eligible for aid--were excluded when determining the size of the eligible population, 37 percent of all new commitments would be reserved for elderly households without children, 8 percent for nonelderly families without children, 38 percent for small families with children, and 17 percent for large families with children. This pattern corresponds roughly to the program mix of the 1989 appropriation.

Continuing this approach would ensure that, at a minimum, future aid was distributed proportionately, but existing commitments would still be unevenly distributed. Thus, the overall distribution would continue to favor elderly households.

Distribute New Aid to Equalize the Proportion of Very-Low-Income Households Served in Various Groups. Another approach would be to distribute future aid so that the proportion of eligible families with children served would eventually equal the proportion of eligible elderly households served. This goal could be accomplished by gradually augmenting the number of commitments for very-low-income families with children by a total of 850,000 to obtain a proportion served of about 51 percent--similar to that of the elderly--while declaring a moratorium on additional aid to the elderly. Once the additional commitments had been phased in, annual commitments for all types of eligible households could be provided to match the various growth rates of the different groups.

This option would eventually eliminate uneven treatment of different types of households without taking aid away from any household that is currently assisted. Moreover, turnover of outstanding commitments--about 20 percent a year among renters--would continue to provide aid to some new elderly participants, even during the moratorium on additional commitments for this group.[3]

On the other hand, because treatment is so uneven, a moratorium for elderly households might have to last more than nine years, if recent trends in appropriations for additional annual rental commitments--around 94,000 per year for HUD programs--were to continue. (This process could be hastened, however, by shifting outstanding Section 8 existing-housing aid to families with children when elderly

3. Average turnover rates among assisted elderly renters may, however, be lower than 20 percent.

households leave this program.) Furthermore, to the extent that the poor elderly population continues to grow, a moratorium on additional aid would exacerbate hardships for this group.

Change Eligibility Criteria to Redistribute Aid

Aid could be retargeted toward specific subgroups by changing qualifications for eligibility. Such changes could include expanding eligibility criteria to make single-person households and groups of unrelated individuals fully eligible for assistance, limiting eligibility to households with housing problems, and reducing income-eligibility limits.

Make All Nonelderly Childless Households Fully Eligible and Distribute New Aid According to the Groups' Share in the Eligible Population. Nonelderly, nonhandicapped people who live alone or share dwellings with unrelated individuals can receive housing assistance now only under limited circumstances and in many cases only with HUD's approval (see Box 2 in Chapter II for details on the conditions that must be met). These restrictions could be lifted to make all 3.5 million very-low-income nonelderly households without children fully eligible for assistance--up to 2.7 million more than at present.[4] If new aid were then distributed according to each group's share in the eligible population, 29 percent would go to each of the groups of elderly and nonelderly households with no children, and 29 percent and 13 percent to small and large households with children, respectively.

This strategy would help a group that appears to have the same level of housing problems as other groups. For example, almost one-fifth of all very-low-income nonelderly renter households without children lived in units requiring rehabilitation in 1985. This approach would also address the problem of homelessness to which single men in particular are vulnerable. It could also contribute to better use of assisted housing projects--especially in public housing. Some anecdotal evidence suggests that efficiency units in this housing stock have a high vacancy rate that is commonly the result of elderly

4. The exact number is difficult to determine because income data on groups of unrelated individuals are unreliable and because an unknown number of households in this group already meet the eligibility criteria not related to income.

households'--the typical occupants--moving to higher-quality Section 202/8 projects. Allowing nonelderly one-person households to occupy these units would increase project revenues, thereby reducing the need for operating subsidies and perhaps also reducing the likelihood that public housing agencies (PHAs) would have to dispose of such projects.

On the other hand, many households in this group--for example, individuals who are young and just starting careers--would only temporarily have very low incomes. Under current policy, these individuals would continue to receive assistance even after their economic position had improved. This form of in-kind aid also might provide employment disincentives, and job-training might be a better investment of taxpayers' money in the long run.

Make All Nonelderly Childless Households Eligible but Limit Eligibility to Households with Housing Problems and Distribute New Aid According to Unmet Needs. New housing commitments could be distributed according to unmet housing needs across various groups, including nonelderly households without children. In 1985, approximately 9.8 million very-low-income renter households experienced high housing costs relative to their income, substandard housing conditions, crowding, or a combination of these conditions.[5] Around 25 percent of them were elderly households, 30 percent were nonelderly households without children, 30 percent were small families with children, and the remaining 14 percent were large families with children. Additional aid could be limited to needy households and distributed across groups according to these percentages.[6]

This strategy would address the somewhat uneven distribution of remaining housing problems. In particular, it would target new resources to groups that continue to experience problems at relatively

5. This figure has been adjusted to account for some shortcomings in the American Housing Survey. The sample of households for whom combinations of housing problems can be measured is restricted to the subsample of households for whom the ratio of housing costs to income could be computed. For 1985, this reduces from 11.7 million to 11.1 million the number of very- low-income renters for whom statements can be made. CBO's analysis assumes that the households with missing data had the same likelihood of having one or more problems as their counterparts for whom data were available.

6. This approach assumes that the proportion of households with housing problems has not changed since 1985.

high rates, either because they have been underserved by housing programs or because they have a higher propensity to experience one or more housing problems.[7]

On the other hand, limiting new aid to households with housing problems as defined here might penalize frugal households that manage to find and keep units in standard condition without housing aid, as well as households who require special physical or social services that are not available in their current units but who do not have enough resources to rent units that do meet those needs. In addition, this strategy might provide perverse incentives to households to undermaintain their current dwelling units or to move into expensive units in order to qualify for assistance.[8]

Make All Nonelderly Childless Households Fully Eligible, Reduce Income-Eligibility Limits, and Distribute New Aid According to the Groups' Share in the Eligible Population. In order to serve a larger proportion of the neediest households in all demographic groups and locations, the income limits for eligibility could be lowered to, say, 40 percent of the area median with adjustments for family size. This reduction could be accomplished gradually--without penalizing current recipients who would become ineligible under the new criteria--by changing the rules for outstanding commitments as they turn over and by applying them for any new commitments.

The current pool of outstanding rental commitments would be sufficient to serve about 46 percent of the close to 10 million renters with income below 40 percent of the area median in 1988, once such an eligibility restriction was fully phased in. Assuming that all current commitments for the elderly remained with the elderly and that all commitments for families stayed with families, outstanding commitments under this strategy could eventually serve 68 percent of very-low-income elderly households, 45 percent of very-low-income house-

7. Under current law, PHAs must give preference to families that spend more than 50 percent of their income on housing, to families that live in substandard housing, and to displaced families, but the statute does not require specific amounts to be set aside for groups experiencing these problems at high rates.

8. These incentives would be more likely to arise if housing assistance were an entitlement program for households with housing problems. Without an entitlement, households would run the risk of living in expensive or bad housing and still not receiving aid.

holds with children, and 24 percent of very-low-income nonelderly households with no children.

This strategy would target scarce resources toward people most in need and would lessen the necessity to ration aid, because a higher proportion of eligible households could be served. Furthermore, with aid being distributed among smaller eligible groups, discrepancies in that distribution could be reduced more easily, though not eliminated, since various groups would probably participate at different rates.

On the other hand, many of the working poor would no longer be eligible for housing aid. Their ineligibility would restrict their housing choices and perhaps their ability to obtain housing near their jobs, thus potentially limiting their employment opportunities as well. In addition, households that would become ineligible receive fewer in-kind transfers, such as Medicaid and food stamps, than do households in the lowest part of the income distribution. Thus, some newly ineligible households could actually be worse off than some of the households that would continue to qualify for housing aid. Also, a more limited economic mix of households might make the living environments in assisted housing projects less desirable and large concentrations of very poor households in these projects would, in many areas, defy the goal of racial integration. Finally, this strategy would increase federal outlays, because serving a poorer population would increase the subsidy per household.

HOW LARGE SHOULD THE SUBSIDY BE?

Questions about how large the subsidy should be involve trade-offs among the average cost to the government, the out-of-pocket expenditure required from the household, and the federal guidelines for rent or construction costs, which in turn help determine the quantity and quality of dwelling units available to assisted households. Decisions about whether and how to change the size of the subsidy depend on what goals are to be achieved. For example, decreasing the average federal subsidy would allow more households to be assisted with a given amount of federal expenditures, more funds to be made available for other government functions, taxes to be reduced, or the federal deficit to be lowered. Strategies to reduce subsidies include increasing the contribution of some or all households toward rent or lowering the maximum allowable rent for some or all units.[9]

Alternatively, increasing the size of subsidies would be one way to address specific problems encountered by certain subgroups, such as the limited availability of certain types of dwellings within established rent guidelines and work disincentives. Strategies that would increase subsidies and would help meet these particular needs include increasing allowable rents for large dwellings and providing adjustments for earned income. Such strategies would increase program costs, however, unless aid to others was cut simultaneously.

Lower the Subsidies

Three strategies to reduce average assistance payments are analyzed here--increasing the proportion of income contributed toward rent, decreasing adjustments to income, and reducing allowable rents. Their budgetary effects are shown in the top panel of Table 13. Other strategies for lowering subsidies include changes in the program mix, which were discussed in the previous chapter.

Increase Households' Contributions. Average subsidy payments could be decreased by reducing benefits for some or all current and future participants through an increase in tenants' rent payments. Before 1981, assisted tenants generally contributed 25 percent of their adjusted income toward housing costs. The 1981 Omnibus Budget Reconciliation Act (OBRA) raised rent payments to 30 percent of adjusted income, with the increase to be phased in over five years. The 1983 Housing and Urban-Rural Recovery Act (HURRA) mitigated this increase in out-of-pocket expenditures somewhat, however, by increasing allowable deductions for most households and thus decreasing adjusted income.

Increasing tenants' rent contributions again over a five-year period to, say, 35 percent of adjusted income, would yield $1.3 billion in annual savings in 1993, when 80 percent of the increase would be

9. These alternatives are the same when vouchers are used, since lowering the payment standard would automatically increase the household's out-of-pocket expenditure.

TABLE 13. BUDGETARY EFFECTS OF OPTIONS THAT WOULD CHANGE THE AVERAGE SUBSIDY, 1990-1993
(In millions of dollars)

Changes from CBO Baseline[a]	Annual Changes 1990	1991	1992	1993	Total 1990-1993
Lower the Subsidies					
Increase Households' Contributions to 35 Percent of Adjusted Income					
Budget Authority	100	250	400	550	1,300
Outlays	250	550	900	1,300	3,100
Decrease Adjustments to Income for Some Recipients					
Budget Authority	50	50	50	50	250
Outlays	150	150	150	150	600
Reduce Allowable Rents[b]					
Budget Authority	400	2,600	2,600	2,600	8,200
Outlays	350	900	1,300	1,500	4,000
Raise the Subsidies					
Increase Allowable Rents for Large Rental Units					
Budget Authority	-200	-1,200	-1,100	-1,100	-3,600
Outlays	-100	-200	-200	-250	-700
Allow an Adjustment to Income for Earned Income					
Budget Authority	-150	-150	-150	-150	-600
Outlays	-300	-300	-350	-350	-1,300

SOURCE: Congressional Budget Office.

NOTE: Positive numbers reflect savings in expenditures relative to the CBO baseline. All options assume that appropriations for public housing operating subsidies would be adjusted to reflect savings or increased expenditures. See text for additional details on each option.

a. The CBO baseline is the November 1988 baseline, which projects budget authority and outlays through 1993. This baseline incorporates CBO's August 1988 economic assumptions and assumes a continuation of the program mix and level of funding stipulated by the 1989 appropriation, adjusted for inflation. It also assumes that all expiring subsidies are renewed with subsidies of the same type.

b. This option would link Fair Market Rents to income-eligibility limits.

phased in. These funds could be used that year to assist about 246,000 additional households through the Section 8 existing-housing or voucher program, depending on the Congress's priorities among spending programs, deficit reduction, and other goals. (More households could be assisted once the increase was fully phased in.)

A variant of this approach would be for tenants to pay rent on a sliding scale, with higher-income households paying a larger share of their income. This type of approach could be designed to avoid benefit notches--that is, noticeable changes in housing costs when income rises by a small amount. One example of such a scheme would be for households to contribute 30 percent of the portion of income between 0 and 10 percent of the area's median income; 34 percent of income between 10 percent and 30 percent of area median income; 38 percent of income between 30 percent and 50 percent; and 42 percent of any income in excess of 50 percent of the area median.[10]

Using the savings to assist more very-low-income households would help equalize the distribution of housing assistance without affecting federal spending. As of 1985, roughly half of all very-low-income renters, almost 5.7 million, paid more than half their income for housing costs; increasing the share of income paid by subsidized households therefore might not seem unreasonable as a means of lowering housing costs for some currently unassisted households. In addition, as the Experimental Housing Allowance Program (EHAP) found, higher rent-to-income ratios would make assisted housing programs unattractive to higher-income households, thus targeting aid to those most in need.

On the other hand, many eligible households would remain unserved and current recipients would pay more for housing, although the second variant of this approach--having tenants pay rents on a sliding scale--would soften the impact for those less able to pay. Furthermore, increasing the rent payments for higher-income households living in assisted projects could, in some areas of the country, cause increased outflows of stable, higher-income tenants, thereby

10. For example, if 10 percent and 30 percent of the area median income were equivalent to $2,500 and $7,500, respectively, a household with adjusted income of $5,000 would pay 30 percent of the first $2,500 ($750) and 34 percent of the next $2,500 ($850), for an average contribution of 32 percent.

reducing the viability of the projects and increasing the average cost of subsidizing them.[11]

Decrease Adjustments to Income for Some Recipients. Benefits could also be cut by reducing the deductions that are permitted from tenants' gross income to arrive at adjusted income. Current deductions, specified by HURRA in 1983, include: $480 per minor member of each household; $400 if the household is headed by an elderly or handicapped person; medical expenses above 3 percent of income if the household is headed by an elderly or handicapped person; and, for all households, dependent-care expenses necessary to permit adult members of the household to work or attend school.

Reducing the deduction per minor to, say, $400 and the deduction for elderly or handicapped heads of household to $300, while leaving other deductions unchanged, would raise rents for families with children by $2 per child per month and for elderly (or handicapped) families by $2.50 per month. Such changes would generate $150 million in savings in 1990.[12] Alternatively, almost 29,000 additional households could be served.

This strategy would rescind some of the gains in benefits given to the elderly and large families by HURRA. Many households with children stand to benefit substantially from the new tax code, however, which increases the personal exemption and liberalizes the earned income tax credit (EITC) for low-income workers with dependents. Thus, reducing their housing subsidies would not worsen their net position by much and would free up some funds that could be targeted toward other households with low incomes.

The adverse impact of this approach, however, would be relatively greater for the poorest households, because their rents would rise more as a percentage of gross income. In addition, the new tax code will not benefit many of the poorest households, because they had no

11. The Housing and Community Development Act of 1987 allows PHAs, with the approval of HUD, to establish five-year caps on rents paid by households in public housing projects to stem the reported outflow of higher-income households from such projects in various parts of the country.

12. Before HURRA, adjustments to income were specified by regulations rather than by statute. For the Section 8 program, those regulations allowed deductions of $300 per minor, excess medical expenses for all families, and certain expenses for dependent care. No additional deductions were allowed for elderly families.

taxable income under the previous tax law and will not be affected by the changes to the EITC.

Reduce Allowable Rents. Another way to reduce average assistance payments would be to cut the maximum rent that the government would subsidize. For example, for household-based subsidy programs, the Fair Market Rents (FMRs) and voucher payment standards could be frozen, with no inflation adjustments permitted for rents of currently assisted units for one or more years. Such actions would effectively lower the FMR and the voucher payment standard to levels below the current norm, which equals the 45th percentile of rents paid by households that have moved into a standard, existing, nonsubsidized dwelling during the past two years.[13] This option (not shown in Table 13) would reduce outlays by $300 million in 1990, which could fund almost 69,000 additional vouchers.

A variant of this strategy would be to limit the local FMR and the voucher payment standard to, say, 30 percent of the income of a household that is just eligible--that is, whose income is at 50 percent of the area median, adjusted for family size. Housing subsidies would be phased out for households as their income approached the eligibility limit.

In fiscal year 1988, for example, the nationwide median family income used by HUD in determining eligibility was $32,400. Setting the comparable nationwide FMRs for an eligible family of four at 30 percent of 50 percent of this income level would have resulted that year in an FMR of $4,860 compared with the actual FMR for a two-bedroom unit of $5,604. This option could be implemented immediately for newly issued certificates and vouchers by reducing FMRs by about 12 percent in 1990. For households already receiving assistance, it could be phased in over several years--for example, by freezing rents at their 1989 levels through 1992. In 1993, this option would save $1.5

13. Freezing rents would be difficult to carry out in the project-based programs, where the initial rents for newly constructed units are directly related to construction and operating costs. If the Congress were willing to insist on more modest designs, however, construction costs and initial rents could be reduced. Furthermore, the federal government could not freeze rents for many projects already in the assisted inventory, because it is contractually obligated to adjust annually the rents to which the owners are entitled. Such adjustments are, however, limited to increases in rents on comparable units in the rest of the local housing stock. Thus, in some areas, rents received by owners of newly constructed, assisted projects may eventually be as low as the FMRs for existing-housing programs.

billion, which could fund about 317,000 additional vouchers (see Table 13).

Lowering the rents, and thus the proportion of the existing stock potentially available to the eligible population under the Section 8 certificate program, would be consistent with the decrease in the size of the primary target group that resulted from the Housing and Community Development Amendments of 1981. Those amendments strictly limited the number of recipient households with income between 50 percent and 80 percent of the area's median income. It would also mean that housing costs for already assisted tenants would not necessarily have to rise. Furthermore, reducing the levels of assistance would lower participation by higher-income households, thus implicitly targeting federal funds toward households most in need.

An advantage of linking FMRs to income-eligibility limits is that it would eliminate the current uneven treatment of households with income somewhat above the eligibility limits. Under present regulations, once households become recipients, they continue to receive housing assistance until their adjusted income increases to the level where 30 percent equals the rent. Consequently, even though their income has risen above the eligibility level, they receive assistance because they were once poor.[14]

Reducing allowable rents, however, would create problems for certain subgroups of assisted households. Under current regulations of the Section 8 existing-housing program, unless landlords absorbed the decrease in real rents, more households with newly issued Section 8 certificates would be unable to find standard units within the rent guidelines. Moreover, landlords might provide fewer services to households that had been participating in the program, or might drop out of the program, thereby forcing tenants to choose between moving to a new unit or losing their subsidy. These effects could be avoided if the Section 8 regulations adopted the voucher rule of allowing households to pay more than 30 percent of their income for housing. In that case, freezing or reducing the payment standard would be equivalent to raising households' contributions toward rent.

14. For example, using the 1988 nationwide averages, the income-eligibility cutoff for a family of four was $16,200. If an assisted family of this size occupied a two-bedroom unit that rented for $5,604 per year, it would have continued to receive assistance until its adjusted income reached $18,680.

A disadvantage of linking FMRs to income-eligibility limits is that it would break the tie of FMRs to actual housing costs in the area. In tight housing markets, rents would be higher relative to income than in loose housing markets. Thus, tying FMRs to local income levels would worsen the plight of households in tight housing markets, by making smaller proportions of the housing stock available (under the certificate program) or affordable (under vouchers), relative to those in loose markets.

Raise the Subsidies

To address the special needs of certain subgroups of renters, the subsidies provided for some households could be increased. Two such strategies are considered here. The first would address the problem of very large families that have difficulty finding housing units within HUD's rental guidelines; the second would help households that face decreases in government aid when members enter the labor force. The benefits of such options would have to be weighed against higher government expenditures or a smaller future pool of households that could be assisted with a given level of expenditures. Budgetary implications of these strategies are shown in the bottom panel of Table 13.

Increase Allowable Rents for Large Rental Units. Large families appear to have more difficulty in becoming program participants than do other types of households. For example, HUD data indicate that in the past, about three-quarters of families with four or more children that received Section 8 certificates returned them, in many cases because they could not find suitable units.[15] In 1983, HUD modified its computation of FMRs and, in particular, increased FMRs for large units. Reliable data on the experience of large families are not yet available, however, to indicate the current national scope of this problem.[16]

To the extent that this problem continues in areas with tight housing markets, public housing agencies could be permitted, when

15. President's Commission on Housing, *The Report of the President's Commission on Housing* (Washington, D.C., 1982), p. 41.

16. As noted in the previous chapter, the voucher demonstration study does not report separately results for large families, but suggests that aggregate success rates have increased since 1979.

needed, to increase allowable rents for large units by more than the currently allowed 20 percent above the local FMR or to increase FMRs for large rental units across the board. These strategies would raise the potential cost of all new commitments for large families, while outlays for currently assisted households would only be affected when certificates or vouchers turned over to another household or when current recipients moved to new dwelling units. Given that an estimated 20 percent of all units turn over annually and roughly one-quarter of all units with household-based subsidies have three or more bedrooms, raising FMRs and voucher payment standards for such units by 20 percent would increase outlays over the 1990-1993 period by $700 million.

By widening the range of units available to large families, this option might reduce the proportion of large families that return their certificates because they fail to find suitable housing. Moreover, families receiving vouchers with higher payment standards would be less likely to have to pay more than 30 percent of their adjusted income for housing.

This strategy, however, would allow all large families, including both current and new recipients, to move into more expensive units and thus would also benefit households that did not need this additional help. In particular, if success rates did not improve much, most of the additional outlays would be spent on households that would have succeeded anyway in finding dwelling units within the current rent guidelines.[17]

Allow an Adjustment to Income for Earned Income. To encourage assisted households to seek or retain employment, the Congress could permit a certain percentage of wages to be deducted from gross income to arrive at adjusted income, either permanently or temporarily. A permanent deduction of 10 percent of earned income for all households

17. Under current administrative practices, PHAs receive $45 in additional administrative fees to assist in finding units for hard-to-house families--that is, families with three or more children present. No data exist to assess whether this extra fee has increased the success rate of large families in finding suitable units. Thus, one might argue that implementing any further strategies to help large families should be postponed until more is known about the impact of this recent change.

with wage income, for example, would increase outlays by $1.3 billion over the 1990-1993 period.[18]

This option would reduce work disincentives that are generated because cash and in-kind benefits from federal and state governments decline as income from earnings rises. Thus, it might, in the long run, contribute to more households no longer needing--or needing smaller--housing and other federal subsidies.

On the other hand, given that housing assistance is not an entitlement, recipients are already much better off than their eligible but unassisted counterparts, and this additional subsidy would exacerbate these differences. The increase in outlays from adopting this option could be used instead to fund 58,000 new vouchers. Also, this strategy might have only a relatively small impact on participation in the labor force while generating substantial federal costs related to those who would be employed anyway.

HOW MANY HOUSEHOLDS SHOULD BE SERVED?

The non-entitlement nature of housing assistance also means that decisions about the number of households to assist must be made each year. As noted above, currently available commitments, including those that are still being processed, can serve no more than 38 percent of all very-low-income households in 1988. Thus, close to 8 million of these eligible households will remain unserved. Traditionally, some additional commitments have been funded each year, thus expanding the pool of households receiving aid while adding to program outlays in the years to come.

The number of households to receive assistance could be decided in several ways. The following approaches are illustrated here:

18. This option was included in H.R.4, the housing bill passed by the House in 1987, but was not part of the Housing and Community Development Act of 1987. This act has addressed this issue to some extent for public housing residents, by permitting rent increases generated by gaining employment to be phased in over a period of six months.

- Housing assistance could be phased out by allowing existing contracts to expire and private owners to remove their units from the assisted stock, while providing no new commitments to replace them.

- The total number of assisted households could be frozen at the present level by funding only current commitments.

- The current pool could be expanded by funding some net additional assistance each year.

- Housing assistance could be made an entitlement.

Phase Out Housing Assistance Commitments

Housing assistance could be scaled down and eventually phased out by appropriating no further funds for new commitments, for operating subsidies for public housing, or for replacing commitments lost because contracts expire or owners opt out of the programs. Operating subsidies for public housing could be stopped immediately or phased out over time to allow PHAs an adjustment period for obtaining financial assistance from other sources or perhaps selling the projects.

The phasing-out process would take place over a long period, from 1989 through 2030. The bulk of outstanding subsidies provided under the Section 8 existing-housing program will expire during the 1990s, while most current subsidies provided through the Section 8 new construction and substantial rehabilitation programs will expire early in the next century. The potential for losing assisted units because owners choose to withdraw from their obligations also peaks during the 1990s.

Compared with current policy, this approach would reduce federal expenditures for housing programs by $18.4 billion over the 1990-1993 period, assuming that all operating subsidies for public housing would be stopped immediately, as shown in the top panel of Table 14. (If those operating subsidies remained in force for all units over this period, total reductions in federal expenditures would be $12.2 billion.) The funds freed up by phasing out housing assistance could pro-

TABLE 14. BUDGETARY EFFECTS OF OPTIONS SERVING DIFFERENT NUMBERS OF HOUSEHOLDS, 1990-1993 (In millions of dollars)

Changes from CBO Baseline[a]	Annual Changes 1990	1991	1992	1993	Total 1990-1993
	Phase Out Housing Assistance[b]				
Budget Authority	10,400	36,800	31,500	28,700	107,400
Outlays	850	3,600	5,800	8,100	18,400
Number of Households Served	18,900	379,900	671,600	962,000	962,000
	Retain Current Number of Assisted Households				
Budget Authority	4,600	4,700	4,900	5,100	19,400
Outlays	250	900	1,600	2,200	5,000
Number of Households Served	48,700	107,700	176,600	255,400	255,400
	Gradually Expand Number of Commitments				
	Keep Constant the Proportion of Eligible Households Served				
Budget Authority	1,500	1,500	1,500	1,600	6,100
Outlays	50	250	400	550	1,300
Number of Households Served	14,200	32,900	55,300	80,300	80,300
	Continue Expansion Under Current Policy				
Budget Authority	0	0	0	0	0
Outlays	0	0	0	0	0
Number of Households Served	0	0	0	0	0

SOURCE: Congressional Budget Office.

NOTE: Positive numbers reflect savings in expenditures and decreases in the number of households served, relative to the CBO baseline. All figures reflect the impact of the options on both household subsidies and disbursements of Section 202 loans. See text for additional details on each option.

a. The CBO baseline is the November 1988 baseline, which projects budget authority and outlays through 1993. This baseline incorporates CBO's August 1988 economic assumptions and assumes a continuation of the program mix and level of funding stipulated by the 1989 appropriation, adjusted for inflation. It also assumes that all expiring subsidies are renewed with subsidies of the same type.

b. Cost figures assume that public housing operating subsidies would be stopped as of 1990. The number of households served through public housing is assumed to be the same as under current policy, however, because these households would continue to benefit from construction subsidies that were funded from past appropriations.

vide general income supplements to all currently eligible households, support other national needs, or reduce the federal deficit. For example, the 1990 level of expenditures--if fully transformed into cash grants--could provide about $1,260 per very-low-income renter household that year, or $680 per household if very-low-income homeowners were included in the target group of such a program.

One argument that housing assistance is no longer needed is that a relatively small proportion of poor households now live in low-quality housing. Also, poor households faced with high housing costs might be better served through a general income supplement, which would allow them more flexibility in their spending choices. In fact, housing subsidies through Section 8 certificates and vouchers are quite similar to general income transfers in their impact on households, and are identical for households that already live in standard dwelling units and remain there upon receipt of the subsidy.[19] Moreover, if funds were used for general income subsidies, this approach would eventually eliminate the uneven treatment of poor households by substituting an entitlement transfer payment for a nonentitlement housing subsidy. Finally, such cash grants would be cheaper to administer than housing aid because they would not require ongoing inspections to enforce minimum housing standards.

On the other hand, this approach would increase housing costs for families no longer receiving aid. Even if all currently eligible households received an income subsidy, it would be smaller than the lost housing subsidy that had been available only to a limited number of poor households. Thus, some households that could not afford to pay higher rents would be forced to move from their current residences upon losing their housing subsidies, unless their landlords reduced their rents. Furthermore, the EHAP experiment suggests that, because of the absence of requirements to occupy standard housing, general income transfers do not necessarily lead to households' occupying standard housing, particularly if the increase in each household's

19. Under the EHAP experiment, renters receiving housing subsidies spent, on average, only 16 percent of them on increased housing expenditures--presumably thereby achieving better housing--with the rest going for nonhousing items. By comparison, renters receiving the same amount in unrestricted cash spent around 8 percent of it for better housing. Thus, programmatic factors--mostly minimum housing standards--associated with aid tied to housing explained about half of the increased expenditures by recipients of housing subsidies.

income were small.[20] Consequently, this approach would do little to improve housing conditions for households living in substandard housing and might cause some households to move from standard to substandard units.

Retain the Current Number of Assisted Households

An alternative to phasing out assistance would be to retain the current number of assisted households by renewing expiring commitments and replacing those that would be lost because owners opted out of the programs. The funds that otherwise would have been appropriated for net additional assistance could be used, for example, to provide general income subsidies to poor households or to keep down federal expenditures.

Budget authority requirements would be restricted to the cost of replacing subsidies for households whose contracts expired or whose landlords opted out of the program, and funding for modernization and operating subsidies for public housing. Although the total number of assisted households would remain constant after all recent commitments had worked their way through the processing pipeline, total annual outlays would continue to rise over time. Subsidies per household would increase as a result of rent inflation and because replacement subsidies for households whose landlords opted out of a particular program might be higher than their previous levels. Nevertheless, this option would reduce federal outlays for housing programs by an estimated $5 billion over the 1990-1993 period compared with current policy (see middle panel of Table 14).

In contrast to eliminating housing aid, households that relied on housing subsidies in making their consumption choices would continue to be served, so disruptions would be minimal. Moreover, the pool of outstanding commitments would continue to aid many new

20. Although the EHAP experiment found that the minimum housing standard requirements associated with housing aid increased expenditures for housing relatively little, this increase in expenditures was sufficient to raise the likelihood of recipients living in standard housing by 30 percentage points. This result occurred primarily because repairs required for units occupied by households that stayed in their current dwelling after receiving the subsidy--who made up 60 percent of all recipients--were relatively inexpensive. Among households receiving cash grants, however, no noticeable increase occurred in the proportion occupying standard dwelling units.