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**THE HOUSING VOUCHER  
CHOICE PROGRAM:  
More Than Just a Lagniappe  
for New Orleans**

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## THE HOUSING VOUCHER CHOICE PROGRAM: More Than Just a Lagniappe for New Orleans

EMILY C. SCHAEFFER

### EXECUTIVE SUMMARY

One of the most pressing questions facing New Orleans policy makers is how to best deal with housing for low-income individuals displaced by Hurricane Katrina. State and local officials in Louisiana currently favor implementing a program of publicly financed mixed-income developments (MIDs) as a means of providing low-income housing for New Orleans residents in the aftermath of Katrina.

This policy comment explores the difficulties that MIDs face in assisting low income residents with housing by revisiting the lessons learned from similar policies of the past coupled with findings from research conducted in post-Katrina New Orleans. The findings suggest that housing assistance should shift from government publicly-financed housing (MIDs and "Projects") toward the provision of housing through a voucher system.

In a post-disaster situation, general strides can be made to change the failing policies of the past. This is particularly important for New Orleans as the city struggles to rebuild both the physical and social landscape. Avoiding former policy traps means moving away from publicly-financed housing. For these reasons, we recommend the following reforms:

1. Halt the adoption and construction of all forms of project-based assistance, including the revitalization of government projects and construction of mixed-income developments.
2. Administer all future housing assistance directly to the recipient through vouchers.
3. Transfer the property rights of government projects from public to private hands.
4. Provide an institutional climate favorable to real estate investment.



Gutted remnants of St. Bernard Housing structures hit by Hurricane Katrina

# THE HOUSING VOUCHER CHOICE PROGRAM: More Than Just a Lagniappe for New Orleans

## INTRODUCTION

THE LANDSCAPE OF New Orleans is spotted with the relics of failed housing policies of the past. The good intentions of policy makers in the 1940s and 50s produced vast expanses of dilapidated government projects, which prior to Hurricane Katrina were dark spots in a colorful and animated city. Post-Katrina, virtually all of the 5,479 units of government housing projects now stand empty and damaged, challenging policy makers to address the issue of public housing without replicating the errors of the past.<sup>1</sup>

The question of how to best serve those low-income families displaced by Hurricane Katrina resonates in the minds of New Orleans's policy makers. Although this question requires an immediate response, it must also be considered within the larger context of the public provision of housing in general. While the disaster has inflicted a great deal of pain and hardship on the citizens of New Orleans, as well as those all over the Gulf Coast, it also represents a critical juncture at which policy can be re-evaluated and revised.

Changing approaches to chronic problems requires taking inventory of the relative successes and failures of

given policy measures. State and local policy makers in Louisiana currently favor implementing a program of mixed-income developments (MIDs) as a means of publicly providing low-income housing for New Orleans's residents in the aftermath of Katrina. MIDs take the form of publicly financed subsidies granted to private producers of housing developments.<sup>2</sup> The producer subsidy is predicated on requiring the development to maintain a predetermined mix of low-income and non-low-income tenants within a given location, typically at a ratio of 1:3 or 1:4.

Both the U.S. Housing and Urban Development agency (HUD) and the Housing Authority of New Orleans (HANO) have issued public statements considering plans to replace government housing projects with MIDs, though no actions to move in this direction have yet been undertaken.<sup>3</sup> This indicates that now is the time to analyze the proposed policy of MIDs in light of comparable alternative policies for assisting low-income residents in obtaining housing.

This Policy Comment explores the ability of MIDs to assist low-income residents with housing in New Orleans by revisiting the theoretical lessons of similar policies of the past, coupled with empirical findings from research

1. There were 7,379 public housing units available prior to Katrina. Of these, 6,679 were government housing projects, and 5,146 were occupied. See Housing Authority of New Orleans Post-Katrina Frequently Asked Questions, <http://www.hano.org/FAQ102006.pdf>. Since the storm, approximately 1,200 residents have reoccupied two of the government housing projects: Iberville and Guste.

2. According to Alastair Smith, "Despite . . . widespread support, there is a wide variation on how "mixed-income" is defined. Various definitions stipulate a specific mix of incomes, the inclusion of market-rate units, or the presence of working families. . . . The lack of a definitive description and set of objectives makes it difficult to evaluate the effectiveness of such programs and the sensibility of such a policy." Alastair Smith, *Mixed-Income Developments: Promise and Reality* (Joint Center of Housing Studies of Harvard University, Cambridge, MA, 2002): 3. Brophy and Smith define mixed-income housing as "a deliberate effort to construct and/or own a multifamily development that has a mixing of groups as a fundamental part of its financial and operating plans." Paul C. Brophy and Rhonda N. Smith, "Mixed-Income Housing: Factors for Success," *Cityscape* 3, no. 2 (1997): 5.

3. Alastair Smith, *Mixed-Income Developments*.

conducted in the post-Katrina field. The general results can be summarized as follows:

- As a top-down, rigid policy, MID cannot accommodate the inherent uncertainty of post-disaster recovery.
- MID is more expensive than comparable housing assistance policies.
- Producer-side subsidies, such as MID policy, may create coalitions of private interests which seek political favoritism over time.
- Tenant-based assistance programs have historically demonstrated better outcomes than project-based assistance, for both the recipients of assistance and the community at large.
- MID may neglect the preferences of some individuals, and may prevent them from accessing their social networks.

Improvements in housing assistance can be made by shifting the implementation of assistance toward a bottom-up approach. In a post-disaster situation, general strides can be made to change the failing policies of the past. This is particularly important for New Orleans as the city struggles to rebuild both the physical and social landscape of the city. Moving away from project-based assistance is the way to escape the policy traps of the past. For these reasons, I recommend the following reforms:

- Halt the adoption and construction of all forms of project-based assistance, including the revitalization of government projects and construction of MID.
- Administer all future housing assistance directly to the recipient through vouchers.
- Transfer the property rights of government projects from public to private hands, either through assistance-based title grants to low-income individuals or unrestricted private auction.
- Provide an institutional climate favorable to real estate investment.

The evaluation and recommendations herein properly frame the issue of public housing assistance with regard to the future of the New Orleans community as it recovers from disaster. The following section provides a descriptive overview of MID in the context of the current housing policy debate. Section two offers a comparison of the costs associated with both project-based MID, as well as tenant-based voucher programs. The third section highlights the housing assistance debate with evidence collected in the field and discusses structural differences in both forms of assistance. The fourth section offers detailed reform measures.

## I

### Mixed-Income Developments: Improvement or Reinvention?

VERY FEW ISSUES in economics and public policy obtain agreement from both sides of the ideological and political spectrums. In recent years, however, both sides have, to a large extent, come to agree that government-produced housing facilities have failed to procure benefits in excess of their costs—both implicit and explicit.<sup>4</sup> Results from studies conducted over thirty years ago indicate that “. . . the most efficient method of subsidizing the housing of low income families is to allow these families to buy certificates, which they could use to pay the rent or make mortgage payments up to an amount equal to the face value of the certificates.”<sup>5</sup> Despite local officials’ current preference for MID, the general trend in housing assistance nationally is to move away from project-based subsidized housing (in the broad sense) toward tenant-based assistance.<sup>6</sup>

Consensus for changing the status quo exists in the policy sphere, and now is the time to capitalize on this rare opportunity. While MID present an improvement over the government projects of the past, they still represent project-based assistance. MID may prove problematic for a number of reasons that need to be addressed in light

4. Louis Winnick, “The Triumph of Housing Allowance Programs: How A Fundamental Policy Conflict Was Resolved,” *Cityscape: A Journal of Policy Development and Research* 1, no. 3 (1995): 95–121. To clarify, “explicit” in actual monetary costs; “implicit” in the social externalities, failure to meet stated goals, etc.

5. Edgar O. Olson, “A Competitive Theory of the Housing Market,” *The American Economic Review* 59, no. 4 (September 1969): 620. The idea that Olson is advancing here is below face value prices for vouchers redeemable only for housing services. Voucher systems can, but do not necessarily, include income-determined reduced voucher rates.

6. John Quigley, *A Decent Home: Housing Policy in Perspective* (Washington, DC: Brookings–Wharton Papers on Urban Affairs, 2000): 53–88.

of the experience of the past and the relevant alternatives (such as vouchers) for the future.

## What Are MIDs?

MIDS ARE HOUSING structures predicated on the idea that deconcentrating poverty will diminish or eliminate the other ills that accompany concentrated poverty in housing projects—crime, violence, juvenile delinquency, substance abuse, etc.

Policy makers care about these issues; however, they tend to make broad general assessments of the similarities of various policy measures. The matrix in figure 1 identifies the possible combinations of production and financing that yield some measure of assistance to low-income individuals for housing needs. Commonly, policy makers make the broad generalization that MIDs and voucher programs are two sides of the same coin. Funding the construction of housing occurs either by way of taxation (public funds) or investment (private funds). The matrix also distinguishes between the groups that have control over the production of housing. Under the Public Production column of the matrix are the public officials working in the public housing authorities (PHAs) or HUD. Under the Private Production column are private individuals operating in the marketplace. The features highlighted in figure 1 are important to understanding the way in which various policies differ, but do not go far enough in making the relevant distinctions policy makers need in order to make knowledgeable decisions. While it is true that both MIDs and vouchers require public financing, and private actions in the market produce the actual housing

structures, the similarities between these two methods of provision end there.

This depiction of policy options fails to capture the inherent differences of implementation and outcomes relevant to making choices among policies. A more important distinction to make is that the MID approach is a producer-side subsidy while the voucher program is

**FIGURE 1: COMPARISON OF PUBLIC/PRIVATE PRODUCTION AND FINANCING OF HOUSING**

	<b>PUBLIC PRODUCTION</b>	<b>PRIVATE PRODUCTION</b>
<b>PUBLIC FINANCING</b>	Housing Projects	Mixed-Income Developments Housing Voucher Choice Program
<b>PRIVATE FINANCING</b>		Market Based Contracts Home Ownership Programs Philanthropy

a consumer-side subsidy. There are stark differences between these two methods, both in theory and in practice. Therefore, by including in the matrix the receivership of the subsidy, a more refined look at these various policies can come to light. Figure 2 clarifies this important distinction. MIDs constitute a move away from the publicly financed, publicly produced structures of the past—otherwise referred to as “government projects.” However, when one looks at past public housing policy, the similarities between the traditional housing “projects” and MIDs are striking.

**FIGURE 2: COMPARISON OF THE RECIPIENTS OF PUBLIC FINANCING**

		<b>PUBLIC PRODUCTION</b>	<b>PRIVATE PRODUCTION</b>
<b>PUBLIC FINANCING</b>	<b>PRODUCER SIDE</b>	Housing Projects	Mixed-Income Developments
	<b>USER SIDE</b>		Vouchers Direct Cash Transfers
<b>PRIVATE FINANCING</b>			Home Ownership Programs Philanthropy

The consensus reached among those who study housing arrangements centers around a general acceptance of the failure of public production. It would be premature, however, to assert that future housing policies will succeed so long as the structures are not publicly produced. There are particular attributes of public production that contributed to its failure, and without understanding these attributes, policy makers have little hope of implementing successful policy change.



The super-block, concentrated housing designs of B.W. Cooper (left). Painted accolades of former politicians do little to hide the decay of the C.J. Peete Housing Project (right).

## Why Are MIDs Attractive?

ADVOCATES OF THE mixed-income approach cite the positive externalities associated with non-concentrated areas of poverty. These arguments grew out of observations and evidence that government housing facilities concentrated poverty in some areas and became centers of crime, violence, juvenile delinquency, substance abuse, and an array of other “social ills” that imposed costs on the recipients and the community.<sup>7</sup> Another broad cost of government housing projects consists of the implicit subsidization of public goods, such as fire, rescue and police protection, by those in the community who use these services infrequently, compared to the residents of the projects. Adjusting local tax rates to compensate for this implicit subsidization can mitigate these effects.<sup>8</sup> The other comprehensive costs associated with government projects are externalities that are harder to capture in a strict construction of public goods provision. These include stigmatization, alienation, and withdrawal of individuals living in concentrated areas of poverty from

private capital and connections to the neighborhood.<sup>9</sup>

The benefits of deconcentrating the locations of these individuals range from a role-model effect of mixing income groups to the effects of gaining access to new networks for social and economic purposes. However, behind this second type of argument is an implication that goes unrecognized and unquestioned in the vast majority of the literature. That is, these arguments presuppose that outside observers know what is in the best interest of low-income families, and presume to also know how best to achieve what they believe to be better. Research on MIDs suggests that these housing facilities may be incapable of producing the positive benefits associated with the deconcentration of poverty.<sup>10</sup> Moreover, MIDs have yet to demonstrate results substantially different than those of government housing projects. It is unclear whether, in theory, these forms of housing are capable of sustaining an “adequate level” of income diversity in the long-run.

7. Claudia J. Coulton and Shanta Pandey, “Geographic Concentration of Poverty and the Risk to Children in Urban Neighborhoods,” *American Behavioral Scientist* 35 (1992): 238–57; Jonathan Crane, “The Epidemic Theory of Ghettos and Neighborhood Effects on Dropping Out and Teenage Childbearing,” *American Journal of Sociology* 96 (1991): 1226–59; Alexander Polikoff, *Housing Policy and Urban Poverty* (Washington, DC: Center for Housing Policy, 1994); Roberto G. Quercia and George C. Galster, “Neighborhood Threshold Effects: A Review of the Literature” (report to the Annie E. Casey Foundation, Baltimore, MD, 1998).

8. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962): 178.

9. Jacqueline Leavitt and Anastasia Loukaitou-Sideris, “A Decent Home and a Suitable Environment: Dilemmas of Public Housing Residents in Los Angeles,” *Journal of Architectural and Planning Research* 12 (1995): 221–39; Douglas Massey and Sini Kanaiaupuni, “Public Housing, The Concentration of Poverty, and the Life Chances of Individuals,” *Social Science Quarterly* 74 (1993): 109–23.

10. Alastair Smith, *Mixed-Income Developments*.

## The Unseen Ugliness of MIDs

ADDRESSING THE RECEIVERSHIP of the subsidy is important to understanding how policy plays out over time. Subsidizing the producers of housing, as opposed to the consumers, creates a set of incentives that are less effective for achieving the stated goals of housing policy. To begin, subsidizing producers necessarily takes place before the construction of housing units. Doing so imposes constraints on the production plans that unsubsidized producers of housing do not face, particularly in regard to location and the targeted consumer base, both of which play significant roles in determining the profitability and viability of production plans.

Typically, MIDs are built to replace existing government housing facilities and are confined therefore to the same dimensions and area of the previous structures. Subsidized producers are thus incapable of including location as a variable in their production plans. Consequently, typical market-based decisions involving the relative profitability of different locations throughout the city are not even part of the discussion. Location is especially important in determining profitability of investment in the housing market. Imposing requirements of “where to build what” limits the gains possible from considering other, possibly more profitable, locales. Roger Ahlbrandt, a housing expert writing in the 1970s, noted that, “Decision-making under a federally assisted housing program is not completely removed from the constraints of the housing market. However, there is no available mechanism to ensure that the housing services which are provided are in market areas where the economic and social needs are the greatest.”<sup>11</sup>

When housing is constructed in the private market, businesses tailor their building specifications to their intended consumers. When an unsubsidized producer constructs an apartment complex, he targets a particular consumer base. Private producers approximate

what groups are going to be attracted by the new housing constructions and shape their visions of profitability accordingly. The process by which this takes place occurs in the planning stage of private producers. In this stage, the producer seriously considers the components of the housing facilities that will add value for the consumer, while balancing those notions against what he can produce profitably. Attracted to the market by the prospect of a return on his investment, the producer must see that

**FIGURE 3: COMPARISON OF THE CONCENTRATION OF HOUSING PRODUCTION**

		PUBLIC PRODUCTION		PRIVATE PRODUCTION	
		CONCENTRATED LOCATIONS		DISPERSED LOCATIONS	
PUBLIC FINANCING	PRODUCER SIDE	Housing Projects		Mixed-Income Developments	
	USER SIDE			Vouchers Direct Cash Transfers	

his vision, planning, and construction of housing meet the market test. The producer must have an idea of what his potential consumers value in their housing arrangements in order to succeed. This is the entrepreneurial action of casting the appropriate net.

The constraints of fixed location (or concentrated production) and pre-specified target markets are common to all producer-side subsidized housing policy—whether that production is executed by public or private direction. Therefore, MIDs attempt to deconcentrate poverty while simultaneously concentrating production both in terms of location (see figure 3) and receivership of public funds. Ahlbrandt describes the delivery of housing services when concentrated production is an outcome of public financing:

The delivery of housing services to prospective tenants under this process is constrained primarily by political, financial, and market influences. Locational decisions are dependent upon the willingness of the housing authority to seek out locations, the receptivity of local communities to

11. Roger S. Ahlbrandt, “Delivery System for Federally-Assisted Housing Services: Constraints, Locational Decisions and Policy Implications,” *Land Economics* 50, no. 3 (1974): 246.

a housing project, and HUD's concurrence. Political constraints exert a preponderant influence.<sup>12</sup>

The political nature of the locational decision process cannot be relied upon to generate decisions that reflect the underlying components of profitability, consumer demand, and individual preferences. Furthermore, funneling market-based decisions into the political arena produces another set of undesirable consequences.

The creation of concentrated coalitions of direct beneficiaries of subsidies is a systematic and foreseeable effect of subsidizing producers of goods and services. Within every industry that receives public funds to subsidize production, coalitions of special interests form due to special privilege. As has been the case in industries ranging from agricultural products to aircraft, special interests, once created, tend not only to stick around for quite some time, but to demand more privileges and protections. This process of obtaining protections from government officials diverts huge amounts of resources away from actual production that adds value for consumers. Instead, it puts them toward remaining competitive in the political market. This results in inefficiencies, waste, and barriers to innovation.<sup>13</sup> The mixed-income approach only changes who would develop dependency on public handouts. Over time, these private producers will become yet another group dependent on tax dollars.

## 2

### Tenant-Based vs. Project-Based Assistance: A Comparison

#### Two Programs in Place

THE NEW ORLEANS community is all too familiar with government production of housing for low-income residents. Prior to Hurricane Katrina, New Orleans had nine housing projects, which provided a total of 7,370 available units.<sup>14</sup> These developments were home to a

total of 5,146 families, but 2,224 (30%) of these units remained empty or uninhabitable.<sup>15</sup> New Orleans also had a "Housing Voucher Choice" program in place for administering housing assistance. Before the storm, HANO administered 64 percent of all assistance through this voucher program.<sup>16</sup>

While the housing voucher system already aids a substantial portion of total families on assistance, moving completely to a voucher system would divest the local community of the areas of concentrated blight associated with public housing. In addition, transitioning to a full voucher system would represent adoption of a previously implemented and successful method.

As a tenant-based program, vouchers operate in a fundamentally different fashion than housing project programs and produce substantially different outcomes for both the families participating in the program and the community in general. The voucher program is a publicly financed user subsidy that allows low-income families to choose where they want to live. A family's income, housing needs, and the prevailing market rates for an appropriately sized unit determine the amount of the voucher. Families can then use these determined amounts to purchase housing within the community from the landlords they select.

#### The Benefits of Vouchers

GIVING LOW-INCOME FAMILIES the ability to *choose* where they want to live is how the system produces benefits both for the people assisted by the subsidies and the larger community. Individuals can choose the housing they desire, according to their own preferences. This system allows families with children to select housing close to schools, for example, while enabling other individuals to choose to live close to their place of employment. Furthermore, by allowing a range of preferences to be satisfied, policy makers avoid one-size-fits-all solutions.

12. Ahlbrandt provides the following definition: "the delivery system for federally assisted housing services includes every entity which has control of or influence over decisions to locate, build, manage and supply services to the project or tenant." Roger S. Ahlbrandt, "Delivery System for Federally-Assisted Housing Services," 242.

13. This does not negate the concept that in the current democratic taxonomy, lobbying is a form of investment in future production.

14. This available units number corrects for those projects closed because they are uninhabitable as well as 700 additional "scattered" units according to HANO.

15. See Department of Housing and Development, "PHA Plans: 5 Year Plans for Fiscal Years 2006–2010, Annual Plan for Fiscal Year 2007" (2006), 1-169; Available online at <http://www.hano.org/FAQ102006.pdf> and <http://www.huduser.org/datasets/assthsq/statedata98/HUD4LA3.TXT>.

16. Ibid.

It is important to recognize that the benefits of tenant-based assistance do not necessarily come from low-income families moving out of low-income areas. As studies conducted by Varady and Walker have shown, families that used vouchers to move out of distressed subsidized housing developments reported that they had been able to greatly improve their housing and neighborhood conditions even though they remained in the same area of the city.<sup>17</sup>

These same studies also showed that the successful voucher programs do not need to be coupled with counseling for the families participating in the program, a suggested feature in other housing systems.<sup>18</sup> The Chicago Housing Authority Relocation Counseling Assessment found that the low-income families participating in a voucher program who chose to move experienced improvements in housing conditions and neighborhood safety, even though the areas to which they moved had high poverty rates, as well as high levels of racial segregation.<sup>19</sup>

More importantly, a recent study found that vouchers are given to poorer recipients than project-based housing assistance because Public Housing Authority (PHA) administrators want to avoid concentrations of poverty in pre-existing housing projects.<sup>20</sup> Findings such as these provide evidence that administrators *already* recognize the fact that tenant-based assistance (vouchers) has the ability to mitigate the problems associated with poverty concentration.

Other researchers tested these findings only to discover that tenant-based housing assistance crowded out private production to a lesser extent than all other forms of project-based assistance.<sup>21</sup> These findings are of vast importance when addressing the propensity of

the community as a whole to rebound from an event like Hurricane Katrina. Policy makers have a responsibility to minimize the harmful effects of any policy on the general population.

## Leaner Budgets, Better Outcomes

THE FINANCING OF housing assistance programs in New Orleans prior to the natural disaster took a variety of forms, including tax exempt bonds, low-income housing tax credits, HOPE IV Demolition and Revitalization Grants, and city and state tax-based funding. This section focuses on the projected new investments in public housing prior to Katrina, taking the previously incurred costs of these projects as sunk. Approaching policy choices for the future from the standpoint of where the city is now permits the development of a realistic and feasible solution that takes into account financing opportunities and constraints.

If the future of housing assistance policy in New Orleans is to be better than the status quo prevailing before the storm, policy makers must consider the expected costs of new policies. They must acknowledge the high costs and waste that were part and parcel of the publicly financed, publicly produced approach of the past. Although at times it may seem that New Orleans is starting from scratch, successful housing assistance policy must operate within the existing financing constraints and opportunities. Adopting a housing assistance policy favorable to the reconstruction of a healthy community requires implementing one that makes the best use of available resources at the lowest possible cost to taxpayers.

To begin thinking about the financing side of housing assistance, consider what \$700 million—the amount

17. David P. Varady and Carol C. Walker, *Case Studies of Vouchered-Out Properties* (New Brunswick, NJ: Final Report to the U.S. Department of Housing and Urban Development, Rutgers University, Center for Urban Policy Research, 1998); David P. Varady and Carol C. Walker, "Housing Satisfaction and Moving Desires among Families Vouchered-Out from Distressed, Subsidized, Private Properties" (paper presented at the 40th annual meeting of the Association of Collegiate Schools of Planning, Pasadena, CA, November 6, 1998); David P. Varady and Carol C. Walker, "Vouchering-Out Distressed Subsidized Developments: Does Moving Lead to Improvements in Housing and Neighborhood Conditions?" *Housing Policy Debate* 11, no. 1 (2000): 115–62; David P. Varady, Carol C. Walker, and Wang Xinhao, "Voucher Recipient Achievement of Improved Housing Conditions in the US: Do Moving Distance and Relocation Services Matter?" *Urban Studies* 38, no. 8 (2001): 1273–304.

18. Varady and Walker (1998a); Varady and Walker (1998b); Varady and Walker (2000); and Varady, Walker, and Wang (2001).

19. S.J. Popkin, Mary K. Cunningham, Erin Godfrey, Beata Bednarz, Alicia Lewis, Janet L. Smith, Anne Knepler, and Doug Schenklerburg, *CHA Relocation Counseling Assessment: Report to the MacArthur Foundation* (Washington, DC: Urban Institute, 2002).

20. Edgar Olsen, "Housing Programs for Low Income Households" (NBER Conference Report Series, Chicago and London: University of Chicago Press, 2003).

21. Todd Sinai and Joel Waldfoegel, "Do Low Income Housing Subsidies Increase the Occupied Housing Stock?" *Journal of Public Economics* 89 (2005): 2137–64.

**FIGURE 4: SUMMARY OF HANO DEVELOPMENT PLAN PRIOR TO KATRINA**

PRE - KATRINA HOUSING DEVELOPMENT PLAN	BUDGET AVAILABLE	UNITS	PER UNIT COST	TOTAL BUDGET REQUIRED
TOTAL FUNDS AVAILABLE / UNITS REQUIRED	\$700m	5,146 units	\$221,309	\$1,138,856,114
PROJECTED INVESTMENT / UNITS PLANNED	\$700m	3,163 units	\$221,309	\$700,000,000
UNDER CONSTRUCTION / USED FUNDS	-\$155m	691 units	\$224,312	-\$154,999,592
REMAINING PLANNED UNITS / REMAINING FUNDS	\$545m	2,472 units	\$224,312	\$554,499,264

Source: Numbers calculated based on estimated per unit costs taken directly from HANO figures of already developed MID's and budget allocations. See Department of Housing and Development, "PHA Plans: 5 Year Plans for Fiscal Years 2006–2010, Annual Plan for Fiscal Year 2007" (2006), 1-169; <http://www.hano.org/FAQ102006.pdf> and <http://www.huduser.org/datasets/assthsg/statedata98/HUD4LA3.TXT>.

**FIGURE 5: PROPORTIONS OF PROJECT-BASED AND TENANT-BASED ASSISTANCE PRE-KATRINA**

	Families on Assistance Prior to Hurricane Katrina
Total Number of Families Served By HANO	14,127
Number of Families Served By the Voucher Program	8,981 (63.5%)
Number of Families Served By Project-Based Assistance	5,146 (36.4%)

Source: Department of Housing and Development, "PHA Plans: 5 Year Plans for Fiscal Years 2006–2010, Annual Plan for Fiscal Year 2007" (2006), 1-169.

available to HANO for new investment projects—buys under the MID proposal.<sup>22</sup>

As summarized in figure 4, prior to Katrina, HANO's development plan included revitalizing the current housing projects and constructing new buildings with a total budget of \$700 million to be spent over a five-year

period.<sup>23</sup> The first line of figure 4 shows the funds available and the units needed to house the families living in projects. The second line of the table shows HANO's planned investment and units. The third line represents the portion of the budget and units that were under construction during Katrina. The fourth line represents the remaining budget available and the funds required to complete the remaining 2,472 units of HANO's plan. Figure 5 summarizes the prevailing status quo of housing assistance in New Orleans prior to Katrina.

According to HANO, it would have spent the \$700 million earmarked for new investment in public housing arrangements on the construction of 3,163 mixed-income units. Where the average mixed-income unit is a two-bedroom apartment, this comes out to a cost of \$221,309 per unit.<sup>24</sup> These costs are one-time expenditures for construction and do not include allocations for maintenance or repairs over time. Prior to the disaster, HANO provided housing assistance to 14,127 families in the New Orleans community. Of those families on assistance, 8,981 were involved in the voucher program. The new MID's would serve the

22. The operating budget is comprised of tax exempt bonds, low-income housing tax credits, HOPE IV Demolition and Revitalization Grants, and city and state funding. This number does not include any of the emergency relief funds since allocated to New Orleans for housing-related assistance. Using the \$700m figure in calculations provides a low estimate of the actual amount currently available for housing assistance in New Orleans. The non-inclusion of federal relief funds in the calculations allows for a discussion of the future of a sustainable housing assistance program in the absence of these emergency funds.

23. Department of Housing and Development, "PHA Plans," 1–169. The data found in the table can also be viewed online at <http://www.hano.org/FAQ102006.pdf>.

24. This is based on the River Garden mixed-income development, which has been cited as the prototype for further mixed-income developments. River Garden has one-bedroom units and three bedroom units, but the majority of the apartments are two bedroom facilities.

remaining 5,146 families previously living in government housing projects. The development plan for mixed-income only includes a total of 3,163 units. Thus, the projected investment/unit plan would either exceed budget and cost an estimated \$1.1 billion or 1,983 families would no longer receive assistance (see figure 4).

### Costs of the Relevant Alternatives—Vouchers

WHEN KATRINA HIT the city, HANO was using market-determined average rental rates to stipulate the amount of a voucher. At that time, a voucher covering the cost of a two-bedroom apartment was worth \$696 dollars per month.<sup>25</sup> At these rates, the \$700 million in projected investment could have supplied all 5,146 families with vouchers for five years and saved the taxpayers an estimated \$300 million (figures 4 and 6).<sup>26</sup>

After Katrina ravaged the city, HANO instituted a policy of giving vouchers in the amount of 120 percent of the average rental rate in the market. In July of 2006, HANO reported an allocation of \$1,128 per month for a two-bedroom voucher (which is very close to the to average monthly market rent found at the bottom of figure 6).<sup>27</sup> At this rate, the \$700 million that would have been spent on new construction of mixed-income housing could provide those same 5,146 families with vouchers for two-bedroom apartments for five years, at half the cost of the MID proposal.

Figure 6 also shows that policy makers can tailor vouchers to respond quickly to changes in the supply of housing. When Katrina devastated a portion of the housing stock, the amount of the voucher was significantly raised to reflect the higher prices of housing. Over time, this provides an incentive for housing producers to invest in the market. As New Orleans’s housing market normalizes, policy makers can expect the amount of the average voucher to fall from 120 percent back down to 100

**FIGURE 6: VOUCHER FLEXIBILITY OF MARKET DETERMINED RENTS**

HANO DETERMINED MARKET RENTS	AVERAGE PER UNIT COST OVER TIME	AVERAGE TOTAL COST FOR FIVE YEARS (5,146 FAMILIES)
Effective 10/1/05 for 1 Month	\$785	
Effective 10/1/05 for 12 Months	\$9,418	
Effective 10/1/05 for 5 Years	\$47,090	\$242,325,140
Effective 11/1/05 for 1 Month	\$941	
Effective 11/1/05 for 12 Months	\$11,296	
Effective 11/1/05 for 5 Years	\$56,480	\$290,646,080
Effective 7/1/06 for 1 Month	\$1,271	
Effective 7/1/06 for 12 Months	\$15,252	
Effective 7/1/06 for 5 Years	\$76,260	\$392,433,960

Source: Market determined rents available through HANO, <http://www.hano.org/pmtstandard%20706.pdf> and <http://www.huduser.org/datasets/fmr.html>.

percent of the average market rent. Therefore, in the long-run view of financing the housing assistance program, the total cost can be expected to fall as the community rebuilds.

Although these figures demonstrate the housing voucher choice program as the lower-cost policy measure, there are two more points which need to be brought to light to fully understand the workings of the voucher system. The first concerns the amount of the voucher; the second concerns the number of people receiving the voucher.

Immediately after the storm, HANO adopted a policy of raising the amount of the voucher over the prevailing market rate, demonstrating the capability of this form of housing assistance to adjust to changes in circumstance. Doing so increased the incentive for existing suppliers of rental property to rent any available units and also created the incentive for those who did not rent property

25. This was the voucher amount prior to the storm. See [http://www.huduser.org/Datasets/FMR/FMR2005R/Revised\\_FY2005\\_SCHEDULEB.pdf](http://www.huduser.org/Datasets/FMR/FMR2005R/Revised_FY2005_SCHEDULEB.pdf).

26. To determine how much \$700 million buys under the voucher program, I took the payment standard used for a two-bedroom unit voucher from HANO reports of market rents and voucher payments at the time of the storm. HANO statistics come directly from Housing Authority of New Orleans Post-Katrina Frequently Asked Questions, <http://www.hano.org/FAQ102006.pdf> and <http://www.huduser.org/datasets/fmr.html>.

27. When calculated by the average rental rates prevailing prior to the storm, this actually comes out to be 162 percent. The discrepancy arises due to the increasing average market rate over the months following Katrina.



From the 1940s to now, dilapidated units stand as idle reminders of failed housing projects (left). Mixed income developments remain empty (right).

before to begin renting out to those in immediate need of housing.

When policy makers decide which housing assistance program to adopt for the reconstruction of New Orleans, they must consider how the economic climate of the city will change over time. Uncertainty characterizes the post-Katrina landscape, especially with regard to how many low-income residents will return to the city. It makes no sense to begin subsidized production for a given number of families when there is no certainty as to what that number will be. Vouchers are flexible tools that offer the ability to adapt to changing economic conditions.

As Emily Chamlee-Wright argues, when governments get into the business of providing goods like housing, they distort market signals that inform businessmen and residents when and where to devote real resources in a profitable manner. Clear commitments by policy makers as to the role government will play in housing assistance are necessary for a vast array of decision makers to proceed with the rebuilding effort. A strict policy of vouchers sends a straightforward message to the relevant individuals and investment community. If the government says one thing but does another, it slows the rebuilding effort and inadvertently imposes costs on the very people it is

trying to help. Furthermore, direct interventions change the relative profitability of market-provided housing for low-income residents long after the policy has been implemented and may have unanticipated consequences further down the road.<sup>28</sup>

Another significant financing advantage of providing housing assistance via vouchers is the proceeds acquired by the sale of government-owned property. By moving to a voucher system for all housing assistance, the government could sell the land on which public housing currently stands. Unregulated auction of land in the private market would generate windfall revenues for the state and local governments. These gains in public funds could be earmarked for financing the voucher program over time or used to soften the blow to the public purse if officials chose to cut taxes to stimulate a favorable climate for real estate investors—residential or commercial.<sup>29</sup>

### 3 Lessons from the Ground

GOVERNMENT PLANNING OF physical structures has failed many times in the past to produce the positive

28. Emily Chamlee-Wright and Daniel Rothschild, *Disastrous Uncertainty: How Government Disaster Policy Undermines Community Rebound*, Mercatus Policy Series No. 9 (Arlington, VA: Mercatus Center at George Mason University, 2007).

29. The purpose of this paper is simply to state the benefits of moving to a complete voucher system for housing assistance. Uses for the revenue gained from the sale of government property are outside the scope of this analysis other than to suggest that the revenues could be used for the ongoing financing of housing assistance related expenditures.

effects that planners claimed would accrue to residents and the surrounding community. This is true not only in New Orleans but all over the country.<sup>30</sup> These points, however, take a back seat to the fundamental cultural issue involved in low-income housing: social engineering.

## Listening to the People

INTANGIBLE, IMPORTANT COMPONENTS of New Orleans are not the particulars of the Victorian-style construction of buildings, but the culture that emerges around these physical structures. As evidenced by interviews conducted for this project and reflected in popular news reporting, the primary fear of low-income residents who lived in government housing developments prior to the storm is that reconstruction will either remove them from the new New Orleans or impose a new, and to them, foreign culture. Tellingly, residents of the storm damaged and vacant “Big Four” housing projects—C.J. Peete in Central City; Lafitte in Tremé; St. Bernard in the 7th Ward; and B.W. Cooper, which sits between Earhart and Martin Luther King Jr. boulevards—have brought a lawsuit in the United States District Court in New Orleans against HUD and HANO, among others, demanding that these agencies repair the projects and allow the residents to return.<sup>31</sup> These residents are resisting MIDs primarily because they view them as social engineering that will dilute their culture by mandating not only where they will live, but also who their neighbors will be.

The lawsuit demonstrates the strong anti-MID sentiment among individuals receiving housing assistance. The residents bringing the suit would rather move back into their prior residences in government projects than be placed in MIDs. This preference cannot be attributed to the comparable amenities of the two developments. The facilities of the MIDs, such as the River Garden development which was built to replace the St. Thomas housing project, include such luxuries as cherry cabinetry and walk-in closets. Similarly, this preference cannot be attributed to location since the MIDs are to be built in the same locations where the government projects currently stand. What this lawsuit may reveal, however, is

a preference of individuals on assistance for living near people who share their cultural norms.

Charlene Jackson is a former resident of the St. Thomas housing project and a current resident of the River Garden MID, which stands in its place. Last year, Jackson moved into River Garden, but after receiving complaints about her kiddie pool and Christmas decorations, she feels unwanted in the community. Ms. Jackson went as far as to say that she would like to move; however, once she agreed to live in the MID, she no longer qualified for the housing voucher choice program.<sup>32</sup>

Policy makers who favor the MID approach to housing assistance have systematically underestimated, or failed to consider, low-income residents’ preferences for living among people of the same income levels and cultural practices. Unfortunately, due to the centrally planned nature of public housing assistance, “decisions [regarding public housing] are made outside the market place and there is not a comparable mechanism to ensure that the services supplied reflect the preferences of those who are served.”<sup>33</sup> Moving policy further in the direction of tenant-based assistance can better incorporate an array of preferences, including the preference to belong to communities whose residents share one’s cultural norms.

The timing of the lawsuit is also particularly interesting for understanding the preferences of this group of individuals. These residents brought suit in June 2006—10 months after the storm ravaged the city—when HUD marked four major projects for demolition and replacement with MIDs. During these 10 months, however, many of the residents now bringing suit were given vouchers to find housing. For example, Gloria Williams and Bobby Jennings, two of the named plaintiffs, received vouchers for \$1,128 and \$1,050 per month, respectively.<sup>34</sup> At least some low-income residents on assistance would rather choose where to live than be provided with better facilities in an uncomfortable and imposed cultural context.

Low-income residents who lived in communities where most of the homes were privately owned may have significantly more optimistic attitudes toward is-

30. Jane Jacobs, *The Death and Life of Great American Cities* (New York: Random House, 1961).

31. *Anderson vs. Jackson*, No.06-03298 (E.D. La., filed June 27, 2006).

32. Charlene Jackson, interview by Eve Troeh, July 22, 2006, National Public Radio.

33. Roger S. Ahlbrandt, “Delivery System for Federally-Assisted Housing Services: Constraints, Locational Decisions and Policy Implications,” *Land Economics* 50, no. 3 (1974): 243.

34. Gwen Filosa, “Lawsuit blocks complex razing,” *New Orleans Times-Picayune*, November 25, 2006.

sues of post-Katrina development. Six months after the storm, neighborhood communities, such as the Tremé area (located adjacent to the Iberville Housing Project) and the Upper Ninth Ward (near the Desire Housing Project)—both of which were some of the hardest hit areas in New Orleans—show signs of resurgence. Even though Katrina had destroyed most of their material assets, many of these residents returned to their communities, demonstrating the strength of the social networks in those neighborhoods.

The return of residents to these areas also shows that housing that is not publicly owned, regardless of whether it is inhabited by private owners or a tenant, helps the growth of roots and ties in a community. These roots and ties may in turn contribute to the vitality of the area.

The housing assistance policy that New Orleans adopts will affect the future growth patterns of housing in the community. Creating healthy communities requires adopting policy that does not undermine ability of the civil society to leverage the resources these communities may have at their disposal. In a recent study tracking the relocation patterns of families displaced by the Chicago Fire of 1871, the findings suggest that the social networks of low-income families are neighborhood specific.<sup>35</sup> The implications of these findings for housing policy suggest that low-income families can make use of network connections within the community when these connections develop within the context of regular private property. Furthermore, restraining the choice and selection mechanisms of individuals may severely inhibit social ties from developing and may prevent individuals from interacting with neighbors in meaningful ways. Preliminary findings of empirical field studies from the post-Katrina context have found that social bonds and networks are a successful tool by which civil society can respond to disasters.<sup>36</sup> The mixed-income approach fails to recognize the value of neighborhood relationships and, more importantly, which institutions facilitate the development of meaningful interactions among individuals and families within a neighborhood.

Implementing policy that draws on the benefits of the institutions of private property and contract has the virtue of using market mechanisms to incorporate recipient

preferences into housing assistance. Ignoring these preferences might destroy the social bonds between housing-assisted individuals. At the very least, New Orleans's rebuilding policy should not inhibit the growth and function of social networks, a critical tool for maintaining social fabric. Unfortunately, a MID strategy lacks the central features of market-based, bottom-up solutions to housing assistance.

## 4 Policy Recommendations

THE DEGREE TO which the parameters of government policy can adapt to changing circumstances within the economic and social structure of a community can be characterized along a continuum. Rigid, top-down policy cannot adjust to changes very quickly (if at all), whereas flexible, bottom-up policy can adjust relatively quickly. Rigid policy options also exhibit features of one-size-fits-all solutions, lack the ability to accommodate uncertainty in planning, and lack the ability to make use of existing localized knowledge and network relations. Comparatively, flexible policy options tend to tailor solutions individually, incorporate uncertainty into planning, tap into localized knowledge and existing network relations, and accommodate a wide array of preferences.

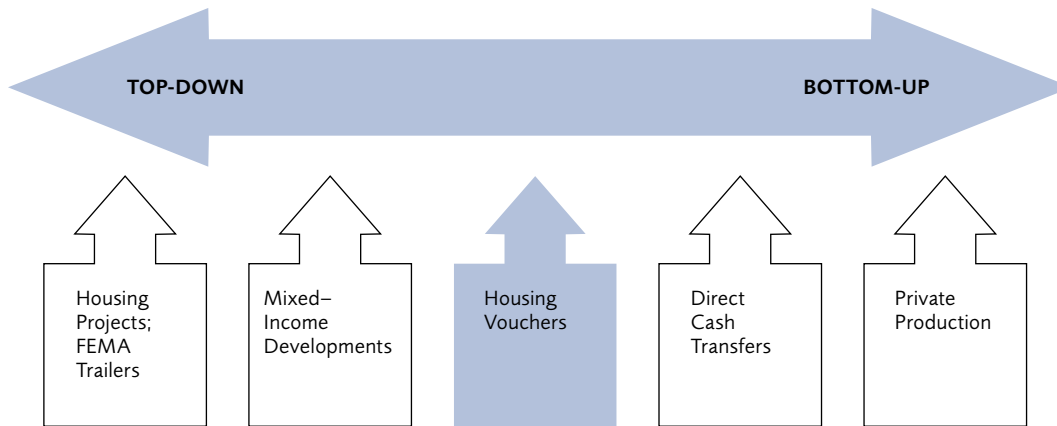
Housing assistance requires flexibility for a number of reasons. Primarily, if housing assistance succeeds in aiding families to achieve self-sufficiency, then the stock of publicly provided housing should decrease as families move out of the system. Programs designed with this goal in mind must also incorporate proper incentives for families to move toward self-sufficiency.

In addition, housing decisions involve a wide array of additional other factors, including proximity to employers, schools, public transportation, and social networks and activities. Many of these factors contribute to an individual or family's ability to achieve self-sufficiency. However, because different people and families will weight these factors differently, housing assistance is best when it can do different things for different people in accordance with their highest valued preferences.

35. Dendy Macaulay, "The Importance of Neighborhood Ties: Relocation Decisions after the Chicago Fire of 1871," (Ph.D. dissertation, University of Chicago, 2007).

36. Emily Chamlee-Wright, "After the Storm: Social Capital Regrouping in the Wake of Hurricane Katrina" (Working paper, Mercatus Center at George Mason University, 2006).

**FIGURE 7: CONTINUUM OF RIGIDITY IN TERMS OF HOUSING PROVISION**



Furthermore, in the event of a disaster such as Hurricane Katrina, a housing policy that can respond quickly by adjusting how it aids people is preferable to one that cannot adapt quickly.

Figure 7 categorizes the five housing policy options, ranging from the most rigid to the most flexible.

Housing projects are the most rigid of the five options. As history has demonstrated, this form of housing assistance is a one-size-fits-all solution. Instead of housing people in various places around the city according to individual needs and preferences revealed through choice, the location of such a facility is predetermined and fixed for a long period of time.

Mixed-income facilities offer only a slight improvement over the failed policy prescriptions of past efforts of government planning. This means of providing assistance is inflexible to changing circumstances and provides the consumer of housing assistance no option for adjusting the policy to his or her individual preferences for housing.

Housing vouchers represent a middle ground. They provide policy makers with opportunities to take advantage of such programs' flexibility, as vouchers allow individuals to make choices which best suit their needs or preferences.

Direct cash transfers represent a move from in-kind transfers to direct payments. Instead of issuing vouchers, direct payments give low-income individuals cash. These individuals can then decide how much of the payment to spend on housing. This form of assistance allows individuals to purchase the mix of housing and related services they prefer.

Finally, a private-market means of assisting low-income individuals would occur through private philanthropy and organizations with the purpose of assisting those in need. With this option, there is no public crowding out of investment, and in addition, incentives are created in the market to supply more housing. Affordable housing becomes more readily available to people with lower incomes as new housing is constructed for the wealthier. As people upgrade, they leave their older homes, which are in turn sold to individuals further down the ladder.<sup>37</sup> A study conducted by Lansing, Clifton, and Morgan in 1969 claims that every new home built generates 3.5 additional spillover purchases; 9 to 14 percent of which are bought by low-income families.

In the wake of the storm, the federal disaster assistance policy operated in the same manner as all rigid policy measures. As a result of the policy's rigidity, among other things, over 135,000 FEMA trailers failed to reach those in need for months after the storm.<sup>38</sup> While some trailers did reach those in need, people still had to go through a

37. John Lansing, Charles Clifton, and James Morgan, *New Homes and Poor People* (Ann Arbor, Michigan: Institute for Social Research, 1969).

38. Amy Lui, *Building a Better New Orleans: A Review of and Plan for Progress One Year After Katrina* (Washington, DC: The Brookings Institution, 2006).

two-step process to get into sustainable housing arrangements. This rigid approach of standardized assistance was a failed attempt at a quick-fix for a situation that still begs for another solution.

Within three weeks of the storm, however, the voucher program expanded to accommodate an additional 5,185 families—more than half the program’s original capacity.<sup>39</sup> This method of assisting families allowed them to immediately find the best places for them, places that may become permanent homes. The fundamental difference in these methods centers on enabling individuals to make choices for themselves, which is what vouchers do best.

The following policy recommendations capture the benefits of tenant-based assistance and represent a move away from past failures in housing policy:

1. Halt the adoption and construction of all forms of project-based assistance, including the revitalization of government projects and construction of MIDs.
2. Administer all future housing assistance directly to the recipient through vouchers.
3. Transfer the property rights of government projects from public to private hands, either through assistance-based title grants to low-income individuals or unrestricted private auction.
4. Provide an institutional climate favorable to real estate investment.

As local authorities assist the New Orleans community in its recovery, they must refrain from enacting any further project-based assistance if they wish to develop an improved housing policy. Now is the time to stop the perpetual cycle of policy failure.

To do this, New Orleans must administer all future housing assistance through vouchers. Such a policy should include provisions for the transfer of property rights of government-held land to private individuals through assistance-based title grants, unrestricted private auction, or both. Freeing resources of publicly



held property will permit more efficient allocation of land and housing, while simultaneously generating revenue for the local government.

Furthermore, officials in New Orleans must consider adopting additional policy reforms that will stimulate the city’s investment climate. Such measures include, but are not limited to, lowering the property tax rates, reducing regulations, and relaxing zoning requirements.<sup>40</sup>

## Conclusion

THE KATRINA DISASTER has given New Orleans an opportunity to change the face of its housing policy. Doing so does not require a monumental shift to an unknown, but it does require acknowledging failure and recognizing opportunity. Successful policy needs to affirm systematically the ability of individuals to make the best choices for themselves and their families.

MIDs neglect the preferences of some individuals and prevent people from using long-existing social networks from their previous community. Because stimulating and supporting civil society is crucial to the rebuilding of a

39. See Department of Housing and Development, “PHA Plans: 5 Year Plans for Fiscal Years 2006–2010, Annual Plan for Fiscal Year 2007” (2006), 1–169.

40. Benjamin Powell and Edward Stringham, “Housing Supply and Affordability: Do Affordable Housing Mandates Work?” *Reason*, April 2004.



Weeds and broken fences surround the empty projects (left, center). Few children play alongside the Guste projects (right).

vibrant city, housing policy must do the least harm to the existence and function of neighborhood ties.

In a situation characterized by uncertainty, the functioning of civil society requires clear signals and credible follow-through from policy makers. As a top-down rigid policy, MIDs cannot accommodate the inherent uncertainty of post-disaster recovery. Moreover, MIDs may create further distortions in the market as time moves on and the city recovers. Producer-side subsidies, such as MID policy, create coalitions of private interests that seek political favors over time.

Fiscal responsibility is essential for a healthy community. Mixed-income developments are more expensive than comparable housing assistance policies. Moving housing assistance entirely to a voucher choice program would yield better outcomes at a lower cost than the status quo. The financing from the sale of government land should be taken advantage of as an opportunity to improve fiscal responsibility within the housing assistance program. The MID approach is unable to accommodate all of the families receiving assistance prior to the storm and has no means of ensuring ongoing financing without increasing costs imposed on the taxpayers.

Policy makers must recognize the health of the community in general as an important goal of housing policy

in the future rebuilding of New Orleans. Tenant-based assistance programs have historically demonstrated better outcomes than project-based assistance, for both the recipients of assistance and the community at large. As the program is not new to the community, implementing such a change would represent a transition to an already accepted form of assistance.

Vouchers provide the best course of action possible to ensure that the city will develop efficiently in a manner that matches the preferences and profitability of private individuals. By providing assistance through choice, policy makers can satisfy a vast array of individual preferences and avoid wasteful, one-size-fits-all Band-Aids.







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