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Commentary

The paper by Denise DiPasquale, Dennis Fricke, and Daniel Garcia-Diaz addresses a central question for the future direction of federal housing policy: how do the costs of delivering housing assistance vary by program? Costs are now central to the debate on the future of federal housing programs for several reasons. First, there appears to be agreement among many policymakers and academics on the threshold issue of the rationale for federal housing programs.

Market forces alone cannot assure that household incomes are sufficient to deliver what society views as minimally adequate for low-income households—even when these households participate in the labor market as full-time workers. Moreover, there is, if anything, an increased sense of urgency to the need to address housing outcomes, since affordable housing problems appear to be worsening, as evidenced by recent trends. (In five of the past six years, housing price and rent increases have exceeded overall inflation rates.)

Second, although additional funding has been provided for housing subsidies in recent federal budgets, far from being an entitlement program, federal housing expenditures at current levels reach less than one-third of those who qualify, resulting in horizontal inequity in the delivery of federal housing subsidies.

Third, congressional leadership and the Office of Management and Budget increasingly focus on the cost-effectiveness of the delivery of all social programs. Housing is a major federal government expenditure, as it includes the approximately $30 billion Department of Housing and Urban Development budget and the $3.5 billion tax credit cost of the Low Income Housing Tax Credits (LIHTC) production program. The efficacy of delivery has increasingly become the center of policymakers' attention—thus, the importance of the authors' findings.

Despite the salience of the question, there has been no formal work done on this issue in the past twenty years. Indeed, the major conclusion of the literature of the 1980s—that vouchers are a less expensive way to deliver housing subsidies than production programs—is partly responsible for the cessation of the historical production programs on which these studies were based. A different tax-incentive-based production approach, LIHTC, was instituted in the mid-1980s. Thus, the void in the recent literature is not because the issue has been settled. Rather, surprisingly, there have been no public data available to evaluate the relative costs of new production programs and vouchers. Hence, a major contribution of this paper is its use of a private database that allows for the comparative analysis of these programs.

The authors make methodological strides and are exhaustive in the implementation of the necessarily complex process of comparing costs across very different programs. The task is daunting. In particular, they undertake the comparison of the ongoing rental costs of voucher programs with the

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construction costs (and ongoing subsidization) of production-based programs. The process requires the appropriate discounting and treatment of a number of cost streams associated with the different programs. The outcomes are subject to the discount rate chosen; there is no avoiding this.

Differences in the size and location of housing must also be accounted for by program, to the extent that the data allow. DiPasquale and her coauthors conclude that vouchers are less expensive than production-based delivery of housing subsidies, a result that is qualitatively similar to past findings. Nonetheless, they estimate a differential that is far lower than that found in earlier studies.

However, questions remain. First, while it is necessary to make key assumptions to carry out the analysis—and the paper has made its assumptions explicit with painstaking clarity—it would be useful to undertake and present an analysis of how sensitive the results are to the key assumptions. Besides the discount rate, the other major assumptions that will make a difference in outcomes are how local property taxes and set-asides for capital costs are treated. Second, there are puzzling geographic variations in the relative costs of programs. In particular, vouchers are far less expensive than production programs, as a group, in nonmetro areas as compared with metro areas, where they are only somewhat less costly.

Interestingly, in Boston, a very tight market, the difference between voucher costs and production program costs is very small. Third—and a key question—is why is there a difference in these results compared with earlier findings? Is it due to differences, over time, in the structure of programs or in market conditions, or are there methodological differences across studies that could account for differing results?

The intriguing regional differences suggest that the tightness of the market, and particularly whether rents have reached construction-feasible levels, may have important effects. But part of the explanation may lie in the evolution of the programs themselves. As noted, the major production program analyzed in this paper is LIHTC, which the literature suggests is both more efficient than past public housing production programs and is itself becoming more efficient over time. While these are questions for subsequent studies, the authors' empirical findings will contribute to the current debate over the future of housing policy.