

# Berkeley Public Policy Journal

## **POST-ELECTION THOUGHTS**

*Interviews with Robert Reich and  
GSPP Dean Henry Brady*

## **HOUSING**

*Tiny homes and family homelessness*

## **HEALTH**

*Flaws in low-income ACA plans,  
the role of ideas in healthcare reform,  
and antibiotic resistance*

*... and features on Pell Grants and  
banks' capital requirements*

# Berkeley Public Policy Journal

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## POST-ELECTION THOUGHTS

A Conversation with Robert Reich  
**3** *ed. Beth Lewin, Celeste Middleton,  
and Andrew Wilson*

A Conversation with Dean Henry Brady  
**8** *ed. Mathias Gibson and Richard Zarrella*

## HOUSING

Tiny Homes and the Housing Crisis  
**19** *Sara Abarbanel, Cassie Bayer,  
Paloma Corcuera, and Nancy Stetson*

Ending Family Homelessness in the U.S.  
**34** *Gita Devaney*

## HEALTH

Cost and Risk in Low-Income ACA Plans  
**47** *Ian Perry*

How Ideas Shape Health Policy  
**55** *Thomas Huber*

Antibiotics and the FDA  
**64** *Christina Badaracco*

## FEATURES

Optimizing Pell Grant Policy  
**74** *Madeleine Jacobs*

Differentiated Enforcement of Banks'  
Capital Requirements  
**86** *Elsa Massoc*

## EDITORS' NOTE

Happy new year, readers. Welcome to 2017. You made it. What now?

At this point, we direct your attention to the cover of our issue: a painting entitled *Hope*, by René Romero Schuler. We see the painting as an image of strength, resilience, steadfastness—one that is also unapologetically humanist. It invites us to recognize our complicity in the structure of the world and to acknowledge the call to ethical action that this recognition presents.

Indeed, 2016 may have been an uncharacteristically bad year, but it was one we made together. If 2017 is to be any better, it is because of us. Things to come will demand exercises of solidarity, the craft of connection, careful planning, analysis, advocacy, and effort. It will, in short, require *us*—at our best.

In this issue, we present two interviews and seven articles that demonstrate the sort of public policy thinking that will be asked of us in the coming year.

First, the staff of BPPJ discussed the recent US presidential election, its consequences, and its potential with two professors at the Goldman School. Prof. Robert Reich spoke with us about populism and political feasibility. Prof. Henry Brady, Dean of GSPP, discussed the Electoral College, voting technology, and ways forward.

In the second segment of the journal, we focus on housing, a crucial factor in wealth-building, inequality, and our relationship with the environment. First, a team of GSPP students take a look at the potential role for so-called 'tiny homes' in mitigating the housing affordability crisis. Gita Devaney then discusses family homelessness in the U.S. and assesses the policy tools we might have for eliminating it.

The next section of this issue focuses on health. First, Ian Perry describes ways we might improve cost sharing and risk pooling in ACA plans targeted toward lower income individuals. Thomas Huber then unpacks the role of prevailing political economic ideas in shaping health care reform. Both articles are of particular relevance to the forthcoming efforts to

reform or dismantle ACA. Christina Badaracco closes the section by describing the mounting antibiotic resistance crisis and the role of the FDA in it.

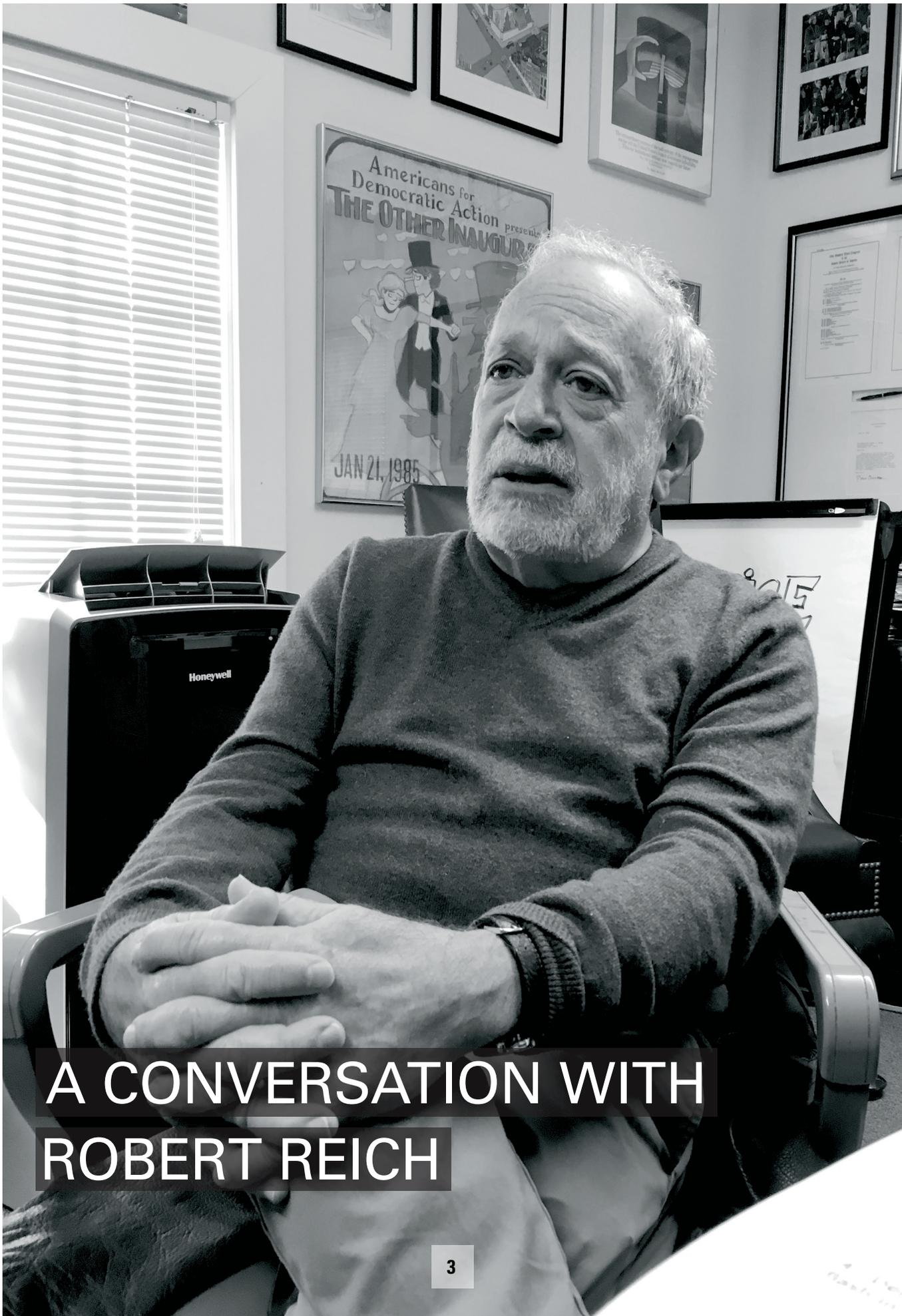
Our last two articles discuss Pell Grants—federal grants to low-income students for higher education—and international differences in the enforcement of bank's required capital ratios. Both speak to the diversity of issues addressed by policy analysts.

Finally, yes: we have changed our name. Because PolicyMatters is one of GSPP's oldest traditions and in recognition of the hundreds of policy students who have served as past editors of PMJ, we did not take this change lightly. Still, after discussion with stakeholders across GSPP, we feel the new name better reflects the Journal's importance to the broader campus and its place in the growing community of policy journals housed on campuses worldwide. We hope you agree.

In closing, all of us on the editorial board of the Berkeley Public Policy Journal would like to thank GSPP and its students, staff, and faculty that support our work, especially Martha Chavez, Larry Rosenthal, and other members of our Faculty Advisory Board. The journal would not be possible without the skill and effort of our fellow Editorial Board members; we would like to extend our sincerest gratitude to Ian Perry, Nisha Kurani, Jason Tilipman, Madelyn Gelpi, Minh Nguyen, Max Aaronson, AJ Herrmann, Lindsay Maple, Rob Moore, and Jerry Chiang for their hard work and commitment to the journal this past semester.

By the time you read this, BPPJ will be in new hands: Manu Gummi and Anna Radoff are already hard at work with their new Executive Board preparing our fall issue. We wish them the best of luck. It was an honor and a privilege editing BPPJ this past year.

Handwritten signatures of Jaylon Myers and Andrew Wilson in black ink.



# A CONVERSATION WITH ROBERT REICH

EDITED BY BETH LEUIN, CELESTE MIDDLETON, AND ANDREW WILSON

Robert Reich is Chancellor's Professor of Public Policy at the University of California, Berkeley and Senior Fellow at the Blum Center for Developing Economies. He served as Secretary of Labor in the Clinton administration, for which Time Magazine named him one of the ten most effective cabinet secretaries of the twentieth century. He has written fourteen books, including the best sellers *Aftershock*, *The Work of Nations*, *Beyond Outrage*, and *Saving Capitalism*. He is also a founding editor of the American Prospect magazine, chairman of Common Cause, a member of the American Academy of Arts and Sciences, and co-creator of the award-winning documentary *Inequality for All*.

The following interview took place in Robert Reich's office on 29 November 2016.

*BPPJ: The topic on all of our minds is the election. How do you assess what happened? What was the role of the media? And, perhaps, how did race and class dynamics affect the outcome?*

RR: I think there were three major factors and they all interacted.

The first has to do with the incontrovertible fact that the median wage in the United States has barely risen, adjusted for inflation, in 30 years. The median family income is below what it was in 2000, and a large number of men are out of the workforce altogether. The labor force participation rate is nearly at a historic low even though this recovery is supposedly gathering steam. And finally, we have about 25% of the workforce that is on their own: they are contract workers with no labor protections whatsoever and no ability to predict what they are going to earn or when they are going to be working. Add that all up together and you get a picture of people who are likely to be very stressed economically. The people who were Trump's major supporters did not have a four-year college degree and the people without four-year college degrees have been on an even more precipitous downward escalator.

Secondly—and this is no surprise because his-

tory is filled with examples—when you have a lot of people who are economically stressed, demagogues find it relatively easy to utilize race and prejudice—racial prejudice and ethnic prejudice—because they can channel that anxiety toward scapegoats, and that's exactly what Donald Trump did. This society obviously has a long history of racism, but our campaigns don't have a long history of overt racism, or overt appeals to hatefulness. At worst, it has been veiled—like Willie Horton in 1988. But Donald Trump has given permission to many people in our society to act out their racism, their misogyny, their homophobia, their other prejudices, in ways we have not seen before in modern history.

Thirdly, the media gave Trump whatever he wanted. They gave him free air time to an unprecedented extent because he knew how to give them ratings—increase their circulation. He is fun to watch, he's charismatic, he's unpredictable, he's outrageous—and all of that created a lot of entertainment value that was monetized by the media, so it was a perfectly symbiotic relationship. The losers were the American public.

I should also say something about the Republican and Democratic parties. The Republicans

have laid the groundwork for Trump's xenophobia and hatefulness. He just carried it all to a much more extreme degree than other Republicans have carried it. Meanwhile the Democratic Party utterly failed to respond to the economic anxieties of the white working class. Hillary Clinton barely campaigned in Wisconsin and Michigan. The Democratic Party for thirty years has stood by and watched the working class go downhill—failed to support labor law reform, failed to provide any means by which people who lose their jobs because of trade can get new jobs that pay nearly as much—and this is the reckoning.

*Looking forward into what a Trump administration may look like, how is Donald Trumps' election likely to impact inequality—in terms of macro implications, labor implications, etc.*

I'm not optimistic. We don't know a great deal about details of any Trump policy, but he has talked about a major tax cut for the wealthy: a cut of the top marginal income tax rate from 39.6% to 25%, a cut in the corporate tax rate from 25% to 15%. He wants to eliminate the estate tax and reduce capital gains taxes. Beyond this, he seems to be taking a page out of Paul Ryan's playbook in terms of turning Medicaid into a block grant and turning Medicare and the Affordable Care Act into voucher programs. As if all this weren't enough, the huge expenditure that Trump plans for military expansion and also infrastructure will generate very large deficits, and those deficits in turn will put even more pressure on programs for the poor that are the least easily defended politically.

*Trump has made a lot of promises to the working class. How do you think he will retain those voters?*

I think that Trump will say anything and claim anything, and will not be held accountable. I don't believe that the American working class will do better under Donald Trump. If there's a massive infrastructure program combined with big military buildup, there will be initially a Keynesian stimulus of a possibly very large proportion. That should reduce unemployment and even possibly generate some higher wages, but that's going to be short-lived. In every other respect, including getting rid of regulations that protect the workers and the environment, I think the working class will be worse off. But, Trump is a showman and a conman and I don't believe people will understand what's happening.

*It seems now that the Democratic Party is increasingly abandoning concerns of the working class and simultaneously furthering up a very expertise-driven, market-first set of policies. The Republican Party, meanwhile, is increasingly attracting working class voters—maybe even carrying the banner of their concerns. Are the parties reorienting? How do you assess this shift?*

That would be incredibly stupid for the Democrats. That doesn't mean they won't do that, but in reality, there's a civil war going on in both parties: the populists on the one hand against the establishment on the other. Donald Trump's form of populism is authoritarian and much of it is fake.

In the Democratic Party, we've had an election that revealed during the primary a huge outpouring of support for Bernie Sanders, but that support was more about what he represented than about Bernie Sanders himself. Had Elizabeth Warren run, she would have gotten as much if

not more support. That is a different form of populism.

We might call it “democratic” or “progressive” populism, but at its core it has a similar degree of indignation at the takeover of our democracy and economy by the monied interests who have used their financial power to get changes in laws and rules that further entrench and advantage their privileged positions and at the same time make many other people—most Americans—worse off.

We saw the beginnings of both forms of populism—that is, right-wing authoritarian populism and left-wing democratic populism—after the bailout of Wall Street. The rise of the Tea Party on the right and the brief emergence of the Occupy movement on the left were the first hints that the bailout of Wall Street ignited a reaction and made most Americans much more sensitive to the way the game is rigged through the connection between money on the one hand and a form of political corruption on the other—corruption that takes the form of campaign contributions; platoons of lawyers working for big corporations, Wall Street, and the wealthy who can litigate effectively in courts and in regulatory proceedings; expert witnesses paid to say whatever the moneyed interests want them to say appearing in court, in regulatory proceedings, and in hearings; and a very well-developed propaganda machine.

*We've seen how race plays into right-wing, authoritarian populism. How would you say it plays into of should be a part left-wing populism?*

Rather than right-wing and left-wing, I would

prefer to use authoritarian and democratic or progressive, just because left and right confuse the issue a bit. I think progressive populism has got to aim to create a new coalition that is multi-racial, multi-ethnic, and unites the poor, working class and much of the middle class, and is designed and focused on wresting the control of our democracy and our economy back from the moneyed interests that now control it.

If I'm listening to the sentences I'm using, and if I had used these sentences 10 years ago, I would be accused of being wild, rabid left-winger. The public is not far behind where I am, and in fact in many ways I'm being very conservative in my language. And this is, as I mentioned to you a moment ago, not any longer left-wing language. We heard exactly the same language from Trump.

Not long ago I went to meet a man who is considered by the *Conservative Digest* to be one of the two most conservative members of Congress. His name is David Bratt. He represents the 7th district of Virginia. He had a victory over Eric Cantor in 2014—the first time that a Majority Leader has ever been deposed in a primary. And the surprising thing to me about meeting David Bratt is that he sounded far more radical than I sound in exactly the terms I've just laid out. That is, the moneyed interests taking over our government, using it to extract not only rents but favors in the form of policy changes, in how the market is organized. He used the terms corporate welfare, crony capitalism, and the rest of the vocabulary concerning a rigged system.

In other words, David Bratt emerges from the same populist backlash against what's occurred

as Bernie Sanders—indeed everyone else who’s talking about this. Even Hillary Clinton, when she started her campaign, her first words were, “The deck is stacked in favor of those at the top.” I thought that was astounding, coming from her. You know, if her husband had used language like that in the 1990s, everyone would’ve dropped over dead—fainted in fear and desperation.

*A lot of us in GSPP are concerned about the relative standing of policy analysts at this point—and wondering where we go next. What is your advice for students? Where can we have the most impact? Is there a place in federal government, or should we be going state and local?*

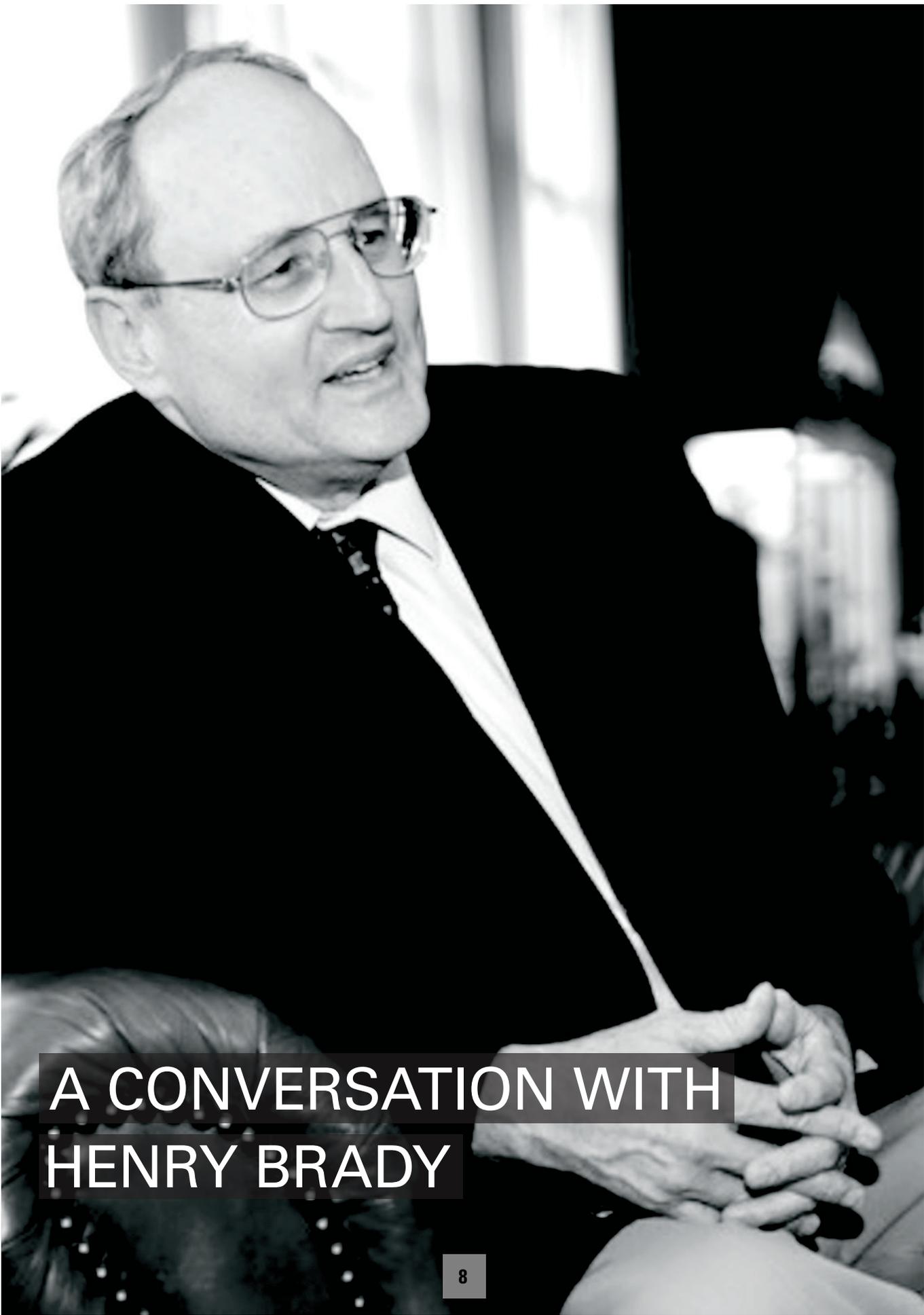
I still think it’s important to participate to the extent possible in the federal government. Now, there may be some students here who support Donald Trump and feel that he’s doing the right thing or that mainstream Republicans—Paul Ryan Republicans—are doing what should be done, and more power to those students. But if students share my concerns and values, there are many Democrats who need their help in Washington and there are many think tanks in Washington that need people to speak truth to power. In fact, even more so now than ever before, the public needs to know the truth. There will be a great effort by Donald Trump, and by his colleagues and advocates, to submerge the truth.

I think one of my real fears is Trump’s attack on the credibility of the press. If you combine that with what Republicans have done over the years to undermine the credibility of science, we’re in a world in which truth is very fragile. So students from the Goldman School have a huge responsibility.

The alternative, obviously, is state government, and we’re blessed to be in the capital of progressive America—a nation within a nation called California, but you might include Washington and Oregon. If we could join Canada and become three additional provinces of Canada that might be an easier way to go, but I don’t think that’s going to happen: secession is very difficult; we fought a civil war over that, so I doubt that’s a likely outcome. Nonetheless, these three states here have a great deal of discretion. Many federal programs rely on state governments for implementation and for design. And in addition, California in particular, with the seventh-largest economy in the world, has a huge amount to do and a large number of policies to be examined and to implement.

Don’t forget, the states really are laboratories of democracy, as Louis Brandeis once pointed out, and the entire Progressive Era and New Deal rested on innovations that occurred first at the state level. So in a very real and practical sense, this is the best of all times to be graduating from the Goldman School and having a set of policy tools.

One final piece of advice: we’ve got to be careful not to eliminate policy alternatives because they don’t seem politically feasible. If the test is political feasibility, we’re in a new world in which you might conclude that almost nothing is feasible. We’ve got to focus more than we do as a school and in terms of our curriculum on making things feasible that may not be politically feasible right now through organizing and mobilizing the public.



A CONVERSATION WITH  
HENRY BRADY

EDITED BY MATHIAS GIBSON AND RICHARD ZARRELLA

Henry Brady has served as the Dean of the Goldman School of Public Policy since July 2009. He is the Class of 1941 Monroe Deutsch Professor of Political Science and Public Policy at the University of California, Berkeley, and received his PhD in Economics and Political Science from MIT in 1980. He has written on electoral politics and political participation, social welfare policy, political polling, and statistical methodology. He has worked for the federal Office of Management and Budget and other organizations in Washington, D.C. He is past president of the American Political Science Association, past president of the Political Methodology Society of the American Political Science Association, and was the director of the University of California's Survey Research Center from 1998 to 2009. He was an expert witness in the 2000 Butterfly Ballot case in Palm Beach, Florida, and testified before the Carter-Baker Commission on Federal Election Reform.

The following interview took place in Dean Brady's office on 5 December 2016.

*BPPJ: Hillary Clinton won the national popular vote by a larger margin than Obama did in 2012, but lost the Electoral College vote. Should we abandon the Electoral College for a national popular vote system, or are too many interests served by the status quo to actually change it?*

HB: Yes, we should abandon it. However, it's in the Constitution, which is part of the problem. Of course that makes things hard to change, but the forefathers would not recognize the electoral college as it currently is utilized, because their idea of an electoral college is a group of notables who got together and picked the best person in the land to be president. I would love to see what George Washington, Thomas Jefferson, John Adams, Benjamin Franklin, or Alexander Hamilton would say about Donald Trump, it would be very interesting. Historically, it soon became clear that it wasn't going to happen that way, that there was going to be a party system and then pretty soon the Electoral College became a mechanism whereby the states could convert their popular vote results into decisions about how the

electoral votes were going to be allocated, but that still left the fact that we have an electoral college system that is gerrymandered such that small states have a lot more power in the system than larger states. So Wyoming and Montana both get two senators, but they have only one member of congress, so they get one plus two electoral votes, while California gets 53 congressional votes plus two, so the plus two is a much smaller ratio of our total representation. Those two votes give Montana roughly 2-3 times the power they should have in the Electoral College. Plus, another negative effect of the electoral college is that it leads to a focus on states with particular characteristics. In this case it was the Rust Belt, and if the election had been done by popular vote, California would have gotten a lot more attention and the issues we care about are completely different than the Rust Belt. It would have been a much different campaign and election.

*What's your response to the argument that the Electoral College preserves a diversity of interests across the states?*

I don't even begin to see how that argument makes any sense. If you had to campaign in all 50 states, of course you'd have to deal with diverse interests. If every vote counted the same, you'd go to places you think you could pick up votes, and you'd appeal to all sorts of interests. What the Electoral College does is narrows the interests that are focused on, and it means that maybe 10 states get attention during the campaign while the other 40—some of the biggest states, Texas, New York, California—get no attention. It's ridiculous, it makes no sense.

*Do you see an avenue for change?*

There's what Steve Silberstein is trying to do: the National Popular Vote, a clever idea. The trouble is that it's not clear that there's enough states signing on. They have to get to enough electoral votes to have it pass, 270.

*And those last states are mostly controlled by Republican legislatures, and the change requires cooperation. So is that idea dead in the water?*

Well, I'm not sure why the Republicans like the Electoral College, except that they've been the beneficiary of it and maybe they presume they'll continue to be—which is probably true given the distribution of vote in America—but it's certainly not a democratic procedure. They make other specious arguments, my other favorite one is "if we had a national popular vote, then if the race was close there'd have to be recounts in probably every state in the union because the election systems are so bad." My answer is: why are the election systems so bad? In a country that has Silicon

Valley and the best technology in the world, why can't we count votes correctly? So the notion that you want to have an Electoral College to minimize the degree to which you have to do recounts strikes me as giving in to a tremendous failure. It becomes a battle of bad vote counting systems, which is an embarrassment.

*Do you see any ideas with potential?*

A constitutional amendment is an option, but I don't see it going anywhere, it's too much work.

*Voter turnout hit a 20 year low during the last election with 55% of voting-age citizens taking part, close to the previous low of 53.5% in 1996. How should we go about getting more citizens to participate in the process, and is increasing turnout even important?*

Oh it is important—it really worries me and I've written books about this. The trouble is that the people who don't vote tend to be at the lower end of the socioeconomic scale and therefore their concerns are not given any attention. In this case, what's good news in some sense from the Trump campaign is that he did mobilize a lot of lower-income white voters and got their concerns aired. But a lot of other people who are also facing real issues and concerns did not vote at such a high rate: young people, African Americans, Hispanics, and so forth. Their concerns were not represented, especially low income folks. That is really worrisome, that's not a good system.

*Other than procedural barriers, how do you encourage or motivate those people?*

It's a really hard problem, nobody knows the an-

swer. Part of the problem is that when the campaigns go out and think about mobilizing voters, they have to make decisions about how to spend their precious dollars, which means they are going to go out and get the person who is just at the margin of turning out to vote. Complicating that is that they've got to be registered. One of the problems we have is that we don't have a registration system that makes it easy for people to register on election day. Next, the campaign has to have a sense of if they try to get the voter to go the polls that voter actually will go, and so forth. But typically it is harder to move lower income people, so campaigns don't put money and effort into doing so. One thing we can do to fix this is to have same day registration. There is no reason in the world not to have this. Twenty years ago it was a hard thing to do, but now with modern technology you can have same day registration with computers that can figure out if someone is registered to vote elsewhere, and go from there, so you don't have to worry about fraud and problems like that.

*How much of it do you see as a cultural problem, vs. a human behavior problem?*

Well, part of it is a cultural problem and part of it is that it's really a class issue more than anything else. It's not a race problem. In fact, what's interesting is in 2008 and 2012, African Americans voted at a higher level and participated in politics at a higher level than whites of comparable socioeconomic status. So the low participation of blacks overall—and it was low—was purely a function of their socioeconomic status, their

class, not their race, because they in fact participated at a higher level than whites, controlling for race, controlling for socioeconomic status. So the problem is a problem of class, and it's a problem of people who don't have much education. They're not very knowledgeable about politics. They find politics bewildering, hard to understand. They have lots of other problems in their lives, and politics, frankly, is down the list. And they're going to focus on those problems and not on politics. But that's why we've got to find ways to somehow get them more interested in politics. Obama helped do some of that, Clinton did not. People who appeal to them in terms of, I think, ideas to help them, that can help mobilize people.

*What are your feelings on increased civics education and compulsory voting as potential solutions?*

I'd be for civics education if we could find a good civics program. A lot of them are really crummy. But there are some good ones out there; and if we could do good ones, that would help. Again, same day registration would help. I might actually make it a requirement that young people vote in their first election. And why would I do that? Because voting is a habit. And there's real literature on this. It's like opium, except a good habit. And after you've done it once, you tend to do it again. So if we can get young people to vote—and they're the people who typically don't vote very much—then we can get them habituated, and they'll continue to vote. So I would love to have mandated voting for young people. Now given that this is America, there will be a lot of people

who scream about that's violating their freedom not to vote, but I'd still go for compulsory voting if I had my dictatorial choice.

*In 2000, the election was marred by controversy given certain ballot issues and confusion: hanging chads, butterfly ballots, that sort of thing. How has voting technology changed since then?*

Not enough. It's very embarrassing. We passed the "Help America Vote Act" that was supposed to improve the technology. The technology has improved somewhat, but the basic problem we have is that voting systems are decentralized to the counties and in some cases to the townships, like in Massachusetts and places like that. There are 3000 counties in the United States. Some of them are very competent and some of them are absolutely incompetent as you might expect with 3000 entities that run systems. Furthermore, some of them are very political. Part of the problem in Palm Beach County with the butterfly ballot was that there was a woman who had been a democratic county operative. She'd been given a job there. She'd worked her way up. She had designed the butterfly ballot thinking that she was doing a good thing but not knowing what she was doing. She was literally not very competent. And the sad story is, that cost Al Gore 2000 votes and it definitely cost him the election. My guess, and me and my colleagues who have looked at this, believe probably Gore won by 10-20,000 votes in terms of people's intentions as they went to the polls. Unfortunately, the voting system did such a crumbly job of recording those votes that he lost in the end by 537. But the problem is this

decentralized system and we've been unwilling to go to national standards. So the net result is that we get very bad systems.

*Is there a partisan barrier?*

It's less partisan. The history of it goes back to the period when basically voting was sort of a local function, then it was reinforced during the mid-nineteenth century. The south wanted to retain responsibility for voting in the counties. Why? Because they wanted to discriminate against blacks in the south and use that as a mechanism for doing so. And so that's just been retained and we just haven't gotten rid of it. And so it's states' rights, and even county rights that people believe in. It's an embarrassing system for the country with our technological capability, you heard me say that earlier. Every time I think about it, I'm appalled that we can't do better, because there's no reason we can't do better. We just don't.

*What in your opinion is the most credible path forward?*

I don't know if there is any easy path because part of the problem is that Counties have lots of competing demands. If you're a County administrator and you have to make a decision about whether you're going to fund the County hospital or provide healthcare to poor people or you're going to come up with a better voting system, what would you choose? You're going to choose the hospital. And so that just keeps happening. So the hope was with the Help America Vote Act that an infusion of Federal money would help you

improve the system, but the trouble is that money got frittered away on sort of pork barrel efforts. And then it got all messed up in the controversy about whether or not electronic voting machines were a good or bad idea. So a lot of money was spent on the machines, and then the machines were thrown away because people thought that they were unsafe, and so on and so forth.

*Given that history, what is your opinion on electronic voting machines?*

I think electronic voting machines with a paper trail are the best system you could possibly have. The paper trail makes sure you can go back and count to avoid the possibility that somehow things have been hacked and so forth. But with the electronic voting machines there's this great virtue that you can get in there, you can pick the language you want to use. It can also, at the end of your ballot, summarize how you voted. It can tell you you voted this way. And you can look and say "oh, did I vote that way?" And if not, go back and fix it. The trouble with any paper ballot is that it's eventually going to be read by, at best, a machine, and suppose you make a mark wrong. The machine is going to know that, or at least think that, but in fact you didn't mean to just put a light mark there, you meant to vote for Al Gore. And then the result is that the machine says well you didn't voted for Al Gore. So the electronic machine, because it can have this verification at the end of how you voted and summarize what you did, you can check your work. And then the paper ballot provides extra assurances. But unfortunately computer scientists really, really did

a job on those electronic machines.

*In what ways?*

They came up with all sorts of fairy tales about what was possible with respect to them. I spent a lot of my earlier years doing computer programming, so I'm not ignorant about computer programs. So I would have very ardent discussions with computer scientists who would say, "well you could build a compiler that could do XYZ," and I would say "yes, that's true in principle," but let's now describe exactly what that would require somebody to come up with, in advance, if they built a compiler, that later on would cause an election to be thrown. And we'd go through it step-by-step, and I'd say "does that seem possible to you?" And they would say, "well, it's unlikely but it could happen." I'd say, "well if it's unlikely then I don't think we have to worry about it so much." And furthermore, if you want to steal an election, it's a lot easier to use paper ballots and to throw them away. So here's how you can steal an election. Let's say it's paper ballots, like Scantron or something. You get into the voting area, you steal a bunch of the ballots, and you throw them away, and you choose to be in a precinct that is a place where there's heavy support for your opponent. So you've just thrown away a lot of ballots that are most likely votes for your opponent. I can teach my grandmother to do that. I can't teach my grandmother how to hack computers. So a lot of this is scare tactics, I think. I mean it's not that there aren't some concerns, it's just overblown.

*So, assuming that electronic voting with a paper trail is the ideal option—given the constraints we were*

*just talking about—is the simpler option like universal vote by mail a potential solution?*

That's possible. The problem with vote by mail is this, that there's actually a way that older populations or those people who may be under the control of somebody in their household can be forced to vote the way the head of the household or the person in the nursing home wants that person to vote. Because you can't vote in the anonymity of the voting booth. So I'm not as much a proponent as some people are of it. I think that it's got real possibilities for fraud. Much more so than in-person voting at the polling place. I mean there are people who will tell you there's all these Hispanics, millions of undocumented Hispanics who go to the polls and vote for somebody pretending they're somebody else. And I say to myself, "yes that makes a lot of sense." So you've got a Hispanic immigrant who's worried about being deported if he or she has an interaction with the law. So what they do is they decide to go to a precinct where typically everybody knows everybody else or lots of people know one another and they impersonate Henry Brady. And the person there says, "Yes you look like Henry Brady," and they vote. I mean, how implausible is that scenario? It's ludicrous. No undocumented immigrant in their right mind would do that. Why would you risk being deported to vote?

*Other than potential coercion, is there another risk of security or fraud with vote by mail?*

That's the major one I worry about. I mean, I personally like voting in person. I'm not against voting by mail, it's fine if people want to do it. It's

not as much of a panacea as some people think it is. And I do worry a little bit about the loss of the symbolic aspect of going to a polling place and actually voting. But obviously, it makes it easier for some people to vote, and so to the degree that it increases turnout it's maybe not a bad idea. The evidence last time I looked was mixed on that, I'm not sure. Oregon had an uptick the first time they did it, but it's not clear to me that persisted.

*Do you have any stories or insights about the 2000 election that you feel didn't make it into the popular knowledge about what happened?*

You know my biggest story, and it's not even in the things I wrote, was that here we were in Palm Beach county and we learned that there were a bunch of voters who were interviewed by the unions who said that they thought they had been mistaken in voting for Pat Buchanan when they meant to vote for Al Gore because of the butterfly ballot. So there were all these affidavits that said that. And so I'm talking to a labor guy who has all of these, and I'm saying to him, "Gee, I'm here as an expert witness with a bunch of lawyers who are trying to bring a court case about the butterfly ballot on behalf of citizens who felt like their votes were lost. Could you send me these affidavits?"

And he said, "No, I can't do that."

I said, "Why?"

And he said, "Well, the Gore campaign doesn't want us to."

And I said “Why?”

And he said “They don’t think it would be fair.”

I said “What do you mean fair?”

He said, “Well they feel that somebody might think that Al Gore is being a bad loser or something.”

I said “Well I don’t think he lost necessarily, so how can he be a bad loser?”

And so we go back and forth for about half an hour/forty five minutes, and finally the guy says “Aw hell,” and he starts faxing me the affidavits. But the bottom line there is this: when push came to shove and [Al Gore] had to deal with the question of what would happen in Florida, he went and got a guy named Warren Christopher, who had been Secretary of State. A very nice man, but not the guy you’d go to if your life is in peril. Sort of the guy you go to for a nice negotiator.

Who did George W. Bush go to? He went to Jim Baker. Jim Baker is an old horse trader. So Jim Baker did just what was the right thing to do. At every margin, he decided what would be to the advantage of the Republicans and he played that advantage. Even if it meant that five minutes later he was saying in another county, “Don’t recount the votes,” because he knew that was a Democratic county, while in the county he had just talked to a moment ago, he had said, “Do recount the votes,” because he knew that was a Republican county. And so, Gore went to Warren Christopher, Bush went to Jim Baker. And that was a moment I must admit I said to myself,

“I’m not sure that Al Gore really wants to win, or that he’s got whatever it takes to sort of have the killer instinct that you need to say, when push comes to shove, I’m going to do everything I can to win this thing.” He was trying to be fair, but that’s not necessarily the point at which you try to be fair. So, my story is about inside politics. How tough do you have to be? At what point do you say “you know, I don’t want to cheat, but on the other hand, I don’t necessarily have to be the referee either.” I’m playing a game here, and let the referees call what I’m doing a foul and I don’t have to pre-judge my actions as to whether or not they constitute a foul.

*We saw in the last election that facts and policy expertise took a backseat to half-truths, untruths, and emotional appeals. Going forward, what can we as policy analysts do to address this apparent change?*

I think that’s the big question that we’re all trying to grapple with right now, to try to figure out what is the point of analysis in a world where it doesn’t seem to matter very much? You know, I don’t have easy answers for this. I mean, I do think one thing we learned—and we knew this already in political science, but we really learned it with a vengeance—is that people’s group identity is really important to them. And if you can somehow appeal to that group identity, you can often trump actual policies that might be relevant for their well-being. You know, this was a classic theme in 19th century Europe, the clash between the democrats who thought more democracy would mean the lower classes would get enfranchised and you’d get better outcomes

as a result. And finding out that nationalism and ethnic identity often trumped that, the net result was you've got people voting across ethnic lines and not across class lines. And the net result is that democracy didn't do that much to level the playing field. That's not an answer, that's just a diagnosis of the problem.

*On a related note, what is it like, personally, to lead a policy school in the wake of this election when we don't know the answer to the question just posed?*

Well, at first I was concerned about the students, and I felt that all of you might feel, rightly, that we emphasize and put great stress on the importance of evidence, and you might say, "So, why does evidence matter if it turns out that it didn't seem to matter much in the campaign?" And my answer would be: reality comes back to bite you at some point. Maybe it's true that right now people are willing to forego a belief that climate change is occurring, but I think it's going to come back to bite us. They may be willing to forego the notion that billionaires can't solve the problems of poor people, but that may come back to bite them. And so on and so forth. And that's why fact-based analysis ultimately is important. But in terms of leading a policy school, it is a discouraging moment.

*Is it too early to tell whether a Trump presidency will have long-term impacts on the discipline of public policy?*

It's too early to tell. We just don't know enough about Donald Trump. One set of concerns are that he just doesn't know what he's doing and

that he's going to do really stupid things, and we've already seen things that are such departures from normal behaviors of a leader that you either have to feel that he's really really clever and fox-like—which I don't believe—or that he's just sort of missing an understanding of what you're supposed to do. On the other hand, I was concerned that he was going to invoke a really right-wing agenda, but it looks like he's going to do that as well. That's more of a partisan thing. There are going to be people who think that's a good thing, and people who think that's a bad thing. My concern about some of the right-wing agenda these days is predicated upon a lack of understanding of what the facts seem to tell us. For example, it's not the case that tax cuts—and again and again we've seen examples—it is not the case that tax cuts "raise all boats." It turns out that tax cuts are great for rich people, and not so great for poor people or middle-class people. But I fear that's what we're going to get from Donald Trump, is another round of tax cuts to "solve the problems of the economy," which will just make the lives of the people who he appealed to and who were supposedly his constituency even worse. So reality will come and bite.

*Do you think changing Democratic strategy might mitigate that to a certain extent? Have the Democrats been too focused on communicating hard policy instead of communicating emotionally?*

I worry that Hillary Clinton was not a good [candidate], and it's just her nature, she's a policy wonk, and she just didn't know how to make the quick case. I mean I constantly talk to people here

at the University, I remember one time talking to [a campus administrator] and saying “the right thing you should tell people is that we produce a Cadillac product at a Chevy price.” He says, “Oh, I couldn’t do that. That’s too gimmicky.” I said, “But you should! People will understand that. Cadillac product, Chevy price.” And instead he wanted to have a long, discursive, “dadada.” No! We gotta learn how to give the quick phrase that actually summarizes what’s really cool about us. We produce a Cadillac product at a Chevy price.

*Continuing along the lines of the discipline of public policy, how has it evolved since The Goldman School was established in 1969?*

You know, it’s been fairly constant, which is the good thing I think, because we started out with the notion that we wanted to have fact-based public policy and I think it’s continued to be that, and I sort of believe that’s something we must maintain because, the truth is, we don’t have a lot of weapons.

The one weapon we have is the truth. And I think it’s a powerful weapon. Sometimes it doesn’t work in the short-run, but in the longer run, as I say, reality bites you, and so the truth is important. And therefore, I think what has happened in public policy school is that we’ve gotten even better at figuring out what the truth is. So 20-30 years ago we didn’t have randomized controlled experiments, we didn’t have a lot of the statistical and other methods we now have, we didn’t have the databases we now have. We’ve just got a lot better methods for evaluating policies and implementing policies and making policies work

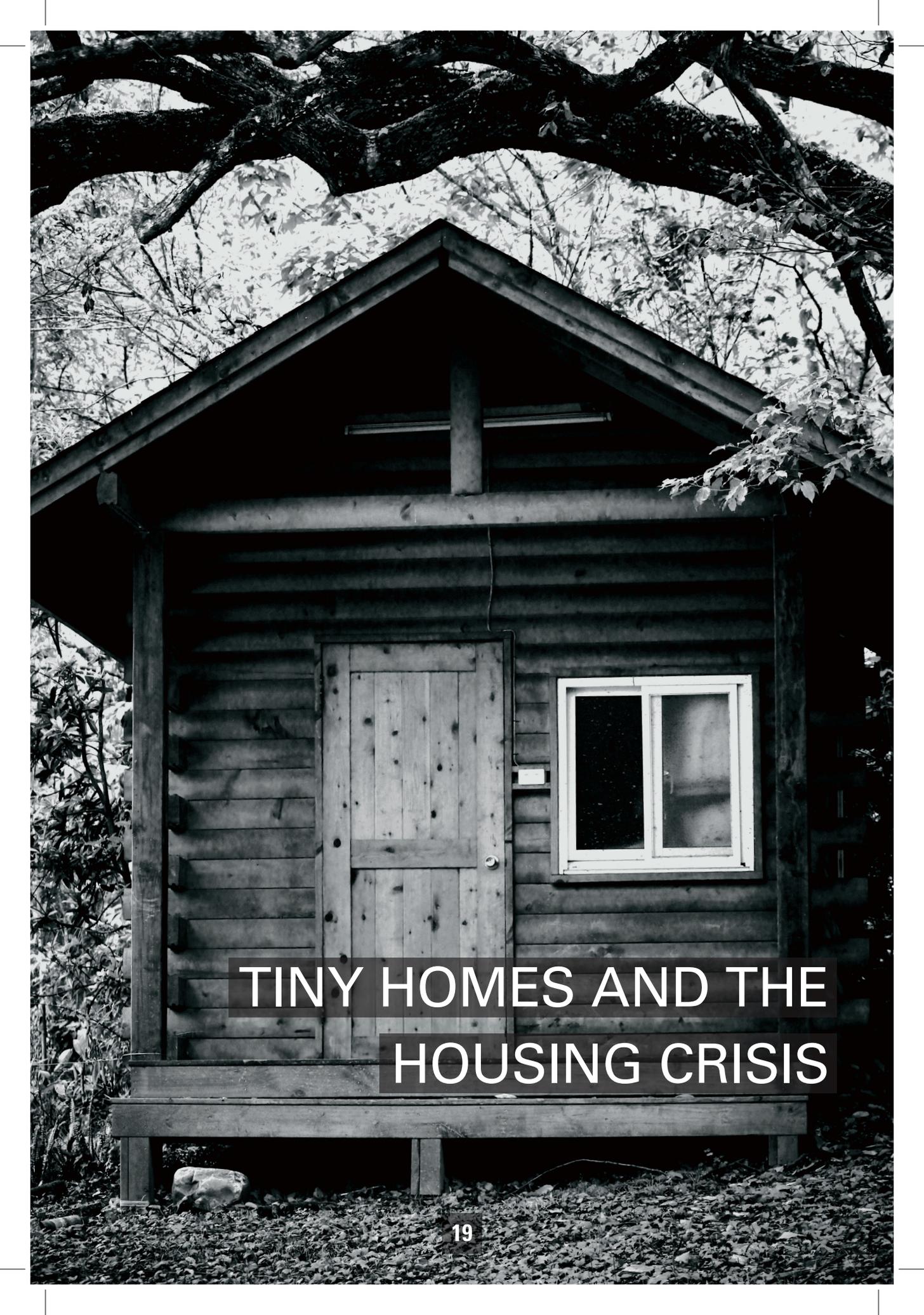
better than we used to have. And that’s very exciting. Government really can be made to work better, and in a way that I don’t think necessarily was easy to do 30-40 years ago. And so I’m happy to stay where we are and do what we do. At the same time I think we’ve realized that we’ve got to get even better at telling our story. We’ve got to help our students understand how to do that better. Although we’ve always believed that we’ve got to tell your story well, I think now we believe that it’s not only that you’ve got to learn to write a good memo, you have to take the next few steps and learn how to take that memo and translate it into a movement or into some kind of effort to get the policy adopted and implemented. And so now we do have courses in that kind of thing.

*Do you see further changes on the horizon or do you see the continued trajectory?*

I think we have a good formula. I think it’s pretty good, what we do. I mean, part of what we do too, that’s not always positive with the students, is that we teach students that markets are not the most terrible things in the world. It turns out markets solve some problems pretty well. And if you were ever in the former Soviet Union, you’d know that, because that was a place that didn’t have markets and it was a disaster. And so part of what I think we do is take very earnest, well meaning, hard-working and devoted young people and we say to them: look, you want to change the world? That’s great. So do we. But make sure you don’t make it worse because you intervened in circumstances where government makes the situation worse than it was before. And so you

must understand the way markets work, and furthermore you must understand that societies which have tried to get rid of markets have created disastrous results.

I mean, they've done some good things, like health care was probably more equal in the Soviet Union than in the United States, but it was abysmal. Hospitals didn't have running water. So you have to understand that there are mechanisms in the private sector which actually do some things very, very well. And if you want to make the world a better place, you've got to understand those mechanisms, sometimes utilize those mechanisms, figure out how to regulate them so that they can do an even better job, and all those kinds of things. I think that's what we do. And I think that's a real service. It is, in some sense, a conservative agenda that tries to use existing institutions to attain progressive ends.



TINY HOMES AND THE  
HOUSING CRISIS

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According to the National Alliance to End Homelessness, on a single night in January 2015, 564,708 people were experiencing homelessness in the United States (17.7 out of 10,000 people lack homes). Even though this national total represents a decline over the previous year, only 18 states reported decreases in the number of people living in unsheltered locations.<sup>1</sup>

In addition to the people already living in the streets, many poor people are at risk of homelessness. Fundamentally, this is because it is hard for them to afford housing. Families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care. An estimated 12 million renter and homeowner households now pay more than 50 percent of their annual incomes for their housing. A family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the United States.<sup>2</sup>

Part of the solution to this problem is to increase the stock of affordable housing. Tiny home villages are a recent approach to augmenting this housing stock in an innovative fashion, and have proven successful in numerous communities around the country. This article discusses the potential posed by tiny home villages, and examines a case study of several such villages in Lane County, Oregon.

There is no single definition of ‘tiny home.’ Typically, American homes are around 2,600 square feet, whereas the typical small or tiny house is between 100 and 400 square feet.<sup>3</sup> Tiny home village are groups of tiny homes which may have shared common areas, kitchen, and bathroom facilities.

Tiny homes for the homeless are an offshoot of the “Housing First” model for addressing homelessness, which prioritizes the autonomy of the inhabitants of the village. Many cities address homelessness with a Housing First model.<sup>4</sup> The idea is simple: provide housing first, offer services later. In this model, clients are required to pay rent—often 30 percent of their income, or up to \$50 per month. Similar to the current growth

in support for tiny homes, Housing First has historically been contingent on community-based organizations’ involvement and community members’ support.

There are two main models of tiny home villages: transitional and permanent housing. Transitional tiny homes typically consist of a small space with a bed and space for storage. In most cases, there are no bathroom or kitchen facilities in the unit. Instead, transitional tiny home villages have common space with shared bathrooms and kitchen areas. The objective of the transitional model is not to provide a permanent place to live, but to provide a stepping stone to more permanent housing for homeless individuals. Transitional tiny home villages provide

homeless individuals with a safe place to sleep and keep their property, as well as a community they can rely on while they look for a job and permanent housing.

The permanent model consists of slightly bigger houses that are more permanent structures. The permanent houses are designed to last 100 years, as long as a traditional house would last. These houses typically have a bathroom and kitchen in every unit. Permanent villages also often have common shared spaces to contribute to community-building, and the objective of these villages is typically to increase the supply of affordable housing.

#### TINY HOMES AS AN AFFORDABLE HOUSING MODEL

Tiny home villages are attractive because they provide a sense of ownership of a small private space in addition to a sense of co-ownership and community that comes from the larger common areas. Having common areas incentivizes the inhabitants of the village to interact in a natural social environment. This contributes to the creation and maintenance of a sense of community. Additionally, in many tiny home villages members of the community are expected to contribute to the maintenance and functionality of the village. This set of activities limits social isolation and is central to creating a sustainable community.<sup>5</sup>

Andrew Heben, author of *Tent City Urbanism*, found this sense of community important in tent cities and more recently in tiny home villages. In

informal interviews conducted in his multiple visits to different tent cities, he asked community members to rank the type of shelter they would most prefer. Heben found that, “affordable housing [w]as a first choice, followed by a tent city as a second alternative. The third choice was mixed—some preferred the local shelter while others preferred the street. [...] The preference of the tent city was largely attributed to the sense of autonomy and safety that the informal communities offer.”<sup>6</sup> Shelters ranked low as a housing option because they often have strict rules, including separating couples, and offer no private space.

In addition to providing a community, transitional tiny home villages can serve more individuals than the units they have available. For example, the tiny home community of Opportunity Village in Oregon has 29 units, but has served more than 90 individuals since its opening in 2013. Once acclimated to community living, the individual may be better prepared to move into more permanent affordable housing.

#### TINY HOME VILLAGES ACROSS THE UNITED STATES

Tiny home villages have taken root across the United States. There are many examples of tiny homes being used as housing for the homeless, including, but not limited to, Dignity Village in Portland, Oregon, OM Village in Madison, Wisconsin, and Quixote Village in Olympia, Washington. These villages are consistently at full occupancy, and some even have a waitlist of prospective residents. These projects have especially flourished in the Pacific Northwest.

## *Tiny Homes and the Housing Crisis*

Community support has been central to their success, in terms of both acceptance and funding. Below we outline three examples of tiny home villages, with both temporary and more permanent housing, and profile these communities as examples of different approaches to and models of tiny home development

### *Dignity Village*<sup>7</sup>

Dignity Village began as a transient tent city in Portland, Oregon, in December 2000. The village was forced to move around the city until it found its current location, on a bus route outside of town. Dignity Village signed a lease with the city for \$1/year for their current location in 2004. Over the next several years, the village evolved from tents to more permanent tiny homes. The houses were funded by private cash and in-kind donations. The land is designated by the Oregon Code as a campground. It now contains 43 raised homes with a program support professional who is employed by a local non-profit organization. Residents pay \$35 in rent per month in addition to 10 hours of volunteer labor to maintain the village. Rent from the 55 residents covers 80-90 percent of the \$30,000 per year operating costs of the village. The remainder is covered by private donations and resident-run microbusinesses, such as food carts and firewood collection. The main drawback of the village is its distance to the downtown and services: It is approximately an hour-long bus ride to downtown on a weekday. The village is also seen by the city as being temporary, as it is intended that residents stay no longer than two years. While Dignity Village was

controversial when it was being built, it now is more integrated into the community. The village generally has a good relationship with the surrounding businesses.

### *OM Village*<sup>8</sup>

OM Village was built as an offshoot of the Occupy movement in Madison, Wisconsin. The village started with three 98-square-foot cabins on wheels, and has since expanded to nine units. Each unit has a sink and there is a shared space with bathrooms and a kitchen.<sup>9</sup> Originally, OM Village appealed to City Council for the right to park these structures on church property. OM Village began to expand, and moved to a permanent location. After a \$50,000 crowdfunding campaign to build ten more permanent structures, the group successfully built a prototype for \$5,000.<sup>10</sup> Residents at OM Village do not pay rent, but are required to work ten hours per week at the community workshop, which makes goods that are then sold to support the project, or on other maintenance projects on the property.<sup>11</sup> The village has eschewed public funding, opting instead to raise money through private individuals and organizations. The Board shows an unwillingness to get involved with HUD due to the perceived administrative burden.<sup>12</sup>

### *Quixote Village*<sup>13</sup>

In December 2013, a group called Community Frameworks in Olympia, Washington worked to transform an informal tent city on church land into a tiny home village. Quixote Village is a publically subsidized permanent project, and

## *Tiny Homes and the Housing Crisis*

contains 30 tiny cottages on a two acre site. Each 144-square foot home has a half bath, closet, front porch, and garden area. The village also includes a community center with extensive shared space that includes lockers for storage, a laundry room, and large kitchen. The village employs a full-time program manager and a full-time residential advocate.

Quixote Village features a resident-run model. Each tenant is a member of the Resident Council, which elects officers every six months. Panza, the non-profit organization sponsor of the village, also attends the Resident Council meetings, helps staff Quixote, and coordinates legal and political advocacy. Thus, while residents are able to lead the village, Panza is still actively working parallel to residents themselves to ensure sustained success.

### **CASE STUDY: LANE COUNTY, OREGON**

Although the median household income in Lane County is \$43,685, the median income of renters is only \$28,800.<sup>14</sup> Furthermore, only 17 affordable housing units exist for each 100 low-income renters in Lane County, and of the 707 public housing units available in Lane County, only 11 have been available 60 days or more.<sup>15</sup><sup>16</sup> Fair market rent has also increased more than 10 percent for each bedroom-size (studio, 1-bedroom, 2-bedroom, etc.) in the last ten years.<sup>17</sup> Lane County overall has 157,899 housing units for roughly twice as many people. However, only 3,140 of these units are considered adequate, affordable, and available.<sup>18</sup>

The cost of home ownership is also rising. The average home value in Lane County is \$227,800, an 8 percent rise over the past year, and is expected to rise by an additional 3 percent over the next year.<sup>19</sup> Similarly, the mean monthly rental rate, currently \$1,224, is expected to rise in tandem with home values.<sup>20</sup>

The lack of affordable housing in Lane County is particularly acute in its Lane County's two largest cities—Eugene and Springfield. In these cities, the stock of affordable housing does not meet the needs of local residents. There is a lack of affordable housing in Lane County. For every 100 low-income renters, there are only 17 affordable housing units. The affordable housing that does exist is aging and may no longer be habitable in the coming years.<sup>21</sup> This housing shortage is in the face of unemployment, poverty, and homeless rates in the Eugene/Springfield area that are above both state and national rates.

Approximately 4 percent of all households in the United States and 12 percent of all U.S. renter households receive federal housing assistance.<sup>22</sup> In Lane County, through the Housing and Community Services Agency (HACSA), there are 4,300 families being housed through Section 8 and public/affordable housing programs each year.<sup>23</sup> However, housing assistance is not guaranteed: the waitlist for a Section 8 voucher in Lane County has been closed since January 1, 2015.<sup>24</sup> In the most recent allocations of Section 8 funding, only 1,600 of the 3,000 applicants in the pool were selected (via lottery system) to receive their spot on the waitlist. Furthermore,

## *Tiny Homes and the Housing Crisis*

the application date for those who most recently received Section 8 vouchers in Eugene and Springfield was January 2010—more than six years ago.<sup>25</sup> As the US Department of Housing and Urban Development (HUD) stated in their April 2015 Community Profile of Eugene and Springfield: “The need for affordable rental units is more than four times greater than what is currently being provided.”<sup>26</sup>

In FY 2015, Eugene and Springfield received more than \$31 million from HUD in grants, housing subsidies, and Section 8 tenant rental vouchers.<sup>27</sup> While Eugene and Springfield have increased affordable housing and continued to develop homelessness continuum of care programs with this funding, it is clear that this is not enough.<sup>28 29</sup>

There is a significant homeless population in the Eugene and Springfield metro area. In October 2015, HUD reported that there are 1,473 homeless individuals in Eugene and Springfield. Of the homeless population, 716 of these persons are unsheltered, 101 live in transitional housing (including Safe Haven programs), and 656 live in emergency shelters.<sup>30</sup> Since 2010, approximately half of the homeless population has been unsheltered at the time of the homeless population count. Eugene and Springfield have a homeless rate of 67 per 10,000 residents, significantly higher than either the Oregon or national rates of 31 and 20 homeless per 10,000 residents, respectively. Eugene and Springfield also have higher

rates of poverty (22 and 24%, respectively) than in Oregon overall (17%).\*

### *Tiny Homes in Lane County*<sup>31</sup>

In addition to the tiny home villages across the country, there is currently one active tiny home village in Eugene: Opportunity Village. This site is managed by SquareOne Villages, a non-profit organization based in Eugene, Oregon that works to create self-managed communities of cost-effective tiny homes for people in need of housing. SquareOne is also planning a second, more permanent tiny home community, Emerald Village, in the early stages of construction at the time of this writing.

Similar to OM Village, Opportunity Village was born out of the tent cities of the Occupy Movement. The village opened in August 2013 and consists

of 29 small buildings, designed to be transitional housing. Each house is essentially a room, a more sturdy replacement for the tents in which the homeless individuals had previously lived. The houses have neither bathrooms nor kitchens, but they lock and have space for a bed and storage. There is a common shared kitchen, bathroom, and meeting space. Along with the

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\*This count of the homeless population may even undercount the true homeless population because of the difficulties involved in quantifying the homeless population accurately. The homelessness rate is based on a one-night, once a year count. While the point-in-time count covers both sheltered and unsheltered individuals, there is no guarantee that all homeless individuals will be counted. In particular, the count takes place at the end of January. Because of winter weather, some people who are homeless may temporarily stay with friends and family or in a car, leading them to go uncounted.

tiny home, residents receive a bus pass and access to wireless internet.

The community is largely self-governed. Residency requires both cooperative labor and adherence to five basic rules: 1) no violence, 2) no theft, 3) no drinking/drugs, 4) no persistent disruptive behavior, and 5) everyone must contribute to the operations and maintenance of Opportunity Village.<sup>32</sup> Since the start of the project, there have been approximately two successful transfers out of the village for every resident that had to be asked to leave.<sup>33</sup>

Emerald Village is the planned extension to Opportunity Village. While Opportunity Village is designed to get people off the street, the goal of Emerald Village is to create permanent affordable housing for both formerly homeless individuals who have been living in transitional housing, and other marginally housed members of the community who are at risk of losing their housing. The village will consist of 22 houses, each 150-250 square feet, on a 1.1 acre plot of land. Each house will include a small kitchen and half bath. The project aims to create housing that is affordable for an individual living solely off of disability payments, with no more than one-third of disability income going towards rent.

Emerald Village will be a limited equity housing cooperative, meaning that the residents will own a share of the co-op. This is not strictly home ownership, as the co-op leases the facility from SquareOne Villages. Nonetheless, if the residents decide to leave they will have the opportunity to sell their share, allowing them to have

equity to invest in their next place of housing. There will be 22 co-op shares, one for each home. The initial value of each share will be \$1,500. SquareOne Villages estimates that a portion of a resident's monthly payment (\$50 to \$75) will go towards their co-op share.<sup>34</sup> Once a person's share is fully paid up, a resident's monthly payment will go down. When a person moves, the non-profit will buy out their share and start the process over with the new resident. Shares will earn interest if payments are made on time so that the value of the investment grows modestly

#### GENERAL CHALLENGES FACING TINY HOME VILLAGES

Transitional models of tiny homes are often not considered official dwelling units, because they may not include a kitchen or bathroom. The International Residential Code (IRC), for example, defines a dwelling unit as: "A single unit providing complete independent living facilities for one or more persons, including permanent provisions for living, sleeping, eating, cooking and sanitation."<sup>35</sup> While there are provisions in the IRC that exempt smaller structures from specific permitting requirements, there is no similar exemption for the electrical, plumbing or heating/cooling systems that would be associated with a dwelling unit.<sup>36</sup>

Not being considered a dwelling unit often places a transitional tiny home in conflict with local building code requirements. To be considered as more than temporary housing, however, all models must be large and tall enough to fit basic amenities, be heat-controlled, have full bathrooms

and nearby cooking facilities, be electrified, and be sustainably built for long-term use.<sup>37</sup>

This is of particular importance for tiny homes that may be built using HUD funding, which not only has stipulations, but requires housing to meet these dwelling unit definitions. Where tiny home villages have managed to navigate these challenges, they have been successful.

### IMPLEMENTATION FEASIBILITY

Each neighborhood in which a tiny home village will be built will have particular concerns about the building of the village. Some neighborhood concerns could include safety, health, and resident behavior issues. A neighborhood's particular concerns should be identified from the outset of planning.

It is important to have internal village community support. Many of the villages with which we spoke have community agreements. While the exact text varies village to village, the rules in the agreement document state the basic expectations for living in the community. They must be agreed upon and signed by all the members of the village. Should a rule be broken, there are consequences. The consequences vary depending on the gravity of the negative conduct, and range from a simple warning to expulsion from the village. The agreements serve as a concise way to inform the residents and the surrounding neighborhood of the positive culture that the village is fostering.

An application process is also a very important component of internal community building. The

application for residency may include a background check, skill inventory, and questionnaire. This application will help whoever goes through the applications to accept residents who are compatible with and can support the mission of the village. Some tiny home villages are self-governed and some have staff. Staff members in these villages are often part-time, helping with the management of the village and assuring the well-being of the residents. The positions can be funded by resident rent, the city, or a non-profit organization. If the staff member is also a resident of the village, it is important they want to be an active part of maintaining and cultivating a positive, collaborative environment.

Different tiny home villages have taken various approaches to include the neighborhood in the planning process. OM Village in Madison, for example, mentioned that neighborhood support was one of their main challenges. They approached the problem by engaging neighbors and answering questions. In their case, the City Council was supportive, which helped to get the surrounding community's support. Dignity Village in Portland also spoke about getting neighbor support as being important in the building process. Dignity Village expressed that while there was some initial conflict, they now have a positive relationship with their neighbors. In addition, Andrew Heben of SquareOne Villages attributed the organization's success siting Emerald Village to early outreach to the neighborhood association.

## CONSTRUCTION TIMELINE AND DURABILITY

Tiny home villages can vary in the time they take to build, depending on if they are part of the transitional or permanent housing model.

Transitional housing has historically taken longer to build. Opportunity Village, for example, took nine months to build. However, this is because it was built entirely with volunteers, and was built up as donations came in. This story is similar in some of the other villages. Each house does not take long to build, though. If all the funding is already in place, a transitional village can be built in one to two months.

A more permanent housing model from start to finish, including site work and laying a foundation, can take at least four months (based on the expectation of the time it will take to build Emerald Village). This timeline is also based on the use of volunteer labor. Even though the time to build a permanent tiny home is longer per house than building a temporary housing structure, it is still less time than building an average single family home, which takes about seven months.<sup>38</sup>

Even though tiny homes take less time to build than regular homes, more permanent tiny houses are expected to last the same amount of time as regular houses. The permanent houses in Emerald Village, for example, are expected to last 100 years, the length of time a normal single family home is expected to stand. It is unclear how long a temporary tiny home would last.

## ZONING AND LAND USE

Zoning and land use laws are extremely important in determining the feasibility of building a tiny house village. The land use laws of a particular locality may have requirements for minimum house sizes larger than the average tiny house. It is also possible that a locality has a limit on the number of houses that can be on a particular property. Zoning and land use law may exist on a state level, but a locality will often overlay their own city or county (or both) zoning and land use law(s). Each locality may also have its own process (and applicable exceptions) for determining whether a tiny house village could be built, despite the law in place. For example, despite being neighboring cities within the same county, Eugene and Springfield have different regulations to zoning and land use that affect the building of a tiny house village in different ways.

## LAND AVAILABILITY

Tiny home villages can be sited on small tracts of land of an acre or two for 20 to 30 houses. The critical determinant of land availability, however, is not the number or size of open lots but the tolerance for tiny home villages in the surrounding neighborhood.

SquareOne Villages found lots for both its tiny home villages in Eugene. The difficulty lay in finding land for the villages that was near to services and employment without creating substantial opposition from the neighborhood. Opportunity Village was built in a light industrial zone on a piece of land already owned by the city,

which the city has leased to the village. Although not centrally located, the village is close to a bus line and provides bus passes to the residents for transportation. The land for Emerald Village was bought in June 2015, and is located between a residential neighborhood and a railroad. Dignity Village in Portland similarly found land outside of the downtown area, but still on a bus line.

## **COSTS AND FUNDING**

### *Funding Models of Current Tiny Home Villages*

The costs for tiny home villages break down into the capital costs of building and the operating costs of maintaining the village. Here we review the costs and funding of three distinct villages: Opportunity Village, a transitional village model; Emerald Village, a permanent village model; and Quixote Village, a permanent village model that used HUD funding. These case studies illuminate the difficult navigation of government funding and outside funding for tiny housing.

In both capital and operating cost categories, there is large variation between Opportunity and Emerald Village. Opportunity Village functions largely as a replacement for a homeless encampment. It was built on city land, and the start-up costs were quite small. In all, the village's capital costs totaled approximately \$212,000 for 29 units, or \$7,300 per unit. More than half of that cost was raised through in-kind donations from members of the broader Eugene community, while the remaining was made up of cash donations. In addition, the city provides the land. The operating costs are approximately \$3 per night

per person, and the residents pay \$1 of that (or \$30 a month) to cover utilities and other costs. The remaining \$2 per night, or \$60 per month per person, is covered by fundraising.

Emerald Village will cost approximately \$1.5 million dollars for 22 units, including the cost of land, or approximately \$60,000 per unit. The operating costs will be covered by rent from tenants. Rent will be set at a level such that a person living off disability assistance need not spend more than one-third of that income on housing. If sufficient capital can be raised for start-up costs, rents will be around \$250 to \$300 per month. The rent will need to be higher if a mortgage is needed. SquareOne Villages is in the process of raising the capital for Emerald Village and has already bought the land.

Quixote Village, a 30-unit tiny house community, cost \$3.16 million in development. A white paper by Community Frameworks breaks down Quixote Village's costs and funding streams into detail.<sup>39</sup> More than half of the \$3 million that went into capital expenses was spent on site and building construction. The cost per unit is \$102,000, which is substantially lower than studio apartments; these typically cost \$200,000. The village has a yearly operating budget of \$246,000, of which a substantial portion is spent on two full-time employees who manage the resident needs and property. Approximately one-third of the operating costs of the village are spent on utilities and maintenance. Operating costs are covered primarily by Section 8 project vouchers, plus grants from the state and county.<sup>40</sup>

## *Tiny Homes and the Housing Crisis*

Building costs for Quixote Village included the cost of land, remediation, and building fees. The land was effectively free, most of the architectural and engineering services were donated, and a significant donation was made for excavation services. Panza, the parent group managing Quixote Village, needed to raise about \$2.6 million. Although Panza turned to community and private organizations for funding, they were also granted \$110,000 from city CDBG grants and \$604,000 from state CDBG for further development, and \$60,000 for the first year of program services.<sup>41</sup> The rest was funded by private, in kind transfers, private cash grants, inputs from Thurston County Land Donation and County Capital, and nearly half of total costs (\$1.5 million) were received from the Housing Trust Fund.

### **GETTING FUNDED BY HUD**

Tiny home villages are relatively inexpensive to build. Despite the number of funding streams that HUD offers, most of the villages cited in this report relied entirely on private and nonprofit donations to raise capital costs-- excluding Quixote Village. Developers of tiny home villages have typically not pursued HUD funds given the complex navigation, requirements that go with public funding, and ambiguity surrounding how to acquire funds. However, there are HUD funds that tiny homes can access not described in this text. Notable examples include, but are not limited to: Community development Block Grants, Emergency Services Block Grants, HOME Investments Partnership Program (HOME),

HUD Federal Housing Administration (FHA) Multifamily Mortgage Insurance, Low Income Housing Tax Credits (LIHTC), Section 8 Project Vouchers or Housing Choice Vouchers, and Self-Help Homeownership Opportunity Program (SHOP).

### **EFFECTIVENESS**

Tiny home villages could be evaluated for effectiveness based on a number of different metrics: They could plausibly reduce homeless, create more affordable housing, and/or increase the sense of community in a neighborhood. Opportunity and Emerald Villages have different goals (in part because one is transitional and the other permanent) and so should be evaluated differently. However, because there are only a few tiny home villages that are currently built, and those that have been built have not been around for very long, there is not enough data for us to fully evaluate of the effectiveness of tiny home villages. Instead, we outline metrics by which tiny home villages of the transitional and also more permanent model could be measured. Below, we outline a potential design for a full effectiveness evaluation.

### **TRANSITIONAL TINY HOME VILLAGES**

Opportunity Village is a transitional housing program, more permanent than a shelter or a tent, less permanent than a house or apartment. As such, any evaluation of Opportunity Village's effectiveness should focus on the effect that living in a supportive, resident-run model has on long-term homelessness.

Metrics to consider:

- What percent of residents successfully transfer to more permanent housing?
- Of the successful transfers, how many continue to live in stable housing one, two, or three years later?
- What percent of residents are able to find employment after moving into the village?
- What percentage of units are occupied at any given time?

### PERMANENT TINY HOME VILLAGES

Emerald Village aims to fill a gap in the housing market in Lane County. As rents increase, and housing assistance is limited, it becomes impossible for an individual relying on government assistance or a minimum wage job to find affordable housing.

Metrics to consider:

- Do rents remain low?
- Is there demand for the houses?
- How long is the waitlist for the houses?
- Once the houses are built, how long do they stay vacant?
- Are the buildings permanent? Do they remain in good repair for a significant amount of time (40+ years)?

### AN OVERVIEW OF EVALUATION

On the following page (Table 1), we apply our feasibility criteria directly to the Opportunity and Emerald Villages, the villages that are or will be in Lane County, Oregon. As noted, Opportunity Village is designed to be temporary housing for homeless individuals until they can find permanent housing. Emerald Village, to be built, will

be made of permanent homes that can be lived in long-term. How these villages have been set up can be seen as templates for new tiny home villages.

### CONCLUSION

*Tiny homes can be a feasible, cost effective option to house homeless and marginally housed populations that are interested in a community-building housing model.*

Given their success in Oregon and elsewhere, tiny homes should be considered as an alternative housing model. The foundation for tiny homes already exists; they are similar to the traditional Single Room Occupancy (SRO) model, where each resident gets a small room and shares some facilities. They also resemble small mobile homes, yet can be built to last, with foundations and full kitchens and bathrooms. While tiny homes should not be considered vastly different from these other forms of affordable housing, there are a few distinctive considerations that should be taken into account.

Even the permanent model of tiny homes may not be a desirable housing model for everyone. While projects within this scope target single individuals or couples, housing a family in a tiny home may not be a feasible, permanent solution. Even individuals or couples may find the homes simply too small to live in as they wish. While this model may prove successful for certain residents, it is important that the occupants self-select into this unique living situation.

## Tiny Homes and the Housing Crisis

Table 1: Comparison of Opportunity Village and Emerald Village by evaluation criteria

	<i>Opportunity Village (Temporary)</i>	<i>Emerald Village (Permanent)</i>
<i>Description</i>	Temporary, simple rooms without private bathrooms or kitchens	Permanent homes with private bathrooms and kitchens
<i>Residents</i>	Formerly homeless individuals	Marginally housed and previously homeless individuals who have completed some transitional program (such as living in Opportunity Village)
<i>Size</i>	60 to 80 square feet	150 to 200 square feet
<i>Zoning Challenges</i>	<i>Springfield:</i> Homes must be 120 sq. ft. (excepting manufactured homes); Shared kitchens must go through an application process <i>Eugene:</i> Apply for a conditional use permit	<i>Springfield:</i> Homes must be 120 sq. ft. (excepting manufactured homes); Shared kitchens must go through an application process <i>Eugene:</i> No particular barriers
<i>Cost to Build</i>	\$7,300 per unit	\$60,000 per unit, and possibly higher as seen in Quixote Village
<i>Funding</i>	\$98,000 cash, \$114,000 in-kind	<ul style="list-style-type: none"> <li>• \$1.5 million total costs</li> <li>• In-kind donations</li> <li>• Possible mortgage</li> </ul>
<i>Operational Costs per Unit</i>	\$90/month	\$250 to \$300/month
<i>Rent</i>	\$30/month	\$250 to \$300/month
<i>Possible HUD involvement (not currently being used)</i>	Emergency Services Grants	<ul style="list-style-type: none"> <li>• Section 8 Housing Choice or project vouchers (limited)</li> <li>• CDBG</li> <li>• HOME</li> <li>• SHOP</li> </ul>
<i>Units</i>	29	22
<i>Effectiveness measure</i>	Homelessness reduction	Increasing affordable housing stock

The transitional model can house homeless or other individuals in need of emergency housing inexpensively. However transitional tiny home villages are likely not a panacea for homelessness. The villages may instead act as a stopgap, giving previously homeless individuals the opportunity to stabilize their lives. However, homeless individuals with significant mental or substance abuse issues may have trouble succeeding in a village without access to comprehensive social services.

Lastly, given the trendy nature of tiny homes, they may be part of a passing craze only to be replaced by a newer fad a few years down the road. In anticipation of changing cultural tides, tiny home villages should be constructed in such a way that they are sustainable.

Building tiny home villages will likely remain a challenge, but this is also true for other types of affordable housing. Land will need to be found, community support will need to be cultivated, zoning and land use standards will need to be met, and funding will need to be secured. Given the stringency of HUD funding, permanent models are likely to qualify for streams of funding not available for transitional housing, given the value of such permanence as perceived by HUD. However, we hope that through this report we have provided an enlightening perspective on the potential for an alternate, transitional model to also contribute meaningfully to reducing homelessness.

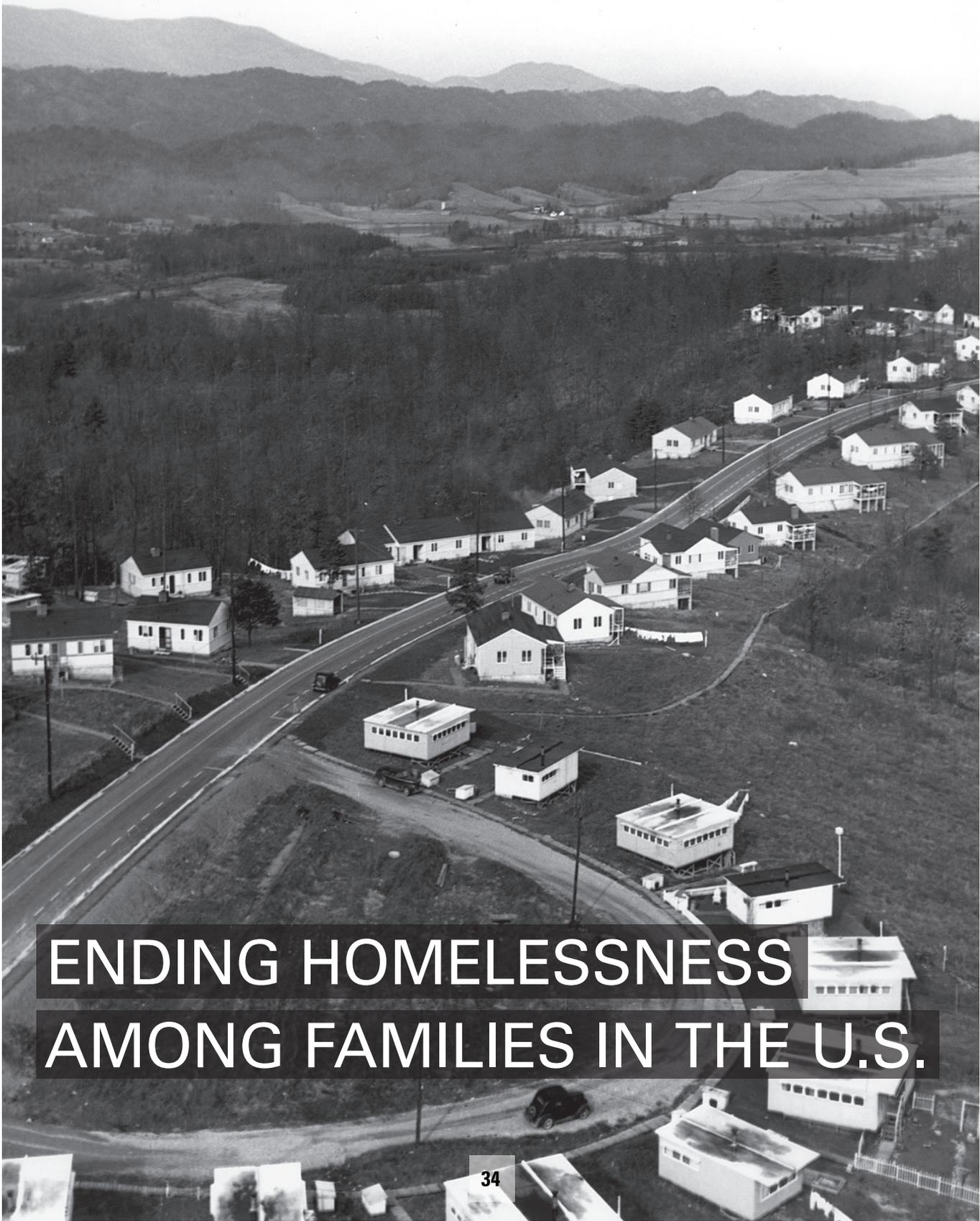
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## *Tiny Homes and the Housing Crisis*

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**ENDING HOMELESSNESS  
AMONG FAMILIES IN THE U.S.**

GITA DEVANEY

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Although family homelessness remains a serious and pervasive issue across the U.S., there are concrete, effective solutions that policy makers and organizations at all levels can take to reduce the occurrence and protect vulnerable populations from the risk of losing their housing. One category of solutions is aimed at providing direct, immediate support for those experiencing homelessness or those at imminent risk, such as rapid re-housing to maintain family stability and decrease the likelihood of adverse consequences. A second, equally important category is aimed at improving the efficacy of existing programs by coordinating services, collecting and maintaining valuable data, and ensuring appropriate and equitable care for those in need.

PROBLEM DEFINITION

Homeless people in families – categorized as those who are part of households with at least one adult age 18 or older and at least one child younger than 18 – represented 35 percent of the homeless population in the United States in 2016. Approximately 195,000 people in families with children were homeless across the country, of which 19,000 lacked shelter. More than 23,000 people were young parents (under the age of 25) and their children.<sup>1</sup>

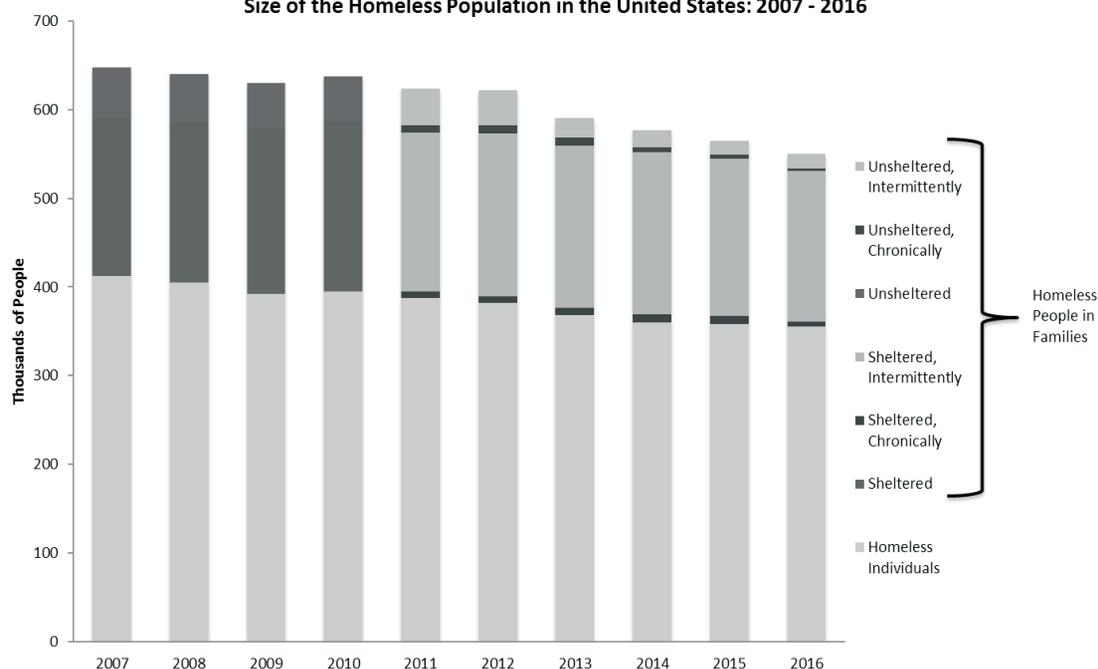
Homeless families deal with many of the same challenges faced by homeless individuals (adults who are not part of households with children) such as food insecurity, physical vulnerability, and inadequate assistance for mental health issues and substance abuse. Homeless families often face additional difficulties such as unstable childcare and education, domestic or intimate partner abuse, and the separation of family members. Moreover, children who experience physical and emotional trauma, as a result of homelessness, are at higher risk of physical and

mental health problems, worse academic and employment outcomes, and poorer interpersonal relationships as adults. These experiences, taken together, can perpetuate a cycle of poverty and its related ills into future generations.

The U.S. Department of Housing and Urban Development's (HUD) Annual Homeless Assessment Report (AHAR) reflects this growing awareness of the problems faced by homeless families with children in the United States, and presents clear goals aimed at reducing and ultimately ending family homelessness by 2020.<sup>2</sup> For example, HUD began reporting on chronically homeless people in families beginning in 2011, and on homeless parenting youth and their children in 2015.<sup>3</sup> Homeless parenting youth – defined as homeless parents under the age of 25 – and their children might be of particular concern as younger adults often have fewer resources and social connections than families headed by older adults.

In general, HUD data reveals two important characteristics about the nature of family

**Figure 1**  
**Size of the Homeless Population in the United States: 2007 - 2016**



Source: 2007-2016 HUD PIT Estimates. Data on chronically sheltered and chronically unsheltered homeless people in families are available starting in 2011.

homelessness in the United States – homeless families are far more likely to be sheltered, and far more likely to experience intermittent rather than chronic homelessness.<sup>4</sup> Based on 2016 data, 90 percent of homeless individuals in families were sheltered and 96 percent were experiencing intermittent rather than chronic homelessness.<sup>5</sup> These characteristics have potentially optimistic implications for efforts to reduce family homelessness. Namely, communities can leverage existing shelters and temporary housing systems to reach families and provide crucial assistance. Programs can also specifically target the short-term needs of those experiencing homelessness.

#### HISTORICAL AND GEOGRAPHIC TRENDS

From 2007 to 2016, the size of the homeless population declined in the United States. HUD

data indicate that, since 2012, the total number of homeless people declined 12 percent while the number of homeless people in families also declined 19 percent. The number of chronically homeless people in families nearly halved since 2012, decreasing from nearly 16,000 in 2012 to fewer than 9,000 in 2016. The number of unsheltered homeless people in families also decreased by 60 percent since 2012, from more than 48,000 to approximately 19,000. Figure 1 depicts the declines in the size of the homeless population since 2007.

When it comes to geography, homelessness in the United States is heavily concentrated in urban areas. Specifically, New York City and Los Angeles account for 21 percent of the total homeless population and 26 percent of homeless people

## Ending Homelessness Among Families in the United States

in families in 2016. New York City’s homeless population is especially skewed towards people in families – homeless people in families represented 61 percent of the city’s homeless population, almost double the national average of 35 percent. In Los Angeles, only 14 percent of the city’s homeless population was composed of people in families.<sup>6</sup>

Table 1 presents the total homeless population and the number of homeless people in families for each of the 16 regions that constituted more than 1 percent of the total number of homeless people in families across the United States in 2016. As the table shows, the composition of homeless families in individual regions varies. For example, while virtually zero percent of homeless people in families were unsheltered

**Table 1**  
**Regions that Account for more than 1 percent of the Total Number of Homeless People in Families (2016)**

Geographic Region	Total Homeless	Homeless People in Families							
		Total		Unsheltered		Chronically Homeless		Parenting Youth and Their Children	
		Number	% of Total Homeless	Number	% of Total People in Families	Number	% of Total People in Families	Number	% of Total People in Families
[A]	[B]	[B] / [A]	[C]	[C] / [B]	[D]	[D] / [B]	[E]	[E] / [B]	
New York City	73,523	44,558	61%	-	0%	1,064	2%	4,942	11%
Los Angeles City & County	43,854	6,128	14%	1,831	30%	498	8%	454	7%
District of Columbia	8,350	4,667	56%	-	0%	96	2%	1,215	26%
Boston	6,240	3,755	60%	-	0%	314	8%	74	2%
Seattle/King County	10,730	2,982	28%	56	2%	29	1%	360	12%
Nassau, Suffolk Counties/ Babylon/Islip/ Huntington	3,960	2,884	73%	2	0%	80	3%	389	13%
Philadelphia	6,112	2,682	44%	-	0%	79	3%	703	26%
Oregon Balance of State	5,710	2,281	40%	1,730	76%	159	7%	155	7%
Georgia Balance of State	5,575	2,183	39%	786	36%	90	4%	75	3%
Chicago	5,889	2,168	37%	10	0%	9	0%	471	22%
Texas Balance of State	6,048	2,150	36%	173	8%	30	1%	264	12%
Metropolitan Denver Homeless Initiative	5,728	2,147	37%	77	4%	23	1%	244	11%
Honolulu	4,940	2,143	43%	299	14%	96	4%	114	5%
Washington Balance of State	5,294	2,113	40%	667	32%	95	4%	200	9%
Phoenix/Mesa/Maricopa County Regional	5,702	2,082	37%	6	0%	36	2%	234	11%
Springfield	2,385	2,006	84%	-	0%	110	5%	256	13%
<b>United States Total</b>	<b>549,928</b>	<b>194,716</b>	<b>35%</b>	<b>19,153</b>	<b>10%</b>	<b>8,646</b>	<b>4%</b>	<b>23,210</b>	<b>12%</b>

Source: 2016 HUD PIT Estimates.

in several regions, 76 percent were unsheltered in small rural counties in Oregon and approximately a third were unsheltered in Los Angeles, rural Georgia, and rural Washington. Likewise, the percentage of homeless people in families headed by young adults ranged from 2 percent in Boston to 26 percent in the District of Columbia.

Moreover, while the national homeless population has been declining in recent years, homeless populations in the areas with the largest number of homeless people have remained flat or increased. Figure 2 shows this trend for the five regions with the largest populations of homeless people in families in 2016: New York City, Los Angeles City and County, the District of Columbia, Boston, and Seattle/King County. In all regions save Los Angeles, the total number of homeless people has increased from 2007 to 2016. In all five regions, however, the total number of homeless people in families increased over this time period.

### CAUSES AND RISK FACTORS

A number of structural and community-based factors contribute to families experiencing homelessness, including:<sup>7</sup>

- rising housing prices
- limited wage growth among low-skilled workers
- welfare reform
- lack of public housing and homeless shelters

Individual and family risk factors include:<sup>8</sup>

- exposure to domestic violence (80 percent of homeless mothers have experienced domestic violence)

- a history of mental illness
- substance abuse
- single parent female-headed households (which leave women and children more vulnerable to economic hardships)
- lack of social support networks

Research that attempts to identify the impact of each of these factors has produced mixed results, potentially due to inadequate data and difficulties in collecting longitudinal data on homeless families. In political circles, family homelessness is commonly attributed to low wages and rising housing costs, particularly in urban areas with rapidly rising costs.<sup>9</sup> City officials of 22 cities surveyed in 2015 identified “lack of affordable housing as the leading cause of homelessness among families with children...followed by poverty, unemployment and low-paying jobs.”<sup>10</sup>

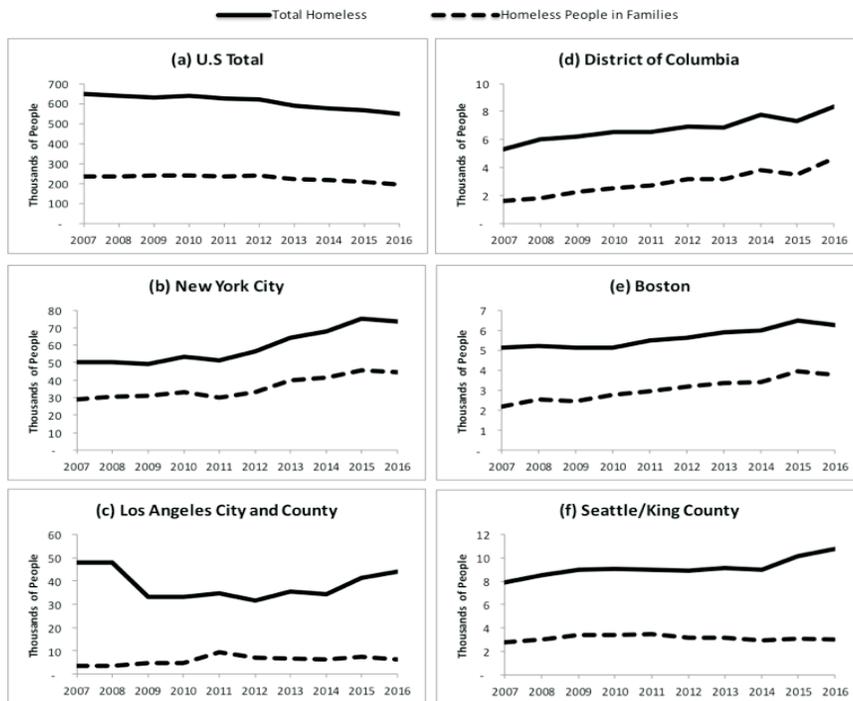
### CONSEQUENCES

A large body of literature exists on the traumatic effects of homelessness, pointing to the particular vulnerabilities of children in homeless families.<sup>11</sup> Such consequences can include, but are not limited to:

- emotional and behavioral problems (such as anxiety, depression, sleep problems, withdrawal, and aggression)
- missed educational opportunities (homeless children are twice as likely to repeat a grade, be suspended or expelled, or drop out)
- acute and chronic health conditions and poorer access to medical and dental care
- insecurity
- exposure to violence (a quarter of homeless children have witnessed violence)

## Ending Homelessness Among Families in the United States

**Figure 2**  
Total Homeless and Homeless People in Families



Source: 2007-2016 HUD PIT Estimates.

- substance/alcohol abuse later in life
- higher risk of being abused as children
- greater likelihood of incarceration or arrest as juveniles and adults

Family separation, placement in foster care, and involvement with child welfare services are also significantly correlated with homelessness. Family reunification can also be delayed if parents do not have access to stable housing, thus prolonging the trauma and stress of separation. These consequences adversely impact not just the lives of children and families that experience homelessness, but also entire communities by increasing the burden on health, welfare, and judicial systems while reducing the economic potential of the labor force.<sup>12</sup>

### POLICY OPTIONS

Federal policies under the Obama Administration and recent local policies have made significant strides in their efforts to reduce homelessness, particularly among veterans. While the profile of the “typical” homeless veteran (a single male) may differ from that of a “typical” homeless family (a single mother with two young children), policies that have successfully reduced veteran homelessness may be useful studies in the fight against family homelessness. Additionally, the recent political attention garnered by significant declines in veteran homelessness could provide an opportune moment to push through additional policies to assist other homeless populations.<sup>13</sup>

## *Ending Homelessness Among Families in the United States*

### *Federal programs and initiatives*

As part of the American Recovery and Reinvestment Act of 2009, \$1.5 billion dollars were allocated to the Homelessness Prevention and Rapid Re-Housing Program, the largest amount of federal funds ever targeted for homelessness prevention. Prior to ending in September 2012, the program provided funds for “short-term or medium-term rental assistance and housing relocation and stabilization services, including such activities as mediation, credit counseling, security or utility deposits, utility payments, moving cost assistance, and case management.”<sup>15</sup> Since the majority of homeless families do not experience chronic homelessness, prevention and immediate assistance can significantly help to reduce the number of homeless families.

In a similar vein, President Obama launched “Opening Doors” in 2010, the first nation-wide plan to eliminate homelessness. Opening Doors employed a prevention-focused approach, with a general strategy of (1) identifying people at risk of experiencing homelessness; (2) intervening to prevent housing loss and diverting people from entering the homelessness services system; and (3) providing immediate access to shelter and crisis services for those who do experience homelessness, with a focus on securing permanent stable housing and supportive services.<sup>16</sup> Emphasizing rapid re-housing and quickly securing permanent housing limits the disruption to families’ (and particularly children’s) lives, and can mitigate many of the adverse consequences of homelessness that can be exacerbated by

spending periods of time in shelters or temporary housing.

Several states also used funds provided through the Temporary Assistance for Needy Families (TANF) Emergency Fund to cope with sharp increases in housing instability and homelessness resulting from the 2008 financial crisis.<sup>17</sup> While federal funds were provided, however, each state had discretion over how to employ the funds and over which families it considered homeless. The Administration for Children and Families, part of the U.S. Department of Health and Human Services, “recognize[d] the importance of addressing homelessness and encourage[d] TANF jurisdictions to consider the implementation of interventions that connect families to permanent housing with coordinated supportive services.”<sup>18</sup>

As TANF is already targeted towards families with children, creating a permanent provision of funds for homeless families would leverage the existing system and streamline coordination for state agencies dealing with families.

At a granular level, HUD’s commitment to eliminating youth and family homelessness by 2020 emphasizes the need for data-collection and collaboration at a community level. To this end, the agency calls for (1) comprehensive data to understand the level of need and resources available to those in need; and (2) collaboration among homeless services providers, all homeless-serving organizations, school systems, schools, and educators.<sup>19</sup>

## Ending Homelessness Among Families in the United States

### Cost-benefit Assessment

HUD launched the Family Options Study in 2008 with the intention of rigorously evaluating the effectiveness and relative costs of different interventions available to homeless families. An evaluation conducted approximately 20 months after participants' entry found that subsidized housing vouchers resulted in the largest overall benefits, and was the basis for President Obama's focus on subsidized housing vouchers in the FY 2017 budget proposal. Table 2 presents the interventions evaluated by the Family Options Study and the average cost of each intervention.

In particular, the Family Options Study found that:<sup>20</sup>

*“Compared with those assigned to UC, the families randomly assigned to SUB on average have had fewer negative experiences (stays in shelters or places not meant for human habitation, doubling up, child separations, and intimate partner violence). SUB families are also somewhat more likely to live in their own place. Moreover, children in SUB families move among schools less, and families experience greater food security and less economic stress. On the negative side, heads of these families exert less work effort. Families given priority access to CBRR do about as well as families assigned to UC but have substantially lower cost, mainly because CBRR lowers the rate at which families use costly transitional housing programs. PBTH is more costly and at this point has few advantages over other programs. Furthermore, no evidence indicates that intervention impacts differ according to families' psychosocial challenges or housing barriers whatever form of active assistance is prioritized.”*

### Best Practices Assessment

In recent years, organizations working with homeless populations have coalesced around advocating a “housing first” approach defined as “prioritizing providing permanent housing before addressing supportive services and without requiring participants to undergo work training, mental health counseling, or substance abuse rehabilitation as a prerequisite to qualifying for housing.”<sup>21</sup> Utah is prime example in drastically reducing chronic homelessness as a result of a housing first policy. Over the last decade, the state has coordinated with homelessness organizations to place chronically homeless people in permanent, stable housing mostly paid for by the state and federal government. Counseling and supportive services for those suffering from addiction or mental or physical disabilities is then often provided on site, but is not a prerequisite for housing.<sup>22</sup> A housing first approach has proven beneficial in all manifestations of homelessness, from chronically homeless individuals to families experiencing homelessness as the result of a temporary shock.

Additionally, a qualitative assessment of best practices surveyed from Homelessness Prevention and Rapid Re-Housing Program (HPRP) grantees can provide insights into strategies used to maximize the benefit of additional funds at a community level. Table 3 indicates which of the programs used HPRP funds to increase coordination and centralization, data collection, wrap-around services, auxiliary services, and/or outreach. Wrap-around services are generally

**Table 2**  
**Summary of Interventions Evaluated in the Family Options Study**

Intervention	Description	Per-Family Monthly Cost	Percent for Supportive Services
Permanent housing subsidy (SUB)	Usually a housing choice voucher (HCV), could include assistance to find housing but no other supportive services	\$1,200	0%
Community-based rapid re-housing (CBRR)	Provides temporary rental assistance, potentially renewable for up to 18 months, paired with limited, housing-focused services to help families find and rent conventional, private-market housing	\$900	28%
Project-based transitional housing (PBTH)	Provides temporary housing for up to 24 months in agency-controlled buildings or apartment units, paired with intensive supportive services	\$2,700	42%
Usual care (UC)	Defined as any housing or services that a family accesses in the absence of immediate referral to the other interventions. This intervention typically includes at least some additional stay in the emergency shelter from which families were	\$4,800	63%

**Source:** "Family Options Study - Short-Term Impacts of Housing and Services Interventions for Homeless Families," U.S. Department of Housing and Urban Development, July 2015, available at [https://www.huduser.gov/portal/sites/default/files/pdf/FamilyOptionsStudy\\_final.pdf](https://www.huduser.gov/portal/sites/default/files/pdf/FamilyOptionsStudy_final.pdf).

categorized as those that cater to multiple, inter-related needs of the target population, which, for homeless families, often include legal assistance, healthcare, financial assistance, counseling, child welfare case management, and the provision of basic needs. Note that Table 3 reflects only the incremental investment, not the extent to which components are generally employed. For example, many of the existing programs employed a wrap-around service model, but only a few grantees used HPRP funds to implement or expand such a model.

Most notably, of the 22 grantees surveyed, all but six used the funds to improve coordination among existing service providers and create a centralized or standardized system for screening

and tracking at-risk and currently homeless people. Slightly less than half increased data collection to identify at-risk population and track participants' outcomes, while a handful increased wrap-around or auxiliary services (such as financial literacy training and apartment search assistance) or outreach.

## RECOMMENDATIONS

Based on existing research, a few trends emerge about the effectiveness of various programs and service models. The first is a growing emphasis on prioritizing stable, permanent housing solutions. A second insight is the need for a community-based approach, which increases coordination among organizations to better identify, track, and cater to populations most in-need. The

## *Ending Homelessness Among Families in the United States*

following recommendations discuss the most effective use of funds in targeting homelessness among families with children.

### *Prioritize Permanent Housing*

Of the alternatives evaluated by HUD's Family Options Study, providing permanent housing subsidies is most in line with a housing-first approach, in addition to the net benefits found as part of HUD's evaluation. Data on homeless families suggest that sudden earnings or employment shocks are a major cause of homelessness, particularly in areas with high housing prices where affordable housing options are not readily available. To this end, most families have limited service needs for assistance with mental health issues, substance abuse, child welfare concerns, or disabilities, and need only assistance securing permanent housing. Moreover, many of the adverse consequences suffered by children as a result of homelessness are due to the turbulence of transient housing and residential instability at very young ages when children are particularly vulnerable to adverse events. Residential instability and homelessness are recognized stressors for parents and families, associated with higher risks of child abuse, domestic violence, substance abuse, and poor parent-child relationships within families. Finally, providing vouchers may also be the most sustainable approach in environments with rapidly increasing housing prices and living costs such as New York City by ensuring sure access to housing markets.

### *Improve Coordination at the Neighborhood Level*

The first reason for employing a community-based approach is that the underlying causes of homelessness are likely to differ community-by-community, and empowering local organizations to better meet the needs of their constituents is likely more efficient than coordination on a larger scale. As shown in Table 1, areas with large populations of homeless families differ markedly across characteristics. Secondly, strengthening community networks and systems will result in more equitable and complete care for at-risk populations.

Increase coordination among service providers: Organizations that cater to homeless populations are usually small and resource-constrained. Partially as a result, service providers tend to specialize either in terms of populations served or type of assistance provided. Increasing coordination among providers allows the community to leverage existing organizations and programs by increasing shared resources and information while creating a holistic network of care for homeless families. Organizations would also benefit from shared best practices and could better serve the full homeless population by having access to the full scope of available services. Although, as noted above, many homeless families only need help securing permanent housing and do not have extensive need for supportive services, improved coordination among such providers would ensure that those families who are in need receive the appropriate attention and care.

## *Ending Homelessness Among Families in the United States*

Increase data collection: A centralized database would allow communities to better identify most at-risk groups and point to the underlying causes of homelessness in that locality. As noted above, prevention and immediate intervention efforts are particularly valuable for homeless families, as most do not experience chronic homelessness. Thus, a timely and accessible method of identifying potential shocks that might lead to homelessness – such as shocks to the local labor market or upheavals in the housing market – would allow communities to respond quickly. In addition, improved data would allow organizations and agencies to track homeless families over time, both to monitor individual outcomes and to evaluate program effectiveness in the long run.

Employ a centralized system: Establishing a central authority to enable coordination and serve as a consolidated source of information and data would help to reduce the costs of coordination, maintain institutional memory about programs and initiatives in the community, streamline the process for families seeking assistance, and ensure continuous care and services for those in need. Although such central authorities are often in the form of a city- or state-level government office, nonprofit organizations that are well-established in a community and have a history of collaborating with government agencies and other organizations could also serve the role. Additionally, families experiencing or at risk of homelessness must often interact with a multitude of systems, such as child welfare, education, health

**Table 3**  
**Best Practices Surveyed from HPRP Grantees**

Location	Coordination and Centralization	Data Collection	Wrap- Around Services	Auxiliary Services	Outreach
Alameda County, CA	X	X			
Austin, TX	X				
Buffalo, NY	X				
Charlotte/Mecklenburg County, NC	X				
Cincinnati and Hamilton County, OH		X			
Cincinnati and Hamilton County, OH	X				
Connecticut	X				
Dayton/Montgomery County, OH	X				
DeKalb County, GA	X				
Houston, TX		X	X		
Michigan	X	X			
Rhode Island	X				
Roanoke, VA	X		X		
Sacramento County, CA	X				
Saint Paul, MN	X				X
San Antonio, TX	X	X		X	
Santa Clara County, CA	X	X			
Tempe, AZ			X		
Ventura County, CA				X	
Washington		X			
Worcester County, MA		X		X	
Yolo County, CA	X	X			

**Source:** "HPRP Promising Practices and Success Stories," HUD Exchange, available at <https://www.hudexchange.info/programs/hprp/hprp-promising-practices-and-success-stories/>

## Ending Homelessness Among Families in the United States

care, or judicial systems. A centralized point of contact would assist families in navigating these systems. Finally, a central authority could better manage standardized systems of tracking and data collection, which would facilitate both data collection and coordination.

### CONCLUSION

Although family homelessness remains a serious and pervasive issue across the U.S., there are concrete, effective solutions that policy makers and organizations at all levels can take to reduce the occurrence and protect vulnerable populations from the risk of losing their housing. One category of solutions is aimed at providing direct, immediate support for those experiencing homelessness or those at imminent risk, such as rapid re-housing to maintain family stability and decrease the likelihood of adverse consequences. A second, equally important category is aimed at improving the efficacy of existing programs by coordinating services, collecting and maintaining valuable data, and ensuring appropriate and equitable care for those in need.

### ENDNOTES

[1] PIT and HIC Data Since 2007, U.S. Department of Housing and Urban Development, available at <https://www.hudexchange.info/resource/3031/pit-and-hic-data-since-2007/> (“HUD PIT Estimates”).

[2] “The 2016 Annual Homeless Assessment Report (AHAR) to Congress,” U.S. Department of Housing and Urban Development, available at <https://www.hudexchange.info/resources/documents/2016-AHAR-Part-1.pdf> (“2016 AHAR”), p. 4.

[3] HUD PIT Estimates.

[4] HUD defines “Chronically Homeless People in Families” as people in families in which the head of household has a disability and has either been continuously homeless for 1 year or more or has experienced at least four episodes of homelessness in the last 3 years where the combined length of time homeless in those occasions is at least 12 months. For the purposes of this article, “intermittent” refers to the opposite of this definition.

[5] 2016 HUD PIT Estimates. The percent of homeless people in families that were sheltered (versus unsheltered) has steadily increased from 76 percent in 2007, while the percent of homeless people in families experiencing intermittent (versus chronic) homelessness has steadily increased from 93 percent in 2011.

[6] HUD PIT Estimates.

[7] National Coalition for the Homeless, “Homeless Families with Children,” July 2009, available at <http://www.nationalhomeless.org/factsheets/families.html>.

[8] Fertig, Angela R., and David A. Reingold, “Homelessness among At-Risk Families with Children in Twenty American Cities,” *Social Service Review*, Vol. 82, No. 3 (September 2008), pp. 485-510.

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[12] “Opening Doors – Federal Strategic Plan to Prevent and End Homelessness,” United States Interagency on Homelessness, June 2015, available at [https://www.usich.gov/resources/uploads/asset\\_library/USICH\\_Opening-Doors\\_Amendment2015\\_FINAL.pdf](https://www.usich.gov/resources/uploads/asset_library/USICH_Opening-Doors_Amendment2015_FINAL.pdf).

## Ending Homelessness Among Families in the United States

[13] For example, in August 2015 Connecticut announced it was the first state in the U.S. to end chronic veteran homelessness, and in November 2015 Virginia announced it was the first state to functionally end veteran homelessness (“Gov. Malloy Announces that Connecticut is First State in America to End Chronic Veteran Homelessness,” Office of Governor Dannel P. Malloy, August 27, 2015, available at [http://portal.ct.gov/Departments\\_and\\_Agencies/Office\\_of\\_the\\_Governor/Press\\_Room/Press\\_Releases/2015/08-2015/Gov\\_Malloy\\_Announces\\_that\\_Connecticut\\_is\\_First\\_State\\_in\\_America\\_to\\_End\\_Chronic\\_Veteran\\_Homelessness/](http://portal.ct.gov/Departments_and_Agencies/Office_of_the_Governor/Press_Room/Press_Releases/2015/08-2015/Gov_Malloy_Announces_that_Connecticut_is_First_State_in_America_to_End_Chronic_Veteran_Homelessness/); and “Virginia is the First State in the Nation to Functionally End Veteran Homelessness,” Office of Governor Terry McAuliffe, November 11, 2015, available at <https://governor.virginia.gov/newsroom/newsarticle?articleId=13421>).

[14] “Homelessness Prevention and Rapid Re-Housing Program,” HUD Exchange, available at <https://www.hudexchange.info/programs/hprp/>.

[15] “Homelessness Prevention and Rapid Re-Housing Program,” U.S. Department of Housing and Urban Development, available at <http://portal.hud.gov/hudportal/HUD?src=/recovery/programs/homelessness>.

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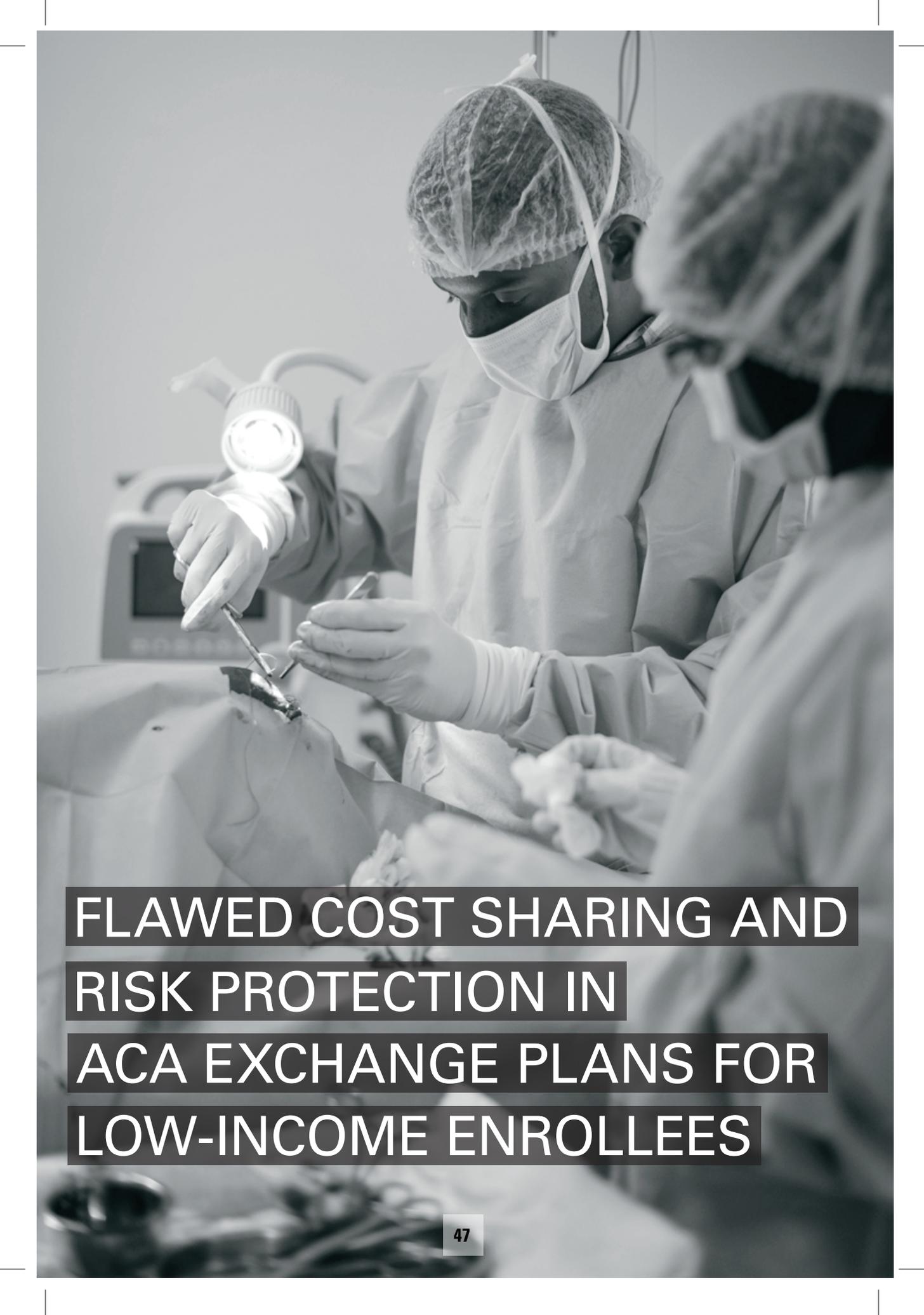
[19] “FACT SHEET: HUD’s Commitment to Serving Homeless and Housing-Unstable Youth and Families,” U.S. Department of Housing and Urban Development, available at <http://portal.hud.gov/hudportal/documents/huddoc?id=AHARPt2DataRel1152015.pdf>.

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[21] National Alliance to End Homelessness, “Fact Sheet: Housing First,” April 2016, available at a homeless assistance approach that prioritizes providing permanent housing. See also Stergiopoulos, Vicky, et al., “Effect of Scattered-Site Housing Using Rent Supplements and Intensive Case Management on Housing Stability Among Homeless Adults With Mental Illness,” *Journal of the American Medical Association*, 2015;313(9):905-915.

[22] McEvers, Kelly, “Utah Reduced Chronic Homelessness By 91 Percent; Here’s How,” NPR, December 10, 2015, available at <http://www.npr.org/2015/12/10/459100751/utah-reduced-chronic-homelessness-by-91-percent-heres-how>.

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**FLAWED COST SHARING AND  
RISK PROTECTION IN  
ACA EXCHANGE PLANS FOR  
LOW-INCOME ENROLLEES**

IAN PERRY

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Cost-sharing is too high, and risk protection is too low for many low-income enrollees in health insurance plans offered through the exchanges created by the Affordable Care Act (ACA). Of exchange enrollees who are eligible for subsidies, 27 percent instead enrolled in plans with high cost-sharing and lower risk protection. This is due to two main factors: the large premium difference between standard plans and plans with subsidized cost-sharing and risk protection and the complexity of choosing an optimal health insurance plan.

State and federal governments should increase subsidies for the premiums of these plans with greater cost-sharing and risk protection. They should also improve the tools that assist enrollees in choosing their health insurance plan.

THE PROBLEM

In the wake of the Affordable Care Act (ACA),<sup>1</sup> the uninsured rate among the non-elderly (less than 65 years old) has fallen to 10.5 percent, the lowest the rate has been in at least 43 years.<sup>1</sup> However, too many Americans lack insurance that covers a sufficient portion of medical expenses and provides adequate protection against financial risk. Sixty-eight percent of non-elderly households with incomes between the federal poverty level (FPL) and 250 percent of the FPL lack sufficient liquid assets to cover a mid-range deductible of \$1,200 for an individual or \$2,400 for a family. Eighty percent of households in this income range cannot cover a high deductible of \$2,500 for an individual or \$5,000 for a family.<sup>2</sup> Even after exhausting a deductible, the insured patient is often responsible for some cost-sharing payments until reaching the out-of-pocket (OOP) maximum. Meeting the OOP maximum is even more difficult than fulfilling the deductible. Eighty-two percent of households between the FPL and 250 percent of the FPL cannot afford a “mid-range” OOP maximum of \$3,000

for an individual or \$6,000 for a family. Furthermore, 89 percent cannot cover a “high-range” OOP maximum of \$6,000 for an individual or \$12,000 for a family.<sup>3</sup> Both the mid-range and the high-range OOP maximums are below the limit on maximums set by the ACA in 2016 of \$6,850 for an individual and \$13,700 for a family.<sup>4</sup>

The ACA contains provisions to reduce cost-sharing for low-income households that purchase insurance through the exchanges, so they can avoid deductibles and OOP maximums beyond their financial means. Households with income at or below 150 percent of the FPL are eligible for subsidies that enhance the actuarial value (AV)—the percentage of medical expenses paid by the insurance company—from 70 percent to 94 percent. Households between 150 percent and 200 percent of the FPL could see their AV increase from 70 percent to 87 percent. Finally, households between 200 percent and 250 percent of the FPL could see their AV increase from 70 percent to 73 percent. In order to receive the cost-sharing reduction (CSR) subsidies, people

must enroll in a silver tier plan that carries the baseline 70 percent AV. Despite separate subsidies to reduce the cost of premiums, these silver plans have higher premiums than the lowest tier bronze plans, which carry an AV of 60 percent.<sup>5</sup>

In 2015, 2.2 million people eligible for the CSR subsidies did not enroll in the silver tier plan, which would have qualified them for CSR subsidies, and instead opted for a bronze plan.<sup>6</sup> This level of bronze enrollment among the CSR subsidy eligible population was not expected. The Congressional Budget Office’s forecast of the cost of CSR subsidies was greater than the actual spending indicated lower takeup of the subsidies than expected before implementation of the ACA.<sup>7</sup> As a result of this choice, bronze plan enrollees face substantially higher deductibles and OOP maximums than they would have had they taken up the CSR subsidies. While these enrollees pay a smaller premium up front, their protection against the risk of high medical expense is

much smaller. Table 1 shows the deductible and OOP maximums for bronze, standard silver, and silver plans with the CSRs.

The choice not to enroll in the enhanced silver plans, to forgo the reduced cost-sharing and greater risk protection, can be explained by two factors: (1) the large difference in premiums between silver and bronze plans, and (2) the complexity of choosing an optimal health insurance plan.

Averaging across the state exchanges and taking into account premium subsidies, a 40-year-old non-smoker earning \$30,000 per year would have to pay an additional \$709 per year for the enhanced silver plan with the CSR subsidies. There is substantial variation across states in the after-subsidy price difference between the enhanced silver and bronze plans. In New Mexico, the plans have the same premium; however, in Arizona, the annual price difference is over

*Table 1: Average Individual Deductible and OOP Maximum by Plan Tier, 2015*

	Average Individual Deductible	Average Individual OOP Maximum
Bronze (60% AV)	\$5,328	\$6,359
Standard Silver (70% AV)	\$2,559	\$5,824
Silver with 73% AV CSR	\$2,078	\$4,622
Silver with 87% AV CSR	\$737	\$1,691
Silver with 94% AV CSR	\$229	\$879

*Source: Claxton and Panchal (2015) and Claxton, Cox, and Rae (2015)*

\$1,900.<sup>8</sup> The decision to opt for the less expensive bronze plan could reflect the enrollees' rational decision that the extra benefits provided by the enhanced silver plans are not worth the higher premium. Moreover, it could reflect an inability to pay the higher premiums. The average premium differential between bronze and silver plans of \$709 represents 2.4 percent of a 40-year-old non-smoker's pre-tax annual income. For an enrollee already earning a low-income, that extra cost may not be financially possible.

In addition to the large price differences, it can be difficult for enrollees to choose the optimal plan. There is significant variation in the structure of health insurance plans. Even within a metal tier (i.e., bronze or silver plans), where all plans have the same actuarial value, plan structure can differ widely. For example, one 2016 standard silver plan has a \$5,900 deductible, no copayment for doctor visits, and no cost-sharing for inpatient care after reaching the deductible. Meanwhile, another silver plan has no deductible, a \$30 copayment for doctor visits, and a 40 percent cost-sharing for inpatient care.<sup>9</sup> This is problematic given the trouble Americans have understanding health insurance. Forty-eight percent of Americans could not correctly answer 7 out of 10 questions about health insurance.<sup>10</sup> The complexity of the plan designs, coupled with the price differences, make it difficult for consumers to make an informed decision, where they optimally weigh the trade-off between premium spending and risk protection.

Optimizing the premium to cost-sharing and risk protection tradeoff is an important policy goal because excessive cost-sharing, and the impact of medical expenses, can alter individuals' decisions to undergo medically necessary treatment. The high level of cost-sharing associated with the bronze plans may encourage people earning low-incomes to skip necessary treatments. Before the enactment of the ACA, one in three non-elderly households had trouble paying medical bills, and medical debt was the leading cost of bankruptcy (causing 62 percent of bankruptcies).<sup>11</sup> In 2015, 25 percent of insured, non-elderly adults with incomes below 200 percent of the FPL reported skipping care recommended by a doctor because they could not afford the cost-sharing.<sup>12</sup>

## MITIGATION OPTIONS

A policy response is needed to reduce the level of cost-sharing and increase risk protection for enrollees in exchange health insurance plans. Four options the federal or state governments can take to achieve this goal are:

1. Status quo: Although the current system of plan choice is overly complex, some actions have already been taken to simplify the plan selection process. Starting in 2017, insurers can offer a "standardized option" created by the Department of Health and Human Services (HHS). There will be a standardized option for each metal tier, except platinum, and the enhanced silver plans. Additionally, the standardized options are expected to be emphasized on the exchange website, to make it easier for enrollees to find them. This

should simplify the plan selection process, guiding them to a plan designed to be very similar to the most popular plans in the previous year.<sup>13</sup> The exchange has also added an OOP cost calculator to the website to help enrollees estimate their total expenses under each plan.<sup>14</sup>

2. Increase cost-sharing reduction subsidies: The CSR subsidies could be increased to further reduce cost-sharing. The enhanced silver plan for enrollees with incomes between 200 and 250 percent of the FPL still has a relatively high deductible and OOP maximum. Both would be reduced by larger CSR subsidies. The lowered cost-sharing may convince enrollees to sign up for the enhanced silver plans rather than a bronze plan.

3. Increase premium subsidies for silver plans: To encourage enrollment in the enhanced silver plans, premium subsidies could be increased to lower the price enrollees pay for their plan. By only lowering the price of silver plans, the cost differential between the enhanced silver and bronze plans would shrink, which may encourage enrollees to opt for the lower cost-sharing and greater risk protection.

4. Improve enrollment decision support: Due to the complexity of health insurance plan design, enrollees may be unaware that they are choosing a plan that does not best meet their needs. Improved enrollment decision support would assist enrollees in finding the best plan for them, and help them weigh a higher premium and lower cost-sharing and more risk protection.

#### *Four Criteria*

1. Effectiveness: How well does the option improve the enrollee's ability to choose the optimal plan in the exchange? Does the option increase the affordability of the optimal plan? Does the option lower cost-sharing and increase risk protection among exchange enrollees?

2. Efficiency: How much does the option lower cost-sharing and increase risk protection? How much will the option cost to achieve those goals? Which option produces the most cost-sharing savings and risk reduction at the lowest cost?

3. Equity: How are the benefits distributed across enrollees of different income levels? How are the benefits distributed across enrollees from different states?

4. Political Feasibility: How achievable is the option at the state or federal level?

#### *Evaluation*

Each criterion is scored on a scale of 1 (low) to 5 (high) in Table 2 on the following pages.

### **RECOMMENDATIONS**

A total score is calculated for each option by taking a weighted average of the scores across criteria, where weights indicate relative importance. Effectiveness makes up 35 percent of the score, efficiency makes up 35 percent, equity makes up 10 percent, and political feasibility makes up 20 percent. Total scores are included in Table 3.

To reduce cost-sharing and increase risk protection in exchange plans for low-income enrollees,

Cost and Risk in Low-Income ACA Plans

Table 2: Summary of options by criteria

Criteria	Option 1: Status quo	Option 2: Cost-sharing subsidies
<i>Effectiveness</i>	<ul style="list-style-type: none"> <li>+ Creation and promotion of standardized plans should provide a benchmark for premium, cost-sharing, and risk protection tradeoff making it easier to choose a plan well-suited for most people.</li> <li>+ OOP cost calculator will help enrollees understand the total cost of each plan, potentially improving plan choice.</li> <li>– Standardized plans are based on most popular plans from 2015, may not help enrollees with unusual circumstances.</li> <li>– Insurers do not have to offer standardized plan and can offer variety of other plans.</li> <li>– Enrollees must choose to use the OOP calculator.<sup>15</sup></li> <li>– Plans are by default sorted by premium, not total cost, potentially reducing impact of total cost on enrollment decision.</li> </ul> <p><b>SCORE: 2</b></p>	<ul style="list-style-type: none"> <li>+ Decreasing cost-sharing in the enhanced silver plans may convince enrollees that the enhanced silver plan is now a better option than the less expensive bronze plan.</li> <li>+ Would reduce cost-sharing and increase risk protection for enrollees from 200%-250% of FPL, where current plans are somewhat lacking.</li> <li>– Not clear that inadequate cost-sharing reductions are keeping some people away from enhanced silver. The premium differential may be the key driver.</li> <li>– Will not help increase enhanced silver enrollment if people are mistakenly choosing a sub-optimal plan.</li> </ul> <p><b>SCORE: 2</b></p>
<i>Efficiency</i>	<ul style="list-style-type: none"> <li>+ Low cost for both creating standardized plans and OOP cost calculator.</li> <li>+ Optional nature of standardized plan participations should risk of mitigate market distortions from suboptimal design, as insurers can choose not to participate.</li> <li>– Due to drawbacks in effectiveness, gains in enrollment are likely to be small.</li> <li>– So low cost is somewhat cancelled out by small benefits.</li> </ul> <p><b>SCORE: 3</b></p>	<ul style="list-style-type: none"> <li>+ Even with low effectiveness in driving new enrollees into enhanced silver, would produce some benefits for current enrollees.</li> <li>– Potential for waste due to crowd out from people who have already chosen enhanced silver especially below 200% of FPL.</li> <li>– Low effectiveness plus costs from crowd out would make this option very expensive for relatively little benefit.</li> </ul> <p><b>SCORE: 2</b></p>
<i>Equity</i>	<ul style="list-style-type: none"> <li>+ Enrollees of all income levels can benefit from standardized plans and OOP calculator.</li> <li>+ Standardized plans and OOP calculator on federal exchanges will restore some parity with state exchanges that already have both.</li> <li>– Does not raise federal exchange to the same level as state exchanges that have mandated standardized plans.</li> </ul> <p><b>SCORE: 4</b></p>	<ul style="list-style-type: none"> <li>+ Likely to restore distribution of benefits for lower-income enrollees towards the original design of the ACA.</li> <li>– Benefits only accrue to those between 133% and 250% of FPL.</li> </ul> <p><b>SCORE: 3</b></p>
<i>Political feasibility</i>	<ul style="list-style-type: none"> <li>+ Already enacted.</li> </ul> <p><b>SCORE: 5</b></p>	<ul style="list-style-type: none"> <li>+ Potential for state action with Section 1332 waiver and state funding.</li> <li>+ Some states (Massachusetts, for example) already enhance premium subsidies.</li> <li>– Highly unlikely at federal level given it necessarily increases spending and targets those increases to low-income households.</li> </ul> <p><b>SCORE: 2</b></p>

Table 2, continued: Summary of options by criteria

Criteria	Option 3: Premium subsidies	Option 4: Decision support
<i>Effectiveness</i>	<ul style="list-style-type: none"> <li>+ Would directly lower the price of silver plans relative to bronze plans likely boosting enrollment in enhanced silver plans.</li> <li>– Remaining premium difference could still be too large to encourage meaningful change in enrollment.</li> <li>– Not likely to be effective if sub-optimal enrollment decision making is chief reason for under-enrollment.</li> </ul> <p><b>SCORE: 4</b></p>	<ul style="list-style-type: none"> <li>+ Evidence that decision support that helps people make better decisions with regard to risk protection, which can deliver substantial gains to enrollees.<sup>17</sup></li> <li>– Not likely to be effective if issue driving under-enrollment is inability to afford enhanced silver premiums.</li> <li>– Risk of poorly designed tool worsening enrollment decisions.</li> </ul> <p><b>SCORE: 3</b></p>
<i>Efficiency</i>	<ul style="list-style-type: none"> <li>+ Targeted just at the silver enrollees to reduce crowd-out in other tiers.</li> <li>– Still will suffer from crowd-out of 73% of enhanced silver eligible population that is currently enrolling in enhanced silver plans.</li> <li>– In states with small differences between bronze and silver premiums, could push silver premiums below bronze with potential distortionary effects.</li> </ul> <p><b>SCORE: 3</b></p>	<ul style="list-style-type: none"> <li>+ Relatively low cost in comparison to additional subsidies.</li> <li>+ Possibility of positive welfare spillovers to other income groups, through improved enrollment decisions.</li> <li>– If effect on enrollment is small, then low cost somewhat cancelled out by low benefits.</li> </ul> <p><b>SCORE: 5</b></p>
<i>Equity</i>	<ul style="list-style-type: none"> <li>+ Likely to restore distribution of benefits for lower-income enrollees towards the original design of the ACA.</li> <li>– Benefits only accrue to those between 133% and 250% of FPL.</li> </ul> <p><b>SCORE: 3</b></p>	<ul style="list-style-type: none"> <li>+ Would benefit all exchange enrollees.</li> <li>– Potential for large differences in quality of decision support across states.</li> </ul> <p><b>SCORE: 4</b></p>
<i>Political feasibility</i>	<ul style="list-style-type: none"> <li>+ Potential for state action with Section 1332 waiver and state funding.</li> <li>+ Some states (Massachusetts, for example) already enhance premium subsidies.<sup>16</sup></li> <li>– Highly unlikely at federal level given it necessarily increases spending and targets those increases to low-income households.</li> </ul> <p><b>SCORE: 3</b></p>	<ul style="list-style-type: none"> <li>+ Already underway at federal level and several states have begun to offer decision support.<sup>18</sup></li> <li>– Potential for resistance from federal and state agencies that have already developed decision support systems.</li> </ul> <p><b>SCORE: 4</b></p>

Table 3: Total scores

	<i>Effectiveness</i> (35%)	<i>Efficiency</i> (35%)	<i>Equity</i> (10%)	<i>Political feasibility</i> (20%)	<i>Total</i>
<i>Status quo</i>	2	3	4	5	2.8
<i>Cost-sharing subsidies</i>	2	2	3	2	2.1
<i>Premium subsidies</i>	4	3	3	3	3.4
<i>Decision support</i>	3	5	4	4	4.0

state and federal governments should increase premium subsidies for silver plans, and improve enrollment decision support. Both of these options have good potential to efficiently achieve these goals, and will do so equitably and with realistic odds of passing through the political system. The two solutions are by no means mutually exclusive. They attack both of the causes of excessive cost-sharing and inadequate risk protection: inability to afford premiums for silver plans, and complexity in the enrollment decision process.

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**HOW IDEAS**

**SHAPE HEALTH POLICY**

**A COMPARATIVE STUDY OF THE U.S.**

**AND SWITZERLAND**

## THOMAS HUBER

EDITED BY ANDREW WILSON, SEAN NEWLIN, AND NISHA KURANI

### INTRODUCTION

This paper draws on literature from political science and political economy to explore how the ideas of accountability and coordination may shape health policy in different countries. It builds a case study of two countries: the United States and Switzerland. The argument made is that the U.S. is a liberal market economy with health policies that emphasize accountability, while Switzerland is a coordinated market economy with health policies that emphasize coordination. In a recent study comparing eleven countries on healthcare performance, the United States ranked last while Switzerland ranked second (Figure 1). We can derive valuable information about the intersection of accountability, coordination, health policy, and health outcomes by contrasting the two countries. Their similarities also make them an ideal case study: both countries have gone through national reform in the recent past, have mostly fee-for-service systems, and are striving to lower costs while improving quality and safety. The following questions guide the hypothesis building in this paper: If the overarching goal of healthcare is supporting healthy lives, what roles do the ideas of accountability and coordination play in shaping policies? Further, does a country's political economy shape how ideas of accountability and coordination impact its health policies? The contribution of this theory building paper posits that ideational factors

like accountability and coordination are enacted differently depending on the market economy of a country, and thus shape health policy differently, which in turn produces different health population outcomes for each country (Figure 2).

### HOW IDEAS SHAPE POLICY

Policy researchers since at least the 1990s have formally sought to explore how ideas shape policy,<sup>1 2 3 4</sup> however, little research examines how ideas in healthcare may shape health policy. The purpose of this paper is to explore how the ideas of accountability and coordination in healthcare have become deeply embedded aspects of both the recently passed Affordable Care Act of 2010 in the U.S. and the national health reform *Loi de l'Assurance Maladie (LAMAL)* of 1994 in Switzerland, respectively. Ideas are defined as "claims about descriptions of the world, causal relationships, or the normative legitimacy of certain actions."<sup>5</sup> Some authors describe the interaction between ideas and politics as historical institutionalism,<sup>3 4 6</sup> a perspective that uses concrete examples from a given period to explain how institutions form and emerge from a particular context (e.g., election years spawn different policies than non-election years). Recent additions to the frame of historical institutionalism include an analysis of the importance of paradigms<sup>7</sup> and social learning to policy.<sup>8 9</sup> Daniel Beland argues that selection of issues in the policy milieu, the particular content of policy proposals, and the

COUNTRY RANKINGS



Figure 1: Country rankings from the Commonwealth Fund Study (16 June 2014)

											
	AUS	CAN	FRA	GER	NETH	NZ	NOR	SWE	SWIZ	UK	US
<b>OVERALL RANKING (2013)</b>	4	10	9	5	5	7	7	3	2	1	11
<b>Quality Care</b>	2	9	8	7	5	4	11	10	3	1	5
Effective Care	4	7	9	6	5	2	11	10	8	1	3
Safe Care	3	10	2	6	7	9	11	5	4	1	7
Coordinated Care	4	8	9	10	5	2	7	11	3	1	6
Patient-Centered Care	5	8	10	7	3	6	11	9	2	1	4
<b>Access</b>	8	9	11	2	4	7	6	4	2	1	9
Cost-Related Problem	9	5	10	4	8	6	3	1	7	1	11
Timeliness of Care	6	11	10	4	2	7	8	9	1	3	5
<b>Efficiency</b>	4	10	8	9	7	3	4	2	6	1	11
<b>Equity</b>	5	9	7	4	8	10	6	1	2	2	11
<b>Healthy Lives</b>	4	8	1	7	5	9	6	2	3	10	11
<b>Health Expenditures/Capita, 2011**</b>	\$3,800	\$4,522	\$4,118	\$4,495	\$5,099	\$3,182	\$5,669	\$3,925	\$5,643	\$3,405	\$8,508

Notes: \* Includes ties. \*\* Expenditures shown in \$US PPP (purchasing power parity); Australian \$ data are from 2010. Source: Calculated by The Commonwealth Fund based on 2011 International Health Policy Survey of Sicker Adults; 2012 International Health Policy Survey of Primary Care Physicians; 2013 International Health Policy Survey; Commonwealth Fund National Scorecard 2011; World Health Organization; and Organization for Economic Cooperation and Development, *OECD Health Data, 2013* (Paris: OECD, Nov. 2013).

construction of policy reform are not adequately addressed by historical institutionalism alone; so too do ideas impact policy through the “construction and problem definition for the policy agenda, the shaping of the assumptions that affect the content of reform proposals, and as discursive weapons that participate in the building of reforms.”<sup>4</sup>

### ACCOUNTABILITY IN HEALTHCARE

Accountability in public administration is often linked to performance outcomes. Tying accountability to outcomes is based in the notion that accountability leads to “greater transparency and openness, access to impartial arenas where abuses can be challenged, pressure and oversight to promote appropriate behavior, and improvements in quality.”<sup>10</sup> In the case of U.S. health policy, accountability came to the forefront in an

Institute of Medicine report: “To Err is Human: Building A Safer Health System,”<sup>11</sup> that estimated 100,000 people in the U.S. die each year due to preventable medical harm. The report, compounded with narratives on errors at the provider level as well as hospital-acquired infections, galvanized healthcare leaders, academics, professionals, and policy experts, to search for ideas to solve the healthcare delivery system crisis. One answer was to hold the healthcare delivery system more accountable in the form of value-based payments that includes reimbursement for patient outcomes in safety, quality, and cost rather than pure fee-for-service payments that reward only services rendered.

The United States and Switzerland have different approaches to accountability in healthcare delivery. For example, the U.S. healthcare deliv-

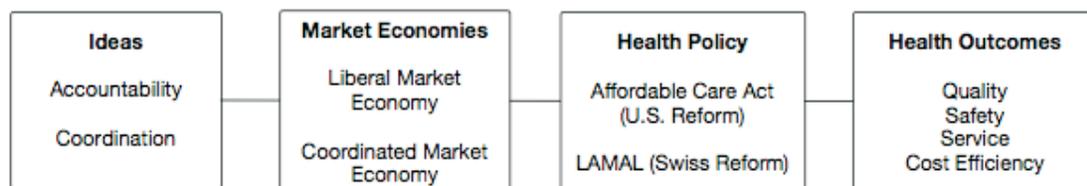
ery system accountability is more focused at the firm level through employer-sponsored health-care, where the market determines contracts and payment terms. The Swiss model emphasizes private responsibility via consumer-driven healthcare, augmented through state action with national health insurance oversight. Individuals are mandated to choose among various insurance options, with the federal government facilitating interactions between professional groups and insurers that set reimbursement rates together each year.

### COORDINATION IN HEALTHCARE

A recent report by Stanford for the Agency for Healthcare Research and Quality (AHRQ) challenged researchers by noting that more than 40 definitions, conceptual models, and measures exist to define coordination.<sup>12</sup> A recent study of European countries showed that each country has its own methods, mechanisms, and instruments and thus follow different pathways toward coordination and integration.<sup>13</sup> The argument made in the study is that economic forces alone do not yield highly integrated systems; primary care and community health services need strong support. In addition, the institutional and normative contexts of national, regional, and local governments greatly influence the coordination

and integration of the health system. Coordination challenges between providers—and between providers and patients—were observed features of eleven countries in a recent Commonwealth study (Figure 1). The United Kingdom and Switzerland had the lowest rates of coordination gaps, while the United States had among the highest, especially in terms of medical bill payment and foregoing follow-up care because of costs.<sup>14</sup> Poor coordination leads to inefficiency, higher costs, poor quality, less safety, and consumer dissatisfaction.<sup>15</sup>

The U.S. and Switzerland address coordination challenges differently. In the U.S., coordination is mostly addressed through accountability mechanisms (e.g., the rise of accountable care organizations that are reimbursed partially for healthcare value, rather than purely services rendered). There is also increased scrutiny by regulators penalizing unnecessary readmissions to hospitals. In Switzerland, coordinating mechanisms operate at both the federal and state levels like fixed reimbursement rates established by the national medical professionals association and the national insurance association each year—with governmental oversight.



*Figure 2: Hypothesized model of the translation of ideas into health outcomes through policy*

## THE STRUCTURE OF THE MARKET ECONOMY CAN IMPACT HOW IDEAS SHAPE POLICY

In “Varieties of Capitalism,” Hall and Soskice describe an actor-centered political economy where organizations rationally advance interests using strategic interactions in the marketplace to accomplish goals.<sup>9</sup> Hall and Soskice argue that Liberal Market Economies (LME) like the U.S. overcome challenges of market relationships primarily through encouraging competition. In contrast, Coordinated Market Economies (CME) like Switzerland coordinate activities among actors using strategic interactions to develop core competencies in the marketplace. CMEs use non-market coordination activities like network monitoring and incomplete contracting, making relationships central to building core competencies.<sup>9</sup>

Organizations also operate in a national economic context, and thus work in ways that are consistent with institutional support. Institutional support here is defined as “a set of rules, formal or informal, that actors generally follow, whether for normative, cognitive, or material reasons.”<sup>16</sup>

<sup>17</sup> Market economies and their institutional support then can impact how ideas like accountability and coordination may impact the health policy process. Liberal market economies like the U.S. use competition and arbitration as the norm for bilateral accountability with binding contracts. In contrast, coordinated market economies like Switzerland rely on relational forces like coordination, network monitoring, and net-

work exchanges. The resulting policy outcomes are accountable care organizations in the U.S. and coordination mechanisms like the setting of common reimbursement rates in Switzerland.

### CASE STUDY: UNITED STATES

The U.S. Congress passed healthcare reform in 2010: “The Patient Protection and Affordable Care Act” (ACA). An overarching goal of the ACA is to expand health insurance, and to achieve the triple aim: improving the patient experience of care, improving the health of populations, and reducing the per capita cost of healthcare.<sup>18 19</sup> The ACA consists of multiple challenges and opportunities for changing many aspects of the healthcare delivery system, such as accountable care organizations (ACO’s), prospective payment systems, bundled payments, and technology strategies.<sup>20</sup> Accountable care organizations preceded the ACA,<sup>21 22 23 24</sup> though ACA policymakers further incentivized creation and use of ACOs with inclusion of multiple levels of accountability. For example, these measures include reimbursement based on value delivered to patients, patient centered medical homes that hold teams accountable for care delivered, and population health management systems that hold communities and organizations accountable for care delivered.<sup>25</sup>

Better care transitions for patients from hospitals to their home, and readmission penalties for unnecessary readmission back to hospitals, may also be linked to accountability systems in the U.S.<sup>25 26</sup> Rising cost pressures throughout the healthcare delivery system and insurance

markets in the U.S., which in 2012 were \$2.8 trillion, or 18% of total spending on all goods and services, are sharply contrasted with European countries where spending hovers between 6-8%.<sup>27</sup> Past efforts at curbing cost while improving quality has had mixed results and some unintended consequences, such as decreased access, poorer patient outcomes, and short-lived reductions in spending.<sup>28, 29</sup> This cost-quality conundrum has created tremendous pressure on healthcare delivery organizations to transform and account for value delivered.<sup>30</sup>

#### **CASE STUDY: SWITZERLAND**

Swiss healthcare governance is complex and multifaceted, with at least three levels of influence and regulation: (1) federal, cantonal (state), and municipal bodies (2) recognized civil society organizations or “corporatist bodies”, and (3) the Swiss people, who can veto or demand reform through public referenda. Switzerland passed national healthcare reform, called *Loi de l'Assurance Maladie (LAMAL)*, in 1994. Switzerland's legislative process is a form of direct democracy and subject to a direct electoral veto through a citizen's referendum. The threat of a referendum forces parliament to draft legislation that ideally is referenda proof, meaning it will not be subject to a referendum by being aligned with special interest groups that can sway the referenda.<sup>31</sup> In the case of healthcare reform, special interest groups consist of the professions (e.g., healthcare professionals and health insurers) who are concerned with the professional fees that can be charged and the role of the state in the health

insurance market.<sup>32</sup> Prior attempts at universal health insurance before 1994 had been defeated by a referendum, with support from a combination of special interest groups: the Swiss Medical Association, the Swiss Employers Association, the Swiss Farmers Association, and the Swiss Small Business Association.<sup>33</sup>

The successful passage of LAMAL acted as a unifying theme and may be thought of as a call for national “solidarity.”<sup>34</sup> The argument Stjerno makes is that inequality in the form of health disparity may be perceived as a threat to the national sentiment of fairness and solidarity in countries with coordinated market economies. Having equal access to health is seen foundational to the Swiss national character, and is built by coordinated capitalistic networks of healthcare delivery services.<sup>35</sup> The Swiss coordinated market economy is a form of “managed competition,” since the reform effectively blurred the boundary between private and public insurance.<sup>36, 37</sup> A critical component of managed competition is that the federal government acts as a mediator between insurance and health professions and helps set reimbursement rates. Managed competition is a key difference between coordinated and liberal market economies and helps explain in part why coordination is more central to the Swiss system.<sup>38, 39, 40</sup>

#### **DISCUSSION**

There are important differences in how the U.S. and Switzerland approach, define, and politicize the ideas of accountability and coordination. Both of these underlying constructs have been shown

to be linked to healthcare system outcomes like cost, quality, service, and safety.<sup>41 42 22</sup> The healthcare system in each country reflects its politics, market economies, culture, and institutional norms. Social solidarity was a key ingredient for the passage of national healthcare legislation in Switzerland in 1994. The United States passed national healthcare reform legislation in 2010 in part to address insurance issues and escalating costs. Compared to the U.S., the social solidarity and coordinated market economy of Switzerland, provides an environment that allows for more coordinated management of healthcare delivery services. The professional associations and insurance association once a year set the target rates for the healthcare system, facilitated by the federal government.<sup>43</sup> The conditions under which the U.S. might consider setting common insurance rates across the country are unclear. The ACA, in the form of mandatory insurance marketplaces at the state level, implements one such mechanism, but it is uncertain how the use (and utility) of this mechanism will evolve.<sup>44</sup>

One potential consequence of the differences between a CME and LME is that Switzerland uses more coordination language (“solidarity”) and coordination mechanisms (“target rates”) for its health policies. There are no formal ACOs in Switzerland, while Germany and other countries have started to explore the ACO construct through pilot programs.<sup>38 10</sup> The U.S. uses more of the accountability language in the discursive health political arena. Since formal accountable care organizations have just recently emerged, it may be that the health outcomes at the country

level have not yet been fully recognized and may yield higher performance in the long run for the U.S.

Coordination challenges exist in all countries, but can look and feel different depending on the political economy of each country. What policy levers might be pursued in the U.S. to coordinate professional associations and insurance groups? One potential solution is to continue to refine the ACA so that more care coordination activities are rewarded. While national common insurance tariffs are unlikely in the U.S., it is conceivable that common insurance rates could be set at the state level. There is wide variation in how each state coordinates healthcare services, and more attention could also be paid to establishing greater equality in structure, process, and outcomes across state lines.

Finally, the U.S. is currently experimenting with “Accountable Communities for Health,” where providers, insurers, churches, schools, and social services organizations come together to define health for their community.<sup>45</sup> Coordinating a wider community for healthcare outcomes may contribute to better outcomes in the near future. Additionally, the passage of the ACA created organizations like the Patient Centered Outcomes Research Institute (PCORI), which funds research that explores the important role patients and families play in their own health. Fostering health and healthy living at the individual and community level may help the U.S. achieve higher levels of coordination similar to European countries. If the United States is able to har-

ness best practices from both accountability and coordination, it may very well be able to surpass European countries in meeting the triple aim (improved patient experiences of care, improving the health of populations, and reducing the per capita cost of healthcare), a goal we must always hold in our minds as caring policy professionals.

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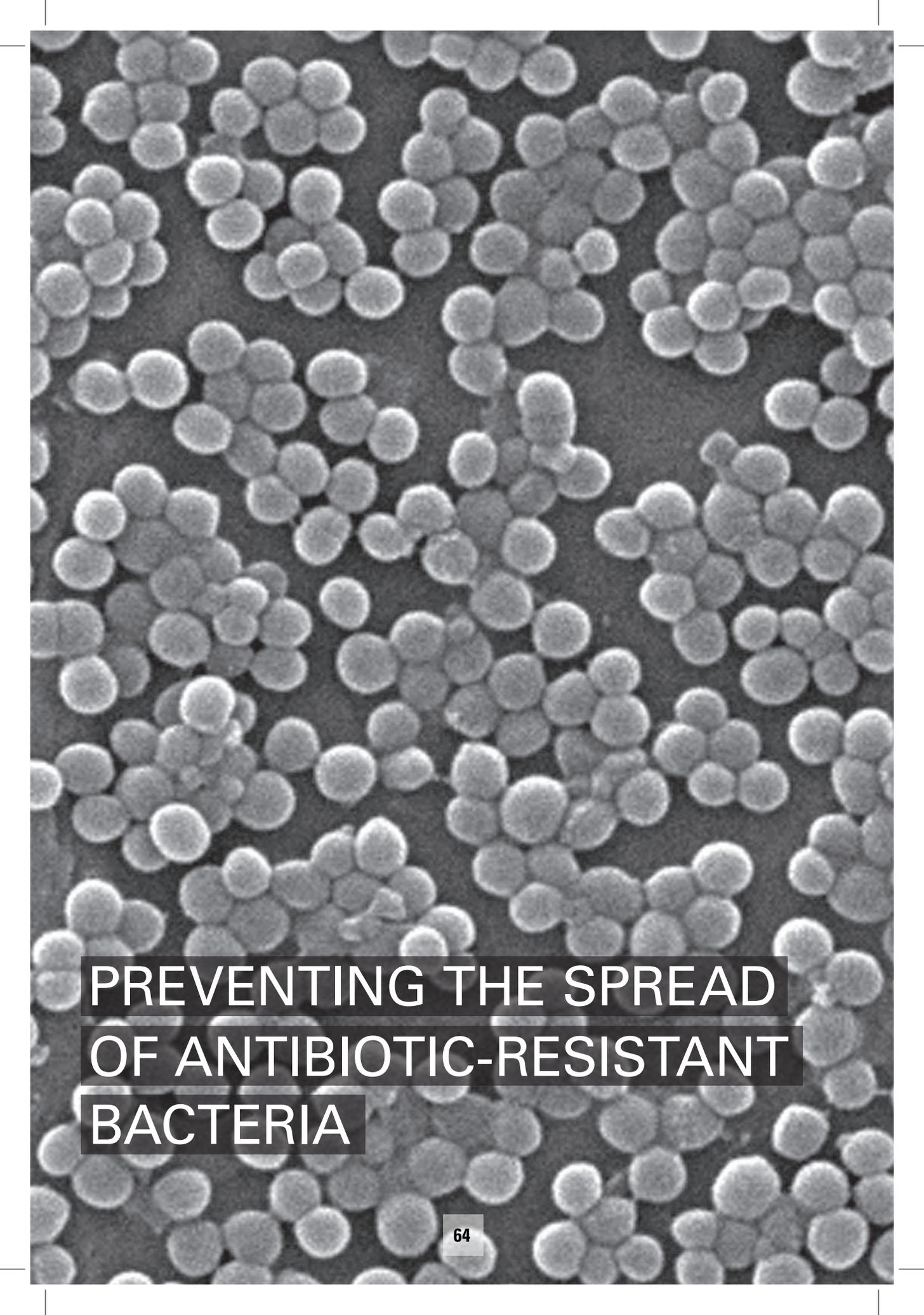
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**PREVENTING THE SPREAD  
OF ANTIBIOTIC-RESISTANT  
BACTERIA**

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The following memo, which offers policy recommendations based on an analysis of the problems surrounding the spread of antibiotic-resistant bacteria in humans, was originally written in April 2015. I argue that antibiotic resistance is an imminent public health threat caused, to a significant extent, by excessive agricultural use of antibiotics. Stronger national policy focused on addressing this problem is critical. While some progress has been made through policies at various levels and even through market-driven initiatives, the current state of the public health crisis drives my recommendation to pass the Preservation of Antibiotics for Medical Treatment Act. Given the original publication date, this memo has been updated to provide contemporary context and reevaluate my original recommendations.

**EXECUTIVE SUMMARY**

Increasing resistance to antibiotic drugs in humans poses a growing threat to public health. Thanks to the increased availability of data and investment in research, much resistance can be attributed to use that is subtherapeutic (i.e., with a low and consistent dosage) in livestock, intended to promote physical growth and prevent disease. When transferred to humans, drug-resistant bacteria fostered by these prevalent uses can reduce the efficacy of medically important drugs. Despite growing public awareness and demand for antibiotic-free meats, current drug development is not able to keep pace with resistance. It is thus imperative to force a reduction in the subtherapeutic use of antibiotics in livestock.

The FDA has previously released guidelines to promote the judicious use of medically important drugs in livestock to eliminate use for growth promotion and to increase veterinarian oversight of use for disease prevention or treatment. Additionally, in early 2015, President Obama released an action plan to set national priorities

in areas such as surveillance and diagnostics to reduce the resistance caused by excessive antibiotic use, and it includes the FDA guidelines as goals. Because these guidelines are not mandatory and have failed to reduce sales and antibiotic use in livestock in the US, national legislation is necessary to control this public health threat. To achieve this, the House Energy and Commerce Committee should work to pass Congresswoman Louise Slaughter's (D-NY) Preservation of Antibiotics for Medical Treatment Act as a priority in the next election cycle. This will require bipartisan education and increased sponsorship from the sustainable livestock industry to gain support and ultimately be signed into law.

**STATEMENT OF PROBLEM**

According to the Centers for Disease Control and Prevention (CDC), antibiotic resistance has become one of the world's most pressing public health problems.<sup>1</sup> Antibiotics are drugs designed to kill bacteria that cause diseases. Bacteria can evolve in response to natural selection for those strains that survive the use of such a drug, so

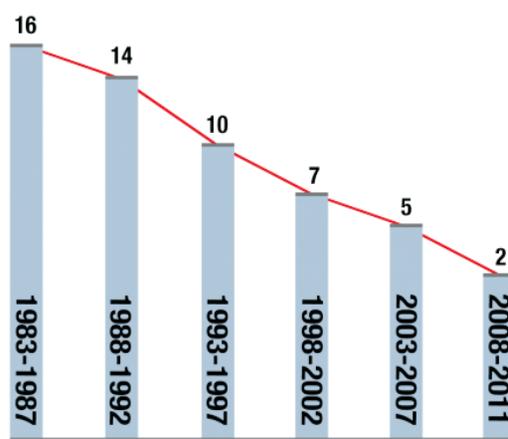
they develop population-level resistance. This process is accelerated when antibiotics are used unnecessarily and in large quantities. Recent studies suggest that other prevalent public health problems, such as obesity, type 2 diabetes, and allergies, may also be caused by the alteration of gut bacteria directly results from antibiotic use.<sup>2</sup>

Indeed, studies suggest excessive use of antibiotics today. Half of US hospital patients, admitted for any condition, are given antibiotics, about one-quarter of which are given prophylactically (or to prevent infection).<sup>3</sup> The CDC estimates that about half of all antibiotics given to humans are unnecessary or misused.<sup>4</sup> Additionally, 80% of antibiotic drugs used in the US are given to livestock, and 61% of those sold for use in livestock are considered medically important.<sup>5,6</sup> These are often given to animals to prevent the threat of infection from confined and unsanitary living conditions. These antibiotics are then transferred to humans through meat, drinking water, and even through respiration, as a recent study by McEachren et al. suggests.<sup>7</sup> Consequently, the CDC estimates that two million Americans contract infections and 23,000 die due to antibiotic resistance each year.<sup>8</sup> While many farmers and food producers have voluntarily reduced or ceased to use animal products treated with antibiotics due to growing public concern, data from the Food and Drug Administration (FDA) suggest that sales of antibiotics increased by 20% from 2009 to 2013.<sup>9</sup> An updated report of antibiotic sales and distribution in the US in 2015 showed that indeed, antimicrobials increased by 4% from 2013 to 2014, and those considered

medically important increased by 3%.<sup>10</sup> And as recently as May 2016, the CDC reported the discovery of an E. coli bacterium with a gene granting resistance to all available antibiotics for multiple-drug-resistant infections.<sup>11</sup>

Additionally, drug development has stagnated as bacteria have evolved faster than humans can develop drugs. Only two new systemic drugs (drugs that enter the circulatory system and affect the entire body) have been developed in the US since 2008, corresponding to a steady decrease from 16 each four-year period since the mid-1980s (see Figure 1).<sup>12</sup> In addition to the increased complexity required in developing more advanced antibiotics, the decline in new systemic drug production has also been driven by an often inscrutable regulatory process and lower financial payoff compared to higher-priced drugs, such as those developed to treat cancer. The result is a lower financial incentive to focus pharmaceutical research in the area of antibiotic resistance. While extensive education and bipartisan support would be needed, a national policy imposing

Figure 1. Antibiotic drug development in U.S.



Number of antibiotics approved in the US (1983-2011)

stricter regulation on antibiotic use can significantly mitigate this problem.

## **POLICY SOLUTION**

Numerous bills have been proposed in Congress that would limit or eliminate certain uses of antibiotics in livestock. The most prominent is the Preservation of Antibiotics for Medical Treatment Act (PAMTA), proposed five times by Representative Louise Slaughter (D-NY). It includes the following primary components<sup>13</sup>:

- Amending the Federal Food, Drug and Cosmetic Act so that drug manufacturers must prove that any nontherapeutic use of antibiotics won't contribute to antibiotic resistance;
- Phasing out nontherapeutic use of antibiotics for growth promotion in animal feed and water;
- Prohibiting the subtherapeutic or preventative use of antibiotics in animals; and
- Relying on veterinarians for oversight, prescription, and inspection of living conditions.

The most recent bill, HR 1552, was introduced to the House of Representatives on March 23, 2015, and has been referred to the Subcommittee on Health under the Energy and Commerce Committee.<sup>14</sup> No version has yet had a hearing in the Subcommittee on Health, a necessary step before it can be heard by the entire House committee.<sup>15</sup>

In the meantime, Congresswoman Slaughter also introduced the Delivering Antimicrobial Transparency Act (DATA) in 2013 and again in 2015 to complement the function of PAMTA.<sup>16</sup> It would require meat producers to submit

information about all use to the FDA to improve tracking and surveillance.<sup>16</sup> This bill was referred to the Subcommittee on Health as well, but did not receive a hearing.

While these bills await further action at the federal level, states have proposed legislation that, if passed, could complement the function of PAMTA. In 2014, for example, California Assemblymember Kevin Mullin proposed bill AB 1437, which includes provisions similar to those in PAMTA and also requires notification of antibiotic use to the state.<sup>17</sup> Governor Jerry Brown also signed bill SB 27 in 2015, which, after taking effect in 2018, will require veterinary prescriptions for therapeutic antibiotic uses in livestock, ban their use for growth promotion and prophylaxis, and require regular data collection.<sup>18</sup>

These are also similar to provisions in PAMTA and may bring more attention to the issue among Californian politicians or other executive agencies in other agricultural states to improve support for similar legislation.

## **CONSIDERATIONS FOR POLICYMAKERS**

### *Public Perception*

According to a national survey conducted on behalf of The Pew Health Group, less than half of the population is aware that taking antibiotics unnecessarily weakens their effectiveness, and 41% have heard little or nothing about the problem of antibiotic resistance.<sup>19</sup> So although this issue has not reached a large portion of the American population, it is increasingly receiving media coverage. News outlets on both sides of

the political spectrum have offered several accounts of the story in recent years, and they include similar scientific information and coverage of proposed policies. A special feature on CBS from Katie Couric in 2010, for example, presented resistance as a health crisis and concluded that the country has inadequate surveillance over the use of these drugs. It also recommended that consumers check foods labels to ensure they do not buy products from animals that were fed antibiotics.<sup>20</sup> Similarly, a 2015 story in conservative *Townhall Magazine* shared our national action plan (see following section). It presented statistics about antibiotic use, an interview with an epidemiologist about implications of ineffective antibiotics for hospitals, and the importance of infection prevention when drugs are not sufficient for treatment. It also supported Congresswoman Slaughter's proposed bill.<sup>21</sup> Sources with diverging political positions therefore agree on and emphasize similar points. Though they present some information from parties that oppose the public health initiative, they more importantly reach similar conclusions about the need for a means to reduce use of antibiotics in livestock.

Such public awareness is critical to provide support for a federal bill. Voters must know that they have multiple options to advocate for such legislation, either through financial giving in support of groups that have actively taken a position on the issue or by petitioning their Congressional representatives. Though the interests blocking the bill's progression are powerful, awareness and action from constituents in response to

increasing drug costs, sicknesses, and death is necessary to stimulate the legislative process.

#### *Complementary Efforts*

Meat producers who use antibiotics claim that their practices are responsible and necessary to keep animals healthy and to maintain a profit, and that they do not contribute to resistance.<sup>22</sup> Yet in recent years, many leading agricultural producers and restaurants are shifting to antibiotic-free meats in response to increasing demand from consumers.<sup>23</sup> Representatives from Chipotle, Niman Ranch, and Applegate Farms have testified in favor of antibiotic resistance legislation, and have shifted their supply to producers who do not use antibiotics to raise their livestock.<sup>14</sup> Even restaurants that have not prioritized sustainability or nutrition in the past, such as Chik-fil-a and McDonald's—the world's largest restaurant chain—are now following suit.<sup>23</sup> Tyson Foods, the largest poultry producer in the US, has pledged to stop using all medically important antibiotics.<sup>24</sup> It should be noted that it is typically easiest to reduce antibiotics in chicken production, among livestock, because they have shorter lifespans and lower overall production costs.<sup>16</sup> This implies a lower economic risk associated with eliminating their prophylactic drug use and explains why the poultry industry has voluntarily adopted such measures sooner than others.

In March of 2015, President Obama released the National Action Plan for Combating Antibiotic-Resistant Bacteria. It addresses many causes of

the public health crisis, and offers the following five goals for mitigation<sup>25</sup>:

- Slow the emergence of resistant bacteria;
- Improve national surveillance of resistant bacteria;
- Strengthen testing of bacteria for resistance;
- Fund further research for development of antibiotics and other drugs; and
- Improve international collaboration on research and prevention.

The first goal includes an objective to eliminate use of antibiotics to enhance growth in animals and to require veterinary prescription for uses deemed medically important. This plan neither includes accompanying legislation that gives oversight to an executive or state agency, nor specifies targets for reduction in livestock. It will thus rely on voluntary measures, such as those mentioned above, from the industry.

The Presidential Advisory Council on Combating Antibiotic-Resistant Bacteria was formed in the spring of 2015 and includes representatives from nonprofits, medical schools, schools of public health, patient advocacy organizations, and trade associations.<sup>26</sup> The council supports the aforementioned action plan that advises the Secretary of the Department of Health and Human Services on matters related to combating antibiotic-resistant bacteria.<sup>26</sup> The FDA, USDA, and CDC also held a public meeting in 2015 to gather information on best practices for collecting data about agricultural antibiotic use for evaluations of stewardship efforts and relationships with resistance trends.<sup>27</sup> The UK released its Review

on Antimicrobial Resistance, which, like the American action plan, calls attention to the need for public awareness campaigns, supports faster drug development, and improves surveillance, among other objectives.<sup>28</sup> A final action supporting the fight against antibiotic resistance was an FDA rule against over-the-counter cleaning products that contain antibacterial ingredients.<sup>29</sup> Though not addressing agricultural applications, it continues the important work of prioritizing the public's health by restricting the excessive use of antibiotics in the US.

### *Regulatory Challenges*

The incremental progress of previous policy actions has proven too slow to keep up with the pace of drug resistance. Extensive evidence shows that current restrictions and guidelines are insufficient to significantly limit antibiotic use. In 2014, only three percent of chickens were raised organically or without antibiotics in the US.<sup>33</sup> A 2015 FDA study showed that some dairy cows still contain traces of drugs, even though nonprescription antibiotic treatment is prohibited because it leaves residue in their milk.<sup>30</sup> Because tests would not typically investigate the types of antibiotics found recently in lactating cows, it is possible that many other dairy farmers continue to use antibiotics prophylactically, as well. Additionally, data from FDA's records show that antibiotic sales have increased in the last several years, despite some of the aforementioned shifts in production patterns.<sup>10</sup> Finally, recent action in other countries suggests that guidelines or policies banning antibiotic use for

growth promotion alone is insufficient to reduce total use. In the Netherlands, for example, a ban on use for growth promotion actually increased use for disease prevention by driving producers to re-classify their application. Subsequent legislation regulated preventative use, causing a 50% reduction in five years.<sup>31</sup>

State policies are also insufficient to address this growing international problem. Because meat is sold across domestic and international borders and similar antibiotics are used throughout the world, local restrictions or prohibitions on use would not adequately address impacts throughout the country. Therefore, a national policy that restricts subtherapeutic use is necessary to make sufficient impact because voluntary measures have proven insufficient. The spread of antibiotic resistance, along with associated human deaths and high costs for medical research and health care, can only be stopped by restricting use in livestock to treating diseases.

#### *Economic Implications*

In addition to reducing pharmaceutical costs for farmers and improved welfare for their livestock, passing such legislation could greatly reduce the vast health care expenditure associated with antibiotic resistance in the US. Most of the two million hospital-acquired infections and resulting 99,000 deaths per year are caused by resistant bacteria.<sup>32</sup> The duration of stay for these patients is prolonged by 6.4 to 12.7 days, resulting in much greater burden on the hospital's resources.<sup>32</sup> And for those who are able to receive stronger antibiotics, they may incur additional

expenses and require longer recovery periods or increased risk of permanent disability.<sup>33,34</sup> Overall, the estimated medical cost per patient with an infection resistant to antibiotics can be between \$18,588 and \$29,069, which amounts to a total economic burden of \$20 billion to the health care industry.<sup>32,35</sup> It is estimated that a 20% reduction in antibiotic-resistant infections could save \$3.2 to \$5.2 billion in annual health care costs.<sup>36</sup>

Passage of PAMTA can't eliminate this burden entirely, and passing such national legislation certainly incurs expenses for oversight and industry modifications. Reducing the amount of drugs that can be administered to livestock will require improvements to the conditions in animals' living conditions, causing farmers to incur initial expenses for converting their practices. However, in addition to benefitting agricultural operations in the long run, this policy likely has the best potential for reducing health care costs and improving Americans' livelihood among the existing and proposed means to address the crisis.

#### *Support and Opposition*

PAMTA has overwhelming support from more than 450 groups in the medical, public health, and environmental fields.<sup>3</sup> Prominent organizations include the World Health Organization, American Medical Association, Environmental Defense Fund, and the Animal Law Committee of the NYC Bar Association. Food businesses and agricultural groups (ranging from farms to advocacy organizations) have also endorsed it. This

extensive list speaks to the consensus among experts regarding the public health threat and contribution to drug resistance from the livestock industry. The support from businesses and farms that do not overuse antibiotics speaks to the feasibility of conducting successful food production operations while reducing antibiotic use, which is a critical balance as our country's agricultural system expands operations to supply the growing demand for such food.

Meat and pharmaceutical industries are the primary forces preventing the bill's passage.<sup>19</sup> The National Pork Producers Council and National Beef Packing Company have spent \$430,000 lobbying against regulation, arguing that evidence for their contribution to growing resistance is insufficient to justify such legislation. Pfizer, a major producer of antibiotics, has spent \$900,000 in opposition. Along with other groups such as the American Farm Bureau, the Animal Health Institute, Elanco Animal Health, and Merck and Co., these industries submitted 225 reports in opposition to the 2013 bill.<sup>38</sup> As a result, PAMTA has yet to gain bipartisan support from this or any previous Congress, regardless of the majority party.<sup>19</sup>

## RECOMMENDATIONS

The following pursuits may support the passage of PAMTA:

1. Bipartisan congressional support
2. Integration into other health campaigns
3. Support from sustainable agricultural groups

4. Education of the Energy and Commerce Committee to initiate a hearing

Bipartisan support will be critical to pass PAMTA. One possible means would involve reaching out to the Republican medical professionals in the House. There are currently 15 physicians—11 of whom are Republican—and three veterinarians.<sup>38</sup> Congresswoman Slaughter's staff should obtain support from these doctors who could benefit from the improved health of patients and efficacy of prescribed drugs if our country can successfully address and reduce antibiotic resistance. The veterinary field may also be directly impacted by and benefit from this bill if veterinarians must oversee all antibiotic prescription for livestock and can support national surveillance about use and resistance. Additionally, Senator Rand Paul (R-KY) is a physician, and should be targeted to sponsor a corresponding companion bill in the Senate to launch a bipartisan effort across both chambers of Congress. All of these professionals have medical training to understand the issue, making them more likely to support reform.

Potential health campaigns may include First Lady Michelle Obama, who has advocated for improved nutrition and health among Americans, and could be influential in raising awareness among congressional constituents of the need to reduce antibiotic use. Similarly, other campaigns focused on nutrition and environmental sustainability can incorporate this relevant issue to attract attention. Finally, while the current list of organizations endorsing PAMTA includes

some agricultural groups and farms, recruiting successful, sustainable meat producers who do not use antibiotics subtherapeutically could add weight to the argument that such drug use is not necessary to make a profit from producing food.

With an upcoming transition in the executive branch and the lack of attention given to the issue during the election season, it is uncertain whether this issue will remain a priority for the US government. As surveillance and research continue to elucidate the problem, these efforts will be critical to support the passage of PAMTA. With such strong opposition to a bill that is clearly supported by current scientific knowledge and the field of public health, education of members of the Energy and Commerce Committee and further endorsement from agricultural groups can add to existing evidence of the need for national legislation to prohibit antibiotic use for disease prevention and increase veterinary oversight to limit the contribution of antibiotics to increasing resistance.

## ENDNOTES

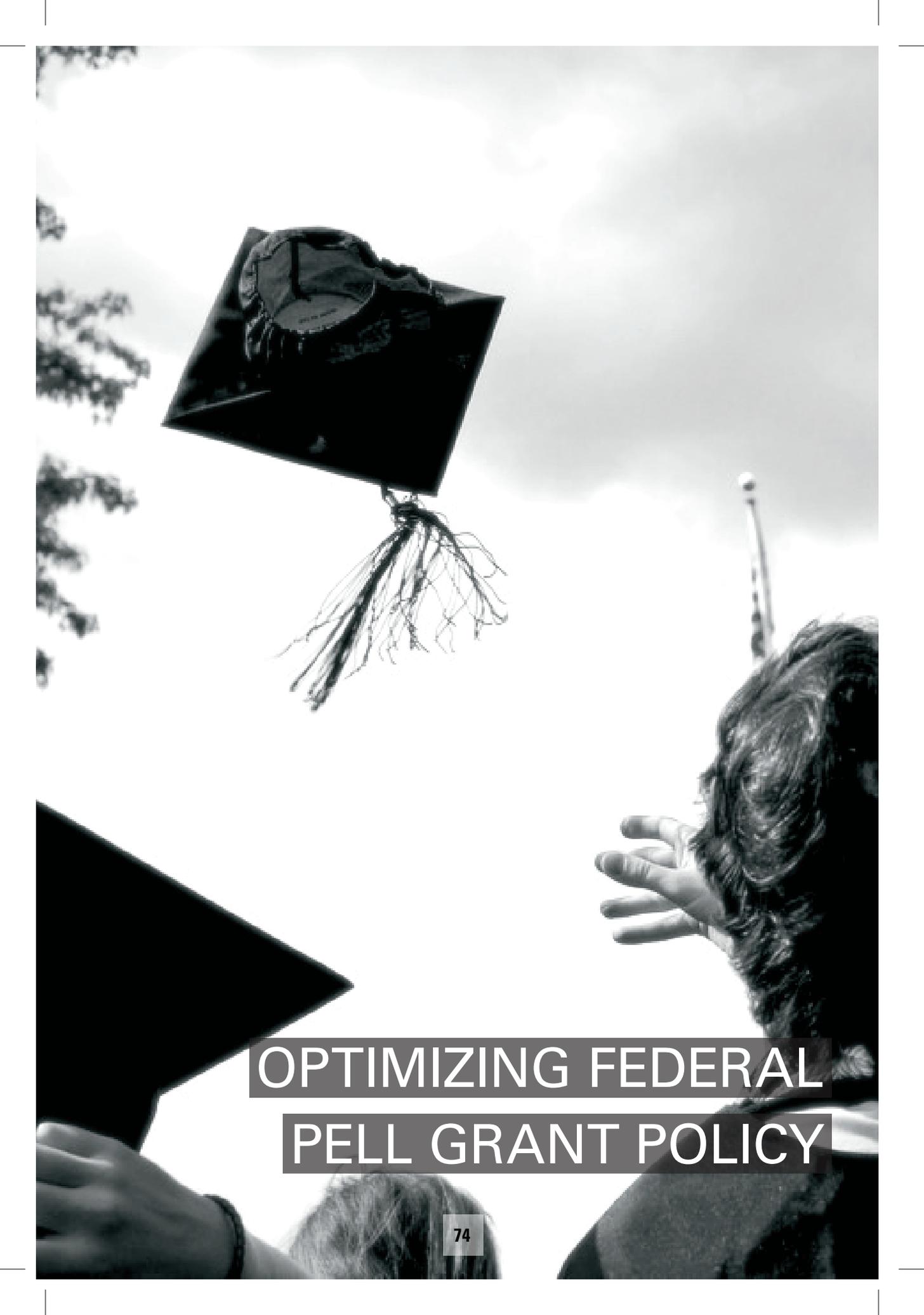
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# OPTIMIZING FEDERAL PELL GRANT POLICY

## MADELEINE JACOBS

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Since a college degree provides a substantial wage premium, one way to alleviate income inequality and poverty is to promote college enrollment and graduation among low-income students. For fifty years, the federal government has pursued the goal of making college more accessible by giving means-tested Pell Grants to qualifying undergraduates. In this article, I examine various proposals for reforming the Pell Grant program, which range from freezing spending at current levels to essentially doubling spending, with the goal of making the program more beneficial for low-income college students.

Research shows that lower tuition costs do increase college success. However, data also indicates that increases in federal aid for higher education result in higher tuition prices for students. Based on the only moderately persuasive evidence in favor of expanding the program and the high costs of doing so, I recommend a middle course of providing targeted Pell award increases. This plan would incentivize college completion by rewarding students who enroll in more credits than are required to be considered a full-time attendee, and by paying an on-time graduation bonus. However, given the current political climate, I do not recommend the introduction of such a plan in Congress within the next two years.

### BACKGROUND

While the magnitude of the impact of the college wage premium on income inequality is up for debate, there is no question that it plays a role. According to economist David Autor, it is “arguably the most consequential” factor in driving the gutting of the American middle class.<sup>1</sup> President Obama raised the issue in his final State of the Union Address in 2016, saying, “real opportunity requires every American to get the education and training they need to land a good-paying job.”<sup>2</sup>

Since the 1970s, one way the federal government has tried to lower the barriers to acquiring a college degree is by distributing Pell Grants to low-income youth entering undergraduate programs for the first time. Pell Grant eligibility is determined as one piece of the Federal Student Aid application process administered by

the Department of Education. Whether or not a student receives a Pell Grant, as well as the amount of the Pell Grant received, depends on her demonstrated financial need and the cost of attendance at the institution of higher education she attends, as well as her enrollment status (full or part-time). In the 2014-2015 school year, 8.2 million students were awarded Pell Grants.<sup>3</sup>

While the executive branch determines who receives Pell Grants, they do so in response to Congress, which has the authority to determine what the maximum Pell Grant will be each year. In the 2014-2015 school year, it was set at \$5,730.<sup>4</sup> Once the maximum grant is set, the Department of Education issues a corresponding schedule that shows the grant amount each student will receive based on the cost of attendance at their university, their expected family contribution, and their enrollment status.<sup>5</sup> The average grantee that year

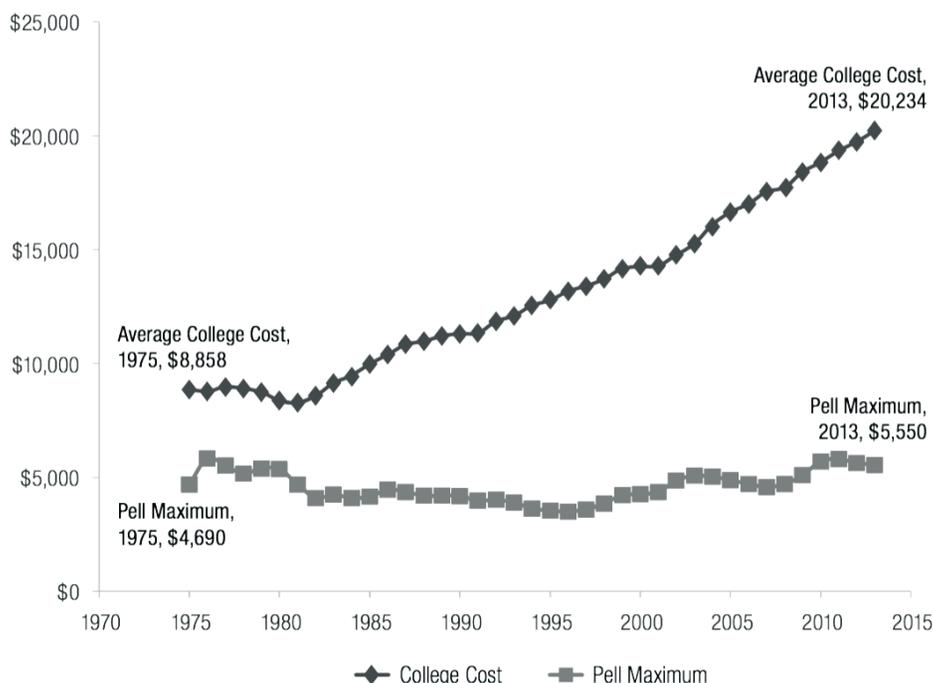


Figure I: Average College Cost and Maximum Pell Grant Award Over Time<sup>9</sup>

received \$3,673, for a total program expenditure of \$30.3 billion.<sup>6</sup>

A recent report by the Pell Institute<sup>7</sup> found that while the maximum Pell Grant amount has only increased by 18 percent in inflation-adjusted terms in the past 40 years, the average cost of college has increased by 128 percent in the same time period (see Figure I).<sup>8</sup>

The Pell Institute therefore proposes doubling the current maximum grant amount.<sup>10</sup> However, the current House Budget Proposal would freeze the maximum grant amount at the current level for the next ten years.<sup>11</sup> These widely divergent ideas have emerged from opposing views of the impact that Pell Grants have on college access. While those in favor of raising the maximum grant believe that Pell Grants increase college

enrollment and persistence among students who would otherwise not find college accessible, those who want to freeze the maximum grant believe that Pell Grants have driven up college tuition prices, thereby making college less accessible to any low-income student whose Pell Grant does not cover the entire cost of college.<sup>12</sup>

Changing the maximum grant amount is not the only way to adjust the Pell Grant Program. Other options aim to make the program more effective by strategically changing the schedule of payments to increase graduation rates, through measures such as offering additional grant money for students who take summer school. The question, then, is: *What adjustments to the Pell Grant program in the next reauthorization of the Higher Education Act (HEA) will most effectively*

*optimize the program's impact on college attendance and graduation rates among low-income students?*

## ALTERNATIVES

The following four alternatives are the most high profile and comprehensive Pell Grant program proposals put forward in President Obama's second term by stakeholders in the government and think tanks. These four proposals can be divided into two categories: proposals to adjust the maximum grant amount, and proposals to adjust the schedule of grant payments to recipients.

### *Adjust the Maximum Grant Amount*

1. House Budget Committee Proposal for Fiscal Year 2017: The goal of this budget proposal is to balance the federal budget by 2026, and the maximum Pell Grant is only one of many types of federal spending to be frozen for ten years to reach that goal. Still, a vague argument against raising Pell Grants is offered in the committee's resolution report, which explains the thinking behind the budget produced. The report alleges that the government has been "shoveling more money at the problem of rising tuition in higher education" and implies that college costs will be contained if federal student aid is capped.<sup>13</sup>

Were this policy to be implemented, the maximum Pell Grant could not increase from its current amount of \$5,815<sup>14</sup> until the year 2026. It is difficult to predict how many students will be Pell Grant recipients during that period, because the Pell Grant program responds to economic cycles. The number of recipients has declined in recent years, after peaking following the Great

Recession of 2008 (see Figure 2).<sup>15</sup> Assuming that between the downward trend correcting for the Great Recession's bump in grantees and the overall upward trend in college attendance, the average number of Pell Grant recipients over the next ten years will continue to be approximately eight million per year, that would leave around 80 million young people receiving a static Pell Grant while college costs continue to rise.

2. Pell Institute Proposal: The Pell Institute calculates that today, the maximum Pell Grant would need to be \$13,000, rather than the current \$5,815, for it to account for the same percentage of college costs that it did when the program was 'fully implemented' in the 1970s. The proposal argues that Congress should raise the maximum Pell Grant accordingly so that the program can once again be 'fully implemented'. The proposal to raise the Pell Grant to this amount seems based on anchoring the increase at a historical level, rather than on any evidence about an optimal level for getting students to enroll in college.<sup>17</sup>

Given that the whole schedule of payments is tied to the maximum grant amount, this proposal would immediately more than double the cost of the Pell Grant program. Furthermore, for it to be logically carried forward into the future, it would require that the maximum Pell Grant amount be tied to the cost of attending college, which may provide perverse incentives for those pricing college tuition.

## Optimizing Federal Pell Grant Policy

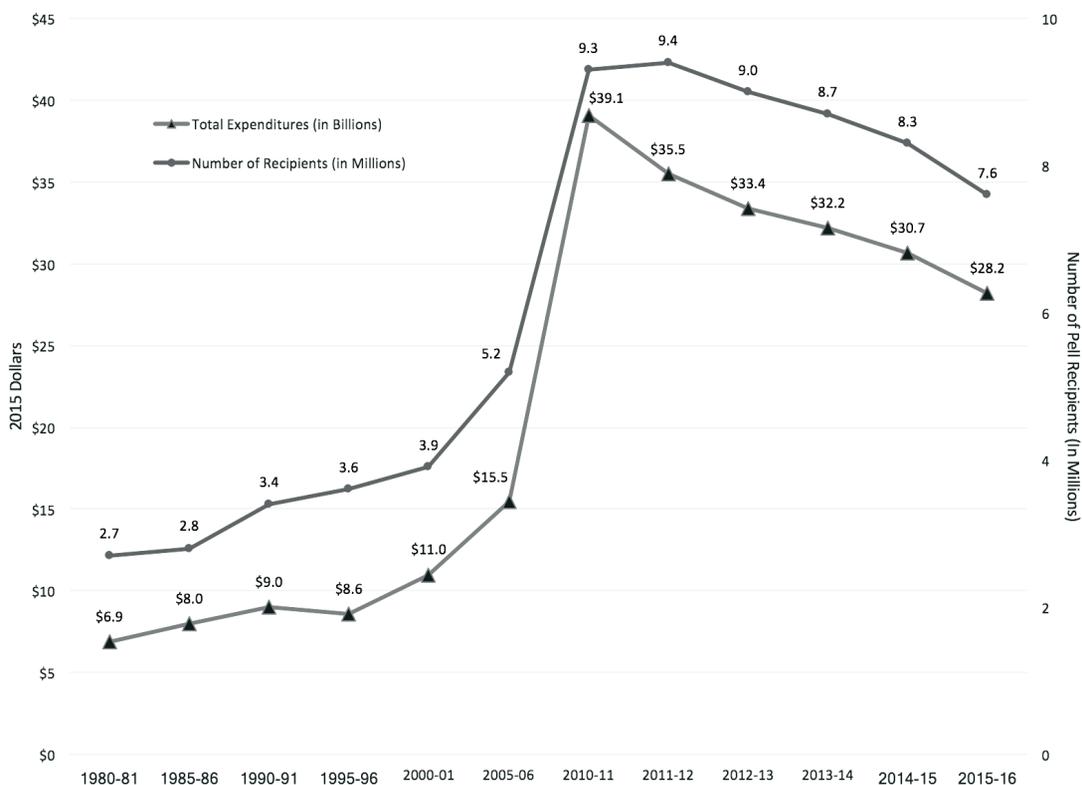


Figure 2: Pell Grant Program Growth Over Time<sup>6</sup>

### Adjust the Payment Schedule

3. President Obama’s Proposal: The main feature of the President’s proposal is to provide a new summer Pell Grant, which would allow students to be in school year-round with less debt, theoretically helping them graduate sooner. This plan increases the maximum aid eligibility a Pell Grant recipient would have in a year, if she is enrolled in classes over the summer or in more than the required number of credits during a given semester. Thus, it does involve a program expansion, but a targeted one rather than a universal one.<sup>18</sup>

According to the most recent data, about 44 percent of Pell Grant recipients are full-time

students.<sup>19</sup> Only students already in the full-time category could increase their grant by taking summer courses or increasing their course load during the semester; a part-time student who increased her enrollment would simply move into the full-time category.. Thus, approximately 3.6 million students per year could potentially qualify for a larger grant, although presumably only a fraction of those eligible would be interested in increasing their enrollment hours.

4. The Hamilton Project Proposal: In a 2013 report on redesigning Pell Grants, two researchers proposed redesigning the Pell Grant program, at minimal cost, to make it more supportive of college persistence and graduation. One key feature

of this proposal is the offering of a ‘completion incentive,’ which consists of a small payment (\$250 or \$500, depending on program length) upon timely graduation. This proposal would also provide similar funding increases to those offered in President Obama’s plan for students taking a heavier course load during the traditional school year and during the summer.<sup>20</sup> Similarly to the President’s proposal, this would increase annual eligibility for a targeted group, rather than unconditionally.

Again, this would only increase the maximum grant for a fraction of the Pell Grant students who are enrolled full-time. As for the on-time graduation bonus, a recent report by The Education Trust found that only 50.7 percent of Pell grantees at four year institutions graduate in six years. This means that, assuming the on-time graduation rate is similar at two year institutions, only half of Pell grant recipients are within striking distance of the extra funds.<sup>21</sup> Given the small

suggested bonus amount for on-time graduation and the limited proportion of eligible students, that piece of the proposal would cost very little relative to the overall program price.

## ANALYSIS OF THE ALTERNATIVES

*The three most important criteria for evaluating the above Pell Grant proposals are efficacy, cost, and political feasibility.* A well-designed Pell Grant reauthorization will increase the impact of the program in terms of graduating low-income students from college without dramatically increasing the program budget, as large increases in federal spending are politically infeasible, at least in the short term.

1. *Efficacy*, or the ability to produce a desired outcome or result, is the key issue underlying this policy question. In the context of Pell Grants, efficacy should be measured by how accessible the program makes college for low-income students. Policymakers, then, must ask: do Pell Grants cause colleges to raise their rates, making college

Proposal	Type	Est. Reach	Est. Cost
House Budget Committee	Maximum grant adjustment (freezing)	about 80 million students over ten years	No additional cost
Pell Institute	Maximum grant adjustment (doubling)	about 80 million students over ten years	Program costs would more than double and continue to rise rapidly (over \$30 billion annually)
President Obama	Schedule of payments change: add summer grants and allow for more than full-time enrollment	Fewer than 36 million students over ten years	Less than 10% increase in program costs (\$2 billion annually)
Hamilton Project	Schedule of payments change: allow for more than full-time enrollment and summer enrollment, and pay an on-time graduation bonus	Fewer than 40 million students over ten years	about 10% increase in program costs (\$3 billion annually)

less accessible for low-income students, or do they provide a crucial support that allows low-income students to attain a college degree when they otherwise could not?

While the logic model supporting the Pell Grant program seems strong, the empirical evidence of impact is not wholly decisive. National time series data over the period (in the mid-to-late 1970s) when Pell Grants became widely available indicates no notable increase in college attendance rates, which is seen by some as proof that the program does not induce low-income students to enroll in college. However, studies that use economic modeling to isolate the impact of tuition costs on enrollment decisions in general find “significant positive effects of tuition reductions on enrollment levels.”<sup>22</sup>

Even if the program’s impact is unclear as it relates to drawing new students into college, researchers have also looked beyond enrollment decisions to the impact of aid on persistence in college. Robust economic studies, such as one published by the National Bureau of Economic Research, have found evidence that “a Pell Grant reduces dropout rates.”<sup>23</sup> One specification of the model used in this research estimates a four percent reduction in the likelihood that a student will drop out of college for each \$1,000 increase in their Pell Grant amount.<sup>24</sup> So, a student who received the maximum Pell Grant in the 2014-2015 school year would have been about eight percent less likely to drop out than a student who received the average grant amount.

On the other hand, there is some evidence that increased availability of aid leads to higher tuition prices.<sup>25</sup> Proponents of freezing the maximum Pell Grant point to a recent New York Federal Reserve Bank paper that found some evidence of increases in federal aid being ‘passed through’ to tuition sticker prices. For Pell Grants, each additional dollar added to the maximum grant translated into a \$0.40 increase in officially listed tuition costs.<sup>26</sup> However, even if that increase were fully passed through to low-income students (which is unlikely, given that Pell grant recipients do not pay the sticker price), they would still be receiving a discount equal to 60 percent of their Pell Grant amount, since only \$0.40 on every dollar is ‘passed through’.

Furthermore, a meta-analysis of the larger body of research on this question reveals that “the findings are ambiguous. Some studies find a relationship between Pell grants and tuition increases; others do not. Some find a relationship in some college sectors but not others, and other studies find exactly the opposite result.”<sup>27</sup>

In sum, the evidence on this question is not overwhelmingly conclusive. There is conflicting evidence about the impact of Pell Grants on college prices, and on college enrollment decisions. The body of evidence indicating that Pell Grants increase college persistence among low-income students is persuasive, but the real possibility that Pell Grant increases are passed through to students is also important to factor in.

Applied to the alternative proposals for amending the Pell Grant program, this evidence supports

changing the program by adjusting the schedule of payments rather than by freezing or doubling the maximum grant. Freezing the maximum grant would avoid any risk of Pell Grant increases driving tuition increases. However, it would also cause the percentage of tuition covered by aid to decrease as college costs continue to rise, thereby decreasing the beneficial effects of the program on college enrollment and persistence.

On the other hand, doubling the maximum grant and committing to the idea that it should be tied to the cost of college as the Pell Institute proposal suggests would create incentives for colleges to increase tuition accordingly. In the short term, doubling the maximum grant would decrease tuition costs for low-income students the most, and therefore have the biggest impact on increasing college attendance and persistence rates. Given the estimates on the impact of financial aid on college attendance discussed above, doubling the amount of the grant would decrease the likelihood of a Pell grantee dropping out by anywhere from two percent to 24 percent, with the average reduction being ~15 percent. However, this positive impact would likely be short lived, as colleges could eventually implement a corresponding increase in tuition costs.

Changing the schedule of payments as proposed by both President Obama and the Hamilton Project would reduce the cost of tuition for students enrolled more than full-time or in summer school without changing the maximum grant amount in an obvious way, making it less likely that colleges would respond by raising tuition.

The reduction in tuition costs would be smaller than with a doubled maximum grant, and therefore the positive impact in terms of enrollment and persistence rates for each class of Pell Grant recipients would be less dramatic.

For example, summer Pell Grants would potentially reduce dropout likelihood by about eight percent (given the projected cost of \$1,915 per student). A similar impact would be realized if payments were distributed for students enrolled more than full-time over a standard school year, since the net payment would be the same as the summer option. Adding an on-time graduation payment could bump that figure to nine percent or 10 percent. While only a fraction of Pell Grant recipients would receive these adjusted grants (unlike under the Pell Institute proposal where all recipients would benefit), the impact would be more likely to persist over time, and therefore could ultimately affect many more students.

2. *Cost* is an important consideration as well, given the persistent national budget deficit and growing national debt, as well as political resistance to spending among some in power. For the past five years, the federal government has spent over \$30 billion annually on Pell Grants, which is more than four times as much, in real terms, as the program cost when it was launched in the 1970s. The increased cost is largely attributable to increased eligibility and take-up. In real terms, the maximum grant amount has actually fallen (though the average grant amount has increased by about 25 percent).<sup>28</sup>

Assuming that (roughly) doubling the maximum Pell Grant amount from \$5,730 to \$13,000 would also mean doubling the grants given to recipients not receiving the maximum, it would essentially double program costs, adding another \$30 billion annually to the budget. Given that the total Federal budget for education programs in 2015 was \$87.37 billion, this would be quite a significant increase.<sup>29</sup>

President Obama's plan to provide summer Pell Grants has been projected by the Department of Education to cost an average of \$1,915 for 700,000 students, or \$1.3 billion annually. With the addition of a small increase in the maximum grant for students enrolled more than full-time, his full proposal is billed at a price of \$2 billion annually (less than 10 percent of the current total Pell Grant budget).<sup>30</sup>

As for the Hamilton Project proposal, it would likely be in the same price range. The proposal's authors calculate the probable cost of the graduation incentive at \$125 per recipient, or just over \$1 billion annually, which is less than five percent of the program budget.<sup>31</sup> Given that the rest of the Hamilton Project plan is similar to President Obama's, the Obama plan cost of \$2 billion can be added to that \$1 billion, bringing the total cost to just over \$3 billion annually (approximately 10 percent of the current total Pell Grant budget).

While the most affordable proposal is clearly the House Budget Committee's plan to freeze the maximum Pell Grant amount for a decade, the targeted aid increases proposed by the President and the Hamilton Project are both relatively

affordable when compared with the Pell Institute proposal and overall Pell Grant program budget.

3. *Political feasibility* is simpler to analyze, but more changeable over time. The latest House Budget Committee proposal makes it plain that there is currently no appetite for spending in Congress. Furthermore, leading Republicans have been intentionally obstructing Congressional action in general while running out President Obama's time in office, including preventing the accomplishment of tasks that would not require any spending, like the appointment of a new Supreme Court Justice.

With Donald Trump as President Elect and Republicans holding onto their majorities in both houses of Congress, the advent of a new administration does not offer much potential for enacting any changes to the Pell Grant Program other than freezing the maximum benefit. Any plan that would incur additional costs and thus hinder Republicans from achieving their stated aims of cutting taxes and balancing the budget will not be feasible as long as Republicans control the government. In the current political environment, it seems most likely that a determination not to increase spending on Pell Grants will rule the day.

## RECOMMENDATION

The evidence on the efficacy of the Pell Grant program does not merit doubling the program budget. However, the positive impact of the program does seem sufficient to justify a 7-10 percent increase in the program budget, if that

increase were distributed in a way that did not give colleges a clear incentive for increasing their costs. Specifically, offering students Pell Grant extra funds for more than full-time enrollment and an on-time completion bonus could be good policy changes. Furthermore, these incentives could be offered to recipients randomly to allow for evaluation of their impact, which could provide a better understanding of the program’s effects going forward.

My recommendation is that the next Democrat-controlled Congress propose a targeted plan for increasing Pell Grant spending, to fund students enrolled more than full-time and give a bonus to those who graduate on-time, as part of the next iteration of the HEA. This proposal should take the best features from President Obama’s plan and the Hamilton Project proposal and add an evaluation component to collect data on how much an on-time graduation payment actually alters student behavior.

In my view, offering an additional Pell Grant for students enrolled more than full-time is more likely to hasten graduation than offering a larger grant for students enrolled in summer school. First, not all schools offer summer school coursework, which would make it logistically difficult for some students to take advantage of increased Pell grant opportunities through no fault of their own. Second and more significantly, many low-income students rely on the income generated over the summer to cover their non-academic expenses during the school year. Even if the summer Pell Grant amount was equal to the amount of lost earnings, which is unlikely, that money would go towards summer school tuition and leave students without funds to cover living expenses. On the other hand, the number of credits per semester currently required to qualify as full-time for Pell Grant purposes (12) is lower than the number that would be necessary for a student to graduate in four years (15).<sup>32</sup> If on-time

Proposal	Impact on College Costs (for all students)	Impact on College Success	Added Cost by Percent of Current \$30 Billion Program	Political Feasibility
House Budget Committee	None	Negative (harder for students to persist and succeed)	No additional cost	High
Pell Institute	Negative (easy for colleges to raise costs in line with more generous aid)	Largest positive effect, and population affected, but might only persist for a short time	Program costs would more than double and continue to rise rapidly (over \$30 billion annually)	Very Low
President Obama	Negligible	Moderately positive for a subgroup of students, and lasting	Less than 10% increase in program costs (\$2 billion annually)	Low
Hamilton Project	Negligible	Moderately positive for a subgroup of students, and lasting	about 10%	Low

graduation is a goal of the program, it certainly makes sense to incentivize enrolling in the number of credits that will allow students to accomplish it.

A timely graduation bonus could be an effective incentive for the marginal students who are on track to graduate but struggling financially (the same group whose persistence is supported by getting Pell Grants). Whether the proposed amounts of \$250 or \$500 would be enough of a bonus seems more questionable, however, given that students are often forced to take a semester off in order to earn more money to continue their education, and the amount that could be earned in a semester would far exceed \$500. Therefore, a pilot program should test different bonus amounts to evaluate their differential impacts and provide insight into whether a graduation incentive could work, and at what price.

Therefore, *I recommend pursuing adjustments to the Pell Grant program to provide additional funding for students who enroll in more credits than the current full-time guidelines require, and to offer a timely graduation bonus through a randomized pilot program that will be formally evaluated for impact.* Politically, such a plan is unlikely to succeed in a Republican controlled government, so Democrats should wait to pursue it until they control Congress.

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**WHEN ADOPTION  
IS NOT ENFORCEMENT  
DIFFERENTIATED ENFORCEMENT  
OF BANKS' CAPITAL REQUIREMENTS**

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### INTRODUCTION

A major problem identified during the financial crisis in 2007-2008 was that banks didn't hold enough equity capital to absorb unexpected losses in conditions of extraordinary stress. In the aftermath of the crisis, one of the top-priorities of the G20 leaders was thus to improve capital requirements for banks. The G20's 2 April 2009 Declaration on the Strengthening of the Financial System called for internationally consistent efforts aimed at improving the quantity and quality of capital in the banking system.

In 2010, the members of the Basel Committee on Banking Supervision, an organization comprising the biggest world economies' central bankers, agreed to double the capital ratio requirement for banks. In other words, they committed to double the amount of shareholder equity banks are required to hold for a given amount of assets, adjusted for how risky these assets are. This means that the bigger the bank is and the riskier its assets are, the bigger the amount of "safe capital" – mostly in the form of common equity- it needs to hold. The Third Basel Accord—commonly named Basel III—was scheduled to be introduced internationally from 2013 to 2015. In the European Union (EU), Basel III was implemented through the Capital Requirements Directive IV (CRD IV) in 2013.

Capital ratio requirements were crafted at the international level, but they have been imple-

mented and enforced differently across jurisdictions. In particular, there are variations in how banks measure the level of risk level of their assets, which impact the calculation of the capital ratio they have to meet. Under Basel III, banks are allowed to apply internal models of risk assessment, and evidence has shown that banks tend to assign different weight to the same type of assets. As a result, banks across different jurisdictions calculate their capital ratio differently, even though they have the same risk profile and should, under homogeneous conditions, apply the same calculation.

Why do banks weigh risk differently across jurisdictions? Although there are many potential factors to explain these variations, evidence points to the importance of domestic supervisory practices—some banks simply get more lenient treatment than others. This paper suggests that domestic political dynamics has impacted the degree of stringency in the enforcement of capital ratio requirements. To illustrate this claim, this paper sketches a comparative case study of two countries: France and the UK. Given the size of their respective financial sectors and their both having a significant number of systemically important financial institutions —otherwise known as "Too Big To Fail" banks—these two countries are key to the stability of the international financial system. Relative to each other, France has been lenient and the UK has been strict in their enforcement of banks' capital ratio require-

ments. This difference is not necessarily due to British supervisors being inherently better than the French. It is explained by domestic political dynamics. More specifically, differences in the enforcement of capital ratios are due to the different industrial strategies of governments relative to their domestic banking sector after the crisis, where these strategies were shaped by banks' positioning in their respective economies and the level of access top bank managers have to government officials.

The second section describes international and European rules in matters of capital ratio requirements. The third section maps out the variations in enforcement of these rules across jurisdictions. The fourth section proposes an explanation as to why enforcement varies, with a focus on France and the UK. The fifth section casts light on the consequences of these variations. In light of the argument elaborated in the previous sections, the last section suggests possible paths to improve the regulation of capital ratio requirements and how this would contribute to enhanced long-term stability of financial markets.

## **BASEL III, CRD IV AND INTERNATIONAL CAPITAL RATIO REGULATION**

The key contribution of Basel III to financial regulation is the requirement that banks increase their capital ratio. Capital ratio requirements define the minimum amount of regulatory capital (mostly shareholder equity) a bank needs to hold for a given amount of assets. This ratio is arguably a key indicator of a bank's solvency and resil-

ience. The calculation of the capital ratio is based on Risk-Weighted Assets (RWAs). Banks' assets are weighted depending on their risk profile. In other words, riskier assets will be assigned more weight, and the bank will have to hold more capital for this asset. Basel III requires banks to hold 4.5 percent of common equity (up from 2 percent in Basel II) of risk-weighted assets. This ratio is thus calculated as:

$$\text{capital}/RWA \geq 4.5 \text{ percent}$$

Consequently, the bigger the numerator (Capital) and the smaller the denominator (RWAs), the better the capital ratio of the bank would be.

In the European Union, the Capital Requirements Directive IV (CRD IV) translates Basel III requirements into European law. The 1600 pages of the final CRD IV text are a testament to its level of detail and complexity. Scholarship in public policy has shown that detailed and complex regulations tend to be easier to arbitrage. In this case, this assertion is supported by the large discrepancies in risk weights attributed by different banks across different countries to similar assets. As developed in the next section, there are significant variations in how the denominator of the equation determining the required capital ratio is calculated across jurisdictions.

## **VARIATIONS IN RWA**

The implementation of such an ambitious rule as Basel III is by definition challenging and difficult. But more central to the arguments of this paper, there are variations in how banks use internal models of risk assessment to weight their

assets, and thus to determine the level of capital they have to hold. Differentiated enforcements of capital rules through different calculations of RWAs is not new. In 1999, the Basel Committee had already noted that “with increasing sophistication of the banks and the development of new innovative techniques in the market, the largest banks have started to find ways of avoiding the limitation which fixed capital requirements place on their activities relative to their capital. For certain banks, this is starting to undermine the comparability and even the meaningfulness of the capital ratios maintained.”

With the caveat that market reality is a lot more nuanced and complex than what can be described here, it is possible to lay out significant observable variations in RWAs across jurisdictions. It has actually been abundantly documented that different banks can give very different risk weights to identical assets . This study also stresses important variations across jurisdictions. Consider the example of the UK and France. In the UK, corporate exposure of banks is weighted on average at 65 percent. In France, corporate exposure of banks is weighed on average at 47 percent. The same trend is observed in exposure to residential mortgage: in the UK, this exposure is weighed on average at 18 percent, against only 11 percent in France. Concerning the exposure to other financial institutions, British banks give them an average weight of 18 percent, against 14 percent in France. In short, French banks apply on average much lower weight than their British counterparts to similar assets.

## THE USE (AND ABUSE) OF INTERNAL MODELS OF RISK ASSESSMENT

What can explain the difference in how banks weigh the risk of assets across jurisdictions? Under Basel III, banks are allowed to use internal models to attribute risk weights to certain types of their assets. These models take several dimensions into account in their calculation of the risk of an asset. Consequently, variations in bank RWAs may be due to multiple, different factors, such as differences in domestic economic cycles and foreign market exposures, business models, and lending practices or provisioning practices . It is extremely difficult, and beyond the scope of this paper, to determine to what extent each of these factors influence banks' RWAs. However, there is enough evidence to assert that a significant proportion of the variation is due to the incentive banks have to artificially minimize their RWAs and, in this manner, reduce the overall level of capital they are required to hold, and in turn increase their lending and investment capabilities.

Several studies have shown that banks have improved their capital ratios by spinning off unwanted assets and recalculating the risk weightings attached to some assets. For example, the Financialisation, Economy, Society & Sustainable Development Project (FESSUD), funded by the EU released in 2014 a working paper that asserts that banks have long anticipated higher capital requirements and are therefore concentrating their efforts more on adapting their internal risk models than on increasing their core capital.

As an illustration of such practices, it is noted that Deutsche Bank reduced its RWAs by 55 billion Euros in the last quarter of 2012 to achieve a higher capital ratio. This could not possibly be due to an actual reduction of balance sheet positions and estimates show that about 50–75 percent of the reduction was actually due to “finer calibration” of risk model . According to a large rating agency, the ratio of RWAs to balance sheet size in the banking sector was reduced between 2007 and 2012 from 75 percent to 35 percent. The report concludes that this can “hardly be explained by the reduction of risky business” .

#### THE POLITICAL ROOTS OF DIFFERENTIATED ENFORCEMENT

There is a clear incentive for banks to ‘game the system’ by underestimating risks and accordingly optimizing their capital. But why do some banks seem more inclined to do so than others? This is because supervisory practices vary at the national level, and some banks simply get more lenient treatment than others. As a matter of fact, model approvals are neither uniformly robust nor uniformly reviewed across jurisdictions. This variation has nothing to do with the fact that some regulators are ‘better’ or more virtuous than others. It is due to political dynamics within each country. More specifically, it is due to the industrial strategies governments employ regarding their domestic banking sector after the crisis, the strategies shaped by the position of banks in the domestic economy, and the degree of access domestic bankers have to their government officials and regulators. This section illustrates this

claim by building on two country cases: France and the UK.

In the UK, the shock of the financial crisis was especially strong. The scale of the banking crisis in the UK takes root in the great transformations of British banks’ business models during the 1990s and 2000s. British banks turned themselves away from simple banking activities (i.e. taking deposits and making loans) to embrace riskier and more market-based activities, like securities trading . Major banks, like Northern Rock and the Royal Bank of Scotland, went bankrupt and had to be bailed out by the taxpayer in 2007 and 2008 respectively. Public money was used to re-capitalize those banks. The total cost of the banking bailouts for the taxpayer was higher in the UK than in any other European country .

Public blame on banks was exceptionally high in the UK. The YouGov-Polis Programme for Public Opinion Research published that in 2012, 73 percent of the British population described the reputation of banking as bad, the highest figure of 26 industries tested . In addition to the public, politicians and regulators alike also blamed the banks. For example, Business Secretary Vince Cable publicly called the British banking sector a “massive cesspit” while Martin Wheatley, head of the Financial Conduct Authority (FCA), now famously claimed about the bankers he was regulating, “[w]e shoot first, we ask questions later.” By contrast in France, 76 percent had a good image of their own bank, and 50 percent had a good image of French banks in general. The political backlash towards banks was much tougher in the

UK than in the other European countries.

The landscape of the British financial industry is also very unique. On one side, five British retail banks massively dominate the market for retail banking. On the other side, London is to a large extent an offshore financial center – meaning that it is the place from which many global (non-UK based) financial institutions operate. The British economy is largely dependent on the City. The UK's financial and related professional services employ seven percent of the working population. The industry also accounts for 11.8 percent of GDP and contributed £66 billion in tax revenue in 2014/15 alone, accounting for 11 percent of total UK tax receipts as the largest contribution of any sector. There is little disagreement between the two main British parties about the necessity to “enhance the City.” Here, it is important to note that the growth of the City does not rely much on retail banks, but rather on the activities of foreign global banks, which are based in other jurisdictions and are thus regulated not by London, but by their own domestic regulators.

The objective of the British government after the crisis was thus twofold: 1) Preserving the City while attracting further foreign investment, and 2) protecting British taxpayers from potential failure of domestic banks. Both objectives were consistent with the decision to make of British banks an “example of good governance deserving the trust of investors.” As an anonymous Labour member of the Parliamentary Committee on Banking Standards put it: “We needed to protect investors and trust. We, as an economy, depend

on foreigners. The view on both [parties] was that we had to increase trust in the financial system.”

This political agenda was supported by a proactive attempt by British regulators to closely monitor the implementation of Basel III, and even tighten capital ratio requirements for UK banks. As soon as 2009, the Financial Supervisory Authority (FSA) published its concern about the dispersion in risk assessment across British banks. In February 2016, British regulators voiced their concern that European ‘maximization harmonization’ rules, which impose a level playing field, would make it harder for them to demand stricter capital requirements. In other words, they were worried that European regulation would disrupt the British efforts for more stringent regulation by forcing them to follow a laxer European standard. The PRA hired new experts capable of closely monitoring banks’ internal models of risk assessment. As a senior manager at the Bank of England put it, “Risk analysts at the PRA [were] seriously monitoring models. They got a good understanding of how firms were exploiting loopholes. There [was] a lot of scrutiny.” Another Treasury official bluntly explained the differentiated enforcement of capital requirements, “[w]e’ve been tougher than the French and the Germans because we have much more to lose.”

In France, the political dynamics at play are very different. The banking crisis did not impact the country as overtly as in the UK. The banking bailout put together in 2008 was not directly costly to the French taxpayers. The anti-banking polit-

ical backlash was real, but less intense than in the UK. Moreover, the French economy and the position domestic banks occupy in it are very different from the UK. The five biggest French banks, even though they operate internationally and have developed strong market activities at the global level, also remain virtually the only dominant players in retail banking and corporate lending, both very important sectors of the French economy. This means that France massively depends on its domestic banks both for the funding of its non-financial businesses, and for the international glitter of the country on the (highly profitable) arena of global finance.

Finally, the well documented proximity between French banking and public elites made it easier for the latter to be especially attentive to bankers' main arguments concerning the implementation of Basel III capital requirement. First, French bankers argued that higher capital ratio requirements would reduce the amount of capital available for lending to businesses and force them to raise interest rates, thus reducing domestic growth. Second, they complained about the disadvantage that they were facing vis-à-vis their US counterparts still subject to the less constraining Basel II capital requirements. As a matter of fact, these two lines of arguments have been developed by public and private actors alike, both during interviews and in public venues. For example, the Governor of the Banque de France (BdF), Christian Noyer, overtly supported French banks in their critiques of Basel III capital ratio requirements. Because the strict enforcement of Basel III capital requirements in France is wide-

ly considered to be detrimental to French banks and consequently to the French economy, there has been no proactive attempt by regulators to monitor the use of internal models of risk assessment by banks.

## CONSEQUENCES OF DIFFERENTIATED ENFORCEMENT

Basel III's objectives were to increase banks' capital ratio requirements, homogenize them across countries, and make them more transparent in order to improve the long-term stability of financial systems. Yet, the differentiated enforcement of capital ratio requirement across countries has produced consequences that seriously undermine these objectives.

It is now well known that uncertainty about banks' balance sheets is one very predictable trigger of financial crisis. The 2007-2008 financial crisis showed the damage that can be inflicted by solvency concerns on financial institutions. Solvency concerns can be based on actual solvency issues, but also on investors' perception on solvency issues which can sometimes be excessive or irrational. The lack of credibility for solvency measures obviously deteriorate investors' perception on solvency issues. Today, investors' concerns about the reliability of the denominator of capital ratios (i.e. RWAs) bear similarities to their previous loss of confidence in the numerator (i.e. Core Capital) in the run-up of the 2007 financial crisis. The resulting opacity is an issue for all stakeholders, from regulators to investors and to financial institutions themselves, insofar as it does not foster trust and appetite for bank shares.

## COPING WITH DIFFERENTIATED ENFORCEMENT

Building on the present analysis that stresses the importance of domestic politics as an explanatory factor, two mutually exclusive alternatives to improve enforcement of capital requirements across jurisdictions have been identified. Neither is without flaws and choosing one over the other necessarily involves trade-offs.

The first option consists of suppressing the channels through which domestic politics impact the enforcement of capital ratio requirements, namely the reliance on internal risk assessment models and the reliance on a national supervisor for enforcement. Unsurprisingly, this option is the favored outcome of international and global regulators and supervisors. This would require an establishment of a truly global supervisory agency with access to individual banks' data and the resources to closely monitor every important financial institution in the world. Having recognized the problem with internal models, the Basel Committee on Banking Supervision decided in 2015 to restrict the use of internal models by large banks and to align them more closely with the standardized approach (i.e. risk measurement techniques developed by the Basel Committee itself) and even threatened to ban the use of internal risk assessment altogether. European regulators and supervisors are also aware of the problem. In November 2014, European Central Bank (ECB) Governing Director Sabine Lautenschlager said at the "Euro Finance Week" in Frankfurt that the ECB was intending to closely

examine whether banks are identifying the risks of their loans properly: "In the next two to three years, we will look at each model. This is a big project."

Yet, there are several reasons to doubt that these initiatives would be as effective as intended. First, the question remains regarding the concrete feasibility of such an agenda for international supervisors. Today, global regulators and supervisors largely depend on national authorities to do their job, as well as for resources and information. For example, a bureaucrat at the European Banking Authority (EBA) voiced concern that it was very challenging to get national supervisors to communicate reliable data to them. Overcoming this dependency on national authorities would require huge investments in terms of money and human resources. It is not clear that national governments, from which these resources ultimately come, would credibly commit to it. Second, banks have been very vocal in their opposition to the attempt at undermining the use internal models of risk assessment models. And the factors explaining why national authorities are sensitive to banks' arguments — namely the position of big domestic banks in the domestic economy, the industrial strategy of governments after the crisis, and the access to public officials by top bank managers - are very difficult to remove. An offensive led by under-resourced and understaffed global supervisors on internal models of risk assessment would potentially lead states and banks to further bond together and defend their collective interests. They would likely do so in ways still more informal, more opaque

and difficult to monitor than banks' own internal models.

The second option consists of recognizing national specificities, and even more, recognizing the legitimacy of, and formalizing the influence of, domestic politics in the crafting of banking regulation and supervision. Today, the objective for supranational regulators such as the Basel Committee is to set up global standards because banks operate globally and are deeply intertwined. This approach is justified because the health of any big bank on the planet is *de facto* the concern of any government, and virtually of any citizen. And yet, the globalization of finance must not make us forget that banks are institutions that are deeply rooted in their national political economies. That fact, coupled with the actual globalization of finance, is what makes financial regulation so challenging. The global financial system is deeply intertwined but there is no one-size-fits-all regulation for banks. Pretending that the links between banks and their national political economies no longer exist, or betting on the possibility that global regulation will lead to breaking these links, is unrealistic at best, and dangerous at worse. As this analysis has shown, the result of global regulation on capital ratio requirements has not been the homogenization of a theoretical best practice or the overcoming of domestic politics, but the use and abuse of the regulation to fulfill a banking strategy largely shaped by domestic politics.

The alternative option would thus be to acknowledge the fact that global banks are embedded in

their domestic political economies and to give jurisdictions some formal leeway in the crafting and enforcement of financial regulation, including capital requirements. Higher capital requirements involve trade-offs that may have important repercussions on national economies. For example, they may penalize the universal model of banking, upon which the French economy greatly relying. It might be legitimate for different jurisdictions to arbitrate these tradeoffs in different ways. If the objective of the regulation of capital ratio requirements is financial stability, national authorities could be allowed to design different ways of reaching it. If they decide to impose relatively lower capital ratio on their banks, they should say it explicitly, develop the reasons why this method is not suitable for the banks operating under their jurisdictions, and explain the alternative approaches that they are implementing to reach financial stability. This would not equate to giving a blank check to banks and domestic authorities. On the contrary, this would force jurisdictions to explicitly state and clarify the rules to which banks are subject, but also to make plain the banking model and the business strategies that are being pursued or enhanced at the national level. As for the banks themselves, it would force them to explicitly formulate what their business model is, and to present it to the assessment of different stakeholders: investors, but also bank customers, elected officials and more generally, citizens. Whether or not the rules and strategies implemented by governments and banks to pursue financial stability are satisfying would be available for assessment

to all the stakeholders (law-makers, consumers groups, investors, engaged citizens, etc.), and not only the very few insiders capable of decrypting the actual implementation of capital ratio by banks. This second option might be disappointing in that it recognizes that the world of banking remains complex, heterogeneous, and an essential element of domestic politics. However, it might also be more pragmatic as well as more democratic and thus more effective to preserve financial stability in the longer-run.

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