"Housing Vouchers: Performance and Potential"

Congressional Testimony of

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Mr. Chairman, thank you for the opportunity to testify today on the performance and potential of housing vouchers. I have been involved in developing and evaluating federal housing policy for the past 15 years -- first as a staff member of the Senate Subcommittee on Housing and Urban Affairs under Senator Alan Cranston, next as Chief of Staff to HUD Secretary Henry Cisneros and now as director of the Brookings Institution Center on Urban and Metropolitan Policy.

During this period I have come to believe that housing vouchers represent the most effective and efficient way of making housing affordable for low-income renters – the most critical housing challenge in our country.

I will make four basic points today.

First, housing vouchers are a critical and generally successful component of federal housing policy. Compared to traditional HUD production programs, they offer a quicker and more efficient ticket to affordability, they give families greater choice in metropolitan rental markets, and, by so doing, they enable families to move to areas of growing employment and quality schools.

Second, the voucher program is not perfect and does need some improvement if it is going to realize its full potential. Administration of the program remains highly parochial and fragmented, diluting the mobility potential of the program.

Third, the Administration’s proposal to block grant vouchers to the states does not address the shortcomings of the voucher program in a responsible way. The proposal would complicate rather than streamline voucher administration given the absence of an adequate delivery system in most states. In addition, the effort to model voucher administration after welfare reform is misguided and fails to understand the profound differences between these two programs.

Finally, voucher reform should be pursued in a measured and informed way. I recommend a series of reforms to better match the administration of vouchers to the geography of housing markets – metropolitan areas.

Let me address each of these arguments in turn.

The Benefits of Housing Vouchers

Housing vouchers play several essential roles in federal housing policy that should inform any reform effort.

First, vouchers are the most direct way of meeting the principal housing challenge facing very low-income renters — affordability. According to a HUD January

2001 report, 4.9 million very low income renter families have so-called "worst case housing needs," meaning that these families pay over half their income for housing or live in severely inadequate housing. For almost 80 percent of these families, or 3.6 million households, the sole housing problem is the housing cost burden. Put another way, these families live in decent housing but they simply pay more than 50 percent of their income for rent.

The root causes of the affordability problem are easy to identify. Most importantly, wages and incomes for a portion of the population – including a growing portion of the working population -- are just not sufficient to cover the costs of daily living, including transportation, health insurance, child-care and, most importantly, housing. Housing remains, by far, the largest household expenditure for American families and the cost burden goes up the poorer the family.

In addition, the supply of affordable housing has failed to keep pace with housing demand, particularly in suburban markets where jobs are growing and in metropolitan areas like Boston, Northern California or Washington, D.C. where real estate prices are spiking.

Against this backdrop, housing vouchers are by far the most effective and cost-efficient means of making housing affordable by closing the gap between incomes and rents. Unlike production programs, they can be delivered quickly to consumers who need assistance. They can also reflect and adjust rapidly to changes in local and metropolitan markets.

Second, housing vouchers give families greater choices of where to live than traditional production programs. Vouchers are unique among federal housing programs in that they allow the recipient rather than the developer to decide where to live. Not surprisingly, many voucher recipients exercise this choice and are dramatically less likely than public housing residents to be concentrated in high-poverty neighborhoods. According to a 1997 study by Anne Schnare and Sandy Newman, only 14.8 percent of Section 8 recipients live in high-poverty neighborhoods (neighborhoods that are more than 30 percent poor), compared to 53.6 percent of public housing residents.

The implications of these housing choices are profound. Low-income families know better than anyone else the costs associated with living in high poverty neighborhoods. People in these neighborhoods often face a triple whammy: poor schools, weak job information networks, and scarce jobs. They are more likely to live in female-headed households and have less formal education than residents of other neighborhoods. The ability to choose one's neighborhood is a basic tenet of empowerment.

Third, housing vouchers have enabled many recipients to move to communities with better employment and educational opportunities. Vouchers enable low-income families to operate as housing consumers in the broader metropolitan rental market.

Voucher recipients are given the ability to receive their assistance in one jurisdiction and take it to another as they search for housing that best fits their family needs.

This ability to exercise choice in the broader metropolitan market has positive implications for families, businesses and regions.

It enables voucher recipients to move closer to areas of growing employment. This is particularly important given the changing spatial geography of work in our economy. As Edward Glaeser and Matthew Kahn have recently demonstrated, employment decentralization has become the norm in American metropolitan areas. Across the largest 100 metro areas, on average, only 22 percent of people work within three miles of the city center and more than 35 percent work more than ten miles from the central core. The decentralization of employment is particularly pronounced in sectors of the economy – like wholesale trade and retail -- that offer entry-level jobs to low skilled workers.

The ability to exercise choice in the market also enables families with children to move to areas with better schools. As Diane Ravitch has shown, less than a quarter of poor children in inner city schools achieve "basic" levels in reading compared to nearly two-thirds of suburban children. Only about a third achieve basic levels in math and science, half the fraction of suburban students.

The housing voucher program – by enabling mobility –- enables low-income families to connect their housing and school decisions – something middle class Americans do every day. And it works. Research by Jens Ludwig, James Rosenbaum and others has shown that when low-income families are given the chance to move to better neighborhoods, school performance improves. The Gautreaux litigation and Moving To Opportunity demonstration program showed that children did substantially better in school when they moved from high- to low-poverty neighborhoods; and those who moved to the suburbs did better than those that moved to another part of the city.

In short, the housing community has something to say – profound to say – about school reform and educational achievement that is grounded in 20 years of rigorous programmatic and social analysis.

Enabling low-income families to live closer to areas of growing employment and more economically diverse schools does not only benefit those families and their children. Vouchers can benefit businesses by enabling workers to live closer to their places of employment. And there is growing evidence that entire regions are better off when fewer people live in neighborhoods of concentrated poverty. A greater balance between jobs and housing helps ameliorate the negative consequences – excessive sprawl, increasing congestion, declining environmental quality -- that are associated with current metropolitan growth patterns.

The Shortcomings of Housing Vouchers … and Voucher Administration

In general, therefore, the housing voucher program performs exceptionally well, particularly when compared with traditional HUD production programs. Yet the program is not perfect and falls short of achieving its full potential in several respects.

First, not all voucher recipients are successful in finding a house or apartment that qualifies under the program. A 2001 study by Meryl Finkel and Larry Buron concludes that the share of voucher recipients who are successful in finding qualifying units in large metropolitan areas is 69 percent. This represents a substantial decline from the 81 percent success rate that was calculated for the late 1980s. As one would expect, success rates vary across metropolitan areas and are influenced by various factors: the general tightening of housing markets across the country, exclusionary zoning practices in suburban communities, the competence and capacity of local housing authorities.

Second, housing vouchers do not provide equal access to low-poverty and low-minority neighborhoods for all poor households. The neighborhood outcomes described above are not uniform across racial and ethnic groups, jurisdictions and household types. Research tells us that vouchers produce better locational outcomes for suburban recipients than for central city residents, for white recipients than for African Americans and Hispanics, and for the elderly than for non-elderly families and disabled people. Research also tells us that voucher holders appear to be significantly under-represented in low-poverty neighborhoods relative to the availability of potentially affordable rental housing. Tenant-based assistance still consistently outperforms public housing, even in central cities, even among African Americans and Hispanics, and even among families and disabled recipients. But it clearly has the potential to offer better locational outcomes for these groups.

Third, landlord participation in the program remains a constant challenge. When I was at HUD, we focused intensely on ensuring the broadest possible participation of landlords in the voucher program. Our reasoning was simple. The broader the landlord participation, the greater the choices, spatial and otherwise, for the recipients. We found that what landlords want is not difficult to ascertain. They want timeliness of payment and inspection. They want certainty and predictability in rules and regulations. They want comparability with private section practice and expectation. They want a trustworthy and competent government partner.

Over the past decade, we have made some progress in making the voucher program better fit the private sector model. Congress repealed several statutory provisions that impeded participation. Outreach to landlords increased substantially. Yet landlord participation in the voucher program remains a constant challenge, particularly at times when rental market are tight, vacancies low, price pressures high and alternatives plentiful.

Finally, administration of the voucher program remains highly fragmented and insular. Since inception of the program, local public housing authorities have enjoyed a near monopoly over voucher administration. In many communities, this arrangement has been highly successful. Many local agencies quietly and expertly perform the multiple tasks of administering vouchers. They recruit quality landlords, oversee the maintenance of properties, ensure the prompt payment of rental assistance, screen and counsel recipients and link with community institutions and service providers.

But devolving voucher administration to 2,600 separate public housing agencies also has its drawbacks, particularly in large, complex metropolitan markets. Most importantly, the parochial administration of vouchers does not match the metropolitan geography of rental markets. As Mark Alan Hughes has shown, the fragmentation of voucher administration is quite severe in particular metropolitan areas. In the Detroit metropolitan area, for example, there are 31 separate public housing authorities; in Philadelphia 19, in Chicago 15. In these and other metropolitan markets, "too much" devolution has made it difficult for low-income families to know about housing vacancies and exercise choice in a metropolitan housing market.

The absence of competition for voucher administration has also, arguably, stifled innovation and accountability. Public housing agencies essentially operate this program in a closed system, where high performance is rarely rewarded and bad performance is rarely punished. Voucher administration has, therefore, not realized the benefits of competition that have influenced other areas of domestic policy like education or welfare, where administrative responsibilities have been opened up to a wide array of public, non-profit and for-profit entities.

A Block Grant Would Undermine the Voucher Program

Against this backdrop of general success and selective challenges, the Administration has proposed block granting housing vouchers to the states based on the welfare reform model. The new block grant – Housing Assistance for Needy Families – is intended to streamline voucher administration, promote more flexibility in program implementation, encourage greater use of voucher funds, and further the coordination of housing and welfare programs.

Like many witnesses who have appeared before this Subcommittee, I have grave misgivings about this proposal and believe that it has the potential to do significant harm to the voucher program. I believe that the state level is the wrong level for administration of this program and will recommend later several strategies to buttress metropolitan approaches to voucher administration.

In prior testimony, this Subcommittee heard several overarching criticisms that I believe are valid and deserve close scrutiny.

The Administration dramatically overestimates the capacity of the states to administer this program. The decision to block grant welfare to the states was based in part on the long history of welfare administration and innovation at the state level. The history of voucher administration is radically different. According to NAHRO, public housing agencies administer approximately 86 percent of the vouchers on a national basis, and states administer the remaining 14 percent. A NAHRO analysis also shows that more than half of the states have either: (1) no experience administering the program; (2) voluntarily or involuntarily relinquished all or part of the program; or (3) administer 5 percent or less of the vouchers.

The transition to a new state administered system would require the creation of a new layer of governance that does not now exist, and thus would be confusing and costly. States would be required to carry out (or subcontract) the myriad of responsibilities now undertaken by local agencies. In addition, states would be required to assume many of the oversight and management functions that are now conducted by HUD. I believe that the introduction of a state middleman into the mix of voucher administration is a recipe for administrative chaos in the short term without any serious prospect of long term benefits.

Inadequate future funding for the block grant would dramatically undermine the broader goals of the program. The shift to a block grant could substantially alter the method by which Congress determines funding for the voucher program. Under current practice, Congress sets funding for the program each year to ensure the renewal of all existing vouchers and reflect changes in actual voucher costs. These funding decisions are important to ensure that the voucher program reflects market conditions and market expectations. In the real world, rents rise and any program that wants to leverage private market participation needs to reflect that simple fact.

The shift to a block grant would potentially decouple funding decisions from these concerns over rental markets and voucher renewals. It is highly likely that block grant funding would be influenced more by the fiscal constraints of the moment than by any overarching programmatic rationale. In the event that block grant funding is not sufficient to cover the program's needs, states would probably take one of several actions.

To make up funding shortfalls, state agencies might shift assistance to households with more moderate incomes since they require fewer subsidies, thereby enabling the agency to continue serving the same number of households. They might opt simply to reduce the number of families that receive housing vouchers, irrespective of the demand for rental assistance. They might require recipients to pay a higher share of their income for rent. Or they might limit the ability of households to use vouchers in low poverty areas, as those places with access to more opportunities usually have higher rents.

All these funding scenarios, which are fairly likely in the current fiscal climate, could have a profound impact on which landlords participate in this program. As I said above, landlords want certainty and predictability in program rules and funding levels. The more uncertainty, the less likely that good, responsible, landlords will participate.

The Subcommittee also heard testimony that raises doubts about the Administration's stated intention to use welfare reform as a model for voucher administration. I agree with these criticisms and have several to add.

Vouchers serve a much broader universe of households than welfare recipients. The Administration contends that a voucher block grant would complement state administration of welfare reform. Yet this contention ignores the fact that only 13 percent of voucher recipients receive a majority of their income from welfare benefits. By contrast, 35 percent of voucher recipients receive a majority of their income from wages and 42.5 percent of voucher recipients receive a majority of their income from SSI or pensions. The latter figure reveals the substantial portion of voucher recipients who are either elderly or have disabilities. The voucher program is, in essence, not simply the housing equivalent of welfare. It serves a much broader universe of households than welfare and deserves to be considered on its own merits.

Unlike welfare reform, the demand for housing assistance will not decrease. As described above, the unmet demand for housing assistance in the United States is substantial. Nearly three-fifths of working poor renters with children who do not have housing assistance pay more than 50 percent of their income for housing or live in seriously substandard housing, or both. It is simply inconceivable that the experience under welfare reform – where caseloads fell dramatically after the block grant was introduced – would be replicated under housing reform. With declining welfare caseloads, state agencies were able to make creative decisions under a fixed ceiling of block grant funding. The same level of "programmatic savings" would simply not happen under a housing block grant since demand for housing assistance would not decrease.

State administration of vouchers could have a negative impact on central cities and the low-income families who disproportionately live there. Evidence from the 2000 census shows that central cities remain home disproportionately to the nation's very poor. While poverty has declined in central cities, for example, urban poverty rates are still twice as high as suburban poverty rates, 16.4% versus 8.0% in 1999. Cities are also disproportionately home to families whose earnings are above the poverty level, but below median income.

Given this concentration of city poverty, the implementation of welfare reform remains a special problem in urban areas. While welfare caseloads are shrinking in most cities, with some exceptions they are not shrinking as quickly as they are in the states and in the nation as a whole. As Brookings has repeatedly shown, a city's share of a state's welfare population often far outstrips its share of the state population as a whole. Philadelphia, for example, is now home to 12 percent of all Pennsylvanians, but 49 percent of Pennsylvanians on welfare. Baltimore has 13 percent of Maryland's population, but 56 percent of its welfare recipients.

Nothing in the Administration proposal shows any understanding of or concern about this concentration of urban poverty. The proposal provides some basic guidance on how federal funds would be allocated to the states but no direction on how funding would then be suballocated to particular areas within a state. The proposal also contains no performance requirements or other accountability mechanisms that would require states to pay special attention to the unique needs of cities, other areas of deprivation and minority households. Despite the excessive concentration of poverty and welfare caseloads in cities, therefore, states would be under no obligation to provide urban places with a "fair share" of funding, let alone the funding necessary to address the special circumstances under which they labor.

Welfare reform requires a strong voucher assistance program. There is no doubt that vouchers should be coordinated with TANF and efforts to support current and former welfare recipients. In fact, many public housing agencies are already heavily involved in welfare-to-work efforts at the local level. Yet a block grant to the states is not the best way to achieve broader coordination. Rather, the voucher program should do what it was intended to do: provide rental subsidies that reflect the realities of the marketplace and enable recipients to live in areas of their own choosing, including areas of growing employment.

What Voucher Reform Should Look Like

In my view, therefore, the Administration's HANF proposal is fundamentally and fatally flawed and should be rejected by this Subcommittee. Yet rejection of the HANF proposal does not mean that the existing system should remain unchanged. There are clearly problems with housing vouchers that need to be remedied.

Some of the problems that I have identified could be addressed short of additional statutory reform. The problems of unused vouchers, for example, could be addressed if local housing agencies set voucher payments in a way that better reflected market conditions.

Yet I believe more substantial reforms are necessary to ensure that the voucher program reaches its fullest potential and gives voucher recipients greater ability to exercise their residential choice in the marketplace.

As I have written before, I believe that Congress needs to encourage a continuum of metropolitan approaches to voucher administration that include collaborative activities among local public housing agencies as well as, in some places, the actual consolidation of separate agencies. I believe metropolitan areas, not states, are the right geography for thinking about housing policy and rental assistance. Metropolitan areas are organic markets in which housing demand and supply decisions play out every day. States, by contrast, are political and constitutional entities whose borders rarely coincide with the natural operation of housing markets.

I recommend that this Subcommittee consider four incremental steps.

First, Congress could authorize and fund HUD to test the feasibility of making information on metropolitan housing markets transparent and accessible to low-income consumers. This would simply replicate for the rental market what already exists in the homebuying market where multiple listing services provide information on all homes for sale in a given metropolis and beyond. Why shouldn't recipients of vouchers have ready access to information about rental housing vacancies, school performance and employment accessibility so that they can make informed housing decisions?

Second, Congress should use the allocation of any new vouchers to encourage coordination and collaboration among public housing agencies in metropolitan areas. Extra points should be given to applicants that represent a consortium of local administrators and seek to represent all or part of the metropolitan area. Likewise, preference should be given to applicants that involve private sector institutions in the delivery of such services to voucher recipients such as counseling.

Third, Congress should adequately fund mobility counseling as well as landlord outreach efforts. Both of these approaches are essential to the success of the voucher program.

Finally, Congress and HUD should test the feasibility of alternative metropolitan approaches to voucher administration including but not limited to the consolidation of public housing agencies and/or the contracting out of voucher administration to non-governmental entities. HUD could, for example, use its management assessment responsibility to experiment with more permanent and more metropolitan-oriented administrative remedies to poor performance. In addition, Congress could fund a demonstration in several metropolitan areas that uses a multi-year commitment of incremental vouchers (and, perhaps, other production resources) as the carrot for creative approaches to metropolitan governance.

These steps are incremental and are primarily designed to broaden the number of places that administer vouchers on a metropolitan basis. These reforms, of course, are not sufficient to address all the utilization and mobility challenges in the voucher program. Congress clearly needs to consider broader responses to expand the supply of affordable housing in growing communities, particularly through efforts to remove regulatory and zoning barriers to affordable housing production.

Conclusion

For the past thirty years, the voucher program has been a mainstay of federal housing policy. More than any other federal housing program, it places power and resources in the hands of low-income renters and, by so doing, enables them to make decisions about housing, jobs and schools in a unified way. For the reasons stated above, the program – and particularly the administration of the program – needs improvement. But reform needs to proceed in a measured and responsible way to avoid making the cure worse than the disease.