Comment on Michael A. Stegman, Walter R. Davis, and Roberto Quercia's "The Earned Income Tax Credit as an Instrument of Housing Policy"

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Abstract

The article by Stegman, Davis, and Quercia is a careful, comprehensive analysis of the current impact of the Earned Income Tax Credit (EITC) on the housing cost burdens of working families. Its major proposal, a graduated supplement to the EITC to reflect housing costs, is compared with my broader concept of addressing severe cost burdens through supplements to major income support programs. Criticisms of my concept, chiefly administrative difficulties and incompatibility with the EITC benefit structure, are discussed.

My primary concerns are that Stegman, Davis, and Quercia's proposal does not sufficiently target families with severe housing costs and that the formula for calculating the additional benefit does not reflect diverse housing costs throughout the country and provides the smallest increases to the recipients with the lowest incomes. However, it is more important to generate discussion of the reality that "income policy IS housing policy" than to argue about details.

Keywords: Affordability; Low-income housing; Tax issues

The nexus between housing and income policy

> Income policy IS housing policy. Most affordable housing strategies at the national and local levels are designed to expand the supply of affordable housing, with programs aimed to stimulate the construction, rehabilitation, and renovation of housing that is affordable to low- and moderate-income families. Production is a necessary component of a responsible affordable housing policy, but the lack of income remains the principal barrier to obtaining affordable housing. The U.S. Department of Housing and Urban Development's (HUD's) annual analysis of worst case housing needs generally finds that 80 percent of the problem is not housing inadequacy or overcrowding, but affordability. Thus, policies that help people increase their incomes will help address housing hardship as well.

> State and local leaders are increasingly realizing that they can raise the incomes of working families by enhancing access to such federal investments as the earned income tax credit (EITC), nutrition assistance, health care, and child care. Some state and local groups have maximized the potential of the EITC by conducting outreach programs, providing support for free tax preparation services, and helping families use the credit as a gateway to financial services and savings. It is estimated that working families apply one third of their credits to housing needs. Other initiatives that help low-income families find and keep jobs, build skills, and advance economically should also be incorporated into strategies for making housing more affordable (Katz et al. 2003, xii).

This succinct statement addresses directly a reality that has too long been ignored. Stegman, Davis, and Quercia's article is a careful and comprehensive analysis of the current impact of the EITC on the housing cost burdens of working families. As such, it is a significant contribution to the discussion of how to address our most urgent housing needs, whether one agrees with their recommendations or not.

Most important, it frames a specific proposal for a graduated supplement to the EITC, based on rental housing costs, but provided to both owners and renters, whether they have severe cost burdens or not. Using 1999 American Housing Survey (AHS) data on the extent of severe housing cost burdens and the impact of the proposed change, the article concludes that adopting the proposal would reduce by 511,000 the number of working families with severe cost burdens.[1]

The proposal is compared with two others: The first, by former Congressman William Coyne (D–PA), would significantly increase EITC payments to childless households, as well as to households with three or more children, without specifically addressing housing.

The second is mine and is actually more of a concept than a proposal. It recommends modifying and expanding mainstream income support programs, including the EITC, to address housing affordability problems. The key points of my 2001 policy approaches (paraphrased from Dolbeare 2001, 121, 125, 128) to be explored were as follows[2]:

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[1] As the article notes, there are various definitions of working families or households. Unless otherwise noted here, the criteria I have used are households with at least 50 percent of their income from work, unless the householder is 65 or older. Using this definition, I estimate that there were 5.8 million working households with severe housing costs. See table 1 on page 266.

[2] The bulk of the article is devoted to the incidence of housing problems by percentage of area median income and type of problem.

Just as war is too important to be left to generals, housing may be too important to be left to housers. Given the constraints of the Federal budget process, the nature of HUD's programs, and the complexity of its relationships with State and local governments and the private nonprofit and for-profit sectors, it may be easier to address the needs of the 30 million households with housing affordability problems through one or more approaches tied to mainstream programs. Because housing cost burdens are likely to be these households' only housing problem, it could make good sense to address their need for additional income to pay their housing expenses separate and apart from any direct tie to housing programs….

There are now, however, three mainstream Federal programs that could be adapted to meeting the scale of the housing affordability problem. These are the Earned Income Tax Credit (EITC) for working families, Supplemental Security Income (SSI) for elderly or disabled households, and the food stamp program. Moreover, none of these programs is limited only to renter households, as is the current HUD voucher program. One-half of all households with severe problems are owners, and they are predominantly low-income owners. Therefore, it would make sense to explore how these programs might be expanded and adapted to address at least severe housing affordability problems at their true scale. Such an approach should, in my view, be explored as a supplement to, not a replacement for, HUD's current programs, including vouchers.

Expanding the EITC

The driving concept behind the EITC is the notion that people who work full time should be able to afford the basic necessities of life for themselves and their families. Therefore, it would make sense to explore ways of adapting the Earned Income Tax Credit so as to enable it to cover at least a substantial portion of the gap between earnings and the *housing wage,* or the income needed to afford modest but adequate housing. This would require both a substantial increase in the cost of the credit and developing workable means of linking the amount of the credit to the local cost of housing and to make at least the housing portion of the credit payable monthly….

It could be worth exploring how a housing add-on to the EITC could be designed initially to address the affordability problems of most working families. For example, such an add-on could cover half of housing costs in excess of 30 percent of income, capped at the relevant payment standard or FMR [fair market rent] in the jurisdiction. Such a program, if fully implemented, could assist a substantial portion of the 12.7 million cost-burdened families who receive at least half their income from work. In 1999, there were 11.3 million cost-burdened working households with incomes below

120 percent of area median and the total gap between 30 percent of their incomes and their housing costs (or the relevant FMR, whichever is lower) amounted to more than $19 billion annually....

A major advantage of this approach is that it would be responsive to the wide differences in housing costs from one locality to another. Therefore, some creative thinking about how to administer such an effort at the State or local level would be required. Because EITC is structured for working families, other measures would be needed to address the cost burdens of elderly households and younger, nonworking households.

Housing Add-on to SSI

One-quarter of all householders with housing cost burdens are over age 65. Two thirds (66.7 percent) percent of these 7.5 million households are owners who are therefore ineligible for housing vouchers. Their affordability problems, and those of younger households receiving SSI, could, at least in concept, be addressed through a housing add-on to SSI, similar to the EITC add-on suggested above. In 1999, the total gap between 30 percent of their incomes and their housing costs (or the relevant FMR, whichever is lower) amounted to $18 billion annually....

The food stamp excess shelter deduction

The EITC and SSI approaches would still leave 9.2 million nonelderly, nonworking families with incomes below 120 percent of median and an annual gap between 50 percent of their income and their housing costs (or the relevant FMR, whichever is lower) totaling nearly $21 billion.... For the 7 million households with incomes below 50 percent of median, the food stamp program may be an appropriate vehicle.

The food stamp program now contains an excess shelter deduction that is limited both in amount and household eligibility, but in concept provides additional food stamps to cover housing costs above 50 percent of income. Yet families are going hungry or visiting food kitchens so that they can afford to pay their rent. It would make sense to examine the excess shelter deduction when the food stamp program comes up for reauthorization to enable it to play a major role in ameliorating the impact of severe housing costs.

Discussing two different perspectives

This comment will focus on contrasting the EITC-only (median housing cost) approach of Stegman, Davis, and Quercia with my concept of modifying and increasing the SSI and food stamp programs, as well as the EITC, to address the broader range of households with housing affordability problems. This is not intended as an argument, but rather as a discussion of two different perspectives.

Theoretically, it would be possible both to fully fund the median housing cost proposal, with its estimated annual cost of $25 billion (see Stegman, Davis, and Quercia's table 14) *and* to close the affordability gap[3] for households with severe housing costs, not just for working families, but for elderly, disabled, and other nonworking households. Had this been done in fiscal year (FY) 1999, the total cost of low-income housing programs to the federal treasury would have been less than the cost of housing-related income tax deductions for that year.[4] Specifically, the gap between 50 percent of income and actual housing costs was estimated at $10.6 billion for working households, $10.8 billion for elderly households, and $18.5 billion for all other households with severe cost burdens, for a total of $39.8 billion (table 2).[5] To put the 1999 cost of meeting our severe housing affordability needs in perspective, the cost to the federal treasury of homeowner deductions in FY 1999 was $96.1 billion,[6] or 45 percent more than the affordability gap and the total FY 1999 housing assistance outlays[7] combined.[8]

[3] The affordability gap is the amount by which housing costs exceed the applicable percentage of median household income. In the case of severe housing costs, it is the amount by which reported housing costs (ZSMHC, the AHS variable for monthly housing costs) exceed 50 percent of household income.

[4] Total housing-related tax expenditures in FY 1999 were calculated by the U.S. Office of Management and Budget (OMB) at $110 billion (OMB 2000, table 5.1).

[5] This is an overestimate of the total cost, because it is not adjusted for the impact of Stegman, Davis, and Quercia's proposal on the affordability gap for working families. However, the formula for increasing the EITC in this proposal is least generous to extremely low income households. Yet almost half of all working households with severe cost burdens had incomes below 30 percent of the area median (table 3). These calculations, based on my analysis of 1999 AHS data, use a definition of "working households" as those which, regardless of income level, receive at least half of their income from earnings.

[6] This number is calculated from data in OMB 2000, table 5.1.

[7] Total housing assistance outlays, primarily but not exclusively through HUD programs, were $27.7 billion in FY 1999 (OMB 2002b, table 4.1).

[8] In 2001, the National Housing Conference (NHC) proposed a housing balance initiative to the Millennial Housing Commission.

> NHC suggests that a reasonable approach to determining the total federal expenditures for housing on an annual basis is to balance the amount received by families

Table 1. **Estimated Working Households with Severe Housing Costs, 1999**

	No Children	One Child	Two or More Children	Total
Households with severe housing costs (in thousands)	3,024	1,069	1,720	5,813
Total affordability gap, no cap	$14.0 billion	$4.4 billion	$7.5 billion	$25.9 billion
Total affordability gap, FMR cap	$5.1 billion	$1.9 billion	$2.7 billion	$9.7 billion
Income percentiles				
25%	$7,000	$7,500	$9,600	$7,500
50%	$13,000	$12,000	$15,000	$13,200
75%	$24,083	$20,000	$26,100	$24,700
50% affordability gap, no cap				
25%	$1,200	$929	$1,008	$1,100
50%	$2,748	$2,705	$2,521	$2,656
75%	$5,535	$5,212	$5,160	$5,324
50% gap, FMR cap				
25%	$0	$0	$0	$0
50%	$780	$939	$734	$783
75%	$2,626	$2,804	$2,340	$2,580
Impact of Stegman, Davis, and Quercia's maximum credit				
Maximum credit	$1,600	$4,200	$5,100	NA
Maximum credit as a percentage of the gap, no cap				
25% gap	133	452	506	NA
50% gap	58	155	202	NA
75% gap	29	81	99	NA
Maximum credit as a percentage of the gap, FMR cap				
25% gap	NA	NA	NA	NA
50% gap	205	170	218	NA
75% gap	61	57	68	NA

Source: Author's analysis using raw 1999 AHS data.
Note: This analysis is based on a definition of working households as those with a majority of income from work. When costs are capped by relevant FMR, all households have incomes below 50 percent of the area median.
FMR = fair market rent; NA = not applicable.

Table 2. **Estimated Housing Cost Gap in Billions of Dollars, 1999**

Percentage of area median income	All Households		Working Households		Elderly Households		Other Nonelderly	
	Over 30%	Over 50%	Over 30%	Over 50%	Over 30%	Over 50%	Over 30%	Over 50%
Renters								
Under 30%	$20.1	$14.3	$8.2	$5.1	$3.7	$2.6	$8.2	$6.6
30–50%	$8.2	$1.2	$5.9	$0.8	$1.5	$0.3	$0.8	$0.2
Subtotal, under 50%	$28.3	$15.5	$14.1	$5.9	$5.2	$2.8	$9.0	$6.8
50–80%	$2.8	$0.1	$2.3	$0.1	$0.3	$0.0	$0.2	$0.0
80–120%	$6.1	$5.7	$1.8	$1.5	$1.0	$0.9	$3.3	$3.3
Subtotal, 50–120%	$8.9	$5.8	$4.1	$1.5	$1.3	$1.0	$3.5	$3.3
Over 120%	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total	$37.2	$21.3	$18.2	$7.4	$6.5	$3.8	$12.5	$10.1
Owners								
Under 30%	$14.9	$11.5	$2.6	$1.7	$6.9	$5.1	$5.4	$4.6
30–50%	$7.2	$2.0	$3.4	$0.8	$2.7	$0.7	$1.1	$0.4
Subtotal, under 50%	$22.2	$13.5	$6.1	$2.6	$9.6	$5.9	$6.5	$5.0
50–80%	$5.0	$0.3	$3.1	$0.2	$1.3	$0.1	$0.5	$0.0
80–120%	$5.7	$4.8	$1.0	$0.4	$1.2	$1.0	$3.5	$3.3
Subtotal, 50–120%	$10.7	$5.1	$4.1	$0.6	$2.5	$1.1	$4.0	$3.4
Over 120%	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total	$32.9	$18.6	$10.2	$3.2	$12.1	$7.0	$10.5	$8.4

Table 2. **Estimated Housing Cost Gap in Billions of Dollars, 1999** *(continued)*

Percentage of area median income	All Households		Working Households		Elderly Households		Other Nonelderly	
	Over 30%	Over 50%	Over 30%	Over 50%	Over 30%	Over 50%	Over 30%	Over 50%
All Households								
Under 30%	$35.0	$25.7	$10.8	$6.8	$10.6	$7.7	$13.6	$11.2
30–50%	$15.5	$3.2	$9.4	$1.7	$4.2	$1.0	$1.9	$0.6
Subtotal, under 50%	$50.5	$29.0	$20.2	$8.5	$14.8	$8.7	$15.5	$11.8
50–80%	$7.8	$0.4	$5.4	$0.2	$1.6	$0.1	$0.7	$0.0
80–120%	$11.8	$10.5	$2.8	$1.9	$2.2	$2.0	$6.8	$6.6
Subtotal, 50–120%	$19.6	$10.9	$8.2	$2.1	$3.9	$2.1	$7.5	$6.6
Over 120%	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total	$70.1	$39.8	$28.4	$10.6	$18.7	$10.8	$23.0	$18.5

Source: Special tabulation by the author of 1999 AHS data. Figures may not add to totals because of rounding.
Note: There is a gap between annual housing costs capped at relevant FMR and 30 percent or 50 percent of an annual household income. Cost of the proposed housing add-ons to EITC, SSI, and food stamps would be much less because of eligibility limits and nonparticipation in these programs.
FMR = Fair market rent.

Table 3. **Cost Burdens by Tenure and Household Type, 1999 (Households in Millions)**

	All Households			Working Households			Elderly Households			Other Nonelderly		
	Moderate	Severe	Total	Moderate	Severe	Total	Moderate	Severe	Total	Moderate	Severe	Total
Renters												
Under 30%	1.1	4.4	5.5	0.4	1.7	2.0	0.3	0.8	1.1	0.5	1.9	2.3
30–50%	2.6	1.4	4.0	1.5	0.7	2.2	0.4	0.3	0.7	0.7	0.4	1.2
50–80%	2.4	0.4	2.8	1.6	0.2	1.8	0.3	0.1	0.3	0.6	0.1	0.7
80–120%	0.8	0.1	0.9	0.5	0.1	0.6	0.1	0.0	0.1	0.2	0.0	0.2
Subtotal	7.0	6.3	13.2	4.0	2.6	6.7	1.0	1.2	2.2	1.9	2.4	4.3
Over 120%	0.2	0.0	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total	7.1	6.3	13.4	4.1	2.6	6.8	1.0	1.2	2.2	2.0	2.4	4.4
Owners												
Under 30%	1.1	2.9	4.0	0.1	0.3	0.4	0.6	1.2	1.7	0.5	1.4	1.8
30–50%	1.5	1.2	2.7	0.4	0.4	0.7	0.6	0.4	1.0	0.5	0.5	1.0
50–80%	2.2	0.9	3.1	1.1	0.3	1.4	0.4	0.2	0.6	0.8	0.4	1.1
80–120%	2.2	0.5	2.7	1.3	0.3	1.6	0.2	0.1	0.3	0.7	0.2	0.8
Subtotal	7.0	5.5	12.5	2.8	1.3	4.1	1.8	1.8	3.6	2.4	2.4	4.8
Over 120%	1.7	0.3	2.0	1.0	0.2	1.2	0.1	0.0	0.1	0.6	0.1	0.7
Total	8.7	5.8	14.5	3.8	1.5	5.3	1.9	1.9	3.8	3.0	2.5	5.5
Total												
Under 30%	2.2	7.3	9.5	0.5	2.0	2.5	0.9	2.0	2.9	0.9	3.3	4.2
30–50%	4.2	2.6	6.8	1.9	1.0	2.9	1.0	0.7	1.7	1.2	0.9	2.2
50–80%	4.6	1.3	5.9	2.7	0.5	3.2	0.7	0.3	0.9	1.3	0.5	1.8
80–120%	2.9	0.6	3.6	1.8	0.3	2.2	0.3	0.1	0.4	0.8	0.2	1.0
Subtotal	14.0	11.8	25.7	6.9	3.9	10.8	2.8	3.0	5.9	4.3	4.8	9.1
Over 120%	1.8	0.3	2.2	1.1	0.2	1.3	0.1	0.0	0.2	0.6	0.1	0.7
Total	15.8	12.1	27.9	8.0	4.1	12.0	2.9	3.1	6.0	4.9	4.9	9.9

Source: Special tabulation by the author of 1999 AHS data. Figures may not add to totals because of rounding.

Noting the differences between then and now

But while expanding federal housing programs to meet the housing needs of working families is desirable in my view, it is far less achievable today than it was when these proposals were made in 2000. Then, the federal budget still had a surplus, and it appeared likely that funds would be available to expand domestic programs as well as meet the Social Security and health care expenditures anticipated with the aging of the baby boomers. Likewise, the authors' proposal grew out of Stegman, Quercia, and McCarthy's (2000) research. The Coyne bill for enhancing EITC benefits for childless families and those with three or more children was introduced in December 2001, following the enactment of the first round of the Bush tax cuts, but when OMB was still projecting a balanced budget in FY 2005.[9]

Given current and anticipated future federal and state budget deficits, the relative priorities for addressing housing and income support needs are critical. Assuming that there is little chance that significant funds will be available to do both for the foreseeable future, which should get priority?

Correcting misapprehensions

I am grateful to Stegman, Davis, and Quercia for considering my concept for using the EITC to deal with the severe housing cost burden of working families. Briefly, though, I wish to correct two misapprehensions. First, the add-on would apply to both renters and owners, not

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> below 120 percent of median income with that of those above 120 percent. The annual housing tax benefits accruing to the families with incomes in excess of 120 percent of median income would establish a baseline for annual matching federal affordable housing appropriations. This approach serves two purposes. First, it brings housing resources for those who need them the most to the same level as the benefits that go to those with lesser need. **We are not advocating any reduction in the mortgage, property tax or capital gains deductions for anyone!** Rather, we are advocating for greater balance and fairness in the manner in which total housing resources are distributed (i.e., **increasing** housing resources to families below 120 percent of median income). Second, this approach increases the current level of funding available to those with critical housing needs in an understandable and pragmatic manner. In doing so, it provides new dollars to support long overdue increases for current housing programs….Each year, the allocation would be determined by the previous year's federal expenditure on the home mortgage, property tax and capital gains deductions. (6–7)

[9] The administration's proposed budget for FY 2003 estimated a surplus of $61 billion in FY 2005 (OMB 2002a, table S–1). The proposed budget for FY 2005 estimates a deficit of $364 billion in that year (OMB 2004, table S–1).

just renters. Second, the add-on would cover the difference between 50 percent of income and monthly housing costs capped by the relevant fair market rent (FMR).[10] I should also note that the estimated measures of relative effectiveness differ significantly from my conclusions on the cost and impact of my proposal. If all EITC households with severe housing costs receive add-ons up to the FMR, I find it hard to believe that the reduction would be only 372,000 of the 12.7 million working families with such costs in 1999. Since the source of this figure seems to be based on the number of households with more than one family, a fully framed version of my concept would admittedly need to deal with this problem. Also, since the median housing cost proposal these authors advocate is least generous to the lowest-income households, and mine is most generous, it would result in far greater reductions in worst-case needs and poverty than they estimate (see Stegman, Davis, and Quercia's table 14 and my tables 2 and 3).

Except for the adjective "traditional," I have no quarrel with the conclusion that "[b]ecause cost-burdened families with the lowest earned incomes would receive the largest supplements, Dolbeare's proposal would effectively convert the EITC into a traditional housing subsidy program" (236). That is exactly what I was trying to do, although I confess that I did not anticipate the extent of the impact of EITC payments on households with incomes below $10,000. This picture would change if the Coyne bill, which is no longer before Congress, or some equivalent increasing the EITC for childless households were adopted. Another approach would be to increase the food stamp excess shelter deduction and use this vehicle to address the affordability problems of working households with incomes below 130 percent of the poverty level.[11]

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[10] The ZSMHC, which I used for estimating the housing affordability cost gap, is

> the sum of the monthly costs (or averages) of all of the applicable following items: electricity, gas, fuel oil, other fuels (e.g. wood, coal, kerosene, etc.), garbage and trash, water and sewage, real estate taxes, property insurance, condominium fees, homeowner's association fees, mobile home park fees, land or site rent, other required mobile home fees, rent, mortgage payments, home equity loan payments, other charges included in mortgage payments, and routine maintenance (ICF Consulting 2003, 393).

[11] Using this deduction as the major vehicle for addressing severe housing costs of nonelderly, nonworking households was part of the initial concept.

Moving to more expensive housing?

Finally, Stegman, Davis, and Quercia's article raises the concern that the add-on would encourage families to move to more expensive housing. However, as table 1 shows, the total cost of funding the uncapped affordability gap[12] would have been an estimated $25.9 billion in 1999. By capping the gap at the relevant FMR, the cost drops to $9.7 billion. An estimated one-third of working households with severe housing costs already paid more than this in 1999.[13] Since it is difficult if not impossible to find housing in good neighborhoods or accessible to jobs at or below the FMR, it seems likely to me that, while the incentive may be there, the additional cost of moving to more expensive housing would generally be paid by the household.

Working out the specifics

Clearly some creative thinking, such as the kind that resulted in the enactment of the Low-Income Housing Tax Credit over the objections of the Internal Revenue Service (IRS), will be needed to work out the specifics of administering the EITC segment of my concept. However, I question the statement that the add-on would require "IRS verification of a family's actual housing costs" (236). For example, the IRS could require rent or mortgage receipts (or some more formal statement from the landlord or mortgagor) and some measure of utility costs, plus evidence of applicable tax payments by owners. States have already established Standard Utility Allowance charts for use in calculating the excess shelter deductions under the food stamp program. Presumably, these standards could be used for the EITC add-on as well. Whatever worksheet the IRS produces for calculating the add-on would also need to deal with the allocation of costs and eligibility for benefits where the household has more than one tax filer.[14]

[12] The term is used here to denote the difference between 50 percent of income and housing costs.

[13] This is based on my estimates from 1999 AHS data.

[14] One arbitrary approach would be to permit only the householder to claim the add-on. Another would be to require that the add-on be provided only to the filer whose name is on the mortgage or rent bill or IRS worksheet and then require that this information, like Form 1099, be filed with the tax return. The IRS has a seven-page Form 13217 for volunteer assistants to use to determine eligibility for the EITC. One would hope that it could produce a somewhat shorter form to get the information needed to determine the amount of the add-on.

Finally, as the authors suggest, HUD could furnish the IRS with the relevant information on FMRs, although rather than using national averages, the information required to cap the add-on would admittedly require a table with the FMRs for each metropolitan and state non-metropolitan area (table 4). Such a table could be similar to those provided annually by the IRS when state and local sales taxes were deductible.

Table 4. **Income and Affordability of a Two-Bedroom FMR by Tenure**

	FMR Quartile				
	Bottom	Second	Third	Top	All
Median family income, 2003					
25th percentile	$34,200	$40,525	$40,700	$52,300	$39,600
50th percentile	$38,400	$44,700	$45,400	$58,400	$45,600
75th percentile	$43,000	$48,400	$50,400	$65,000	$52,600
Percentage of the median family income needed to afford the median FMR					
25th percentile	45	42	46	46	42
50th percentile	40	39	44	46	40
75th percentile	38	36	41	49	42
Median renter income					
25th percentile	$16,655	$21,001	$20,951	$26,850	$20,411
50th percentile	$20,106	$23,759	$23,869	$30,686	$24,236
75th percentile	$23,304	$27,226	$27,351	$35,815	$28,815
Percentage of the median renter income needed to afford the median FMR					
25th percentile	92	80	89	89	81
50th percentile	76	71	78	78	68
75th percentile	65	62	68	67	57

Source: Calculated by the author from data in NLIHC 2003 from an unpublished table provided to the author.
Note: Figures may not add to totals because of rounding.

Shortcomings of the Stegman, Davis, and Quercia proposal

Apparently, in order to fit into the overall EITC framework, the authors' median housing cost proposal is antithetical to addressing the most critical housing needs in two major respects. First, the supplement would be given to all EITC filers, without regard to severe housing costs. The provision results in only 23.3 percent of the additional spending going to reducing severe cost burdens. In my view, this would be appropriate only if there were a realistic possibility that funding would be available in addition to my proposal, not as a substitute for it.

The second issue is the plan to use national median rents to set the add-on, with the supplement set at 25 percent, 50 percent, or 75 percent of the relevant national median FMR, depending on the working income of the household. Those with the lowest incomes get a supplement of 25 percent, while the top amount is 75 percent. Currently, the 25th percentile for the two-bedroom FMR is $416 or 91 percent of the $456 median, while the 75th percentile is $565, or 124 percent of the median (see table 5).[15] However, 70 percent of all metropolitan counties are in the top FMR quartile, and another 28 percent are in the third. Nonmetropolitan counties have far lower FMRs, with 38 percent falling in the bottom quintile and another 32 percent in the second quintile (see table 6). Thus, it seems apparent that the national median rent formula will disadvantage working families in metropolitan areas. Yet 92 percent of working households with severe housing costs in 1999 lived in such areas.[16]

Table 5. **2004 FMRs by County**

	One-Bedroom Units			Two-Bedroom Units		Three-Bedroom Units		
Percentile	FMR	Percent of Median	Percent of Two-Bedroom	FMR	Percent of Median	FMR	Percent of Median	Percent of Two-Bedroom
10	$310.50	85	81	$385.00	84	$500.00	83	130
20	$326.00	89	79	$412.00	90	$532.00	89	129
25	$334.00	91	80	$416.00	91	$539.00	90	130
30	$341.00	93	82	$418.00	92	$552.00	92	132
40	$351.00	96	80	$438.00	96	$562.00	94	128
50	$365.50	100	80	$456.00	100	$600.00	100	132
60	$391.00	107	79	$493.00	108	$639.00	107	130
70	$432.50	118	81	$536.50	118	$710.50	118	132
75	$457.75	125	81	$564.75	124	$747.00	125	132
80	$492.00	135	81	$604.00	132	$804.00	134	133
90	$624.50	171	82	$757.00	166	$1,033.00	172	136
Mean	$421.94			$524.06		$688.88		
Median	$365.50			$456.00		$600.00		
Mode	$341.00			$412.00		$552.00		

Source: HUD 2003.

[15] This calculation is based on 2004 FMRs by county.

[16] I estimated this number from 1999 AHS data.

Table 6. **2004 County FMR Quartiles for Two-Bedroom Units**

		Quartile				
		Bottom	Second	Third	Top	Total
Metropolitan counties	Count	2	19	246	619	886
	Row %	0.20	2.10	27.80	69.90	100.00
	Column %	0.20	2.50	32.10	78.80	27.80
Nonmetroplitan counties	Count	867	744	520	167	2,298
	Row %	37.70	32.40	22.60	7.30	100.00
	Column %	99.80	97.50	67.90	21.20	72.20
All counties	Count	869	763	766	786	3,184
	Row %	27.30	24.00	24.10	24.70	100.00
	Column %	100.00	100.00	100.00	100.00	100.00

Source: HUD 2003.
Note: Figures may not add to totals because of rounding.

Conclusion

In conclusion, I return to my starting point, "Income policy IS housing policy" (Katz et al. 2003, xii), although this has seldom been recognized by those concerned with affordability or with income policies. It will be far more fruitful to address the broader issues of how to cope with this hard fact than to argue about the details of the proposals discussed earlier. Most useful, I believe, would be further exploration of the potential of other income support programs, not limited to SSI and food stamps, to analyze their current impact on the incidence of severe housing costs and how they might be improved to address them.

On the housing side, further exploration of the appropriateness of measuring cost burdens as a percentage of income is needed. In 2001, 75 percent of the 14.3 million households paying more than 50 percent of income for housing costs were in the bottom income quintile, with annual incomes below $17,000. The median residual monthly income of these households was under $500, less than half of the median residual income of households with severe housing costs in the next income quintile[17] (Joint Center for Housing Studies 2003, figure 25 and table A.9).

[17] Incomes are between $17,000 and $32,000.

A better approach to defining severe or moderate cost burdens would be to consider disposable income remaining after meeting other basic needs. A new look at this approach might well provide a nexus for framing income support programs so that they more effectively meet housing needs, as well as providing guidance as to the characteristics of those with the greatest needs.

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