasing the role of the private sector in providing affordable housing in the United States, including the effectiveness and efficiency of such methods; and
- c. whether the existing programs of the Department of Housing and Urban Development work in conjunction with one another to provide better housing opportunities for families, neighborhoods, and communities, and how such programs can be improved with respect to such purpose.

The Commission delivered its final report to Congress in May 2002.

The purpose of this paper is to assess the extent to which this report fulfilled its Congressional mandate. My conclusion is that the Commission did not provide the Congress with the information requested. Most importantly, the Commission failed to provide evidence on the effectiveness and efficiency of alternative methods of delivering housing assistance. This evidence has important implications for low-income policy.

The Commission's report is devoted primarily to describing proposals for new programs and reforms of existing programs. Since it contains no quantitative predictions of the effects of these proposals, it provides no basis for judging their desirability. Fortunately, the existing literature on the effects of housing programs does provide a basis for making such judgments.¹ Empirical research on the cost-effectiveness and other effects of alternative methods of delivering housing assistance is inconsistent with the Commission's primary recommendations.

The Commission's report also contains numerous arguments for subsidizing housing. Many of these arguments are not valid arguments for any government action.

¹ For a detailed account of the evidence on the effects of low-income housing programs, see Olsen (forthcoming).

Others do not justify housing programs. Still others are conceptually valid, but empirically unimportant. The major valid argument for housing assistance to low-income families is not mentioned. Obviously, a lack of clarity with respect to the underlying justifications for housing assistance to low-income families hinders program evaluation and design.

This paper provides an overview of the Commission's recommendations, a critique of its views concerning the country's major housing problem, a summary of the evidence on the effects of alternative methods of delivering housing assistance, and the implications of this evidence for housing policy reform. These implications differ markedly from the Commission's recommendations.

2. Overview of the Commission's Recommendations

Since the report contains hundreds of recommendations, it will not be possible to mention, let alone describe and analyze, the overwhelming majority of them. In brief, the Commission proposes greater expenditure on all major current programs and the creation of major new production programs for renters and homeowners. Although the Commission recommends the expansion of the tenant-based Section 8 voucher program, its primary emphasis is on expanding all forms of project-based assistance. Its major proposed new programs are a homeownership tax credit modeled after the Low Income Housing Tax Credit for rental housing, tax incentives to preserve and expand the stock of existing units providing project-based assistance, a new rental production program with a 100 percent capital subsidy, and elimination of limits on the amounts of Mortgage Revenue Bonds that states can issue to finance low-income housing projects. The tax incentives to preserve and expand the stock of existing units providing project-based assistance would apply to previously unsubsidized existing housing as well as units built under subsidized production programs. A major thrust of the Commission's proposals is to devolve decision-making in low-income housing policy to states and local governments.

3. The Commission's Perception of the Country's Major Housing Problem

The Millennial Housing Commission uses many arguments to justify an enormous expansion of the current system of housing assistance to low-income families. However, it argues that affordability is the single greatest housing challenge facing the nation. The basis for the Commission's conclusion that there is a shortage of affordable housing is that it would be impossible to rearrange families among the existing housing units so each spends no more than 30 percent of its income on housing. There are too few inexpensive dwellings in the country's existing housing stock to do that.

The commission is correct that, with the existing housing stock and without additional assistance, not all families can spend less than 30 percent of their income on housing. However, it is not clear why this is a problem. Except for a small minority of the very poorest families, any family could reduce its expenditure on housing by moving to a vacant existing unit that is smaller, in worse condition, with fewer amenities, or in a less desirable neighborhood. Only the families who occupy the very worst units do not have this choice. Furthermore, if the households in the very worst existing housing really wanted to spend less on housing at the expense of living in even worse housing, owners of rental housing would provide it by reducing maintenance on their units. Millions of families choose to spend more than 30 percent of their income on housing to live in a nicer place.

The simple fact that 28 million families spend more than 30 percent of their income on housing is not relevant for government policy unless taxpayers want to help these families and believe they have unwisely chosen to spend too much on housing. However, since the negative consequence of spending a high fraction of income on housing is that too little is left for other goods, this is not an argument for housing assistance. It is an argument for subsidies for other goods such as food and medical care.

The traditional argument for housing subsidies has been that many people live in housing deemed inadequate by others. That is, some people are willing to help others but think that some of these others undervalue housing. If recipients of assistance were given cash grants with no strings attached, they would spend too little on housing in the eyes of these paternalistic altruists. This is the opposite of the preceding argument, and it does

justify housing subsidies. That is, it justifies subsidies that induce families to occupy better housing than they would choose if they were given equally costly cash grants with no strings attached. In my judgment, this is the major justification for housing subsidies to low-income families.

Politicians and lobbyists for housing subsidies have rarely been explicit about the paternalism that underlies this argument in part because it is insulting to some potential supporters, namely, the recipients of housing assistance. Another reason that proponents have increasingly emphasized housing affordability in arguing for housing subsidies is that the number of families living in inadequate housing using standard definitions of inadequacy has declined to a very small fraction of the population [Weicher, 1989], thereby weakening the case for expanding housing programs.

Although the Commission mentions the deplorable housing occupied by several million families, it does not emphasize this problem. Since this is the problem that justifies housing subsidies as opposed to subsidies for other goods, this should have been its primary focus.

The Commission's diagnosis of the problem is obviously inconsistent with its proposed solutions. Its proposed solutions emphasize new construction. If the problem is that an enormous number of families who live in adequate housing pay more than thirty percent of their income for this housing, the cheapest solution is to use vouchers to pay a part of their rent. New construction is not necessary to solve the problem, and it is an enormously expensive way to solve it.

4. Evidence on the Effects of Alternative Methods of Delivering Housing Assistance

The major shortcoming of the report is its failure to provide evidence on the effectiveness and efficiency of alternative methods of delivering housing assistance. Given the current economic slowdown and the added expense of fighting international terrorism, it is clear that little additional money will be available for housing assistance over the next few years. The question is: How can we continue to serve current recipients equally well and serve some of the poorest families who have not yet been offered assistance without spending more money? The answer is that we must use the money available more wisely.

Research on the effects of housing programs provides clear guidance on this matter. It shows that we can serve current recipients equally well (that is, provide them with equally good housing for the same rent) and serve many additional families without any increase in the budget by shifting resources from project-based to tenant-based assistance.

Five major studies have estimated both the cost per unit and the mean market rent of apartments provided by housing certificates and vouchers and the largest older production programs, namely Public Housing, Section 236, and Section 8 New Construction.² These studies are based on data from a wide variety of housing markets and for projects built in many different years. Three were expensive studies conducted for HUD by respected research firms during the Nixon, Ford, Carter, and Reagan administrations. They are unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any of these production programs, even though all of these studies are biased in favor of the production programs to some extent by the omission of certain indirect costs.

The studies with the most detailed information about the characteristics of the housing provided by the programs found the largest excess costs for the production programs. One study estimated the excessive cost of public housing compared to housing vouchers for providing equally desirable housing to be 64% and 91% in the two cities studied and the excessive cost of Section 236 to be 35% and 75% in these two cities (Mayo and others, 1980). Another study estimated the excessive cost of Section 8 New Construction compared to tenant-based Section 8 Certificates to be 37% even when *all* of the indirect costs of the Section 8 New Construction program are ignored (Wallace and others, 1981). These indirect subsidies include GNMA Tandem Plan interest subsidies for FHA insured projects and the forgone tax revenue due to the tax-exempt status of interest on the bonds used to finance SHFA projects. Based on previous studies, the authors argue that these indirect costs would add 20 to 30 percent to the total cost of the Section 8 New Construction Program.

² The studies are Mayo and others (1980), Olsen and Barton (1983), Schnare and others (1982), U.S. Department of Housing and Urban Development (1974), and Wallace and others (1981). Olsen (2000) provides a description and critical appraisal of the data and methods used in these studies as well as a summary of their results.

The recently completed GAO study produced similar results for the major active construction programs – LIHTC, HOPE VI, Section 202, Section 515, and Section 811. Using the conceptually preferable life cycle approach, the excess total cost estimates range from at least 12% for Section 811 to at least 27% for HOPE VI.³ (The GAO calculations exclude HOPE VI construction costs that are not related to housing.) These estimates are lower bounds on the excessive cost because some costs of the production programs were omitted due to the difficulty of collecting the relevant data. For example, all public housing projects receive substantial local property tax abatements. The preceding results ignore this cost to local taxpayers. An earlier study (reported in Olsen, 2000, p. 16) estimated that these abatements account for 22 percent of the cost of this program to taxpayers.

The GAO study also contains evidence concerning whether production programs are more cost-effective than tenant-based vouchers in the tightest housing markets. In addition to the national estimates, the GAO collected data for seven metropolitan areas. The data for the GAO study refer to projects built in 1999. In that year, the rental vacancy rates in the seven metropolitan areas ranged from 3.1% in Boston to 7.2% in Baltimore and Dallas, with a median of 5.6%. The overall rental vacancy rate in U.S. metropolitan areas was 7.8%. So all of the specific markets studied were tighter than average. Only five of the largest seventy-five metropolitan areas had vacancy rates lower than Boston's. In each market, tenant-based vouchers were more cost-effective than each production program studied.

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

The magnitude of the gain from shifting from project-based to tenant-based assistance would be substantial. Even the smallest estimates of the excess costs of

³ The GAO study also reports first-year excess costs of the production programs. The first-year cost of a production program is the sum of the annualized development subsidies and the tenant rent and other government subsidies during the first year of operation. The estimates of excess cost of production programs based on this method are much higher than estimates based on the life-cycle approach. Although these estimates may be closer to the truth due to the omission of some of the costs of production programs and deviations between the assumptions of the life-cycle analysis and reality, this methodology is defective for the reasons explained in Olsen (2000, pp. 18-21).

project-based assistance imply that shifting ten families from project-based to tenant-based assistance would enable us to serve two additional families. Since HUD provides project-based assistance to more than three million families, the Low-Income Housing Tax Credit serves more than a million families, and the USDA's Section 515 program houses almost a half million families, a total shift from project-based to tenant-based assistance would enable us to serve at least 900,000 additional families with no additional budget. The most reliable estimates in the literature imply much larger increases in the number of families served. For example, the Abt study of the Section 8 New Construction Program implies that tenant-based vouchers could have provided all of the families who participated in this program with equally good housing for the same rent and served at least 65 percent more families with similar characteristics equally well without any additional budget. Since this program served over 900,000 families at its peak, this amounts to an additional 585,000 families for this program alone.

5. Policy Reforms Consistent with Evidence on Program Effects

The preceding evidence has important implications for how the budget for low-income housing assistance should be spent.

First, the money currently spent on operating and modernization subsidies for public housing projects should be used to provide tenant-based vouchers to public housing tenants, as proposed by the Clinton Administration and by Senator Dole during his presidential campaign. To enable housing authorities to provide decent housing despite this loss in revenue, they should be allowed to rent their apartments to any household eligible for housing assistance for whatever rent this market will bear. Families with tenant-based vouchers would occupy many of these apartments. Other families eligible for housing assistance would occupy the rest. Housing authorities could raise additional money by taking advantage of the current regulation that allows them to sell projects. At present, they have little incentive to do it. Without guaranteed federal operating and modernization subsidies, many authorities may well decide to sell their worst projects. These are the projects that will be abandoned to the greatest extent by their tenants with vouchers, and they are the most expensive to operate. They should be

sold in their current condition to the highest bidder in order to maximize the revenue available to modernize other projects. If housing authorities are unable to compete with private owners for their tenants, they should not be in the business of providing housing.

Second, contracts with the owners of private subsidized projects should not be renewed. Instead we should give their tenants portable vouchers and force the owners to compete for their business. Tenants who choose to move should be given a modest grant for moving expenses. This is far less expensive than continuing with these costly forms of project-based assistance.⁴ 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. Since these subsidies are provided to selected private suppliers, the market mechanism does not insure that profits under the new use agreement will be driven down to market levels. If this is to be achieved at all, administrative mechanisms must be used. Proponents of all previous programs of this sort argued vigorously that their program would insure that excessive costs were not paid for apartments. Cost-effectiveness studies of these programs indicate that they failed badly to control costs. There is no reason to believe that initiatives such as Mark-to-Market will produce better results. They will merely hide the excess cost to a greater extent. We should leave the job of getting value for the money spent to the people who have the greatest incentive to do it, namely the recipients of housing assistance.

Third, the construction of additional public or private projects should not be subsidized. For example, no additional money should be allocated to HOPE VI. This program is an improvement over traditional public housing in that it avoids concentrating the poorest families at high densities in projects. However, the GAO study reveals that it is highly cost-ineffective compared with tenant-based vouchers that also avoid these concentrations. Similar remarks apply to the Low-Income Housing Tax Credit. For the same reason, there should be no new production programs. Any additional money for housing assistance should be used to expand the choice-based Housing Choice Voucher Program.

⁴ See Weicher (1997) for a detailed analysis of vouchering out project-based assistance.

Most people who develop and operate subsidized housing projects will oppose these reforms. However, these reforms will give taxpayers who want to help low-income families more for their money by greatly increasing the number of families served without spending more money or reducing support for current recipients.

6. Objections to Proposed Reforms

Two main objections have been raised to exclusive reliance on tenant-based assistance. Specifically, it has been argued that tenant-based assistance will not work in markets with the lowest vacancy rates and construction programs have an advantage compared with tenant-based assistance that offsets their cost-ineffectiveness, namely they promote neighborhood revitalization to a much greater extent.

Taken literally, the first argument is clearly incorrect in that Section 8 Certificates and Vouchers have been used continuously in all housing markets for more than two decades. A more precise version of this argument is that tenant-based assistance will not work in the some markets because these markets do not have enough vacant apartments that meet minimum housing standards and are affordable to voucher recipients. The conceptual defects of this argument are easy to understand, and it is inconsistent with the empirical evidence.

All vouchers authorized in a locality can be used even if the number of vacant apartments that meet minimum housing standards and are affordable to voucher recipients is less than the number of vouchers authorized. Some recipients offered vouchers might already occupy apartments meeting the program's standards. In this case, the family can participate without moving. In the absence of assistance, these recipients typically devote a high fraction of their income to housing and skimp on other necessities. The housing voucher reduces their rent burden. Other families who are offered vouchers will live in housing that does not meet Section 8 standards. However, these apartments can be repaired to meet the standards. Similarly, vacant apartments that do not initially meet the program's standards can be upgraded to meet them. In short, we do not need new construction to increase the supply of apartments meeting minimum housing standards.

The evidence shows that these are not theoretical curiosities. The tenant-based Section 8 Certificate and Voucher Programs have substantially increased the supply of affordable housing meeting minimum housing standards. One detailed analysis is based on data from a national random sample of 33 public housing authorities in 1993 (Kennedy and Finkel, 1994). Thirty percent of all recipients outside of New York City continued to live in the apartments that they occupied prior to participating in the program (Kennedy and Finkel, p.15).⁵ Forty one percent of these apartments already met the program's standards and 59% were repaired to meet the standards (Kennedy and Finkel, p.83). About 70% of all recipients outside of New York City moved to a new unit. About 48% of these apartments were repaired to meet the program's standards (Kennedy and Finkel, p.84). The rest moved to vacant apartments that already met the standards. Therefore, the apartments occupied by about half of the families that received certificates and vouchers outside NYC during this period were repaired to meet the program's standards. The previously mentioned sources contain similar results for NYC. In this city, only 31 percent of the apartments occupied by recipients had to be repaired to meet the program's standards.

The Housing Assistance Supply Experiment of the Experimental Housing Allowance Program (EHAP) provides even more powerful evidence on the ability of tenant-based vouchers to increase the supply of apartments meeting minimum housing standards even in tight housing markets. The Supply Experiment involved operating an entitlement housing allowance program for ten years in St. Joseph County, Indiana (which contains South Bend) and Brown County, Wisconsin (which contains Green Bay). These were smaller than average metropolitan areas with populations of about 235,000 and 175,000 people, respectively. The general structure of the housing allowance program in the Supply Experiment was the same as the Section 8 Voucher Program that HUD operated from 1983 until its merger with the new Housing Choice Voucher Program, except that homeowners were eligible to participate in the Supply Experiment. About 20 percent of the families in the two counties were eligible to receive assistance (Lowry, 1983, pp. 92-93). By the end of the third year when participation rates leveled off, about 41 percent of eligible renters and 27 percent of eligible homeowners were

⁵ The authors analyzed New York City separately from the other housing authorities.

receiving housing assistance (Lowry, pp.24-25). Data for analysis was collected during the first five years of the experiment in each site. During that period, about 11,000 dwellings were repaired or improved to meet program standards entirely in response to tenant-based assistance and about 5,000 families improved their housing by moving into apartments already meeting these standards (Lowry, p. 24). This represented more than a nine percent increase in the supply of apartments meeting minimum housing standards. Tenant-based assistance alone produced a greater percentage increase in the supply of adequate housing in these localities in five years than all of the federal government's production programs for low-income families have produced in the past 65 years (Cutts and Olsen, 2002, p. 232). The annual cost per household was less than \$3000 in current prices.

The Supply Experiment sites were chosen to differ greatly in their vacancy rates and the size of their minority populations in order to determine whether the outcomes of an entitlement housing allowance program depend importantly on these factors. At the outset of the Supply Experiment, the vacancy rates in Brown and St. Joseph County were 5.1% and 10.6% (Lowry, p. 53). So the average vacancy rate in the two sites was almost exactly the average vacancy rate in 2000 for U.S. metropolitan areas (7.7%). In 2000, only 26% of the 75 largest metropolitan areas had vacancy rates less than the vacancy rate in Brown County at the outset of the experiment and 20% had vacancy rates greater than the vacancy rate in St. Joseph County. The participation rate differed little between the two sites. Indeed, it was higher in the locality with the lower vacancy rate (Lowry, p.122).

We do not need production programs to increase the supply of apartments meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated beyond any doubt that the supply of apartments meeting minimum housing standards can be increased rapidly by upgrading the existing stock of housing even in tight markets. This happened without any rehabilitation grants to suppliers. It happened entirely in response to tenant-based assistance that required families to live in apartments meeting the program's standards in order to receive the subsidy.

Those who express concern about the ability of tenant-based assistance to work well in the tightest housing markets usually mention the low success rates in some

localities. In discussing this matter, it is important to distinguish between an authority's so-called success rate and its ability to use Section 8 Vouchers. An authority's success rate is the percentage of the families authorized to search for a unit who occupy a unit meeting the program's standards within the housing authority's time limit. An authority's success rate depends on many factors including the local vacancy rate. The most careful study of success rates (Kennedy and Finkel, 1994) indicates that among localities that are the same with respect to other factors those with the lowest vacancy rates have the lowest success rates.

An authority's success rate bears no necessary relationship to the fraction of the authority's vouchers in use at any point in time. No matter what an authority's success rate, the authority can fully use the vouchers allocated to it by authorizing more families to search for apartments than the number of vouchers available. For example, if an authority has a success rate of 50 percent, authorizing twice as many families to search as the number of vouchers available will result in full utilization of the vouchers on average. If each housing authority adjusted its issuance of vouchers to its success rate in this manner, some authorities would exceed their budget and others would fall short in a given year. However, the national average success rate would be very close to 100 percent.

For many years, public housing authorities have over-issued vouchers and thereby achieved high usage rates despite low success rates. In recent years, they have had a reserve fund for this purpose, and current regulations call for penalties on authorities with usage rates below 95 percent. The national average usage rate is high (about 92 percent).

The overwhelming majority of tenant-based certificates and vouchers are in use at each point in time. Even more would be in use if housing authorities were more aggressive in over-issuing vouchers. Local housing authorities rarely, if ever, return certificates and vouchers to HUD. Although it is true that some families who are offered vouchers do not find housing that suits them and meets the program's standards within their housing authority's time limits, other eligible families in the same locality use these vouchers. This indicates clearly that the problem is not that there are no vacant apartments that meet program standards and are affordable to voucher recipients or apartments whose landlords are willing to upgrade them to meet program standards. In

the tightest housing markets, these apartments are more difficult to locate. Unsubsidized families also have trouble locating apartments in tight housing markets.

The real issue is not whether tenant-based vouchers can be used in all market conditions but whether it would be better to use new construction or substantial rehabilitation programs in tight markets. In this regard, the key question is: Will construction programs get eligible families into satisfactory housing faster than tenant-based vouchers in some market conditions?

Based on existing evidence, there can be little doubt that tenant-based vouchers get families into satisfactory housing much faster than any construction program even in the tightest housing markets. Two major studies of success rates under the tenant-based Section 8 Program have been completed over the past fifteen years (Leger and Kennedy, 1990; Kennedy and Finkel, 1994).⁶ These studies collected data on more than 50 local housing authorities selected at random. The lowest success rate observed was 33 percent for New York City in the mid-1980s.⁷ If a housing authority with this success rate issued only the vouchers available at each point in time and allowed recipients up to three months to find a unit meeting the program's standards, about 80 percent of new vouchers would be in use within a year. However, since the current practice is to authorize more families to search for apartments than the number of vouchers available, almost all of the vouchers are in use much sooner.

How long does it take from the time that money is allocated for construction programs to the time that the first units are available for occupancy? Based on data on a national random sample of 800 projects built between 1975 and 1979, Schnare, Pedone, Moss, and Heintz (1982) found the mean time from application for project approval to completion of the project ranged from 23 months for Section 236 to 53 months for conventional public housing. Mean times ranged from 26 to 31 months for the variants of the Section 8 New Construction and Substantial Rehabilitation Program. Occupancy of the completed apartments required additional time. Although the authors did not

⁶ Finkel and Buron (2001) have produced a more recent report on Section 8 success rates, but I have not yet found the time to read it.

⁷ The success rate in New York City in the mid-1980s was much lower than the second lowest (47 percent in Boston in the mid-1980s) and much lower than in New York City in 1993 (65 percent). An earlier study based on data from the late 1970s found lower success rates. However, at that time housing authorities were still figuring out how to administer this new program. So these success rates are of no relevance for predicting the effects of expanding the program today.

report results separately for different markets, it seems reasonable to believe that these times were greater in the tightest housing markets because the demand for unsubsidized construction would be greatest in these locations.

So if Congress were to simultaneously authorize an equal number of tenant-based vouchers and apartments under any construction program, it is clear that all of the vouchers would be in use long before the first newly built unit was occupied, no matter what the condition of the local housing market at the time that the money is appropriated.

The second major objection to the exclusive reliance on tenant-based assistance is that new construction promotes neighborhood revitalization to a much greater extent than tenant-based assistance. The evidence from the Experimental Housing Allowance Program is that even an entitlement housing voucher program will have modest effects on neighborhoods and the small literature on the Section 8 Voucher Program confirms these findings for a similar non-entitlement program (Lowry, 1993, pp. 205-217; Galster, Tatian, Smith, 1999B). These programs result in the upgrading of many existing dwellings, but this is concentrated on their interiors. It is plausible to believe that a new subsidized project built at low-density in a neighborhood with the worst housing and poorest families would make that neighborhood a more attractive place to live for some years after its construction. The issue is not, however, whether some construction projects lead to neighborhood upgrading. The issues are the magnitude of neighborhood upgrading across all projects under a program over the life of these projects, who benefits from this upgrading, and the extent to which upgrading of one neighborhood leads to the deterioration of other neighborhoods.

The primary beneficiaries of neighborhood upgrading will be the owners of nearby properties. Since the majority of the poorest families are renters, it is plausible to believe that most of the housing surrounding housing projects located in the poorest neighborhoods is rental. Therefore, if a newly built subsidized project makes the neighborhood a more attractive place to live, the owners of this rental housing will charge higher rents and the value of their property will be greater. Since the occupants of this rental housing could have lived in a nicer neighborhood prior to the project by paying a higher rent, they are hurt by its construction. The poor in the project's neighborhood will

benefit from the neighborhood upgrading only to the extent that they own the property surrounding the project.

With the passage of time, the initial residents will leave the neighborhood in response to the project and others who value a better neighborhood more highly will replace them. In short, housing programs involving new construction will shift the location of the worst neighborhoods to some extent. The aforementioned possibilities are rarely recognized in discussions of housing policy, let alone studied.

What has been studied is the extent to which projects under various housing programs affect neighborhood property values. The existing studies find small positive effects on average for some programs and small negative effects for others (Lee, Culhane, and Wachter, 1999; Galster, Smith, Tatian, and Santiago, 1999A; Galster, Tatian, and Smith, 1999B). No study finds substantial positive effects on average for any program.

In short, the usual objections to exclusive reliance on tenant-based vouchers have little merit.

7. Conclusion

Congress established the Millennial Housing Commission “to conduct a study that examines, analyzes, and explores . . . the various possible methods for increasing the role of the private sector in providing affordable housing in the United States, including the effectiveness and efficiency of such methods. . . .” The Commission failed to provide the Congress with information on the effectiveness and efficiency of alternative methods of delivering housing assistance, and its recommendations are inconsistent with the available evidence. The Commission recommends an enormous expansion of project-based assistance, including new production programs for rental and owner-occupied housing. Empirical research on the effects of alternative methods of delivering housing assistance supports a total reliance on choice-based vouchers. Instead of providing a new vision for solving the nation’s housing problems, the Commission proposes expanding the deeply flawed programs of the past and creating new programs with the same flaws.

The consequence of using the costly construction and substantial rehabilitation programs has been that several million of the poorest families who could have been provided with adequate housing at an affordable rent with the money appropriated for housing assistance have continued to live in deplorable housing or no housing at all, or they have paid a substantial fraction of their income to live in adequate housing. We should learn from our past mistakes and not heed the call for new production programs. Indeed, we should go further and terminate current production programs and disengage from project-based assistance to existing apartments as soon as current contractual commitments permit.

References

- Cutts, Amy Crews and Olsen, Edgar O. "Are Section 8 Housing Subsidies Too High?" *Journal of Housing Economics* 11 (2002): 214-243.
- Finkel, Meryl and Buron, Larry. *Study on Section 8 Voucher Success Rates, Volume I, Quantitative Study of Success Rates in Metropolitan Areas.* . Cambridge, MA: Abt Associates Inc., November 2001.
- Galster, George; Smith, Robin E.; Tatian, Peter A.; and Santiago, Anna M. with Mary Cunningham and Charlene Y. Wilson. *Assessing Property Value Impacts of Dispersed Housing Subsidy Programs: Final Report.* Washington, D.C.: The Urban Institute, May 1999A.
- Galster, George C.; Tatian, Peter; and Smith, Robin. "The Impact of Neighbors Who Use Section 8 Certificates on Property Value." *Housing Policy Debate* 10 (1999B): 879-917.
- Kennedy, Stephen D. and Finkel, Meryl. *Section 8 Rental Voucher and Rental Certificate Utilization Study.* Cambridge, MA: Abt Associates Inc., 1994.
- Leger, Mireille L. and Kennedy, Stephen D. *Final Comprehensive Report of the Freestanding Housing Voucher Demonstration.* Volume 1 & 2. Cambridge, MA: Abt Associates Inc., May 1990.
- Lee, Chang-Moo; Culhane, Dennis P.; and Wachter, Susan M. "The Differential Impacts of Federally Assisted Housing Programs on Nearby Property Values: A Philadelphia Case Study." *Housing Policy Debate* 10 (1999): 75-93.

Lowry, Ira S. (ed.) *Experimenting With Housing Allowances: The Final Report of the Housing Assistance Supply Experiment*. Cambridge, MA: Oelgeschlager, Gunn & Hain, 1983.

Mayo, Stephen K.; Mansfield, Shirley; Warner, David; and Zwetchkenbaum, Richard. *Housing Allowances and Other Rental Assistance Programs-A Comparison Based on the Housing Allowance Demand Experiment, Part 2: Costs and Efficiency*. Cambridge, MA: Abt Associates Inc, June 1980.

Millennial Housing Commission. *Meeting Our Nation's Housing Challenges*. Washington, D.C.: Government Printing Office, 2002.

Olsen, Edgar O. "The Cost-Effectiveness of Alternative Methods of Delivering Housing Subsidies." Thomas Jefferson Center for Political Economy, Working Paper 351, December 2000. <http://www.virginia.edu/economics/downablepapers.htm#olsen>

Olsen, Edgar O. "Housing Programs for Low-Income Households." in *Means-Tested Transfer Programs in the U.S.*, ed., Robert Moffitt, National Bureau of Economic Research (Chicago: University of Chicago Press, forthcoming). <http://www.virginia.edu/economics/downablepapers.htm#olsen>

Olsen, Edgar O., and Barton, David M. "The Benefits and Costs of Public Housing in New York City." *Journal of Public Economics* 20 (April 1983): 299-332.

Schnare, Ann; Pedone, Carla; Moss, William; and Heintz, Kathleen. *The Costs of HUD Multifamily Housing Programs: A Comparison of the Development, Financing and Life Cycle Costs of Section 8, Public Housing, and Other Major HUD Programs*. Volume 1 & 2. Cambridge, MA: Urban Systems Research and Engineering, Inc., May 1982.

U.S. Department of Housing and Urban Development. *Housing in the Seventies*.
Washington, D.C.: Government Printing Office, 1974.

U.S. General Accounting Office, *Federal Housing Programs: What They Cost and What They Provide*. GAO-01-901R, July 18, 2001.
<http://www.gao.gov/new.items/d01901r.pdf>

Wallace, James E.; Bloom, Susan Philipson; Holshouser, William L.; Mansfield, Shirley; and Weinberg, Daniel H. *Participation and Benefits in the Urban Section 8 Program: New Construction and Existing Housing*. Volume 1 & 2. Cambridge, MA: Abt Associates Inc., January 1981.

Weicher, John C. "Housing Quality: Measurement and Progress," in Sara Rosenberry and Chester Hartman (eds.), *Housing Issues of the 1990s*. New York: Praeger Publishers, 1989.

Weicher, John. *Privatizing Subsidized Housing*. Washington, D.C.: American Enterprise Institute for Public Policy Research, 1997.