



Do Housing Vouchers Work?

BY ROBERT HAVEMAN

Do housing vouchers work? The country's Section 8 housing voucher program, which is designed to enable "very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market," currently serves more than 2.2 million households and more than 5 million individuals, according to the U.S. Department of Housing and Urban Development (HUD). Although the housing voucher program has grown quickly and is in high demand (as evidenced by lengthy waiting lists), its effects haven't been directly examined to the degree that one might imagine or want. The purpose of this article is to indicate the results of a comprehensive assessment of the country's Section 8 housing voucher program.

Families with income below 50 percent of the median income of their area and who desire housing assistance submit an application to their local Public Housing Authority (PHA); upon submission, applicants are assigned a position on the waiting list. When the applicant's name rises to the top of the waiting list, the household meets with housing authority staff who provide recipients with instructions for locating housing in the private market that meets a minimum standard of health and safety and whose landlord is willing to rent under the terms of the program. If a voucher recipient is able to locate suitable housing, the household generally contributes 30 percent of its income toward rent; the Section 8 program then subsidizes the difference between the tenant contribution and actual rent, up to a locally defined "fair market rent" payment standard.

The federal voucher program is a tenant-based (demand-side) housing policy approach toward assisting low-income families. It coexists with a large project-based (supply-side) set

of programs that provide funds to public agencies or private developers to construct or remodel and to operate low-income housing units for low-income households. Each approach has been employed to varying degrees over the years. Initially, all government low-income housing assistance was project-based in nature; indeed the project-based "public housing programs" completely monopolized low-income housing policy from the mid-1930s through the early 1970s. Because of a variety of problems with that approach—cost overruns, high crime rates in major cities, and dilapidated structures—the Housing and Community Development Act of 1974 restructured low-income housing subsidies in a new, tenant-based direction by authorizing the Section 8 voucher program. Later, in 1986, a new program known as the Low-Income Housing Tax Credit (LIHTC) was passed to provide subsidies to private developers who construct housing units that are targeted to the low-income population. Since then, the supply-side approach of the LIHTC has stood alongside the voucher program as the two major efforts to assist low-income families with their housing needs.

Like most policies, the Section 8 program has a variety of consequences for voucher recipients, including effects on labor market performance, housing mobility, neighborhood quality, household composition, and child care usage. In a large research effort supported by the MacArthur Foundation, my colleagues (Deven Carlson, Thomas Kaplan, and Barbara Wolfe) and I—all affiliated with the Institute for Research on Poverty at the University of Wisconsin-Madison—have studied these effects. Our results inform the continuing debate over the direction of national housing policy and the effects of tenant- versus place-based housing subsidy programs.

Data and Research Methods

We have used a longitudinal dataset containing information on more than 350,000 low-income households in Wisconsin to study the initial and long-term mobility, labor market performance, and other behavioral effects of the receipt of a Section 8 housing voucher. Our data have comprehensive household or individual variables on demographic, income, and benefit receipt information extending over six years, and have been merged with data on employment, earnings, and geographic location. In our primary analysis, we identified a large sample of families that received a housing voucher during calendar years 2001–2003. Then, using a difference-in-differences regression framework coupled with propensity score techniques, we estimated a variety of behavioral effects of voucher receipt relative to a comparison group that received no housing assistance. Within this framework, we can obtain reliable estimates of the effect of the program on various outcomes.

We followed families that first received a Section 8 voucher in 2000 through 2003 for multiple years after their entry into the program. We tracked the patterns of short- and longer-term labor market success, neighborhood quality, and household composition for both housing voucher recipients and the matched comparison group. By analyzing impacts for a diverse and large group of low-income families, we extend findings from prior studies typically based on households that have lived in public housing or in medium to large urban areas.

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Effect of Voucher Receipt on Mobility and Neighborhood Quality

We first analyzed the effect of voucher receipt on the probability that a family would change its residential location. Consistent with prior research, we find that voucher receipt leads to a significantly higher initial and long-term probability of changing residence, relative to the matched comparison group. While 58 percent of the Wisconsin voucher recipients moved within a year after receiving the subsidy, only 44 percent of the matched group moved—voucher receipt increases the probability of moving to another residence by about one-third during the first year. The program stimulates geographic mobility!

However, just moving says little about the quality of the neighborhood to which recipients moved. In our data set, voucher receipt leads to some improvements in neighborhood quality in the long term, but appears to have little effect in the short term. We find that, after four years, voucher recipients

lived in neighborhoods with a significantly greater percentage of 16- to 19-year-olds in school, a lower poverty rate, and a lower unemployment rate relative to the matched families. In addition, the median gross rent of the homes in the neighborhood is higher for the recipient group.

In sum, over time, those families receiving a Section 8 voucher experienced significant gains in neighborhood quality, relative to similar households that did not receive a housing voucher. These results suggest that voucher recipients require some time to learn about the new housing options available to them, but once recipients have evaluated the new options, they make decisions to reside in relatively better neighborhoods.

Labor Market Effects of Voucher Receipt

It's often argued that housing vouchers will improve labor market outcomes because they allow recipients to move to neighborhoods with better employment opportunities. Is there any evidence for this claim?

The key conclusion that we reach is that such a simplistic account overlooks the countervailing short-term and long-term effects of vouchers on labor market outcomes. We find, for example, a negligible impact of voucher receipt on work effort (quarters worked per year) in the years immediately after voucher receipt, although after six years voucher recipients record a statistically significant, but substantively small, gain in work effort relative to the matched comparison group.

The pattern of effects on earnings is similar. In this case, our results indicate that, on average, receipt of a Section 8 voucher reduces earnings by about 10-12 percent in the first year of receipt, a reduction that amounts to about \$900. These negative effects fade in subsequent years; indeed after six years there is no evidence of a difference in the annual earnings of recipients and non-recipients. In the years following voucher receipt, earnings of the voucher group increased by an average of nearly 5 percent per year, compared to an average annual increase of only about 3.2 percent for the matched comparison group.

Several features of the Section 8 program design can explain this initial negative effect on recipient earnings. First, the voucher program requires participants to contribute 30 percent of their income toward rent. While this provision is intended to ensure that, to the extent possible, recipients contribute to their housing costs, it also acts as a 30 percent tax on their earnings. And increased taxes create a negative incentive to work. Second, the rental subsidy increases a recipient's overall resources (they now have subsidized housing and likely lower rents), which provides an incentive for recipients to reduce their earnings from paid work; it allows households to have the same, or even higher, level of resources while working fewer hours. Finally, as we have seen, voucher recipients often relocate when they first receive their vouchers. Although this relocation may be beneficial in the long-term, it likely disrupts social and labor market networks in the short-term, leading to short-term reductions in earnings, as recipients move and take time to find new jobs.

Although our research raises concerns about the short-term earnings effects of Section 8 vouchers, we also uncovered some evidence in a follow-up study that may help policymakers mitigate these negative impacts. In this study, we compared the

earnings of voucher recipients to the earnings of public housing residents in Milwaukee, the majority of whom reside in Hope VI projects, a HUD program to “eradicate severely distressed public housing.” While Hope VI residents are subject to many of the same program design features as Section 8 voucher recipients, they must also sign a lease addendum that requires them to be working or taking steps to become employed. When we compared the earnings of these two groups in the first year of receiving housing assistance, we found that residents of Hope VI units earned, on average, about 10 percent more than voucher recipients. Because both groups are subject to similar program design features, this finding suggests that requiring residents to sign a lease addendum stipulating that they will be employed or looking for employment can reduce the negative effect of voucher receipt on earnings. It’s a simple intervention with seemingly powerful effects.

Effects of Voucher Receipt on Family Structure

We also studied the effects of voucher receipt on family structure. The Section 8 program has income, tax, and ceiling effects that are each likely to affect choices about family size and structure. These three effects may combine in complicated ways that are reviewed below.

Income effects: Most obviously, receipt of a voucher is likely to result in an increase in resources for recipient families, which may enable a variety of changes in household or family composition that had previously been precluded by financial considerations. For example, recipients may be able to terminate multigenerational housing arrangements or cohabitation relationships with other adults that were previously necessary to meet financial obligations, thus resulting in a reduction in the number of adult members in the household. On the other hand, the increase in income associated with voucher receipt may provide individuals with the ability to support adult children or other individuals experiencing hardship, thus leading to an increase in the number of adult household members. The number of young children in the household may also increase after a voucher is received. The additional real income provided by a voucher gives recipients the resources necessary to support additional children, especially because those children can be used to justify larger housing units and, in turn, larger rental vouchers.

Tax effects: Because the Section 8 program requires recipient households to contribute 30 percent of income toward rent, the program subsidy leads to an increase in the marginal tax rate of the household. At the margin, this may discourage the household from adding any earning adults, and it may likewise encourage the household to shed those earning adults who had previously been in the household primarily to meet financial obligations.

Ceiling effects: Finally, if a household has income above the income eligibility ceiling, continued voucher receipt is jeopardized. After receiving a voucher, some households—especially those whose income is near the program eligibility limit—may reduce the number of earning adults in the household in order to retain eligibility for voucher receipt.

When these three effects are taken together, the Section 8 program seems to create incentives that should lead to a reduc-

tion in the number of adult members of a household and an increase in the number of child members. Is this hypothesis right? The results from our analyses suggest that, in fact, the pattern of effects is more complicated because of differing initial and long-term effects.

Let’s first consider the effect on adult household members. Although we find a sizable reduction in the number of adult members in the initial year after voucher receipt, the magnitude of this effect then diminishes over time. In some cases, the voucher may allow recipients to leave unproductive relationships and to establish an independent household. For others, the voucher may entail leaving a parental residence and setting up a separate home. Both of these changes suggest that voucher receipt improves overall well-being because it provides additional resources that open up new choices and possibilities.

The effect on the number of children likewise changes over time. Initially, voucher receipt brings about a decrease in the number of children, but the effect is substantively small. Within two years of voucher receipt, the effect on the number of children becomes positive, and the magnitude of the estimated effect then increases in each succeeding year. Five years after voucher receipt, the negative effect on the number of adults is nearly offset by the positive effect on the number of children. As we anticipated, it appears that the voucher income allows recipients to support more children, partly because those within the voucher program can justify larger vouchers when they have additional children to claim.

Conclusion

The results of our research speak to the ongoing policy debate over tenant- versus project-based housing subsidies. By analyzing the labor market and other behavioral effects of voucher receipt in detail, this article provides some insight into important features of the primary tenant-based housing assistance program in the United States.

What have we learned? It’s clear that the Section 8 program has many welfare-enhancing effects: It promotes mobility that allows voucher recipients to live in neighborhoods with a lower poverty rate, a lower unemployment rate, and better housing. These outcomes, all of which are central to the objectives of the Section 8 program, are delivered more or less as intended.

There are, however, also perverse incentives under the Section 8 program that lead recipients to reduce earnings, especially in the short-run. Because the voucher program requires participants to contribute 30 percent of their income toward rent, they are subjected, in effect, to a 30 percent tax on their earnings that creates a negative incentive to work. This result illustrates the need for policymakers to design housing subsidy programs—both tenant-based and project-based—in a manner that minimizes the adverse incentives for socially desirable behaviors.

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