

Making Work Pay – Again

by Ron Haskins

One of the rallying cries of the welfare reform movement of the 1990s, coined by President Bill Clinton, but soon suffusing the entire movement, was “Make Work Pay.” So few words have rarely captured such a fundamental goal of social policy. Government could help millions of families working for low wages by supplementing their incomes with benefits, especially benefits designed to encourage work. Doing so would both improve the economic well-being of children and families, and increase the incentive to escape poverty and welfare dependency through work. Clinton’s primary idea for making work pay was to increase the Earned Income Tax Credit (EITC), which uses the tax code to make cash payments to low-income workers, primarily those with children. Clinton accomplished this goal in 1993 with legislation that substantially increased the EITC. Today the maximum EITC benefit is \$4,500 for workers with two children – a level of benefit by which the federal government, in effect, converts an \$8-an-hour job to a \$10-an-hour job.¹

But the EITC is only the most conspicuous of the programs that provide additional benefits to low-income workers. Taken together, these programs are often called the “work support system.” The primary programs in the work support system, in addition to the EITC, are child care, food stamps, and the combination of Medicaid and the State Child Health Insurance Program.² Less often mentioned are the refundable portion of the child tax credit, child support enforcement, and employment and training programs. A family with two children with a parent earning \$8 an hour and working full time can enjoy a package of earnings and work supports worth more than \$37,000.³

The wholesale abandonment of welfare during the 1990s for low-wage work augmented by benefits from the work support system has directly contributed to a substantial increase in earnings and income and to an impressive reduction in poverty among children in female-headed families. Indeed, a recent report from the Congressional Budget Office showed that between 1991 and 2005, families with children in the bottom fifth of the family income distribution enjoyed a greater percentage boost in income than families with children in all but the top quintile.⁴ Even after the recession of 2001 reduced the percentage of single mothers with

Ron Haskins is a senior fellow in the Economic Studies Program and co-director of the Center on Children and Families at the Brookings Institution and senior consultant at the Annie E. Casey Foundation in Baltimore.

jobs by around 2 percentage points, child poverty was still more than 20 percent lower than it had been before the explosion in employment by single mothers during the mid-1990s.⁵

So the federal government and, to a somewhat lesser degree, the states have done a lot to advance the agenda of making work pay. The best way to achieve further reductions in poverty and to promote economic opportunity is to conduct a two-front war: one focusing on increasing the human capital of low-income workers, and the second on improving the work support system. As it happens, Congress now has an opportunity to adopt a major reform that would greatly strengthen the work support system, increase work incentive, promote economic opportunity, and dramatically improve the economic well-being of around 3 million households. A little less than half of these households have children, mostly living with their single mother.⁶ And Congress could achieve these outcomes without spending an additional dime of taxpayer money and without increasing the federal deficit. This reform offers the best opportunity for advancing the make-work-pay agenda over the next several years.

I am referring to reform of the huge but too often ignored federal housing programs. A recent report from the Congressional Research Service showed that in 2007, the federal government spent \$58.7 billion on means-tested housing programs that supported over 4.6 million units of housing.⁷ This sum does not include the \$5.1 billion spent on the low-income housing tax credit.⁸ Together, the two types of programs provided \$63.8 billion to subsidize housing for poor and low-income people.⁹

It is little wonder that the federal government spends so generously on housing programs. The biggest expenditure in the budget of most families is housing. The Department of Housing and Urban Development (HUD) now defines housing as affordable if it consumes no more than 30 percent of household income.¹⁰ Many of the households we are concerned about earn \$20,000 or less per year. Ignoring taxes, by HUD standards these households should spend a maximum of \$6,000 per year or \$500 per month for housing. In most markets, \$500 a month for housing is a tight squeeze. In some markets, it's all but impossible.¹¹ Not surprisingly, some low-income households spend 50 percent or even more of their income on housing. But if families spend more on housing, they have less for everything else. At the extreme, they could face homelessness, which has devastating effects on children. Moreover, the location of a house in itself has major impacts on almost every facet of a family's life. One of the most important effects is that poor neighborhoods have poor schools, thereby greatly limiting children's chances of achieving economic mobility. Similarly, some neighborhoods are dangerous, especially for children. In 2007, 1,625 children under age 19 were murdered, mostly in their own neighborhood.¹² Neighborhoods also vary greatly in access to shopping, parks, libraries, and public transportation. Many poor neighborhoods, in part because of violence and crime, have fewer or even none of these facilities and services. Anyone intent on reducing poverty and promoting economic mobility needs to have some good ideas about housing.

The federal government has been involved in housing since the 1930s, with policies based on the goal of ensuring “a decent home and a suitable environment for every American family.” To achieve this goal, the federal government spends more money on housing for poor and low-income families than on any other type of means-tested program except health insurance. In addition to the Low-Income Housing Tax Credit, the money is spent primarily on four types of housing programs:

- Public housing, which consists of buildings owned and operated by government, and used to house low-income families at free or reduced-price rent;
- Project-based rental assistance in which the federal government pays a subsidy to property owners to make up the difference between the amount low-income tenants pay in rent and what it costs the owner to maintain and operate the property, in return for which the owner agrees to make some of the units available to low-income families over a period of 20–40 years;
- Tenant-based vouchers in which beneficiaries receive a given amount of money, adjusted for family size and income, to enter the market and rent an apartment of their choosing that meets minimum standards; and
- Block grants that provide money to local housing authorities to spend on a variety of activities related to housing.

When the federal government first entered the housing market before World War II, and then more seriously after the war, an inadequate supply of houses was still a major issue for the nation.¹³ But the American housing market – based on technological and organizational innovations, new methods of financing, and the seemingly insatiable desire of Americans for bigger and more expensive housing – exploded in the 1950s and has only occasionally slowed down since. Americans are now the best-housed people in history, although poor and low-income families struggle mightily to afford a decent place to live. Even among the poor, however, housing has improved greatly since the small and ill-equipped housing that received public support in the 1940s and 1950s.¹⁴

The origin of federal housing policy in a time of housing shortages is still reflected in support for programs designed to create more housing. According to housing expert Edgar Olsen of the University of Virginia, “project-based assistance is the dominant form of housing assistance to low-income families in the United States.”¹⁵ Nonetheless, over the past two decades or so, there has been a gradual move away from project-based assistance such as public housing or subsidies for construction, and toward the use of vouchers that families can use to choose any housing in any neighborhood that meets minimum standards.¹⁶ The axiom that government usually makes a poor manager of something that could be done in the private sector seems to be winning over federal policy makers. However, the facts

that around half the spending is still project-based and that the Low-Income Housing Tax Credit which supports construction is growing more rapidly than any other housing program, indicate that the private sector has not yet won a decisive victory.

An important factor in gradually convincing housing experts and policymakers of the downside of keeping government in the business of owning and operating housing was the disastrous fate of high-rise and high-density public housing. Plans for vertical storage of the poor did not turn out well. Not surprisingly, in the 1960s and 1970s Congress stopped authorizing construction of high-rise public housing, and began ordering its destruction. Since then, the number of units of public housing has declined from a peak of 1.41 million in 1991 to only about 1.16 million today – a decline of nearly 20 percent.¹⁷ But the tragedy of high-rise public housing is not the only reason the federal government is moving toward vouchers and individual choice. Every study of the relative cost of project-based assistance as compared with vouchers has shown that project-based housing is between 30 percent and 90 percent more expensive.¹⁸ As Olsen shows in a careful analysis, the shift away from government involvement in construction and management of housing will certainly save money – or more to the point for our purposes, will allow a given sum of money to serve more families – and will do so without reducing the average quality of housing.¹⁹ In addition, another major advantage of vouchers is that they allow recipients flexibility in where they live, a potential advantage in finding employment or in changing jobs. Choice also allows recipients to pick better neighborhoods.²⁰ Choice is on the rise and our goal should be to move it even faster and further.

The shift in housing policy toward vouchers is a great improvement over project-based funding, but it does not solve the single greatest problem with the nation's housing policy – the huge inequity in the distribution of housing benefits. Entitlement programs such as food stamps, Medicaid, and school lunch provide guaranteed benefits to all who meet program requirements, and everyone lives under the same set of benefits and rules. Whatever else might be said about these programs, they do a fine job of providing benefits on an equitable basis. By contrast, housing programs are like day care subsidies in that Congress does not authorize enough spending to provide the benefit to everyone who qualifies. In the case of day care, states must figure out how to ration the benefit. In the case of housing, local housing officials do the rationing. Some housing programs in some areas of the country have so many families waiting in line that they actually close applications for the program. As Janet Currie of Columbia points out, a particularly noxious result of rationing is that 43 percent of the households receiving federal housing subsidies are above the poverty line, while 30 percent of those below the poverty line receive nothing.²¹ Equally discouraging, a HUD study found that in some cities the wait for housing was six to eight years.²² When a given household receives a monthly subsidy that could reach \$1,000 or more, while other identical – or even lower-income – households receive nothing, policymakers need to take action. Moreover, because housing, as a work support

subsidy, provides both incentive to work (at least potentially) and additional income that improves the economic well-being of families, a fairer distribution of housing benefits could do a lot more than reduce inequity.²³

Following the innovative work of Olsen and Jeffrey Tebbs,²⁴ formerly of the Brookings Institution, federal policymakers should create an entitlement to housing assistance that would both cut the Gordian knot of inequity, and convert housing into a more effective element in the nation's work support system for millions of additional families. The goal of reform would be to get the most out of the resources now devoted to housing by providing at least some benefit to all eligible families that want a housing subsidy. To finance this bold reform, policymakers should gradually phase-out, perhaps over a ten-year period, all programs that support construction, including public housing, project-based assistance, and the Low-Income Housing Tax Credit. The savings would be transferred to the current voucher program, somewhat modified as outlined below, bringing its total funding to around \$40 billion.

The Olsen/Tebbs proposal was in turn based on the Housing Assistance Supply Experiment (HASE) conducted in Green Bay, Wisconsin, and South Bend, Indiana, by Rand in the 1970s.²⁵ A basic concept underlying Olsen/Tebbs, current housing programs, and HASE is the fair market rent. An essential component of the computation to determine individual housing subsidy levels is that fair market rents are generally equal (with some exceptions) to the 40th percentile of the cost of apartments with a given number of bedrooms in the local market. The actual subsidy for a given household is the local fair market rent minus 30 percent of adjusted household income or the actual rent, whichever is lower. Thus, if the fair market rent for a family of a given size in a particular location was \$800, and the family had adjusted income of \$1,000 per month, the family would receive a subsidy of \$800 minus \$300 (30 percent x \$1,000) or \$500.

Policymakers can guarantee eligible families a subsidy, and keep the proposal cost neutral by reducing the standard of 40 percent of fair market rent to accommodate the amount of funding available. Simply and directly stated, the policy would reduce the average value of current housing subsidies in order to provide a smaller subsidy to more families.

Olsen and Tebbs estimate, extrapolating from the HASE results, that around 18 million households in the nation would be eligible for federal housing subsidies under the parameters followed in HASE (which are roughly equivalent to those in current law).²⁶ The HASE experiment found that about 40 percent of eligible households accepted the subsidy offer.²⁷ Using 40 percent of 18 million households as the percentage of households that would accept the subsidy under the Olsen/Tebbs proposal, we can calculate that around 7.2 million households would receive a housing subsidy.²⁸ Given the pool of \$40 billion created by combining funds in the current housing voucher program with funds from the housing programs that policymakers could terminate, the average household would receive an

annual subsidy of about \$5,600 under Olsen/Tebbs. This figure represents about a 20 percent reduction in the average housing subsidy received by families under current law. The reform represents a straightforward tradeoff: reducing current housing subsidies by about 20 percent in order to provide the subsidy to roughly 3 million additional families.

But more to the point, the reform would result in a greatly strengthened work support system because millions of additional low-income households would be able to count on a housing subsidy. Further, the efficiency of federal housing programs would be enhanced by eliminating construction and government ownership programs. Finally, voucher recipients could choose their own housing and thereby improve the quality of the neighborhood and the schools their children attend. They could also move to be nearer to employment centers. And all of these benefits can be purchased without increasing federal spending. Who said there's no free lunch in Washington?

Note: The author thanks Jeffrey Tebbs, Maggie McCarty, and Carmen Solomon-Fears for their assistance.

¹ John Karl Scholz, "Employment-Based Tax Credits for Low-Skilled Workers," Washington, DC: Hamilton Project, Brookings Institution, 2007; available at: http://www.brookings.edu/papers/2007/12_taxcredit_scholz.aspx; Alan Berube, David Park, and Elizabeth Kneebone, "Metro Raise: Boosting the Earned Income Tax Credit to Help Metropolitan Workers and Families," Washington, DC: Brookings, Metropolitan Policy Program, June 2008.

² Sheila Zedlewski and Seth Zimmerman, "Trends in Work Supports for Low-Income Families with Children" (Brief 4). Washington, DC: Urban Institute, June 2007.

³ A mother with two children earning \$16,640 from an \$8 an hour job, working full time, would be eligible for (all figures are approximate) an EITC of \$4,450, a child tax credit of \$690, food stamps of \$1,500, child care worth around \$2,900, and Medicaid health insurance with an insurance value of \$10,900. Her total work support package would be worth \$20,440; when combined with her earnings the family's total income in cash and benefits would be \$37,080. Housing benefits could easily add another \$6,000 to this total although most eligible families do not receive the housing benefit.

⁴ Congressional Budget Office, *Changes in the Economic Resources of Low-Income Households with Children* (Washington, DC: Author, May 2007).

⁵ According to Census Bureau data on poverty among female-headed families with children, the poverty rate fell from 46.1 to 33.6 or by 27 percent between 1993 and 2001, and from 46.1 to 36.5 or by 21 percent between 1993 and 2006.

⁶ Committee on Ways and Means, *2008 Green Book* (Washington, DC: U.S. Government Printing Office, 2008), p. 15–14.

⁷ Committee on Ways and Means, *2008 Green Book* (Washington, DC: U.S. Government Printing Office, 2008), pp. 15-1 to 15–22.

⁸ Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2007–2011" (JCS-3-07), Washington, DC: U.S. Government Printing Office, 2007, p. 28.

- ⁹This total is a little more than half the \$119.9 billion the federal government spent through the tax code on wealthier households; included in this amount are the deduction for mortgage interest, deduction for property taxes on owner-occupied housing, exclusion of capital gains on the sale of homes, and the exclusion of interest on state and local government-qualified private activity bonds for owner-occupied housing; see Joint Committee on Taxation, “Estimates of Federal Tax Expenditures for Fiscal Years 2007–2011 (JCS-3-07),” Washington, DC: U.S. Government Printing Office, 2007, p. 27.
- ¹⁰The 30 percent standard is controversial and may well be changed in the future as it has been in the past; see Frederick J. Eggers and Fouad Moumen, “Trends in Housing Costs: 1985–2005 and the 30-Percent-of-Income Standard,” Washington, DC: Department of Housing and Urban Development, 2008; available at: www.huduser.org/publications/affhsg/trends_hsg_cost.html.
- ¹¹Consider HUD’s assessment of fair market rents for various American cities: San Francisco, \$1,551; New York, \$1,189; Miami, \$1,018; Austin, \$836; Atlanta, \$779; Pittsburg, \$748; Charlotte, \$707; St. Louis, \$670; and Green Bay, \$608.
- ¹²Bureau of Justice Statistics; see www.ojp.usdoj.gov/bjs/homicide/teens.htm.
- ¹³When I was a preschooler, my mother, father and I, along with several hundred other modest-income families, lived in former Army barracks that had been converted to low-rent housing in Ypsilanti, Michigan, while my father attended college after World War II.
- ¹⁴Irving Welfeld, *Where We Live* (New York: Simon & Schuster, 1988); David Halberstam, *The Fifties* (New York: Villard, 1993), pp. 131-143.
- ¹⁵Edgar O. Olsen, “Fundamental Housing Policy Reform,” Unpublished paper, University of Virginia, January 2006, p. 6.
- ¹⁶Louis Winnick, “The Triumph of Housing Allowance Programs: How a Fundamental Policy Conflict Was Resolved,” *Cityscape*, 1995, 1(3), 95–121.
- ¹⁷Despite the widespread belief that public housing has been a disaster, one study suggests that children living in public housing, as compared with other poor children, do slightly better in school. See Janet Currie and Aaron Yelowitz, “Are Public Housing Projects Good for Kids?” *Journal of Public Economics*, 2000, 75, 99-124.
- ¹⁸For a review, see Edgar O. Olsen, “Fundamental Housing Policy Reform,” Unpublished paper, University of Virginia, January 2006, pp. 9–17.
- ¹⁹Edgar O. Olsen, “Housing Programs for Low-Income Households,” in Robert A. Moffitt, editor, *Means-Tested Transfer Programs in the United States* (Chicago: University of Chicago, 2003), p. 437. See also U.S. General Accounting Office, “Federal Housing Assistance: Comparing the Characteristics and Costs of Housing Programs, GAO-02-76 (Washington, DC: Author, 2002).
- ²⁰Whether people actually use vouchers to pick better neighborhoods is not clear, but my point is that they could. See John Goering and Judith D. Feins, *Choosing a Better Life? Evaluating the Moving to Opportunity Social Experiment* (Washington, DC: Urban Institute, 2003).
- ²¹Janet M. Currie, *The Invisible Safety Net: Protecting the Nation’s Poor Children and Families* (Princeton: Princeton University, 2006), p. 94.
- ²²Department of Housing and Urban Development, “Waiting in Vain: An Update on America’s Rental Housing Crisis,” 1999; available at www.huduser.org/periodicals/rrr/rrr5_99art1.html.

²⁵ A recent HUD paper argues that housing assistance has no major effects on employment. On the other hand, the experimental Jobs Plus study conducted in public housing in several cities found that a combination of reducing the 30 percent standard and providing other work supports has substantial impacts on employment rates and earnings. For the former, see Mark Shroder, “Does Housing Assistance Perversely Affect Self-Sufficiency? A Review Essay,” *Journal of Housing Economics*, 11(4), 381–417; for the latter, see Howard S. Bloom, James A Riccio, and Nandita Verma, *Promoting Work in Public Housing: The Effectiveness of Jobs-Plus* (New York, MDRC, 2005).

²⁴ Edgar O. Olsen and Jeffrey M. Tebbs, “The Effect on Program Participation of Replacing Current Low-Income Housing Programs with an Entitlement Housing Voucher Program, unpublished manuscript, January 4, 2006 (available from the website of Edgar Olsen, Professor of Economics, University of Virginia). This is the first paper of an ongoing project and some of their estimates may change as their model is improved, and as newer data become available.

²⁵ Ira S. Lowry, *Experimenting with Housing Allowances: The Final Report of the Housing Assistance Supply Experiment* (Cambridge: Oelgeschlager, Gunn & Hain, 1983).

²⁶ See Table 4 and page 8 in Olsen and Tebbs, 2006. My figure of 18 million eligible households is an average of national eligibility projections from the Green Bay and St. Louis results shown in Table 4. The 2005 American Housing Survey found 11.5 million unassisted, very low-income renters, nearly all of whom would be eligible for housing subsidies. Combining these 11.5 million with the slightly more than 4 million households now receiving subsidies yields an estimate of about 16 million households eligible for the entitlement subsidy. So perhaps the best estimate of eligible households is somewhere between 16 million and 18 million. If the true number is closer to 16 million than 18 million, then my estimate of the average size of the new entitlement housing benefit would be low.

²⁷ The major reasons for not accepting the offer of a housing voucher in the HASE experiment were that some households had only small benefits that they apparently judged not to be worth the trouble of signing up, some households were only briefly eligible, and some households were not willing to repair their unit or move to better housing so they could meet the quality standards. See Ira S. Lowry, *Experimenting with Housing Allowances: The Final Report of the Housing Assistance Supply Experiment* (Cambridge: Oelgeschlager, Gunn & Hain, 1983), pp. 11–17.

²⁸ It is possible or even likely that nearly all the roughly 4 million households already receiving a housing subsidy would continue to participate while the other 13 or 14 million newly-eligible households not now receiving a subsidy would choose to participate at the 40 percent rate. If so, the total number of participating households would be higher than the estimate based on Olsen/Tebbs, from which it would follow that my estimate of the average subsidy under the reform plan would be too high.