Housing Policy Debate • Volume 5, Issue 4 **443**
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Comment on Kathryn P. Nelson's "*Whose* Shortage of Affordable Housing?"

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Introduction

There is no such thing as "affordable housing." Housing, in and of itself, is neither affordable nor unaffordable. Affordability is not an inherent characteristic of housing, but a *relationship* among housing cost, household income, and a standard of affordability. The term "affordable housing" is at best meaningless and at worst misleading, for it ignores or obscures the central question of *who* can and cannot afford housing.

While not fully eschewing the use of the term, Kathryn Nelson properly addresses this central problem in asking "*Whose* Shortage of Affordable Housing?" Her article contains an interesting analysis of the housing affordability situation of "low-income," "very low income," and "extremely low income" renters during the 1980s. She has done this analysis in order to evaluate the effectiveness of two major federal housing supply programs—HOME and the low-income housing tax credit (LIHTC)—in meeting their ostensible purpose of expanding the supply of housing affordable to such renters.

Her principal analytical conclusions are (1) that during the 1980s there were growing surpluses of units affordable to households with incomes between 50 and 80 percent of their area median incomes, which implies that there were surpluses in the rent ranges considered affordable for HOME and LIHTC units without additional subsidies, and (2) that there have been severe and growing shortages of units affordable to renter households with incomes less than 30 percent of area medians, with such households requiring units renting for less than half the rents considered affordable for units under HOME and the LIHTC. According to Nelson, these analytical findings have the following policy and program implications:

1. The percentages of area median family incomes used as the ceilings by many federal housing programs to define

"affordable" rents are much too high to reach households most in need.

2. The major federal supply programs are not widely needed, but in locales where additions to supply are needed the programs should be coupled with much deeper subsidies to reach the lowest income families.

3. The affordability needs of very low income families should, for the most part, be met through tenant-based assistance, which Nelson contends is more cost-effective and provides social advantages over supply-side subsidies.

Her method is to compare the number of renters in 10 income categories based on percentages of area median family income with the number of existing units potentially affordable (at 30 percent of income) to renters along the same income continuum. Her use of a relatively fine-grained distributional analysis—considering affordability for a substantial number of income categories, rather than just one or a few broad categories—leads unequivocally to most of her conclusions and is, I believe, the greatest analytical strength of her article.

I fully agree with Nelson that there is a severe, growing, and insufficiently recognized affordability problem for extremely low income households and that the HOME program and the LIHTC do little to address it. But, I contend that the methodology of assessing need by comparing renters with units *potentially* "affordable" to them is flawed. In addition, I acknowledge that Nelson's use of the U.S. Department of Housing and Urban Development (HUD) adjusted area median family incomes (HAMFIs) to construct income classes for her affordability analysis is novel, intriguing, and justified in relation to her stated intent to base her analysis in the terms used by today's major federal programs. However, the approach does raise some conceptual issues—issues that are reflections of the inherent inequities in using HAMFIs for determining unit affordability and program eligibility. Furthermore, her use of the 30-percent-of-income standard of affordability, while conventional and justified in terms of the policy framework she is examining, is highly problematic as a realistic measure of affordability, as she herself acknowledges in passing. Finally, while sharing her criticisms of HOME and the LIHTC, I do not agree that current tenant-based assistance programs are the best alternative for addressing the affordability needs of the poorest households.

In the following sections I take up each of these issues. Let me emphasize, though, that these criticisms are not uniquely directed at the specifics of Nelson's work. Rather, her article serves as the point of reference and departure for my concerns about the analytical genre of which her article is a strong representative.

The reallocation methodology

Nelson's work is one of the most sophisticated versions of a particular type of affordability analysis, of which she cites many other recent examples. The approach involves considering what renters can afford to pay, not in relation to the housing they currently occupy, but in relation to the entire stock of rental housing. (At its most refined, this type of analysis applies to renters and units within local housing markets rather than larger geographic areas.) That is, the approach involves a mental experiment, in which one imagines the rental housing stock being reallocated so that households in a particular income class are matched with the units potentially "affordable" to them. One then assesses whether, after such reallocation, there would be a deficit or a surplus of units affordable to lower income households (however defined) or other income classes of interest.

Of course, except for renters actually living in subsidized housing, there is in reality no "best fit" for matching renters and units on the basis of affordability. Nor has anyone ever suggested that it is feasible or appropriate to reallocate the existing stock to achieve such a fit. Indeed, the only way of approaching such a match would be through a low-income housing entitlement program, as Dolbeare (e.g., 1983) has long advocated.

Because many existing units potentially affordable to households in a given income class are in reality occupied by households of higher income, the reallocation method tends to understate substantially the number of households in the lower income categories that are paying more than they can afford. Indeed, after presenting the results of her reallocation analysis, Nelson herself acknowledges that "because many affordable units are occupied by renters who pay *less* than 30 percent of income for rent, the numbers of renters with excessive rent burdens exceed arithmetic shortages" (emphasis in original).

Given this inherent weakness in the reallocation method, why is it so widely used? Sheer simplicity seems to be the rationale for most analyses using this approach; these analyses tend to use a

single income category and a single rent category; yet Nelson rightly criticizes them for their imprecision and resulting misleading or erroneous conclusions. Her much more sophisticated version of the approach—using income and rent distributions, precise definitions, and American Housing Survey (AHS) microdata—can hardly be justified by its simplicity. Rather, she seems to justify it by the clear and compelling conclusions it provides regarding the specific income classes most affected by shortages of "affordable housing." I contend, though, that had she used the same precise definitions, the same HAMFI-based income categories, the same 30-percent-of-income affordability standard, and the same AHS microdata but assessed the number of renter households actually paying more than they could afford by income class, she would have reached the same qualitative conclusions regarding the plight of extremely low income renters but also would have produced a more accurate and meaningful measure of unmet affordability needs. She would, however, also have had to reconsider the implications of the apparent surpluses of units affordable to very low income and low-income renters.

I have not carried out the type of analysis just suggested using AHS microdata and HAMFIs but have done a crude analysis using 1989 national AHS data (U.S. Bureau of the Census 1991) that may help to elucidate the dilemmas of the reallocation method. Matching Nelson's HAMFI-based distribution of renter households by income with the AHS dollar income distribution, I have estimated national average income cutoffs corresponding to her 30 percent, 50 percent, and 80 percent HAMFI cutoffs; these are about \$8,300, \$14,100, and \$23,200, respectively. (Note that these are not 30 percent, 50 percent, and 80 percent of \$34,800, which is the 1989 national average HAMFI.) Using these income cutoffs and interpolating in the published 1989 AHS data, I have found that the number of renters with excessive affordability burdens based on the 30-percent-of-income standard is as shown in table 1.

With all the caveats regarding lack of strict comparability of categories, the figures are nonetheless intriguing.[1] First, as Nelson notes, the number of extremely low income renters with

[1] The reasonableness of these rough estimates can be checked by comparing them with actual tabulations of renters with rent burdens by HAMFI income class. According to a 1991 HUD report to Congress, 9.2 million very low income renters and 2.4 million renters with incomes between 50 and 80 percent of HAMFI had excessive rent burdens (by the 30-percent-of-income standard) in 1989. These figures compare with 9.4 million and 2.8 million, respectively, from table 1 (HUD 1991).

excessive affordability burdens is much greater than suggested by the arithmetic deficit. Second, and not noted by her, large numbers of renters with incomes between 30 and 80 percent of HAMFI have rent-to-income ratios above 30 percent despite the

Table 1. **Renter Affordability and Rental Unit Deficits or Surpluses, United States, 1989, by Percent of HAMFI**

Percent HAMFI	Number of Renter Households with Rent Burdens Exceeding 30% of Income (millions)	Deficit or Surplus of Affordable Rental Units Based on 30% of Income (millions)*
< 30	5.7	–2.7
30–50	3.7	+3.1
50–80	2.8	+8.5

*From Nelson, table 2.

apparently large surplus of units affordable to them. How to account for this? While many extremely low income renters do not occupy units potentially affordable to them because higher income renters are in the units, many renters with higher incomes also do not occupy units potentially affordable to them. As with extremely low income renters, this situation is in part attributable to renters with still higher incomes occupying those units. However, unlike extremely low income renters, those with incomes between 30 and 80 percent of HAMFI are likely also “displaced” to a considerable extent by renters with *lower* incomes. That is, just as at the bottom of the distribution there is “bumping from above” by higher income renters getting good deals, farther up the distribution there is apparently considerable “bumping from below” by lower income renters who are occupying units costing somewhat more than they can afford. This bumping in turn results in many higher income renters occupying units at rents greater than they can afford. That is, the apparent surplus of units affordable to such households is not necessarily a genuine oversupply, at least in part because of the presence in the market of lower income households unable to obtain units affordable to them and hence competing for and occupying somewhat more expensive units.

If more precise analysis confirms this line of reasoning, then Nelson’s conclusion that there is not a general need for additional units affordable to households with incomes between 30 and 80 percent of HAMFI is not valid. Providing rental

assistance to the extremely low income households will certainly help those at the bottom who, I agree, are worst off and not served well by HOME and the LIHTC. But it will do nothing to meet the demonstrable affordability needs of households with somewhat higher incomes that do have excessive rent burdens and could be served through various approaches, including HOME, the LIHTC, and rental assistance. Indeed, one could plausibly argue that the most efficient approach is to expand the supply of very low rent housing and thus encourage extremely low income households to leave their current unaffordable units so that such units can "trickle up" to higher income households that can afford them.

HAMFI-based income and affordability categories

As I have stated, Nelson's use of HAMFIs to set up income and affordability categories is reasonable, given her purpose in evaluating the implications for various income groups of HOME and the LIHTC, which base affordability explicitly on the HAMFI framework. While she does criticize aspects of the HAMFI framework—particularly the inappropriately high percentages used to define low-income affordability—I think there needs to be fuller recognition of the implications of the enormous differences in HAMFIs, and therefore in income eligibility, among areas.

In establishing the systems of HAMFIs and fair market rents (FMRs), federal policy makers have sought to take into account variations in local affordability conditions in implementing housing programs. FMRs bear some reasonably realistic relationship to what eligible renter households face in their local housing markets (although there have been some concerns about FMRs being set too low, particularly for larger households). By contrast, HAMFIs are adjusted median incomes for *all* families in a locality—both homeowners and renters. HAMFIs are much higher than median *renter* income and do not realistically reflect the distribution of *renter* incomes within a locality. As Nelson notes in passing, Dolbeare (1991) has used the distribution of renter incomes in one of her studies of low-income affordability. I suggest that renter income distributions would be superior to HAMFIs for policy and programmatic, as well as analytical, purposes.

Nor do variations in HAMFIs realistically reflect variations in housing affordability in general, and low-income renter affordability in particular, among localities. According to Nelson (see

her footnote 8), HAMFIs for a four-person household vary across the country by about a factor of three, so each of her regionally or nationally aggregated HAMFI intervals contains groups of renters with highly varied economic circumstances even in relation to differences in local rents and other living costs. Thus, while Nelson's use of HAMFI-based intervals has a certain conceptual clarity and consistency within the current policy framework, it is not possible to use the categories to understand objectively the material situations of the households in each category. It would be interesting to know how many renter households would shift categories in a comparative analysis using local variations more realistic than HAMFIs or even using the single national average adjusted median family income mentioned by Nelson.

Going beyond Nelson's conclusion that the percentage of HAMFI used in many rental housing programs is inappropriately high, given the concentration of need in the very lowest income classes, I propose a critical review of whether the HAMFI framework itself is the most appropriate basis for taking into account local variability in setting income eligibility limits and defining "affordable" rents. Indeed, it seems to me that FMRs would be sufficient for this purpose. It would be quite simple to set local income eligibility limits as appropriately low percentages of the incomes needed to afford local FMRs. Because FMRs vary by bedroom count, income standards based on them would automatically scale for household size differences. Nelson herself indicates that in a subsequent article she will be looking at FMRs in relation to the major supply programs, and she suggests quite plausibly that her conclusion is the same regarding HOME and the LIHTC. My point is not inconsistent with this conclusion: Even if FMRs better reflect local variations in affordability than HAMFIs do, there will still be the critical policy question of what the appropriate percentage cutoffs of FMR-derived incomes should be to reach households most in need. (Alternatively, the issue could be framed as determining the most appropriate point in the rent distribution at which to set FMRs.)

The 30-percent-of-income affordability standard

Much of my work has been devoted to challenging the conventional percent-of-income affordability standards and developing and applying an alternative sliding scale (most recently and comprehensively discussed in Stone 1993). Nelson herself has acknowledged that the 30-percent-of-income standard is

problematic, but she used it as the basis for her analysis. As mentioned before, her use of it is quite understandable given the purpose of her study. Nonetheless, it is worth asking whether her conclusions would have been altered had she used the alternative “shelter-poverty” standard of affordability. I have not used the shelter-poverty standard with the HAMFI-based income categories and the reallocation method, so I cannot make a direct comparison with Nelson’s analysis. However, a comparison of the distribution of renter affordability problems by income and household size using both the 30-percent-of-income and shelter-poverty standards may be instructive.

First, let me briefly explain the shelter-poverty concept. Because housing costs tend to be large and inflexible and make the first claim on disposable income, when we say a household is paying more than it can afford for housing, what we really mean is that after paying for housing the household has insufficient resources left to meet its nonhousing needs at some minimum level. The resources needed to meet nonhousing needs at some minimum level cannot, however, be reasonably specified as a residual percentage of income. Consider, first, two households with the same disposable income: one a large family and the other a single person. Clearly the large family will need considerably more money, on average, than the single person to achieve an equivalent material standard for nonhousing necessities. Therefore the large family can afford less for housing than the single person with the same income. Now consider two households of the same size and type but with very different incomes. Both will need, on average, about the same amount of money to achieve an equivalent material standard for nonhousing necessities. This implies that the higher income household can afford to spend more (as a percentage of income as well as in dollars) for housing.

So a logically consistent standard of affordability is a sliding scale, on which the maximum proportion of income affordable for housing varies with income and household type (particularly household size). The proportion is neither arbitrary nor universal; it follows from a determination of the maximum dollar amount a household can spend for housing and still satisfy a basic level of nonhousing need. Formally, this maximum dollar amount is equal to disposable income (gross income minus personal taxes) minus the cost of achieving some minimum standard of adequacy for nonhousing necessities. Taxes and the cost of a minimum standard level of nonhousing necessities change over

time and also vary with household type and locale (although geographic averaging is possible); taxes, but not the standard cost of nonhousing necessities, also vary with income.

I have made this approach operational by using components of the Bureau of Labor Statistics (BLS) Lower Budgets as the minimum standard for nonhousing necessities. These standard budgets have not been computed since 1981, so the components had to be updated by using corresponding components of the Consumer Price Index. Also, since the BLS budgets were computed for prototypical non-elderly four-person families and elderly couples, the nonhousing components had to be scaled for various household sizes and types (see Stone 1993, appendix A, for a full discussion). The scale has been derived for non-elderly married-couple households of two to six persons, single-adult households of one to six persons, and elderly singles and couples.

Households paying more than they can afford on this scale are what I call "shelter poor" because the squeeze between their *income* and their *housing cost* leaves them unable to meet their nonhousing needs at the minimum level of adequacy represented by the BLS Lower Budget (U.S. Bureau of Labor Statistics 1969, 1982a, 1982b) standard.

On the shelter-poverty scale, for each household type there is a threshold of income below which nothing can be afforded for housing. (This threshold is reached when disposable income equals the cost of the minimum standard for nonhousing necessities.) Above the threshold the amount affordable for housing increases steeply, as a percentage of income as well as in dollars. For each household type there is a threshold of income above which more than 30 percent of income can be afforded. These thresholds obviously are much greater for larger households than for smaller. In addition, over time these thresholds have risen, as rising costs for nonhousing necessities have generally exceeded any tax reductions. (See Stone 1993, figures 2.1 through 2.6 and tables 2.1 through 2.3, for the national average shelter-poverty scale for 1990.)

To be sure, the shelter-poverty scale is much more complex to calculate than a simple percentage of income. It turns out, though, that over the relevant income ranges the maximum dollar amount affordable on the shelter-poverty scale can be

approximated by a simple linear equation, thereby greatly simplifying the scale for many purposes.[2]

It might be thought that because the shelter-poverty standard implies that many households can afford less than 30 percent of income (and indeed some can afford nothing), it would suggest a much more extensive affordability problem than does the conventional standard. But in fact this is not true, because other households can afford more than 30 percent. Limiting the discussion to renters, in 1989 (according to AHS data) 39.7 percent of renter households (13.4 million) were shelter poor, compared with 41.5 percent who were paying more than they could afford on the 30-percent-of-income standard (and 52.9 percent on the 25-percent standard; see table 2).

Since the shelter-poverty standard yields nearly the same aggregate result as the conventional affordability standard, why bother using it? The answer goes to the issues explored in Nelson's article, as well as the broader questions of low-income housing policy. First, the shelter-poverty approach reveals a distribution of the problem rather different from that revealed by the conventional standard. Second, it yields, in general, a rather different affordability gap for a needy household—in some cases larger and others smaller.

Because the shelter-poverty scale is sensitive to household size, it reveals that for small households the affordability problem is more concentrated at the very lowest incomes than the conventional measure would indicate. For large households, however, by the shelter-poverty standard the affordability problem reaches higher up the income distribution than suggested by the conventional standard. In 1989 the median income for shelter-poor renters was about $1,000 less than that for those with excessive rent burdens by the 30-percent standard ($8,860 versus $9,910). But among households with four persons or more, the median income of the shelter poor was considerably higher (see table 2).

[2] The constant varies by household type, being equal to the negative of the slope times the zero-housing-cost threshold, while the slope is about 0.7 for non-elderly households of all types. The reason for this slope is that, over the relevant income ranges, the national average total marginal rate for personal taxes for non-elderly households (federal income plus Social Security plus nonfederal income) is nearly 30 percent. For elderly households the slope is somewhat greater because the model assumes income from Social Security and, at higher levels, from taxable pensions but not from wages and salaries. What this means is that once the household has income high enough to afford something for housing, a portion of each additional dollar of income goes for taxes, the balance being what the household can afford for housing.

Table 2. **Percentage of Renter Households with Affordability Problem, United States, 1989**

Household Size	Income Distribution (%) Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 to $49,000	Total under $10,000	Total under $15,000	Total All Income	Median Income ($)	Percentage of Persons
Shelter poor												
1 person	90.3	53.1	1.9	0.0	0.1	0.0	0.0	67.8	49.2	25.7	4,789	
2 persons	88.5	91.7	74.7	27.0	4.6	0.7	0.0	90.3	84.6	36.3	8,620	
3 persons	88.3	91.7	92.1	71.3	18.4	2.1	0.1	90.3	90.9	49.5	10,630	
4 persons	86.4	89.6	91.8	91.0	54.7	6.0	0.4	88.2	89.4	53.9	13,230	
5 persons	83.9	89.1	91.5	91.1	82.8	20.2	1.0	87.1	88.9	62.8	16,110	
6+ persons	82.7	89.7	91.4	90.9	87.6	59.4	3.1	87.8	89.3	73.8	15,430	
Total	88.8	73.3	53.7	39.0	19.8	5.6	0.3	79.6	71.1	39.7	8,860	48.0
Paying 25% or more												
1 person	83.5	79.7	66.2	49.4	36.0	20.6	11.4	81.2	77.0	55.9	9,310	
2 persons	79.7	79.2	77.0	65.0	45.8	24.2	7.3	79.4	78.5	51.5	13,160	
3 persons	79.7	79.5	75.5	62.5	43.7	26.9	8.1	79.6	78.2	52.7	12,890	
4 persons	77.6	76.2	75.1	65.4	48.6	25.8	7.9	76.8	76.3	49.5	14,200	
5 persons	73.0	76.3	76.0	65.1	47.1	24.9	7.9	75.0	75.4	48.9	15,100	
6+ persons	69.7	78.8	75.7	64.8	48.1	27.9	9.1	76.3	76.1	53.1	13,360	
Total	80.7	79.1	72.5	59.2	42.7	24.1	8.4	79.7	77.4	52.9	11,840	51.8

Table 2. **Percentage of Renter Households with Affordability Problem, United States, 1989** *(continued)*

Household Size	Income Distribution (%) Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 to $49,000	Total under $10,000	Total under $15,000	Total All Income	Median Income ($)	Percentage of Persons
Paying 30% or more												
1 person	80.0	71.5	52.8	31.3	18.5	9.0	5.3	74.9	68.6	44.4	8,200	
2 persons	75.8	71.4	66.1	47.5	26.7	11.5	3.3	73.3	70.6	40.1	11,370	
3 persons	75.9	72.0	63.9	45.4	26.4	13.5	3.7	73.6	70.2	41.4	11,040	
4 persons	73.7	68.2	64.1	49.2	30.0	12.8	3.8	70.7	68.5	38.2	12,010	
5 persons	68.1	67.7	65.3	49.3	28.4	13.2	3.6	67.9	66.8	36.3	13,320	
6+ persons	63.9	72.0	66.2	47.3	30.5	13.9	4.0	69.8	68.2	41.6	12,000	
Total	76.9	71.1	60.6	41.9	24.6	11.6	3.9	73.5	69.2	41.5	9,910	40.4

Source: Stone (1993, table 2.4). Reprinted with permission.

In contrast with Nelson's work, my analysis of the distribution of affordability problems by household size and income is based on national AHS data and fixed dollar income classes, rather than income classes relative to HAMFI. However, applying the national income cutoffs used for table 1 allows certain comparative conclusions. First, the analysis reinforces Nelson's conclusion about extremely low income renters, indeed showing an even more extensive unmet affordability need among such households: About 9 out of 10 renter households with two persons or more and incomes below 30 percent of HAMFI are shelter poor (only those reporting no cash rent are not). The same is true for households with incomes between 30 and 50 percent of HAMFI. And among those between 50 and 80 percent of HAMFI, 9 out of 10 renter households with four persons or more are shelter poor. Fully 52 percent of shelter-poor renter households have three persons or more, even though just 37 percent of all renter households, and 36 percent of those exceeding the 30-percent standard, are this large.

I have not examined overcrowding among shelter-poor renters, and Nelson's examination suggests that it is not extensive. However, on the basis of the distribution of shelter poverty by household size, I believe it is premature to conclude that there is not a substantial need for expanded supply of housing units for large families—a need that quite possibly extends from the very lowest incomes up to 80 percent of HAMFI.

Other policy issues

Nelson asks whether there is a demonstrable general need for HOME and LIHTC units that do not have additional subsidies. After concluding that there is no such general need, she proceeds to argue that the very real and serious affordability problem of extremely low income renters could most cost-effectively be met through certificates or vouchers.

I have suggested that because of some problems and limitations of her analysis, her conclusion about supply programs needs to be tempered. I do agree with her that "to the extent that [HOME and the LIHTC] are intended to produce affordable housing without additional demand-side subsidies, these results demonstrate that both HOME and the LIHTC fail for the households who most need other affordable housing units." But I do not believe she has convincingly demonstrated that there is not a need for programs to expand the supply of housing affordable to

extremely low income households and to large households. Furthermore, to the extent that the affordability problems of extremely low income and large households do not necessitate production of additional units, certificates and vouchers are not the only alternative.

Short-term cost-effectiveness should not be the only goal driving low-income housing policy. Cost-effectiveness is an important criterion, but as we have been learning all too painfully, making housing policy decisions on the basis of short-term cost-effectiveness can lead to enormous costs down the road (sometimes predictable, sometimes unanticipated). *Long-term* cost-effectiveness seems to me to deserve far greater weight than it has been given heretofore. More specifically, community and resident empowerment have been revived as values in themselves and also as vehicles to reduce long-term subsidy costs through community development and individual mobility. Similarly, expansion of the stock of housing permanently outside the private rental market may be justified not only on philosophical or ethical grounds, but also as inherently and more enduringly affordable, with less ongoing need for additional subsidies. In addition, the potential for generating local employment through housing—though often exaggerated—is not entirely irrelevant as a policy consideration.

On this basis, I would argue that to address those affordability problems that do not require additional production, rental assistance should increasingly be coupled with (or capitalized into) the acquisition of existing housing occupied by low-income families and its conversion to nonspeculative or social ownership. This would mean ownership by public entities, by private nonprofit organizations, or by residents themselves on a nonprofit or limited-equity basis (see, for example, Davis 1993; Stone 1993, chapter 7). Such an approach is not inconsistent with Nelson's arguments that most problems with low-income housing could be addressed by providing assistance to renters in their current units, while serving other economic and social objectives beyond those she identifies. Residents of such housing would not only have their affordability needs addressed, but also would achieve long-term security of tenure, as well as the possibility of substantial control over and responsibility for their housing.

To the extent that a need for expanded supply is demonstrated, HOME and the LIHTC *with* additional demand-side subsidies probably are not the most cost-effective approaches. Upfront capital grant financing, which eliminates debt-service costs and hence minimizes the need for additional demand-side subsidies

(and the depth of subsidies that are needed), is in the long run more cost-effective than financing based on debt for new construction and substantial rehabilitation, as well as for acquisition of existing housing (see Stone 1993, chapter 8). Public housing development has been financed in this way since 1987 (and Section 202 housing since 1990), and Nelson dismisses these programs too readily. While I fully agree with her that HOME and the LIHTC "could and should be better directed by states and localities toward the lowest income renters with the most serious needs," I submit that this is best done through their use as direct capital grants. Under HOME this use is already possible to some extent, but it should be more explicitly established. Under the LIHTC, the funds raised through the sale of tax credits do function as partial capital grants, but the LIHTC is inherently inefficient—only about half the federal tax revenue forgone goes into housing development (Stegman 1991), as Nelson reiterates. I believe it would make much more sense for the Treasury to collect the forgone revenue and have it channeled directly into an expanded and reformed HOME capital grant financing program for acquisition, rehabilitation, and new construction; that is, the LIHTC should be eliminated, but only if the tax expenditures are converted to direct expenditures for low-income housing.

Kathryn Nelson has made a useful contribution by examining the distribution of the problem of affordability among low-income renters as a way of elucidating and challenging the assumptions underlying the major federal programs for rental housing production. While I take issue with aspects of her methods and with some of her policy recommendations, I commend her for questioning some of the prevailing wisdom about low-income housing affordability problems and policies.

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