

RETHINKING FEDERAL LOW-INCOME HOUSING POLICIES

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SUMMARY

Federal housing programs are sustained more by inertia and the difficulty of unwinding financial obligations than by a consensus that these policies are effective in helping people. Established rationales have been weakened both by changes in the nature of the housing problems faced by low-income households and by the inability of research to demonstrate that these programs are as cost-effective as alternative means of helping improve the lives of the poor. Setting a new course requires us to rethink housing policy—from its premises on up. Such fundamental reexamination may eventually produce a new level of agreement on what this spending is intended to accomplish and that, in turn, could support and steer efforts to alter the way federal housing policies are designed and administered, to increase their effectiveness.

A forward-looking housing policy reform agenda should focus on ways to target housing assistance on specific social objectives. Housing assistance can be combined with other tools where there is reason to believe that the deployment of resources is likely to produce benefits commensurate with its cost, such as with efforts to end chronic homelessness, linking community-based employment support and rent incentives, supporting asset building for working families, and helping avoid unnecessary institutionalization. The current administrative system must also be reengineered. To do so will require that the administration of housing subsidies is integrated with administration of other social services, decisions about low-income housing development is separated from decisions about households, and current systems for control and reporting are replaced with streamlined accountability systems that focus on results, both locally and nationally.

INTRODUCTION

On one level, public policies are supported by theories and evidence; on another level, by coalitions of economic and group interests. In its heyday, the federal government's commitment to low-income housing expanded behind a pragmatic coalition combining those who believed housing assistance would improve the lives of the poor with organized interests—such as builders, lenders, and local governments—who benefited directly from this spending. The expansion was fueled as well by a belief that improving housing conditions was an effective way to ameliorate and reduce poverty in America. The goal of reducing and eventually ending poverty at one time had broad support; and housing policy was seen by many as integral to that effort.

The combine of interests and intellect that powered the expansion of federal housing assistance for more than 50 years beginning in the 1930s has weakened. Other priorities and interests—from health

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care to education to homeland security—have pressed their competing claims on limited budgets. The intellectual case for subsidized housing as a social strategy—never very solid—has fallen apart. The rationales offered for this set of policies are not as compelling or convincing as the theories or stories—some of them backed by solid evaluation research—that support directly competing social investments: No Child Left Behind; the policies and programs that constitute welfare reform; investments in children’s health; programs to control drug use and crime.

Today, federal housing programs are sustained more by inertia and the difficulty of unwinding financial obligations than by a consensus that these policies are effective in helping people. Established rationales have been weakened both by changes in the nature of the housing problems faced by low-income households and by a failure on the part of those responsible for evaluating those programs to demonstrate that they are as cost-effective as alternative means of helping improve the lives of the poor. Not surprisingly, there is disagreement—even among advocates for those programs—about what they are expected to accomplish.

What should be done in these circumstances? Staying the course seems increasingly likely to result in declining resources and an unwinding of current commitments. At the margin, new resources would be redirected to programs with clearer goals and demonstrated efficacy. Setting a new course requires us to rethink housing policy—from its premises on up.

Such fundamental reexamination may eventually produce a new level of agreement on what this spending is intended to accomplish and that, in turn, could support and steer efforts to alter the way federal housing policies are designed and administered, to increase their effectiveness.

It is also possible that a closer, systematic examination of low-income housing policy would lead to the conclusion that much of this spending should be directed to other social needs and more effective uses.

While some may fear a fundamental reconsideration of federal low-income housing policies, in the end rethinking these policies may prove less wrenching than the alternative.

POLICY STALEMATE

Congress has not passed significant low-income housing legislation since 1998. The amount of federal low-income housing subsidies—which help pay the rent for over 5 million poor households—has hardly been increased by the Administration and Congress in the past five years. Efforts to establish an affordable housing trust fund have foundered. Other urgent problems get priority for new spending. Why is this?

Low-income housing advocates routinely proclaim an affordable housing crisis. They count the millions who at any one time use more than one-half of their income for housing costs, live in severely inadequate units, or are actually homeless and they cry out for more attention and resources. This is the conventional wisdom; but the conventional wisdom ignores some inconvenient realities.

Doubts about the Effectiveness of Housing Assistance

Housing advocates must recognize that, despite the urgency they feel, they face an uphill struggle convincing policy makers and the public that a larger proportion of the nation’s resources should be devoted to housing subsidies. One big reason for this is the perceived failure of the large federal

programs to improve the lives of those who receive assistance. The image of public housing—partly accurate—is of a shabby, overly dense complex located in an area of crime and bad schools, concentrating and often trapping families in intergenerational poverty. In some cases poor families are, in effect, paid substantial sums—the average subsidy for a family of four is around \$7,000 a year and much higher in high-cost cities—to live in the worst neighborhoods, where their lives are threatened and their efforts to progress needlessly stunted. Let’s be blunt: the federal government routinely subsidizes substandard housing and offers subsidies to families tied to locations where they are in constant fear of violent assault, where their children attend the worst schools, and where they are isolated from economic opportunity.

The Office of Management and Budget has rated most of the major housing aid programs either as “ineffective” or “results not demonstrated”; anyone can read these detailed public critiques of the programs and understand why they are at a disadvantage when budget priorities are being set.² Some may doubt the objectivity or fairness of OMB program assessments. Strong verifiable scientific evidence that the programs were effective in improving the lives of those assisted would trump subjective program ratings. Unfortunately, there is uncertainty and little objective evidence regarding the benefits of housing assistance. Although careful evaluations have been conducted of innovative uses of housing subsidies, none of today’s major housing assistance programs has been the subject of a broad rigorous independent evaluation employing experimental controls to isolate and measure its impacts. There is little solid evidence establishing who benefits, in what circumstances, and in combination with what other forms of assistance. Does housing aid, more often than not, lead to increased economic self-sufficiency, better school outcomes for children, increased safety, improved health for the elderly, and increased independence for the disabled? In fact, we have almost no evidence with which to confidently answer these basic questions about benefits. Would a housing subsidy—for a specified family type in specified circumstances—yield greater benefits than similar spending on education, job training, health care, food assistance, child care, or other programs? Who can say?

Because housing assistance is not an entitlement, it is mostly awarded to income-eligible applicants on a first-come, first-served basis modified by priorities set by local public housing agencies (PHAs) or local managers of privately owned subsidized projects. Absent evidence about who is more likely to benefit, project managers have no way to effectively prioritize the large but limited pool of subsidies. Once awarded, subsidies are generally open-ended and conditional only on continued income eligibility. As incomes rise, subsidy levels are reduced, possibly discouraging work effort. The probable effect of the inability to effectively prioritize or condition assistance is to dilute any benefits of this spending. Other examples could be given of how, in the absence of well-tested models showing how the effects of housing assistance vary with circumstances, terms and conditions, and context, subsidies are distributed willy-nilly and used less effectively than they could be.

Crumbling Intellectual Foundations for Housing Assistance

Support for federal housing assistance is limited by lack of agreement about what it is intended to accomplish. Historically, public housing was supported by reformers as a way to help poor families escape the hardship and threats to physical and moral well-being posed by slum life and seriously deficient housing. On a practical level, it also gained support as a means of moving the poor and minorities out of the way so that land could be redeveloped. The coalition of social reformers and

² Publicly available program assessments of federal housing programs are available on the web at: <http://www.whitehouse.gov/expectmore>.

development interests powered the expansion of public housing over four decades and later on the federal government financed and subsidized construction of privately owned apartments for low-income households.

Gradually, the rationale for federal low-income housing subsidies shifted. In the last few decades, a further major expansion of housing assistance was justified largely as a response to shortages of affordable housing, partly resulting from the clearance of poor quality but cheap housing and the resulting gap between the incomes of the poor and what it cost to rent adequate housing. A new form of assistance—housing vouchers—emerged that allowed recipients more choice of location and was attractive to appropriators because it required smaller initial appropriations. Implicitly, and again on a more practical level, expansion of federal housing subsidies compensated for the effects of local and national policies—such as highway construction and urban renewal—that reduced the supply of affordable housing.

By 2001, over 5 million federal low-income housing subsidies were in use—including over 2 million vouchers. Research has generally shown that portable housing vouchers provide greater benefits (or at least greater choice) at a smaller long-term cost than project-based subsidies. However, the number of portable housing vouchers has been essentially frozen, while expansion of federally assisted project-based housing has continued at a pace approaching 100,000 units annually—funded by new low-income housing tax credits, HOME block grants, and construction subsidies through smaller programs for the elderly and disabled, including the chronically homeless. These construction programs continue expanding the number of federally subsidized affordable units, although access to many of them by the poorest households requires an additional rent subsidy.

Even as the incremental expansion of subsidized housing continues through federal support for new construction, what agreement there was in the past on the need for expanded federal efforts to provide assistance has crumbled. Federal cash assistance to families with children—welfare payments—and related policies to support work went through a major intellectual reformulation in the 1990s, resulting in a new policy consensus which led to a major reform of those programs. The new majority view is that federal aid to poor families should be designed to move them as quickly as possible into the workforce and toward self-sufficiency. Following much debate, building on a substantial body of research, and following the overthrow of established premises, a new clarity of purpose emerged, at least provisionally. This consensus on the rationale for cash assistance to families with children has supported agreement on reforms and a fundamental shift in the terms of assistance, the way it is administered, and the way it is used by families.

Some thought the momentum for welfare reform would carry over to the largely separate world of housing policy. In 1996, when Temporary Assistance for Needy Families (TANF) replaced Aid for Families with Dependent Children, about one million families who received welfare payments also held a HUD housing subsidy. In fact, the logic of welfare reform helped motivate the Quality Housing and Work Responsibility Act of 1998. However, the Act as passed applied only minor elements of TANF reform model and did little to reduce the gap—both administrative and intellectual—between these two major streams of federal aid to poor families.

REBUILDING THE INTELLECTUAL FOUNDATIONS OF HOUSING POLICY

What will it take to attract new attention and priority to low-income housing assistance? A necessary, although perhaps insufficient, condition for regaining forward motion and rebuilding support for

housing assistance programs is the development of broad agreement about the aims of that policy. A second intellectual building block would be the identification of a set of cost-effective policies for achieving those aims. And finally, building on those new foundations, consensus would be needed on a clearly defined, achievable goal or goals commensurate with the likely availability of federal and other budgetary resources.

A Possible Model

In the midst of the current intellectual disarray, there is a promising, instructive example of how a rethinking of low-income housing policy might proceed and how it could attract new resources and energy. The model close at hand is the federal government's commitment to end chronic homelessness. What is distinctive about this policy focus? First, there is broad, if not universal, agreement on a national goal set by the federal government. Second, there is a sound research base and growing body of practical experience suggesting that it is cost-effective to invest public resources in the effort.

Why was it possible to get agreement on this goal? One can speculate on this. First, the target is of manageable proportions: a population estimated to be no more than 200,000 individuals. Second, there is a methodology—assisted housing linked to appropriate supportive services—for which there is reasonably strong research evidence showing that in most cases it gets people permanently off the streets. Moreover, there are studies indicating that it does so at a cost to the public sector hardly greater than that incurred by allowing them to remain on the streets or cycling through emergency rooms, jails, institutions, and shelters. Given this information, it is possible to calculate quickly the additional or redeployed resources needed to reduce or end chronic homelessness and to calculate the marginal public cost to do so. All in all, it seems the goal is not just meritorious but within reach.

What has been the result of setting this policy goal? New resources have been committed, not only in the federal budget—appropriations for HUD homeless assistance increased by 30 percent from FY 2001 to 2006, for example—but in the form of plans and matching commitments by mayors, governors, foundations, and others. The goal has focused energy and mobilized political support sufficient to sustain the initial effort for five years so far. And, preliminary evidence suggests it is producing, in many places, measurable reductions in the numbers remaining homeless for long periods. Real success sustains and feeds the effort, resulting in continued progress toward the goal.

The central lesson? In one instance many have come to believe that housing assistance can be used in a particular way to achieve an important outcome with a feasible investment of additional resources. Seeing this, politicians have rallied to the effort. Budgets have increased.

Could this be the model for a general reshaping of low-income housing policies? What other desirable, achievable social goals can be identified for which there is or conceivably could be a demonstrated cost-effective link between provision of assistance and progress toward the goal?

Before attempting to answer these questions, it will help to clear away some of the intellectual scrub brush that has grown up around low-income housing policy. We must adjust some of our standard ways of thinking about housing needs and housing assistance.

Gutting the Old Place and Getting False Ideas out of the Way

What are housing needs? For over 20 years, the federal government's standard measure of the need for low-income housing assistance has been HUD's estimate from Census data of "worst case needs." By this conventional measure, over 5 million very low-income renter households have severe housing needs, i.e., use over one-half of their income for rent and utilities or, in far fewer cases, occupy severely inadequate units. Contrary to repeated reporting of an "affordable housing crisis," the estimated number of households in "worst case need" has hardly moved over the last 20 years.

Is this a meaningful measure of need for housing aid? It is absolutely true that millions of households struggle to afford decent housing in a decent neighborhood. At the same time, it is absolutely wrong to infer that the current standard needs estimate—or any number like it – represents a shortfall in the number of government housing subsidies. Apart from methodological issues, the measure has three problems as an estimate of need:

- It is largely a count of those with excessively high rent burdens, which is not a measure of *housing* need—the housing may be quite adequate—but rather of the numbers who are required (or in some cases to some degree choose) to use most of their income for housing;
- Most people can and do solve their housing cost problems without ever receiving a federal housing subsidy -- within a year roughly one-half of those using over one-half of their income for housing will no longer do so, usually because of a change in their income; and
- Providing a subsidy to a household in this category may not solve its housing problem, i.e., providing a subsidy in the wrong circumstances or in the wrong form may not solve a housing problem or convey any benefit at all. Many who receive assistance continue to live in dangerous housing or bad locations. In fact, some are induced to do so by the offer of aid.

A better way to estimate housing assistance needs would be to identify the group of households for whom housing assistance is likely to yield a benefit—for example, by improving opportunities and living conditions. This approach does not look at reduced housing cost burdens as a benefit in and of itself, although reduced housing costs will in many cases free income for other uses and may yield direct benefits if it supports a move to a superior location or unit.

A measure of *housing* need must identify the portion of the population at risk of having long-term severe housing needs without continuing housing assistance. Using the American Housing Survey or other Census data, it is possible to estimate the number of households that *currently* experience the most severe housing needs *and cannot afford* housing that is not severely substandard and in a safe location.

- Those with the most severe housing needs are those who are either homeless, living in severely substandard housing, or living in an unhealthy location (e.g., high rate of violent crime; dangerous environmental exposures). Certainly, for families with children, the indicators of unhealthy location could include failing neighborhood schools.³

³ This approach to defining housing needs essentially looks back to an earlier era when reformers advocated improved housing and elimination of slums as a strategy to help the poor by removing threats to their health and safety and obstacles to their efforts at self-improvement. It must be noted that research supporting such linkage was and is still less than compelling.

- In determining whether a household can afford better housing, it is important to estimate all financial resources and needs, including: wages and cash income from all sources; food stamps; and other major in-kind resources.
- To determine whether households with a given level of resources can afford adequate, safe housing it is necessary to consider the availability of such housing in the local market that is affordable to them, e.g., costs no more than 30 percent of total resources or 50 percent of cash income. Some portion of this supply should be subtracted from the initial estimate of subsidy needs because it can be accessed by providing information and relocation aid rather than a continuing housing subsidy.
- Finally, within the group who have housing needs that cannot be met with their current resources from the local affordable stock, it is necessary to estimate the proportion in need who were in a similar situation for a long period, say two years prior. This is the approximate number of households likely to require long-term rental assistance to meet their housing needs because they will not find the resources on their own.⁴

Calculations using such information can produce a reasonable estimate of how many households may benefit from a long-term housing subsidy. This is not to say, necessarily, that a form of assistance other than a housing subsidy—perhaps a subsidy for child care or transportation—would not better serve the needs of many people in this group. And, there are some in this group for whom a housing subsidy will not provide a benefit; a subsidy may be a disincentive for work or other self-improvement or it may be used in a dangerous location, for example.

Within the group who could benefit from a subsidy, there will be a high proportion of households whose incomes are limited by disability or lack of preparation for employment. For many people in these categories, help that directly addresses limits on their earning power, possibly offered in conjunction with a housing subsidy, may prove more cost-effective than housing assistance alone.

Some households may face an immediate severe housing problem—perhaps precipitated by a family crisis or disaster—that does not require long-term assistance but may require short-term housing assistance (or another form of aid). Correctly identifying the groups needing various kinds of help, including either long- or short-term housing subsidy, will help us think more clearly about when and how housing subsidies should be offered and about which combinations or sequences of housing aid and services are most appropriate to a given set of personal circumstances.

Current Programs Have Flaws in Their Design

The existing array of federal housing assistance programs share common flaws that reduce their effectiveness and damage their chances for regaining broad political and budgetary support. For example:

Nonetheless, it is important to clearly distinguish housing need from a need for more income, which the rent burden measure fails to do.

⁴ Note that the problem of estimating how many households will need long-term subsidy is not as big a challenge as predicting whether a given household will need long-term aid. Identifying the latter is a task critical for targeting aid to the households more likely to benefit from assistance; and it requires skilled intervention and detailed knowledge of each household's circumstances.

- Who thinks that unconditional, open-ended housing subsidies encourage families to go to work or otherwise take new steps to improve their lives? Yet, that is the promise offered to virtually anyone who gets to the top of their local waiting list for housing assistance, regardless of their circumstances or desires.
- Who thinks it is a good idea to subsidize the poor to live in places where they are in physical danger, with bad schools and poor services, and isolated from the social mainstream? Yet, some recent research and a substantial body of anecdotal evidence suggests that these are the places where a great many if not most housing subsidies are used; and too often the subsidy is *only* offered on the condition it be used in such a place.
- Who thinks that the most cost-effective strategy to address shortages of affordable housing is to continuously build new subsidized housing in nearly every housing market in every State? Federal tax credits and grants add close to 100,000 new apartments to the affordable housing supply each year—approaching one-third of all U.S. multifamily production. Reason and research suggest that these increases are substantially offset by, and contribute to, continuing losses of marginal private affordable stock. In most markets, an oversupply of apartments for rent virtually guarantees that for every new subsidized unit built, an older unit will be abandoned.
- Who thinks that the terms and conditions for housing aid should be the same for the elderly or the severely disabled as for families with children? Yet, most analyses of housing needs don't recognize the varied ways that housing assistance can be used by people in different circumstances and at different stages of life.
- Who believes that it is wise policy to separate the administration of low-income housing assistance—at all levels of government—from the administration of other benefit programs for low-income households and individuals? It is reasonable to ask whether progress in addressing poverty depends first on reorganizing delivery so that it is possible to provide integrated packages of assistance under unified supervision and with clear accountability at each level for their effective use.

Rebuilding with Ideas that Could Shape a New Low-income Housing Policy

A new, stronger intellectual base for low-income housing policy will require a lot of learning, both through more systematic testing and evaluation of new approaches and by designing programs in such a way that they promote and reward local success and facilitate replication of successful models.

Housing assistance is not, as those who talk about a shortfall of subsidies often imply, an end in itself. It can only be justified if it results in improved lives for those who receive it, and if it can be shown that the dollars spent in this fashion provide greater benefits than the same dollars spent for other forms of assistance, e.g., child care or health insurance, for similar households.

Advocates of low-income housing must recognize the place that these programs hold in relation to major social goals such as improving economic opportunity and upward mobility, building safe, viable socially diverse communities, and providing access to health and safety. By its nature, housing

assistance is subordinate to and supportive of broader social strategies to achieve these social goals; it is part of the tool box and is not always the most appropriate or cost-effective tool to use to aid a given household at a particular time or over time. Moreover, it appears that, to be effective, housing assistance often must be combined with other sources of support to families and those with special needs.

Recognizing that knowledge of when and how housing assistance is most likely to be applicable is currently inadequate, we can nevertheless begin its reconsideration with certain premises:

- The benefits of housing assistance vary greatly in different circumstances and depend on the contractual terms on which it is offered.
- Using housing assistance to expand location choice and mobility can benefit some groups, e.g., by making them safer or improving their access to good schools, but more needs to be learned about the circumstances and conditions under which it yields such benefits.⁵
- Given the physical nature of housing and its interaction with its surroundings, the rationale for housing assistance will be strengthened or weakened depending on whether a given approach supports other local community development goals including: providing affordable housing close to employment centers; reducing concentrations of poverty that contribute to crime and inhibit neighborhood development; and building assets and homeownership opportunity for younger households.

Based on these very general insights and what we know to date about the conditions under which housing assistance is likely to be beneficial, here is a multi-part strategy for a new federal housing policy built on more solid foundations:

REFORMING HOUSING POLICY

Part One: Focus Housing Assistance on Specific Social Objectives

Although we don't know nearly enough about who will benefit from housing assistance, under what conditions, offered on what terms, there are some promising targets for its use. It is important, as noted, to start by focusing where economic returns and budget offsets can help justify this particular form of investment. The ongoing effort to end chronic homelessness is the model. Here are three candidate uses of housing assistance combined with other tools in circumstances where there is reason to believe that this use of housing assistance is likely to produce benefits commensurate with its cost:

Community based employment support and rent incentives. This approach combines employment-related services, conditional rent reductions for residents of subsidized housing (allowing them to keep more of their earnings as an incentive to work and earn more), and the promotion of social ties among participants to create community support for work to improve the employments prospects of the hardest-to-employ residents of high poverty neighborhoods. There is at least the potential for offsetting reductions in public costs and gains in productivity

⁵ See Alan Berube, *Overcoming Barriers to Mobility: The Role of Place in the United States and UK*, Washington, D.C.: Brookings Institution (April 2006).

and taxes. MDRC's 2005 evaluation of the Jobs-Plus public housing demonstration found it substantially boosted earnings for people in high-poverty housing developments, particularly when the program was skillfully implemented.⁶ It offered the first hard evidence that a work-focused intervention based in a public housing environment can effectively promote residents' self-sufficiency. Its effects were particularly striking for men.

Asset Building for Working Families. This strategy uses housing assistance as part of a longer-term asset-building/homeownership strategy for young working families on the model of HUD's Family Self-Sufficiency program. This model, although different in several ways from Jobs-Plus and targeted at working rather than unemployed people, also uses rent subsidies and incentives built on those to help sustain work effort and to give them the means to achieve other goals. An analysis of the experiences of FSS participants from 1996 through 2000 found that the program met basic expectations for increasing earned income and helping build assets;⁷ however, a more rigorous evaluation of benefits and costs has not yet been performed. Its relatively low cost helps lower the bar for expected benefits; it is representative of a broader class of asset building strategies for low-income families that would help move them from dependence on rental assistance and other subsidies to owning their own homes.

Helping Avoid Unnecessary Institutionalization. A third strategy uses housing assistance to prevent premature institutionalization of the frail low-income elderly and others with severe disabilities. Intuitively, avoiding or postponing institutional care in favor of properly supported home care both benefits the individual and saves public dollars. Although the evaluation research to support a claim of cost-effectiveness is thin, there is enough anecdotal evidence to suggest that housing assistance—well targeted by income and need—deserves systematic testing as an alternative to institutionalization.⁸ It is plausible—by analogy to the strategy for chronic homelessness—that carefully designed use of housing assistance linked to appropriate supportive services may not only improve and extend the lives of low-income elderly persons but produce offsetting savings, especially in the federal Medicaid program.

But, how do we assure that such uses of housing assistance are well managed and well targeted, so that the benefits are maximized and the costs justified relative to alternative uses of the public's resources? This requires rethinking the administrative systems that support delivery of low-income housing aid and provide incentives for managers at all levels.

Part Two: Reengineer the Administrative System

It is time to consider replacing the existing administrative systems with a unified performance-driven system that is under the control of general purpose local and State governments, committed to specific numerical performance targets consistent with national priority uses of housing assistance.

⁶ See Howard S. Bloom, James A. Riccio, Nandita Verma with Johanna Walter, *Promoting Work in Public Housing, The Effectiveness of Jobs-Plus, Final Report*, MDRC (2005).

⁷ See Robert C. Ficke and Andrea Piesse, *Evaluation of the Family Self-Sufficiency Program, Retrospective Analysis, 1996 to 2000*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research (April 2004).

⁸ See Hollander and Chappell, "Synthesis Report: Final Report of the National Evaluation of the Cost-Effectiveness of Home Care," Center of Aging, University of Victoria (August 2002) which concludes in part: "In terms of overall societal costs, it was found that home care costs less than residential care for all levels of care even taking into account the out-of-pocket expenses of clients, family members and other caregivers as well as the time of family caregivers (costed at minimum wage and at replacement wage). Home care clients were also as satisfied with their quality of life and with the services they received as were clients in long-term residential care."

Moving to an effective system for low-income housing administration will require three big structural changes:

Integrate administration of housing subsidies with administration of other social services:

Decisions about the best use of housing subsidies should be made in the context of plans to help particular low-income households achieve their goals. The insight and expertise necessary to decide who will benefit from housing aid more than another form of aid or to monitor and condition continued assistance do not lie with administratively isolated local housing authorities and private landlords, who currently set priorities for assistance. Their expertise has mostly to do with real estate, and their administrative isolation from the agencies responsible for helping low-income people escape poverty or avoid its worst effects makes it difficult for them to make the right choices. If housing assistance is to be part of a package of services tailored to the situation, needs, and commitments of the recipients, then it must be administered by agencies with a continuing, comprehensive involvement with the recipients. Housing authorities and private landlords cannot play this role effectively.

Separate decisions about low-income housing development from decisions about households:

Much confusion about the role and best use of housing dollars arises from a blurring of the difference between subsidizing the production of affordable housing and subsidizing the housing costs of individuals. Regardless of one's views of the merits of subsidizing construction or rehabilitation of low-rent housing, much waste and mischief have arisen from policies that combine decisions about how and where to subsidize housing development with decisions about who will receive assistance and on what terms. In general, decisions about the former should be made as part of broader community development strategies, under the control of general purpose local and State governments. Decisions about the latter, as noted, are best made by public and private agencies—or networks of agencies—whose mission is to help low-income households or individuals with particular needs. Breaking apart these two sets of decisions will not only improve the chances of housing assistance being administered effectively, as described above, but have a healthy effect on real estate development decisions. To separate these two, it will be necessary going forward to permit households to use their subsidies in a broad range of housing and not permit landlords or housing authorities to “capture” subsidies for housing that cannot compete in the market place.

Replace current systems for control and reporting with streamlined accountability, both locally and nationally, for results:

Obsolete program designs that demand compliance with complex prescriptive regulations but fail to ensure that the housing services provided meet minimum standards, much less that they are properly targeted and administered to achieve greater benefits, must be replaced. Accountability for results can best be achieved by shifting from a traditional formula grant model to a performance contracting model, in which compensation and career decisions are based on results promised and achieved. These would be defined in terms of the mission of the administering agency, at each level of government. At the local level, this would be the non-housing agency who would distribute and monitor housing subsidies along with other services as part of a particular program to improve prospects for low-income households.

At the federal level, it is unclear whether a single agency should continue to have primary responsibility for administering housing assistance. In principle, there is no reason that HUD could not administer housing aid to solve problems using a performance-based model; indeed the administration

of HUD's homeless assistance comes close to fitting this model today. However, because of its history and limitations, HUD may not be the best choice to administer federal low-income housing assistance. Shifting the responsibility to HHS, for instance, would allow better integration of housing aid with other policy tools to address problems of poverty; and it would allow HUD to focus on problems of housing and community development and finance, where it has a comparative advantage of expertise and institutional capacity.

Two other changes are needed to correct flaws in the way the federal government approaches its responsibilities for low-income housing assistance: These will be accomplished in part as a consequence of the reengineering of the administrative system outlined above but will require additional legislation. They are:

Develop a time table and transition strategy to retire all federal public housing and privately owned subsidized properties that cannot ensure residents' minimum safety, access to good schools, and employment opportunity; and relocate residents using housing vouchers.

It should go without saying that the federal government must not subsidize poor families to live in places where they face danger and are denied opportunity. A strategy to retire unsuitable housing units from the federal inventory would be facilitated, as noted above, by breaking the link between subsidy and real estate, i.e., making subsidies portable, thereby giving all recipients the option to move to what they consider better housing and applying a market test to determine which units can be sustained at market rents.⁹ Using the federal block grant funds, Mayors and Governors should have a substantial say in which units are retained, at what level of subsidy.

Reallocate federal production subsidies, including low-income housing tax credits, to markets where affordable housing is in short supply, require recipient jurisdictions to take regulatory and other actions and commit to specific targets to increase their supply of affordable housing, and at the same time give them adequate discretion to integrate affordable housing into their own community development strategies.

Paralleling the shift of housing subsidy administration to a performance contracting model, federal housing production subsidies should be subject to a performance test. These subsidies—including Low-income Housing Tax Credits and HUD's HOME and Community Development Block Grants— should be used to support national (as well as community) objectives, including the transformation of poor neighborhoods into places where residents have the opportunity to work and build personal assets. Jurisdictions should be asked to make strategic investments that provide a demonstrable return.

How Can We Learn What Works?

Perhaps it is ambitious to ask that the federal government rethink housing policies that have been wasteful and often counterproductive. Governments have trouble learning from experience. They underinvest in formal program evaluation. They also fail to capture, sustain, and transfer actual

⁹ Olsen makes an interesting proposal along these lines in Edgar O. Olsen, "Achieving Fundamental Housing Policy Reform," forthcoming in *Promoting the General Welfare: American Democracy and the Political Economy of Government Performance*, edited by Alan Gerber and Eric Patashnik, Brookings Institution.

successes. Given how much we do not know about how to design and deliver cost-effective low-income housing assistance, both a formal research agenda and a redesign of the program model to support knowledge building and transfer are called for. Any major program of housing assistance should not be undertaken without a built-in rigorous, controlled evaluation plan; and future funding should be made a direct function of evidence about what works and is cost-effective, and what is not.

To begin learning what works, it is not practical or necessary to wait for the results of evaluation research—and based on experience the wait could be long. What is needed is a national learning process built into the design of federal housing policies and led by the federal government: a national performance-driven administrative model that encourages local innovation through flexibility, rewards success with financial incentives and documentation of results, and communicates and transfers successes by keeping score and promoting peer-to-peer technical assistance.

A new system of performance accountability and learning would:

- provide everyone with a guiding framework of national goals and performance targets;
- require communities and States to set comparable goals and targets;
- publish report cards on community progress;
- increase funding flexibility (including the ability of States to “cash out” their low-income housing tax credits and use these dollars under the HOME block grant authority); and
- offer challenge funds or bonuses to reward progress.

CONCLUSION

Support for federal low-income housing subsidies depends on finding a convincing rationale for their use in achieving major social goals, reforming their administration to promote policy learning and accountability for results, and demonstrating that in particular situations housing assistance is the best use of scarce resources. The intellectual foundations of federal low-income housing policy must be rebuilt; and political leaders at all levels of government must be convinced that this spending can help them achieve important social goals. Only by acknowledging that the case for continuing support of the present program structure is weak and fundamental reform is needed can believers in housing assistance begin to reclaim the ground they have lost.

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