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How About Rent Vouchers - Big Time This Time?

Your blogger started his economics career studying housing markets and has contributed to the literature since the mid-1970s. One of the major societal problems, then and now, has been the ability of the less affluent among us to pay rent. Public/poverty housing was one solution. Rent control was a second. Rent vouchers were a third.

This problem has been writ large with the COVID-19 pandemic. Almost immediately after lockdowns began in March 2020, public policy advocates argued against evicting people who could not pay rent. Many tenants stopped paying rent altogether. Ten-plus months into the pandemic the rental housing market has been decimated by the disappearing return to landlords' investments in rental units.

Let us be clear. YB does not condone bad landlords, bad properties, or rent-gouging. Yet a very large portion of the housing stock available to lower income people is rental housing, owned by private (and often small-time) owners, who need to collect rents in order to pay the creditors who lent THEM money to buy the property. Well over one-third of American households live in rental units and the proportions are much higher in central cities. No one is served by a deterioration in the units that would make the units less desirable, or uninhabitable.

Through the early 1970s, housing aid for the poor meant public housing, from the supply side. Although public housing was not meant to be poverty housing, by the 1950s and 1960s, the two had become nearly synonymous. By the early 1970s approximately 2.8 million public housing units had been provided in the United States (https://www.huduser.gov/portal/Publications/pdf/HUD-968.pdf) since 1937 through Government-subsidized housing programs for low- and moderate-income families. Many "housing projects" were thought to be economically unmanageable and, either rightly or wrongly, as being breeding grounds for a large degree of perceived social ills.

Rent control has never caught on in the US, other than on the coasts. New York City has had rent control since the 1940s, with the Boston area and some California cities following suit. There is a litany of well-recognized problems with rent control. Some tenants get rent controlled units, and other, equally meritorious tenants do not. Landlords are limited in their returns to investment by the inability to adjust rents to changes, most typically in demand. Would-be developers avoid building where rent control is in place or is in the works.

1960s and 1970s economists thought they had an answer. Early analysis spearheaded by Richard Muth, Margaret Reid and others estimated that the income elasticity of housing demand was +1, or higher. In English, this means that a 1% increase in income would lead to a 1% or larger increase in housing expenditures. Rather than producing (and managing) public housing, economists argued that it would be better to give money to those in need, and they would in turn buy or rent housing. The rental housing market in the United States was (and is still) thought to be relatively competitive (lots of relatively small suppliers), so income supplements, the argument went, would be unlikely to raise rents by very much. Demand side supplements would get the federal government out of the housing management business, and the market would do the rest.

Federal programs have always been suspicious of giving money to people, fearing that they may spend it wrongly, hence food stamps and later bridge cards. Rather than giving money to the poor, the government began to give housing vouchers, that could be spent only on housing. In the late 1970s and 1980s, the vouchers began to supplant public housing as the major form of housing assistance.

Unlike food stamps, vouchers have never been an entitlement, available to everyone who needed them. They have been limited in number and in size, and they have not helped many low income and/or homeless people. There has never been enough money in the program.

Until now, because Congress is now willing to spend! A voucher expansion program, by its nature, would be targeted to those in need. A housing voucher entitlement program would address two major pandemic-related problems. The first is the lack of income to pay for housing, particularly for those who have lost jobs and/or suffered reduced wages. The vouchers, as is customary, could be related to “Fair Market Rents” that are specific to metropolitan areas. The Federal Government has been doing this for years – the mechanism, through the Department of Housing and Urban Development (HUD), is in place.

The vouchers (with attached payments) would go to the landlords who have been squeezed during the pandemic. While it may be impossible to indemnify landlords for their losses during pandemic-2020, generous-enough payments could alleviate the current problems, and make a dent in those from 2020. These payments would also help pay property taxes to the cash-strapped local governments.

Presidential adviser and former Chicago Mayor Rahm Emanuel famously said, “You never want a serious crisis to go to waste. I mean, it’s an opportunity to do things that you think you could not do before.” It is time, now, to do right by renters.

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Reference

National Housing Policy Review, *Housing Markets in the Seventies*, https://www.huduser.gov/portal/Publications/pdf/HUD-968.pdf, P. 92.