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Edited by Gregory K. Ingram and Yu-Hung Hong

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The Mediocrity of Government Subsidies to Mixed-Income Housing Projects

Robert C. Ellickson

Since the 1970s a new vehicle for the provision of housing assistance—the mixed-income, or inclusionary, project—has flowered in the United States. In a community of this sort, the developer and its government benefactors designate a fraction of the dwelling units, typically between 10 and 25 percent, as targets for the delivery of aid. Eligible households that successively occupy these particular units pay below-market rents, while the occupants of the other units do not.[1] In this chapter, I situate this innovation within the broader history of U.S. housing assistance policy and evaluate its merits. My central conclusion is that the mixed-income project approach, while superior to the traditional public housing model, is in almost all contexts distinctly inferior to the provision of portable housing vouchers to needy tenants. Although prior commentators have also touted the voucher approach, I enrich their analyses by addressing more fully the social consequences of various housing policies that might be used to economically integrate neighborhoods and buildings. It has traditionally been thought that enhancing socioeconomic diversity within a neighborhood has unalloyed social benefits. Many recent social-scientific studies present a more complex picture and weaken the case for government support of mixed-income projects.

The Basic Policy Choice: Projects or Vouchers

At the outset it is appropriate to articulate the fundamental issues of shelter assistance policy. All developed nations have adopted programs to enhance the

1. To simplify, all aided units are assumed to be rentals. In reality, many inclusionary programs also involve the sale of dwellings at below-market prices, subject to resale controls.

housing opportunities of at least some of their less prosperous renters. These programs take either of two basic forms. Historically, most have involved project-based subsidies that reduce rents in specific dwelling units that eligible households apply to occupy. Once admitted, a tenant's benefits typically are conditioned on continued residence in the assigned dwelling. A tenant who leaves a dwelling usually forfeits the subsidy benefits attached to it, and these benefits are transferred to a replacement tenant admitted from a waiting list. Prominent examples of such supply-side programs include HLM developments in France and Council Housing in Great Britain, which house about 17 percent and 20 percent, respectively, of the national population. In the United States, about 1 percent of households live in subsidized government-managed projects (public housing), and another 2 percent in subsidized projects that are privately owned.

The other basic policy alternative is tenant-based assistance, which operates on the demand side of the market for shelter. Demand-side aid typically takes the form of government grants of housing vouchers to eligible householders.[2] If and when a voucher recipient strikes a deal with a private landlord who owns a unit that is not overly luxurious and who is willing to participate in the program, the tenant pays under the chief U.S. program 30 percent of the household's monthly cash income toward the monthly rent, and the government pays the balance directly to the landlord. Housing vouchers typically are portable; a tenant who moves elsewhere can use the voucher to defray a portion of the rental obligation at the ensuing dwelling. Currently, about 2 percent of U.S. households hold housing vouchers.

In a given year, the number of newly built dwellings rarely exceeds 2 percent of the existing residential stock. However, because most new dwellings are higher in quality than the average existing dwelling and because Americans invest large sums to improve existing dwellings, the quality of U.S. housing stock has improved markedly over the course of the twentieth century (Schwartz 2006, 16–23). In France 8 percent of two-person households live in less than 50 square meters of floor space, and in Ireland 17 percent. The comparable figure for the United States is 2 percent (UN Economic Commission 2006, table A4). Most housing experts agree that the chief challenge today is not how to improve the quality of American dwellings, but how to make available dwellings more affordable to households on tight budgets (Currie 2006, 96–97).

A nation's decisions on the mixing of project-based and tenant-based housing aid profoundly affect the form of its metropolitan areas, the mobility of its households, and the welfare of its renters. Vouchers assist recipients in their shopping for dwellings in the mammoth stock of used housing. Project subsidies, by

2. A government may prefer to distribute housing vouchers instead of unrestricted cash for a variety of reasons, including concerns about the welfare of children. See Olsen (2003, 368–370). For purposes of analysis, I assume that the provision of in-kind housing benefits is justified and that it does not excessively foster dependency.

contrast, attempt to influence the design and distribution of units in the relatively tiny flow of newly constructed and substantially rehabilitated buildings.

A Short History of the Evolution of U.S. Housing Assistance Policy

A century ago the poor immigrants who flooded into cities such as New York and Chicago typically entered into leases with private landlords who owned tenements. Because these tenements commonly were crowded and unhealthful, many municipalities enacted fire, health, and building codes to regulate conditions within them. In that era, however, U.S. governments rarely appropriated funds for the provision of housing assistance of any kind. The meager aid that was provided typically was municipally financed. A city, for example, might do no more than open shelters for vagrants in police stations and work with local charitable organizations to establish almshouses and asylums for a few of its neediest residents.

Prior to 1937 the federal government seldom provided housing assistance in any form. A notable exception during World War I was the federal creation and funding of corporations charged to help house the workforces of shipbuilders involved in the war effort. The most renowned of these corporations' projects was Yorkship Village in Camden, New Jersey, a community of about 1,000 rental houses. This precedent was effectively repudiated in the early 1920s when the federal corporations auctioned off their developments.

By contrast, during the 1920s many European nations, with Denmark, The Netherlands, and Great Britain in the vanguard, warmly embraced the building of subsidized projects in numbers large enough to supplant much of the private supply of new rental housing. Leading American housing reformers of the period, such as Edith Wood (1923, 1931) and Catherine Bauer (1934), visited these developments, wrote glowingly about them, and chastised U.S. policy makers for continuing to rely so extensively on private enterprise to provide shelter for the masses. Because Wood and Bauer lacked confidence in market forces, they gave no thought to government provision of demand-side assistance to enable the same households to shop more successfully for existing dwellings.

THE RISE AND FALL OF PUBLIC HOUSING

The shock of the Great Depression transformed American politics and eventually prompted lawmakers to emulate the European approach. By the mid-1930s both the state of New York and various New Deal agencies had begun to dabble in the development of subsidized housing estates. Continuing massive unemployment in the construction industry fueled political support for a far more ambitious effort. In 1937 Congress passed the Wagner-Steagall Act, launching a national program to provide what came to be called public housing.[3] Under this program, the federal government provided large subsidies to induce local governments to establish housing authorities to build projects to house working-class families at deeply reduced rents.

By 1959 local housing authorities had completed 420,000 public housing units nationwide (Schwartz 2006, 102). Even at this early stage, however, urban commentators such as Jane Jacobs (1961, 321–337, 392–402) had begun to assail the program. The critics were especially scathing about the largest high-rise projects, such as the 4,500-unit Robert Taylor Homes in Chicago, which were concentrating poor families in a socially destructive environment.[4] As public housing for family households fell into disrepute, policy makers began searching for alternative ways to provide housing assistance to low-income renters.[5] One eventual reform, the HOPE VI program initiated in 1993, was itself designed to help housing authorities raze and redevelop distressed projects such as the Robert Taylor Homes.

PRIVATELY DEVELOPED SUBSIDIZED PROJECTS

Beginning in the late 1950s, federal housing assistance policy splintered into an ever-changing panoply of programs (soon supplemented by state and local initiatives) whose specifics are obscure to all but an intrepid band of specialists.[6] Most of these programs, in contrast to the public housing model, have sought to place assisted tenants in buildings owned and managed by private landlords, some of them nonprofit organizations. While the details of the programs have varied, all have been designed to funnel subsidy benefits to targeted low- and moderate-income households and to prevent project developers and owners from reaping undue profits. Housing wonks signal their mastery of their field by dropping the names of these programs (for example, 221(d)(3), Mitchell-Lama) into their conversations.

By 1999, 1.5 million units of housing had been produced under the various private owner, project-based subsidy programs that the federal government enacted between 1959 and 1984 (Bipartisan Millennial Housing Commission 2002, 87).[7] These programs generally were plagued by troublesome levels of inefficiency

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3. See generally Oberlander and Newbrun (1999, 130–156).

4. For an overview, see Schill (1993). Many commentators have lauded the New York City Housing Authority's efforts to prevent these sorts of concentrations.

5. Production of public housing continued, but with an increasing portion of units designed for the elderly. The national stock of public housing peaked in 1993 at 1.4 million units, and by 2004 it had declined to 1.2 million units as a result of the razing of some of the most troubled projects (Schwartz 2006, 102).

6. For a detailed overview of the various programs, see Schwartz (2006). Olsen (2003, 370–386) and Weicher (1997, 3–8) provide brief and accessible introductions.

7. This figure excludes rural housing assistance.

and corruption. When stung with embarrassing news about a program, Congress typically would repeal it and enact a new variation. Beginning in the 1980s, in an important structural change, Congress shifted responsibility for the approval of developer applications for the funding of private subsidized projects from the federal department of Housing and Urban Development (HUD) to state housing finance agencies. Today these state entities are largely responsible for meting out low-interest mortgage loans and low-income housing tax credits (LIHTC), both of which are made possible, but also capped, by federal income tax statutes.

THE RISE, AND FLEETING TRIUMPH, OF HOUSING VOUCHERS

Disillusionment with traditional public housing also helped spur support for a far more radical policy innovation: the provision to low-income households of demand-side subsidies in the form of portable housing vouchers. During the New Deal debates, skeptics of public housing had commended vouchers as an alternative (Winnick 1995, 101–102). The idea resurfaced in 1968 when the Kaiser Committee, a blue-ribbon presidential panel, urged Congress to fund an expensive voucher experiment, primarily to investigate the extent to which the introduction of vouchers would inflate rents. Congress concurred, and the experiment was launched.[8] The early findings were auspicious, and in 1974 Congress enacted Section 8, the federal housing voucher program that, with minor amendment, has been in place ever since.[9] The federal government delegated responsibility for administering the vouchers largely to local housing authorities, the agencies initially established to build public housing projects. The number of households receiving Section 8 vouchers grew rapidly. The total had climbed to 0.6 million by 1980 and to 2.0 million by 2005 (Dawkins 2007, 74; Schwartz 2006, 153), making it the largest single branch of federal housing aid.

For a brief period, proponents of vouchers envisioned a more thorough-going triumph, namely the vouchering out of existing subsidized projects and the shifting of all prospective housing aid to vouchers. Between December 1994 (just after the Republicans unexpectedly won control of both houses of Congress) and 1996, prominent figures such as HUD Secretary Henry Cisneros and presidential candidate Robert Dole explored these possibilities (Weicher 1997, 1). Writing during this period, Louis Winnick, one of the deans of American housing policy, stated:

> It is beyond doubt, and has been for some years, that the battle has gone substantially and seemingly permanently in favor of a household-targeted strategy. A paradigmatic shift has occurred. Supply-siders, who reigned supreme during the life of government-assisted housing, are now relegated to the sidelines. (1995, 95)

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8. Olsen (2003, 424–427) summarizes the many studies that emanated from this Experimental Housing Allowance Program.

9. In 1998 portable Section 8 benefits were formally denominated Housing Choice Vouchers.

But the tide toward vouchering out soon ebbed (Weicher 1997, 32–35). Since 1990, largely because of the influence of the Low-Income Housing Tax Credit (described below), the main increments in federal housing aid have been project-based (Olsen 2003, 375).

The Emergence of Mixed-Income Projects

My thesis, to reiterate, is that demand-side housing aid is superior to project-based assistance in almost all settings. Mixed-income affordable housing developments, the special focus of this chapter, share most of the shortcomings of other forms of project-based aid.

Mixed-income undertakings appear in a wide variety of forms.[10] For a development project to fall within the definition, government subsidies must be tied to only a fraction of the project's dwelling units, and these units must be made available only to households whose incomes fall below a certain ceiling. The emergence of the mixed-income model can be traced to a diverse set of legal and political developments that date from the 1960s, a decade in which the goal of greater social integration came to be central. In rough chronological order, these events included the following:

- The 1965 enactment of the short-lived federal leased housing program (Section 23) that authorized local housing authorities to lease specific units in private rental buildings.
- Adoption in the 1970s by a handful of wealthy suburbs of the first inclusionary zoning ordinances requiring a housing developer to sell or rent, at the developer's expense, 10 to 20 percent of a project's units to targeted households at reduced prices (Ellickson 1981).
- The 1983 New Jersey Supreme Court holding, in the nationally conspicuous *Mount Laurel II* litigation (*Southern Burlington County NAACP v. Township of Mount Laurel*, 456 A.2d 390, 445–450 [N.J. 1983]), that a developer's inclusion of 20 percent affordable units in a development would help satisfy a municipality's state constitutional obligations to poor New Jerseyans.
- Congressional authorization of the Low-Income Housing Tax Credit (LIHTC) program in 1986. As this program has matured, it has become private developers' chief source of project-based subsidies. By 2003 the LIHTC had generated a total of 1.2 million subsidized units, roughly equivalent to the entire existing stock of public housing (Schwartz 2006, 83).[11] To receive the hefty tax credits that the program provides, a

10. Valuable overviews of inclusionary programs include Porter (2004) and Schuetz, Meltzer, and Been (2007).

11. On the LIHTC generally, see Schwartz (2006, 83–100) and Weisbach (2006).

developer is required to set aside, currently for 30 years or more, at least 20 percent of project units as low-rent dwellings for qualifying households. Although the rules that govern LIHTCs allow for developments that are genuinely mixed-income, in practice more than 80 percent of LIHTC projects are entirely low-income (Schwartz 2006, 92).

- In 1991 congressional enactment of the previously mentioned HOPE VI, a program aimed at inducing local housing authorities to replace failed public housing projects with mixed-income developments (see Schwartz 2006, 117–123).
- The federal Quality Housing and Work Responsibility Act of 1998, which, in order to deconcentrate poverty, required local housing authorities to rent more public housing units to households whose incomes were not extremely low.

The concept of the mixed-income project has attracted much support. Many urban policy specialists, aware of the social pathologies associated with the early public housing projects, warm to the prospect of developments in which lower-class households mingle with middle-class role models. Developers of assisted projects understandably anticipate that a local government is more likely to grant approval when a proposed project is mixed-income rather than completely subsidized, partly because neighbors are less likely to object.

Several events of the past decade illustrate both the ebbing of interest in vouchers and also the rising popularity of the mixed-income project. In 1999 Congress established a Bipartisan Millennial Housing Commission. Ranking Republican and Democratic members of key congressional subcommittees were authorized to appoint all 22 commissioners. They selected mostly individuals who had been significantly involved, from either the private or public side, in the production of subsidized projects. The commission's final report, issued in 2002, generally supports the preservation of existing subsidized projects of all types and the construction of many more. The commission repeatedly endorses the mixing of income groups in both projects and neighborhoods. While the report also backs the expansion of voucher programs, it stresses the limitations of this approach. In a section entitled the "Shrinking Rental Supply," the commission estimates that the annual production of an additional 250,000 "affordable units" over the next two decades would be necessary to "close the gap" between the number of extremely low-income households and the number of rental housing units they could afford (Bipartisan Millennial Housing Commission 2002, 16–17). The commission proposes a new program of 100 percent capital subsidies to generate new projects in which extremely low-income households would be roughly 20 percent of the tenants (35–36).

The commission's proposal has helped inspire the introduction of bills to establish a national affordable housing trust fund to accomplish this aim. In October 2007 the *New York Times* editorialized in favor of federal legislation to finance the construction, rehabilitation, and preservation of 1.5 million units of affordable housing, all of it mixed-income, over the next 10 years (*New York Times* 2007). Less than a year later, Congress had taken a small step in this direction. The Housing and Economic Recovery Act of 2008 (Public Law 110–289, § 1338, 30 July 2008), enacted largely in response to the sharp jump in the rate of home foreclosures, includes a provision creating a housing trust fund, albeit one much smaller and more targeted toward aiding the very poor than the version that the *New York Times* had supported.

New York Mayor Michael Bloomberg's 10-year plan for the production of affordable housing in New York City between 2004 and 2013 further demonstrates the continuing political viability of project-based assistance (City of New York no date).[12] The plan contemplates both production of 92,000 new affordable housing units in the city and preservation efforts targeted at 73,000 of the city's 250,000 subsidized units presently in private projects. Mayor Bloomberg calls this "the largest municipal affordable housing effort in the nation's history." Some long-standing New York City programs, such as 421-a property tax abatements, have been specifically aimed at fostering mixed-income developments.

The Case for the Superiority of Housing Vouchers

Like Mayor Bloomberg and the members of the Millennial Commission, many urban experts view project-based subsidies as an essential component of housing assistance. By contrast, most housing economists who have addressed the issue assert that, as a general matter, portable tenant-based subsidies are markedly more efficient and fair than project-based subsidies.[13] Some of them have urged governments to refrain from authorizing the construction of more assisted projects and to voucher out existing ones. Of the economists who have argued in this vein, Edgar Olsen (2003, 427–437; 2006) and John Weicher (1990; 1997, 12–31) are particularly notable for their lucidity and persistence.[14] Compared to vouchers, project-based subsidies have a variety of shortcomings, some well-ventilated in the literature, others not.

12. The state and city of New York have long had a distinctive and unusually ambitious array of housing assistance programs (Ellen and O'Flaherty 2003).

13. Despite the general superiority of vouchers, project subsidies may be advisable in a narrow set of circumstances, such as to provide supportive-care facilities for the homeless (Currie 2006, 108–109) and to house workers at a remote and secret military facility.

14. Other pro-voucher economists include, in rough chronological order of their contributions, Ira Lowry, Louis Winnick, Stephen Mayo, Stephen Malpezzi, and Janet Currie (2006, 90–112). Legal scholars who have touted the superiority of vouchers include Stephen Kinnaird (1994), Michael Schill (1993), and David Weisbach (2006).

THE INEFFICIENCIES OF PROJECT-BASED AID

Consider a hypothetical mixed-income project, Evergreen Woods, that a developer proposes to build at a suburban site. The development will consist of several multifamily structures comprising a total of 50 uniformly sized and equipped two-bedroom units.[15] The developer anticipates being able to rent the market-rate units at $1,500 per month. As a condition for obtaining the suburban government's approval, the developer has agreed to rent 10 specific units (out of the total of 50) to tenants with incomes below a certain ceiling. These tenants will pay 30 percent of their income toward rent. The average monthly income of these subsidized tenants is expected to be $2,000 (well below the incomes of most of the actual beneficiaries of inclusionary units). The developer thus will collect, per inclusionary unit, an average of $600 of rent per month. To the developer, this is the rough equivalent of a tax of $900 per month per affordable unit. The public benefits of the program, however, are likely to be far smaller.

Increased Production Costs Most studies of supply costs have focused on projects in which all units are subsidized, not just some as at Evergreen Woods. Housing economists have consistently found that, all else equal, provision of housing units in subsidized projects, whether publicly or privately sponsored, costs significantly more than provision of unsubsidized units.[16] Developers and funding governments typically spend an average of about $1.60 (although perhaps as little as $1.20) to produce $1.00 of rental value (which, as we shall soon see, is itself likely to exceed the value to the occupying tenant). By contrast, a government need spend only about $1.10 to transfer $1.00 in voucher aid to a tenant.

The development of a subsidized project inherently requires extra time and effort from both the developer and public officials. In most cases, the developer seeks government subsidies and must apply to one or more government agencies to get them. Especially since the advent of the LIHTC in 1986, developers commonly stack different project-based subsidies on top of one another, adding more complexity to application processes. The LIHTC, currently the core project-subsidy financing mechanism, is itself fraught with transaction costs. A developer who is awarded LIHTCs usually sells the tax credits at a discount to a syndica-

15. Many governments with inclusionary programs authorize developers to downgrade, perhaps even drastically, the interior amenities of inclusionary units. To simplify the exposition, the developer of Evergreen Woods is assumed to not have this option.

16. See Mayo (1986) and Olsen (2003, 394–399) for summarizing studies. A number of professional housers and planners have challenged the economists' consensus. For a review of the works of these dissenters, see Deng (2005, 472–477). Applying her own methodology, Deng concludes that vouchers indeed are cheaper than LIHTC projects in most metropolitan areas, but perhaps not in all. Her methodology does not take into account the lock-in effects of project-based housing subsidies, one of the basic sources of their inefficiency.

tor, who then sells interests in a pool of credits to third-party investors. Syndicators charge developers about 6 to 10 percent for this service (Schwartz 2006, 85–87). In addition, news that a developer is proposing a subsidized project, even a partial one, is likely to spark an unusual amount of concern on the part of homeowners located near the proposed site. As a result, a developer typically must spend extra time and effort to obtain land use permits from the local government. It is plausible (although the issue appears not to have been investigated) that these various pursuits for permits are associated with efficiencies of scale. If so, when a subsidized project resembles Evergreen Woods, where only 20 percent of the dwellings are to be set aside as affordable, the incremental private and public processing costs per subsidized unit can be expected to be unusually high. If government housing aid were provided solely through vouchers, many of these extra costs of securing permits would be avoided.

Waste from rent-seeking also tends to be greater under project-subsidy programs. For example, state housing finance agencies receive about three times more applications for LIHTCs than they can grant (Olsen 2003, 397). To improve their prospects for obtaining approvals, developers may invest in political connections, a practice that dissipates some of the rents being sought and also corrupts the electoral process.

Slack Arising from the Absence of Market Discipline The developer's incentive to efficiently produce and maintain the 10 subsidized units at Evergreen Woods would plummet as soon as those units had been earmarked as sites for aid. Because of the generosity of the rent discounts, the developer knows that the queue will be long and that finding tenants for the inclusionary units will be a snap. During construction, the developer's executives therefore may be tempted to cut corners—for example, to tell their superintendents to only casually supervise the work of the subcontractor hired to paint the interiors of those units. Similarly, once tenants have moved into the subsidized dwellings, the developer/owner has less incentive to be attentive to their complaints, say about the crankiness of the heating system. Given the bargain rent, a subsidized tenant cannot credibly threaten to vacate to protest the owner's failure to make cost-justified repairs. Even if the tenant did vacate, the developer could readily find a replacement from the queue. As John Weicher (1997, 6) elegantly puts it, the principal party that the developer of a subsidized project must please is not the tenant but the government agency that supervises the program.

When housing aid takes the form of vouchers, these perverse incentives are much reduced, if not eliminated altogether. Suppose a tenant with a portable $900 per month housing voucher had rented an ordinary $1,500 per month unit at Evergreen Woods. Because this tenant could credibly threaten to leave and might be hard to replace, the developer would have reason to worry about the quality of the initial interior paint job and about the building manager's attentiveness to the tenant's complaints about the heating system. Vouchers, unlike project-based subsidies, thus impose a market discipline that helps pressure building owners to implement maintenance measures that are cost-justified.

Mismatches Between Assisted Households and Housing Units A project-based subsidy program is likely to be far inferior to a voucher program in placing assisted tenants in dwelling units whose locations and designs are suited to their preferences.[17] Recall the initial assumption that each of the households that applies for one of the 10 subsidized two-bedroom units in Evergreen Woods earns a fixed income of $2,000 per month and thus would pay rent of $600 per month if selected by lottery or queue. Further assume that half of the applicants are high-valuing tenants who value occupancy of one of these dwellings at $1,400 per month, while the other half are low-valuing tenants who regard them as worth only $700 per month. (Given their budget constraints, it is unlikely that any of the applicants would bid $1,500 to live at Evergreen Woods.)[18] A tenant might be low-valuing because of reservations, for example, about the location of Evergreen Woods, the layout of its units, or the suitability of a two-bedroom unit for the tenant's household as the tenant expects it to evolve. If selected, a high-valuing tenant who moved into the development would garner $800 per month in consumer surplus, whereas a low-valuing tenant would garner $100 per month. If a tenant were empowered to transfer occupancy rights in a subsidized unit to another eligible household, one would expect a low-valuing tenant who had been awarded a unit to transfer it to a high-valuing tenant, with the two parties somehow divvying up the $700 per month in increased surplus. The regulations that govern project-subsidy programs, however, almost invariably forbid a tenant from transferring occupancy rights. This is necessary to prevent a recipient household from converting the discounted value of the housing subsidy to a lump sum of cash, an act that would frustrate the program designers' paternalistic aim of inducing program beneficiaries to consume more housing rather than other goods and services.

This stylized example points up the mismatches between tenants and housing units that are likely to occur under any sort of project-subsidy program. Given the assumptions, if the households selected to live in inclusionary units at Evergreen Woods were to be randomly chosen, as many as half of them might be low-valuing tenants. Although low-valuing tenants might be less likely to move in if accepted, they still would have an incentive to do so, especially if there were many names on the application lists for projects. Whenever a low-valuing

17. The housing economists who criticize project-based subsidies seldom stress this shortcoming. But compare Glaeser and Luttmer (2003), who identify the mismatch problem as an additional and underacknowledged inefficiency of rent controls.

18. These valuations of alternative locations are those that tenants would hypothetically assign after they had been designated beneficiaries of $600 per month rents at Evergreen Woods.

rather than a high-valuing tenant moves in, there is a deadweight loss of $700 per month in consumer surplus.[19]

In addition, as the years pass, aggregate deadweight losses are likely to increase. Although some households increasingly value a dwelling as they put down roots in it, the passage of time more typically has the opposite effect.[20] In a given year, about one-third of U.S. tenant households move to new quarters, primarily to accommodate changes in either their employment situation or the composition of their household (U.S. Department of Commerce 2003, table 4-11).[21] Suppose that one of the long-term subsidized tenants at Evergreen Woods is a divorcee who originally moved in when her child was an infant. Recently, she has taken a new job that requires a lengthy commute. She also would like to invite her infirm and lonely father to move in with her, but she doesn't think a two-bedroom unit is big enough to accommodate that arrangement. Once a high-valuing tenant at Evergreen Woods, she has become a low-valuing one. If she were to have had the benefit of a $900 per month housing voucher, she would have moved long ago to another dwelling more suited to her altered life circumstances. In sum, project-based housing subsidies tend to have lock-in effects that are likely to worsen as a project ages. These impair the functioning of labor markets and also hamper tenants' abilities to exploit new social opportunities.[22]

The Effects of Alternative Housing Assistance Strategies on Neighborhoods
Most tenants understandably prefer to be free of arrangements that lock them into particular housing units. For example, in a survey of New Orleans public

19. Between 1965 and 1979, the headiest era for empirical research on housing assistance policy, a number of economists published studies, mostly of public housing, that attempted to measure the equivalent variation. This is the ratio between the assisted tenants' actual mean benefits (in the example used in the text, $800 per month for a high-valuing tenant and $100 per month for a low-valuing one), and the mean nominal subsidy ($900/month in the example). The reported ratios ranged from 0.61 to 0.92. See Olsen (2003, 416–417).

20. See Glaeser and Luttmer 2003, 1042–1043, who found that the apartments of long-term rent-controlled tenants are especially misallocated.

21. Perhaps partly because of differences in the housing policies of the two nations, Americans move at twice the annual rate of the British (Long, Turner, and Urton 1988, 635).

22. There is much evidence that these sorts of lock-ins exist. In 2004, 52 percent of public housing tenants had been in their present units for five years or more, compared to 36 percent of Section 8 tenants (Schwartz 2006, 107, 159; see also McGough 1997, 10–11). Because the rents of 70 percent of New York City tenants are regulated by either rent control or project-subsidy regulations, tenants there are relatively immobile. From 1990 to 2000, 35 percent of the city's tenants remained in the same dwellings, compared to 17 percent of Chicago's (Ellen and O'Flaherty 2003, tables 7.1, 7.11). Ellen and O'Flaherty speculate that the New York City policies that lock in tenants might be motivated to augment social capital and generate positive production externalities (34–43). Hardman and Ioannides (1999) provide a theoretical discussion of the dynamics of lock-ins.

housing tenants displaced by Hurricane Katrina, respondents were almost twice as likely to state that they would prefer to receive a housing voucher than to return to their former project (*Housing and Community Development Reporter* 2008, 201). Viewed from a broader social perspective, however, a housing lock-in is less unambiguously bad because lock-ins may generate beneficial social externalities. A locked-in tenant has valuable property rights in a particular dwelling and therefore, like one of William Fischel's "homevoters" (2001), has a greater incentive to be active in local politics. This can be presumed to be a socially desirable result (Ellen and O'Flaherty 2003, 40). A locked-in tenant also can more credibly commit to an employer that she is not a fly-by-night worker, which may induce the employer, for example, to invest more in training her (cf. Munch, Rosholm, and Svarer 2008). Adolescents tend to suffer from repeated changes of residence (Adam and Chase-Lansdale 2002), an effect some parents may inadequately weigh. More generally, in a neighborhood where tenants move less often, they possibly may amass more neighborhood social capital and thereby become more trustworthy in their dealings with one another.[23]

The issue is complex, however, because housing lock-ins undoubtedly also generate some offsetting negative social externalities, particularly by worsening landlord-tenant relations (Ellickson 2008, 123–127). When the threat of unilateral exit by either party hangs over a residential landlord-tenant relationship, both sides have a strong incentive to cooperate with one another. Under these circumstances, even arm's-length landlord-tenant relations tend to be comfortable, at least during the midgame of the lease. However, when tenants and landlords are locked in because of either project-based aid or rent controls, the dynamic changes. Landlords then tend to be relatively unresponsive to tenant complaints, and tenants have less reason to act civilly toward landlords. In New York City, where both project subsidies and rent controls have led to an extraordinary level of lock-ins, there is a special housing court that averages 300,000 new cases per year (New York State Unified Court no date), and the media periodically describe multiyear wars between particular landlords and tenants (see, for example, Stodghill 2006). In sum, tenant lock-ins give rise to both social costs and social benefits, but little is presently known about their magnitude.

Some commentators also anticipate that the construction of a subsidized housing project will generate positive externalities that will foster neighborhood rejuvenation. While the effects of housing vouchers on a cityscape are diffuse, a new mixed-income housing project might be deliberately placed at a site where it would function as a spark that inspires private investment in nearby real estate. At least in some contexts, the advent of a subsidized project does generate positive externalities that boost the value of neighboring properties (Ellen et al. 2007; Schwartz et al. 2006). For several reasons, however, this fact does not by itself

23. Compare Margaret Radin's (1986) defense of rent control as a means of protecting social ties within a community.

justify government subsidies to housing projects. First, neighborhood renewal commonly is a zero-sum game; that is, the benefits of inserting a project at a given location are entirely offset by the costs of less housing investment, caused by crowding-out effects, elsewhere. Second, a city has many other tools for promoting neighborhood renewal, including the enhancement of streetscapes and other physical infrastructure, grants for facade improvements, concentrated code enforcement, and the building of schools, libraries, and other public edifices. In light of the availability of these other instruments of neighborhood revitalization, why should policy makers select the blunt instrument of the subsidized housing project, given its other inherent flaws?

THE RELATIVE UNFAIRNESS OF PROJECT-BASED AID

Those who favor jettisoning project-based aid in favor of portable vouchers also marshal a potent array of fairness arguments. They assert that tenant-based aid can be more easily delivered in a fashion that treats like persons alike (the goal of horizontal equity) and that funnels benefits to the most impoverished households (the goal of vertical equity).

Horizontal Equity In the United States a housing subsidy is the only major form of means-tested aid that is not made available as an entitlement to a household that satisfies the stated criteria for eligibility. Only about 30 percent of renters with incomes below the poverty line benefit from federal housing aid (Olsen 2003, 394). By contrast, no person who is eligible, for example, for food stamps or disability benefits is denied aid on the ground that Congress has not appropriated sufficient funds. The high cost of housing subsidies compared to most other forms of means-tested aid is a primary reason that housing subsidies are not entitlements. The federal government incurs costs of roughly $500 per month for each tenant household that it assists.[24]

The heads of households who benefit from housing assistance are the ones who have been relatively adroit or lucky in navigating the queues and lotteries that housing agencies and developers employ to mete out aid among the surfeit of applicants. The Section 8 voucher program generates some of the longest queues. In 1999 the Los Angeles Housing Authority, which provides portable vouchers to around 50,000 households, had 342,000 households on its waiting list (Olsen 2003, 394n). Many project-subsidy programs also attract far more people than can be served. When news spreads that a private project in a prime location will include some affordable units, the list of applicants may exceed the number of available units by a multiple of 100 (Toy 2008). And little wonder: a *New York Times* article reported that a 32-year-old aspiring novelist won a lottery that entitled him to pay $14,000 in cash (and a monthly maintenance payment of $295) to purchase a studio co-op apartment in a neighborhood of Manhattan

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24. Computed from U.S. General Accounting Office (2001, 1).

where a like unit would sell on the market for perhaps 20 times that sale price (Dominus 2008).[25] The fact that all other major welfare programs are designed to avoid these sorts of haphazard outcomes points up the gravity of the horizontal inequity of all branches of housing assistance.

Janet Currie (2006, 94) pinpoints the lottery aspect of housing assistance as its principal defect. To address this problem, and that of vertical equity as well, Edgar Olsen has recommended converting all current federal spending on project assistance to housing vouchers to which every eligible needy household would be entitled without having to wait in a queue (Olsen 2003, 428–429; 2006, 109–112). In the absence of an increase in total federal appropriations, this reform would require a substantial reduction in the amount of housing aid per recipient from the current level of about $500 per month.

Vertical Equity Most analysts urge that means-tested transfers be directed primarily to the poorest of poor, the group most likely to be living in substandard housing and to be burdened by rent obligations. Many means-tested benefits are so targeted. To qualify for food stamps, for example, a household's income must be less than 130 percent of the federal poverty line (Currie 2006, 64). Much federal housing assistance, by contrast, is conferred on households with considerably higher incomes (Olsen 2003, 393).

Judged by the criterion of vertical equity, vouchers are by far the best of the current federal housing aids, partly because they are the easiest to target. In 1998, Congress required local housing authorities to award at least 75 percent of vouchers to households whose incomes were below 30 percent of the median income in the metropolitan area, a ceiling roughly equal to the official poverty line (Olsen 2003, 379n).[26] Partly to avoid concentrations of poverty in public housing projects, the same statute specifies that only 40 percent of the units in subsidized projects have to be directed toward these households. In 2005, 78 percent of housing voucher holders did have incomes below 30 percent of the area median (Dawkins 2007, 76).

When measured by the vertical equity yardstick, most mixed-income affordable housing programs come out particularly poorly. The law governing LIHTC projects makes all tenants with incomes under 50 percent of the area median eligible for aid, and many LIHTC projects are aimed even higher (Muralidhara 2006).[27] Scholars who have evaluated inclusionary efforts in New Jersey, which were mostly prompted by the *Mount Laurel* decisions and the state's Fair Housing Act, have found less social integration than proponents of these efforts had

25. The co-op apartment was located in a building on 88th Street near Third Avenue. See generally Toy (2008).

26. Quality Housing and Work Responsibility Act of 1998, Pub. L. No. 105-276.

27. By stacking other subsidies on top of the tax credits, however, the developer of an LIHTC project may be able to serve households with incomes near the poverty line.

hoped for. Most of the beneficiaries of the suburban New Jersey projects were themselves suburbanites, principally elderly white women. Notably few were African American (Wish and Eisdorfer 1997, 1302–1305).[28]

In other jurisdictions, the distributive effects of inclusionary zoning programs are similarly suspect. A large majority of the local governments in the San Francisco Bay Area have adopted inclusionary programs, and so have many in the Boston and Washington, DC, areas (Scheutz, Meltzer, and Been 2007, 20). Most agencies that administer these programs release little or no information about the characteristics of the households that occupy their subsidized inclusionary units. It is nonetheless plain that the vast majority of the beneficiaries have incomes far above the average incomes of Section 8 voucher holders (most of whom, again, take in less than 30 percent of area median income). According to Schuetz, Meltzer, and Been (2007), many suburban programs make at least some inclusionary units available to households with incomes up to 120 percent of the area median, and almost all programs, to those with incomes up to 80 percent of that amount.[29]

Montgomery County, Maryland, has by far the largest and one of the most transparent of the nation's local inclusionary programs.[30] Between the program's start in 1973 and 2007, the county exacted over 12,000 inclusionary housing units from developers. Thirty percent of the exacted units were rentals, and the balance were for-sale units. During the first three decades of its program, Montgomery County controlled the prices of its inclusionary units only for a short period, sometimes as little as five or ten years. By 2002 at least one-third of the exacted units had already been freed from price controls and were no longer providing subsidized accommodations (Trombka et al. 2004, 6–1, 7–1).[31]

Montgomery County's inclusionary program is structured to deliver inclusionary units to households whose incomes are well above the poverty line when

28. See also Porter (2004, 244–245), who states that inclusionary programs do little to relocate poor and minority households from inner cities to suburbs.

29. Housing regulations typically define households in these respective groups as "moderate-income" and "low-income."

30. Information about the Montgomery County program can be obtained at http://www.montgomerycountymd.gov/dhctmpl.asp?url=/content/DHCA/housing/housing_P/mpdu.asp. Rubin and Trombka (2007) provide an overview.

31. Most of the county's for-sale inclusionary units remain in its affordable stock (Porter 2004, 238). Since 1989, even after the expiration of the control period, the county has exacted half of an owner's excess proceeds from a sale, a policy that discourages sales. In addition, the county has a right of first refusal at the time of sale. The county's public housing agency has purchased 1,600 of the for-sale units over the years and has then rented them to households with incomes below 50 percent of area median income. Because the county could empower its public housing agency to purchase scattered-site units in noninclusionary developments, I credit this tilt toward greater vertical equity to the public housing agency's purchasing program, not to the county's inclusionary zoning program as such.

they first move in. In 2008, for example, a household of three with annual income of up to $58,000 was eligible to occupy a subsidized rental unit. The county establishes a fixed rent (or sale price) for each inclusionary unit rather than requiring, for example, that a household pay 30 percent of its income toward housing costs. The formulas used by the county to determine the reduced rents and sale prices assure that subsidies are not deep enough to make the units affordable by the truly needy. For example, in 2008 the developer of an inclusionary two-bedroom unit in a garden apartment might be entitled to charge a household of three a rent of $1,200 per month (not including utilities).[32] A Montgomery County report issued in 2007 confirms that its inclusionary program primarily serves households whose incomes at time of entry are between 60 and 70 percent of the area median (Rubin and Trombka 2007, 5), that is, just below the 70 percent income ceiling for eligibility. New beneficiaries in 2008 thus would mostly have annual incomes in the $60,000 to $70,000 range.[33] Moreover, the county does not ask a benefited household to report changes in income after it moves into an inclusionary unit. The rents that the developer/owner is permitted to charge in subsequent years are set according to a formula that is entirely based on other variables. Some long-term occupants of Montgomery County inclusionary units are therefore virtually certain to have annual incomes in excess of $100,000. Indeed, between 2005 and 2007, because of quirks in the design of the county's program, a handful of developers were entitled to sell inclusionary units at the controlled price to purchasers of any income (Rubin and Trombka 2007, 48–49).

According to one Montgomery County report, 95 percent of the recipients of its inclusionary units already lived in the county, and all but one of the remaining recipients worked there (Porter 2004, 243). The county periodically releases data on the racial distribution of the latest beneficiaries of its inclusionary program. Most units have gone to members of the county's racial minority groups. In the years for which data are available, Asian Americans, who make up 11 percent of the county's population, have received an average of 40 percent of the units (Porter 2004, 243; Roisman 2001, 79 n81).

Many of the relevant interest groups want an inclusionary zoning program to have the middle-class tilt that characterizes Montgomery County's. Developers who are forced to accept tenants prefer having those who are likely to be both steady in their rent payments and socially acceptable to the households occupying unsubsidized units in the development. Middle-income people who own homes near a proposed inclusionary project also are less likely to object. In a prosperous suburb such as Montgomery County, taxpayers and members of municipal labor unions may warm to a developer-financed program that confers

32. Calculated according to formulas in Montgomery County Code § 25A.00.02.02 & .05.

33. In 2008 HUD's official estimate of the median annual income of a family in the Washington, DC, PMSA was $99,000 (http://www.huduser.org/datasets/il/FY2008index_mfi.html).

inclusionary units on its schoolteachers, librarians, and other college-educated professionals who, except for their modest incomes, are solidly middle class.

Methods of Promoting the Economic Integration of Neighborhoods

By definition, mixed-income housing programs are designed to enhance residential integration among households of varying incomes. Given the relative poverty of many African Americans and Hispanic Americans, efforts to promote economic integration can also be expected to contribute to greater racial integration.[34] Because the United States is a highly diverse nation, Americans unquestionably have reason to encourage bridging across social groups that might otherwise be overly isolated from one another. The analysis in this section accepts the premise that economic integration of neighborhoods is a goal of transcendent importance, but concludes that, from what we now know, the mixed-income project model is a mediocre instrument for pursuing that goal. The next section addresses the more fundamental question of whether, in the design of housing assistance policies, the greater economic integration of neighborhoods should be regarded as the summum bonum.

ARE PROJECTS PROMISING MICROCOSMS FOR ECONOMIC INTEGRATION?

A mixed-income affordable project, such as the hypothetical Evergreen Woods, is designed to promote greater economic (and perhaps racial) integration at the level of the residential block. It is not evident that a geographic space this small is a promising arena for the pursuit of this goal. In *Bowling Alone* (2000, 22–24), Robert Putnam famously distinguishes between two types of valuable social capital. Bonding social capital promotes trust and cooperation among the members of a social subgroup, while bridging social capital strengthens ties between members of different social subgroups. Over the course of a day, most individuals rotate through a variety of different (but commonly overlapping) social milieus in which both bonding and bridging may be achievable. For a child, the residential block is likely to be a less important social microcosm than the household and the school. For an adult, workmates, family, and friends are likely to be more important than neighbors. Nonetheless, blocks unquestionably can be sites for the nurturing of both bonding and bridging social ties.

There is evidence that in some social contexts the enhancement of opportunities for bridging among members of different social groups simultaneously diminishes internal bonding among members of an individual group (Putnam

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34. Partly because of statutory and constitutional constraints, all housing assistance programs are officially race-blind. My analysis assumes that they indeed are administered in race-blind fashion.

2007). If so, those who want to strengthen social capital in the aggregate face a dilemma. Bonding social capital unquestionably is valuable at the block level because it helps enable neighbors, for example, to provide mutual aid and to informally police against nuisance behavior. Enhanced economic integration at the block level, although it might enhance bridging social capital, possibly might impair this sort of inter-neighbor cooperation.[35]

The choice of an optimal social milieu for the pursuit of economic integration therefore is a difficult one. The Supreme Court of New Jersey, in its two famous *Mount Laurel* decisions, flip-flopped on this exact question. The author of *Mount Laurel I* (*Southern Burlington County NAACP v. Township of Mount Laurel*, 336 A.2d 713 [N.J. 1975]) was Justice Frederick Hall, an archfoe of exclusionary zoning. Justice Hall's opinion, however, only required municipalities to allow for an appropriate variety of housing at some locations within their boundaries and explicitly blessed the use of zoning to set aside some neighborhoods as exclusive. To oversimplify, Justice Hall's opinion sought to promote economic integration at the geographic level of the local public high school, not that of the block. Eight years later, in *Mount Laurel II*, a revamped Supreme Court of New Jersey reversed course and prodded municipalities to promote the provision of inclusionary housing units within each new housing development.

Much remains to be learned about the trade-offs between bonding and bridging social capital in different social milieus. From what is now known, there are grounds for skepticism about the capacity of a mixed-income housing project to enhance the aggregate stock of social capital. The authors of the most-cited empirical study on the subject conclude that "the level of interaction between the income groups in the [mixed-income] projects appears to be insignificant" (Brophy and Smith 1997, 25). Other housing experts have cautioned that the mixed-income model rests on sociological assumptions that may not be valid.[36] In addition, sociological theory suggests that lower-income households themselves might dislike the social environment of an inclusionary development. Individuals tend to care a lot about their relative status in a given social setting (Frank 1987). Whatever the other benefits of living in Evergreen Woods, the adults and children in the 10 affordable units (assuming they would socialize with their neighbors)

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35. In theory, positive and negative social consequences should be at least partially capitalized into housing prices. To my knowledge, there have been no published studies of whether inclusionary units in a mixed-income development affect the market values of the same development's unsubsidized units. Numerous researchers, however, have striven to measure the effects of the construction of a subsidized housing project or the entry of Section 8 tenants on property values in a neighborhood. See Galster (2004) for a review, and Ellen et al. (2007).

36. Hendrickson (2002, 70–81), after reviewing the evidence, urges HUD to concentrate on integrating neighborhoods, not particular projects. Schwartz (2006, 261–267) concludes (at 266) that "the limited research to date on mixed-income housing has yet to show that the presence of higher income neighbors by itself improves the economic or social condition of low-income families (e.g., by providing role models, job leads)."

might be frustrated by their difficulty in keeping up with the Joneses who occupy the other 40 units.

THE POTENTIAL OF VOUCHERS AS AN INSTRUMENT OF NEIGHBORHOOD ECONOMIC INTEGRATION

Assuming that the greater economic integration of neighborhoods is indeed an overriding policy objective, what housing assistance policies would best promote this end? For many observers (such as DeFilippis and Wyly 2008; Schwartz 2006, 175), the main shortcoming of Section 8 vouchers is that they do not do enough to enhance the racial integration of neighborhoods. Many users of housing vouchers live in areas where people like themselves predominate. For example, a poor black tenant who holds a housing voucher commonly ends up renting in a largely poor, largely black neighborhood. Nonetheless, numerous researchers have found that, as a general matter, housing vouchers have done more than project-based subsidies to enhance the economic integration of neighborhoods. A voucher holder is far less likely than a resident of public housing and somewhat less likely than a resident of a privately owned subsidized project to live in a neighborhood with a high rate of poverty (Deng 2007; Kling, Liebman, and Katz 2007, 87–88; Newman and Schnare 1997; Olsen 2003, 393, 407–411; Schwartz 2006, 160–166; but compare DeFilippis and Wyly 2008).[37] When subsidized tenants are asked whether their current neighborhood is better or worse than their previous one, 45 percent of voucher holders answer better and 12 percent answer worse, whereas, in both public and private subsidized projects, the number of tenants answering worse exceeds the number answering better (McGough 1997, 30). In most metropolitan areas, vouchers appear also to have done more than LIHTC projects to promote neighborhood racial integration (Deng 2007, 27–28).

The studies just cited, however, mainly examined the integrative effects of projects in which all units, not just some, were subsidized. Mixed-income projects conceivably could foster economic integration better than housing vouchers can, especially at the block level. The available evidence on this important question, however, is less favorable to the mixed-income project than one might expect. As noted, the recipients of many inclusionary housing units are themselves middle-class suburbanites. And in instances where there is actual economic integration, an advantage of vouchers is that they are not as likely as projects, even mixed-income projects, to stigmatize subsidized tenants in a manner that impairs the development of bridging relationships between members of different income groups. Neighbors commonly know when a new development encompasses inclusionary units, and the residents of a mixed-income development may learn

37. Federal law entitles a voucher holder to lease a rental unit outside the boundaries of the jurisdiction that granted the voucher. This portability rule gives rise to complications and, in some instances, resistance on the part of suburban jurisdictions (Feins et al. 1996).

which units have subsidies tied to them. Vouchers are potentially more discreet. If both the landlord and the tenant avoid spilling the beans, the holder of a housing voucher can move into a more prosperous neighborhood incognito. The relative invisibility of a voucher promises to help normalize a voucher holder's future relationships with neighbors.

If the economic integration of neighborhoods is the paramount social objective, lawmakers could shape the rules governing existing forms of housing assistance with this goal in mind. Congress no doubt would hear howls of protest if it were to consider mandating that all new public housing or LIHTC projects be scattered in other than poor neighborhoods. Because vouchers are relatively invisible, however, Section 8 is the more potent instrument for the affirmative promotion of economic integration. Many local housing authorities already provide counseling services to help voucher holders find apartments. Some states forbid a landlord from discriminating against a tenant on the basis of the tenant's sources of income. More pointedly, to encourage a poor voucher holder to choose to live in a more prosperous neighborhood, Congress could adjust the formulas for calculating voucher benefits so as to sweeten the financial rewards of both the landlord and the voucher holder whose combined efforts had brought about this sort of outcome.

The Waning of Confidence in the Social Benefits of Neighborhood Economic Integration

Urban commentators have widely assumed that, all else equal, it is highly disadvantageous for poor adults and children to reside in a poor neighborhood. This premise underpins many of the integrationist visions that flowered in the 1960s and eventually inspired, among many other by-products, the mixed-income housing model.[38] Prominent sociologists closely associated with this traditional view include William Julius Wilson (1987) and, more recently, Robert Sampson.[39] A variety of causal mechanisms are thought to be at work (see generally Ellen and Turner 2003). For example, an adult who resides in a poor neighborhood may be less likely to hear of job opportunities through informal social networks. A child might suffer from a relative paucity of both adult role models and helpful peers at local public schools. The traditional view has inspired support for policies to "dismantle the ghetto" (Massey and Denton 1993, 15, 218) and to economically integrate subsidized housing projects previously occupied only by

38. For an overview of issues of neighborhood integration, see Goetz (2003).

39. See, for example, Sampson, Sharkey, and Raudenbush (2008). This study, unlike Moving to Opportunity studies, does not control for the possibility that households that move out of a neighborhood with concentrated poverty differ from households that remain.

the very poor.[40] Initial studies of the effects of the Gautreaux program in Chicago appeared to confirm that moving to a more prosperous neighborhood significantly improves a child's schooling and employment outcomes (Rubinowitz and Rosenbaum 2000).[41]

Most housing policy specialists (for example, Schill 1993) understandably seek to end the ghettoization of poor households in large subsidized projects.[42] The case for dismantling an entire poor neighborhood, however, is hardly so clear. Recently published studies have begun to destabilize the former consensus that a poor adult or child is significantly disadvantaged by residing among other poor people. These studies suggest that the net social benefits of the economic and racial integration of neighborhoods, while probably still positive, are not as large as previously thought.

The Moving to Opportunity (MTO) studies (summarized in Kling, Liebman, and Katz 2007) have been the most influential, largely because of the magnitude of the MTO experiment and the high quality of the research design.[43] The households participating in MTO were volunteers who at the outset had resided in public housing projects in five large cities. Most were both poor and minority. These households were randomly divided into three groups: a control group whose members remained in the projects; a constrained housing voucher group who could use the vouchers only in a low-poverty neighborhood; and an unconstrained housing voucher group who were not limited by neighborhood. Most households in the last group ended up living in mostly poor, mostly minority neighborhoods. Those in the constrained voucher group, the primary focus of the experiment, mostly chose to move to relatively prosperous neighborhoods that also were predominantly minority. Four to seven years later, researchers assessed the outcomes for teenagers and adults. According to the traditional view, the outcomes of children in the constrained voucher group—the beneficiaries of neighborhood economic integration—should have been significantly superior to the outcomes for the children in the other two groups. This proved to be

40. The pertinent literature primarily focuses on the integration of entire neighborhoods, not of individual blocks (what a mixed-income project seeks to integrate). Obviously, the social dynamics of neighborhoods and blocks may differ.

41. For concerns about the methodologies used in the Gautreaux studies, see Currie (2006, 103–104) and Schwartz (2006, 169–170).

42. But compare Jacob (2004), who found that living in a high-rise public housing project does not by itself impair the educational outcomes of children.

43. The first-published MTO studies reported greater positive benefits from economic integration (Goering and Feins 2003). In particular, Ludwig, Duncan, and Ladd (2003) found that poor children aged five to twelve in Baltimore had better educational outcomes when their parents moved them to higher-income neighborhoods. Sanbonmatsu, Kling, and Duncan (2006), by contrast, conclude that MTO data indicate that neighborhood effects on educational outcomes are small.

true for teenage girls. For teenage boys, however, living in a more prosperous neighborhood generally turned out to be disadvantageous to roughly the same degree. Perhaps because their parents had moved them to what they regarded to be a "wrong pond," these boys were significantly more likely than the boys in the other two groups to use drugs and alcohol and to be arrested for a property crime. The adults in the MTO experiment who moved to low-poverty neighborhoods showed gains in mental health, but not in physical health, freedom from welfare dependence, or employment.[44]

Also pertinent is a recent and controversial article by Robert Putnam (2007), the most prominent analyst of social capital. After reviewing the vast literature on the consequences of the integration of neighborhoods, particularly by race and ethnicity, Putnam comes to sobering conclusions. He asserts that residents of diverse neighborhoods have less social capital than do residents of more homogeneous neighborhoods. Moreover, the members of a distinct ethnic group who live in a relatively integrated neighborhood are likely to have weaker ties to other members of their group than they would if they lived in an ethnic enclave. Putnam affirms his support for integration, but he is compelled by his findings to shift his emphasis to the long-term benefits of neighborhood diversity.

Other less-publicized studies similarly cast doubt on traditional estimates of the high magnitude of the benefits of economic integration. Contrary to Sampson, Oreopoulos (2003) finds that growing up in a poor neighborhood does not by itself lead to worse outcomes for children. His results indicate that a child's household environment has a far greater effect on the child's welfare than does the child's neighborhood environment.

Various studies on residential preferences suggest that most poor minority households do not warm to the prospect of moving to wealthier white neighborhoods. In surveys most African Americans, for example, state that they prefer to live in a neighborhood that is mostly African American (Farley et al. 1993; see generally Cashin 2001). To some extent, this may stem from a concern that nonblack neighbors would discriminate against them. There is recent econometric evidence, however, that many African Americans are positively attracted to living in a mostly black neighborhood (Bayer, Fang, and McMillan 2005). An affirmative taste for stratifying by social class also seems to prevail, even among lower-status groups. Individuals who have not graduated from college, for example, are willing to pay a premium to live in a neighborhood that is not mostly inhabited by college graduates (Bayer, Ferreira, and McMillan 2007, 626).[45]

The revisionist thesis that poor people garner no more than modest benefits from living in a neighborhood that is not poor is consistent with the resi-

44. Compare Cutler, Glaeser, and Vigdor (2008), who find that although ghettoization on average helps immigrants to U.S. cities, it is detrimental to poor immigrants.

45. For anecdotal support, see Patillo's account (2007, 297–299) of how a poor woman resented how a wealthier neighbor "looked down on" her.

dential choices that poor people tend to make. As noted, most poor minority voucher holders end up renting in mostly poor, mostly minority neighborhoods. This would be less common, no doubt, if more landlords in prosperous neighborhoods were willing to participate in Section 8 and if voucher holders were unconcerned about how warmly they would be received by their new neighbors. The revisionist works just cited suggest, however, that the unconstrained preferences of voucher holders have much to do with this pattern (see also Goetz 2003, 241). Longtime residents of poor minority neighborhoods, such as those near U Street in Washington, DC, and 125th Street in Manhattan, commonly oppose gentrification (see generally Powell and Spencer 2003). Poor tenants in these neighborhoods seem to anticipate that an influx of more prosperous households will not confer social benefits on them sufficient to offset their risks of having to pay higher rents.

The studies just cited are hardly the final word on these complex social issues. Like most commentators, I welcome the prospect of increased residential integration by race and income, especially within a territory the size of a high school district, a social milieu suitable for fostering bridging social capital. Mixed-income housing projects attempt, however, to promote integration at the fine-grained level of the block, a venue in which the nurturing of bonding social capital plausibly should be given higher priority (Ellickson 2006). Taken as a whole, the recent social scientific findings cast doubt on whether the mixed-income feature of these projects can be expected to generate social benefits large enough to offset the inherent inefficiencies and unfairness of the project-subsidy approach.[46]

Why Support for Project Subsidies Persists

Financial interest and ideology spur much of the support for the construction of mixed-income housing projects. A government program that annually dispenses billions of dollars—whether for the production of ethanol, submarines, or affordable housing—brings into existence constituencies whose members are likely to provide continuing political support for the program. For example, many housing advocates are connected to organizations whose revenues depend on involvement in the development of affordable projects. The Local Initiatives Support Corporation (LISC), one of the nation's largest syndicators of LIHTCs, lobbied fervently to make the LIHTC program permanent. The unions that represent the construction trades tend to favor project subsidies not only because construction projects employ their members, but also because a legislature may be amenable to imposing prevailing-wage requirements. In suburbs where the supply of housing is inelastic, the imposition of inclusionary housing exactions on developers may

46. See also Schwartz (2006, 261–266), who concludes that the case for fostering greater income integration is not yet proven.

boost the value of homevoters' houses.[47] Federal, state, and local politicians all have learned that having the power to influence project approvals can provide leverage to raise campaign contributions. It is hardly news that HUD's project programs have frequently been rocked by scandal (Welfeld 1992).

Ideology has primarily motivated some housing advocates who have enthusiastically supported the building of subsidized projects. Edith Wood, the most prominent early proponent of U.S. projects, had scorn for the forces of supply and demand (see, for example, Wood 1931, 43–47). Chester Hartman, for decades one of the most prominent critics of housing vouchers, favors scrapping the market system of housing supply and replacing it with a new system in which nonprofit entities, supported with large government grants covering all capital costs, would provide housing at one-third of current market rents (Hartman 2002, 248). These advocates of bricks-and-mortar solutions to the affordable housing problem tend to underappreciate the subtleties of housing markets. An infusion of portable vouchers into a city soon boosts its supply of housing because the rise in demand induces landlords to upgrade their buildings (Currie 2006, 107–108). Conversely, an infusion of subsidized projects adds less than might be expected to the total housing stock because it tends to displace private production that might otherwise occur (Malpezzi and Vandell 2002; Murray 1999). Those who rank project subsidies above vouchers tend to ignore these secondary effects.

The 2002 report of the Bipartisan Millennial Housing Commission evinces a similar lack of confidence in housing markets. Perceiving a "shrinking rental supply," the commission advocates massive government aid to add millions of designated affordable units to the housing stock. In the process of pressing for this solution, the commission's report (2002, 16) provides figures that show that there were 3.2 million more rental housing units than renting households in the United States in 1999. The report claims that "vouchers alone will not be enough in housing markets where the supply is inadequate or to provide housing opportunities in areas with fast-growing employment" (17). The commission, however, failed to name any specific metropolitan area where it deemed these conditions to prevail. In the year of the commission's report, the vacancy rate for rental units in the 75 largest metropolitan areas was 8.8 percent, and it exceeded 14 percent in the fast-growing metropolitan areas of Atlanta, Phoenix, and San Antonio.[48] In virtually all metropolitan areas, providing rent-burdened households with additional funds to help them choose among existing dwellings would be far more efficient than ramping up construction of designated subsidized units (Weicher 1997, 27–28).

47. See Schuetz, Meltzer, and Been (2007), who find this result in the greater Boston area, but not in the San Francisco Bay area; see also Knaap, Bento, and Lowe (2008), who find that, from 1988 to 2005, housing prices rose 2 to 3 percent faster in California cities that had adopted inclusionary zoning policies than in those that had not. See generally Ellickson (1981).

48. Data from http://www.census.gov/hhes/www/housing/hvs/annual02/ann02t5.html. Rental vacancy rates tend to be relatively high in the fast-growing metropolitan areas of the Sunbelt.

Nevertheless, the political prospects of a shift to an all-voucher strategy are dim (Olsen 2006, 112–124; Weicher 1997, 43–44). Critics of vouchers marshal a predictable litany of objections. Those on the left assert that vouchers mostly inflate rents and that a large fraction of voucher holders will end up not being able to find housing. Those on the right claim that vouchers overly destabilize neighborhoods (Husock 2000). On balance, the wealth of evidence on all these issues indicates that the concerns are overblown.[49] The staunchest supporters of project-based subsidies, while not numerous, are sophisticated and well organized. The millions of poor households who would be the primary beneficiaries of an expanded voucher program are diffuse and not mobilized. Enough said.

The Mediocrity of Moving from a Ninth-Best to a Seventh-Best Policy

Mixed-income affordable housing projects are unquestionably superior to the large ghettoized public housing projects that until recently blighted many American cities. While the process of developing a mixed-income project is likely to give rise to more red tape per subsidized unit, such private projects are likely to endure longer than public housing and to be better managed and less socially troubled.

Nonetheless, building mixed-income subsidized projects is a mediocre policy approach. In most contexts, using tax revenues to enhance spending on housing vouchers would be far more efficient and fair than devoting those same revenues to providing inclusionary units. To put the point casually, vouchers, which themselves are hardly problem-free, might be ranked as the third-best policy option.[50] The mixed-income affordable project approach, however, ranks far worse, say as the seventh-best option. That the traditional public housing model would rank even lower hardly establishes an affirmative case for the mixed-income model.

Localities in states where housing is exceptionally expensive, such as California, Massachusetts, New Jersey, and New York, have been particularly eager to embrace the mixed-income model. Many local governments in these states have inclusionary zoning requirements that require developers to provide either affordable housing units or in-lieu fees. By 2003 these programs together had generated on the order of 90,000 new subsidized housing units (Porter 2004, 241),

49. See Currie (2006, 106–108) and Weicher (1997, 43). Most studies conclude that vouchers do not significantly inflate rents; see Olsen (2003, 421–422), for a summary. Nationally, over two-thirds of Section 8 awardees are able to benefit from their vouchers, with the lowest success rates in New York City, Los Angeles, and other rent-control jurisdictions in which vacant apartments are relatively scarce (Finkel and Buron 2001, ii, iv).

50. Potential shortcomings of vouchers include administrative incompetence, bribe-taking on the part of employees who allocate them (Loose 1994), the fostering of dependency among recipients (as asserted by Husock 2004), and, in comparison with a program of cash transfers, an arguably unjustified level of paternalism.

less than 0.1 percent of the nation's total housing stock. These same states and their municipalities are renowned for the relative severity of their constraints on housing supply.[51] Their restrictions include exclusionary zoning practices, strict growth controls, and complex environmental reporting requirements that enable opponents to delay (and sometimes halt) any major proposed housing development. Many housing advocates in these states have been preoccupied with teasing more affordable units out of developers and preserving subsidized rents in projects built long ago. Advocates who genuinely desire to help poor families would be wiser to devote their energies to documenting and publicizing their states' unjustified constraints on housing supply and to supporting legislation to lower those barriers. These reforms, coupled with more-extensive use of housing vouchers, would do far more to help the low-income households who live in these artificially high-priced jurisdictions.

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