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SOCIAL EQUALITY AND THE HOUSING ALLOWANCE APPROACH
TO ASSISTING THE POOR

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Redistribution of income through direct grants of funds to the poor for general use, such as welfare payments, is seen as the usual means for reducing social equality. However, assistance in kind, such as Medi-Cal, school lunches, and Food Stamps, also help to stretch the real income of the poor and to bring their income closer to that of the rest of society. Another means of achieving some degree of redistribution is through housing subsidies which either provide the poor with a particular unit at low rent, such as public housing, or give the poor funds specifically to use for housing, such as through the experimental housing allowance. In Europe these housing subsidies have been of major importance as a social equalizer mechanism increasing working class incomes. For example, almost a third of the British pay below market rents in government-subsidized council housing, 40 per cent of Swedish families with children receive a housing allowance, and well over a third of Dutch families are in completely government-subsidized moderate rent housing units.

This report discusses the role housing assistance has played in the United States in decreasing social inequality of America's poor, and then, in more detail, discusses the degree to which a housing allowance program, now being experimented with, might do a better job of diminishing social inequality. The report is based on the author's ten years of research on subsidized housing programs, especially public housing, new towns, housing for the elderly, and most recently, the HUD experimental housing allowance program and European housing allowance programs.

Before discussing how the housing allowance might diminish social inequality and the barriers that exist to it becoming a successful vehicle for working towards this goal, it may be useful to examine the dimensions of social inequality. Increasing social equality to many sociologists means simply seeing that the lower strata in the society has a greater proportion of the real income; in this context housing assistance is seen as being a useful vehicle if it gives the poor monetary assistance or below market rents. However, the definition or scope of social inequality can be seen to be broader, referring to the inequality between the condition of the apartments the poor live in compared to the housing that the rest of society lives in. In the United States over a tenth of the households still live in sub-standard or over-crowded housing (and 25 per cent suffer from one or more or three types of housing deprivation: over-crowding, substandardness, or an unrealistic rent burden in relation to their income.)⁵ For example, half of the 14 million welfare recipients live in substandard housing; 34 per cent of all poor live in deteriorated housing. The relative deprivation the poor feel because they are not in what they consider a "decent home" - the kind of home shown daily on television and in the magazines - the negative psychological feeling they have from living in deteriorated housing, or even public

housing with its stigma, can be considered a type of social inequality. Sociologists, starting with Warner and Chapin⁶ have long considered residential dwelling as well as residential area a criteria for status and the poor share this judgment. They feel they live in low status housing. High status or desirable residential units or areas may be deemed a scarce good rewarded to the most esteemed members of society, as visualized in the David-Moore theory. Different residential dwellings and areas can be seen as indicators of power of different groups, as John Rex points out.⁷ Inequality in residential condition and residential area can be a reminder or indicator of general inequality. Conversely then, government assistance to make the units the poor live in more like those of the middle class or to make the residential areas as desirable as the middle class or even upper working class areas means diminishing the social inequality between these groups. Even more effective could be government measures to facilitate the ability of the poor to move into working class areas - in other words to facilitate a class mix in neighborhoods that formerly had few poor residents. In Britain this was a major goal for new towns; they were to be like a village where the poor lived next to the middle class, as Laborite leader Aneurin Bevan demanded in authorizing legislation. British public housing (council housing) was to architecturally not look like housing for the poor. In Sweden, the idea given in policy statements for new towns was that the dust-man should be able to live next door to the doctor. Mechanisms for class mix or locational choice for the poor provide them with not only a more desirable residential environment but in the U.S. a more desirable school for their children as well as a wide range of other more adequately staffed facilities, from library to medical to recreational and park facilities. It may also put them in an area of better-paying and more accessible jobs, for many firms have moved to outer fringe, suburban and certainly non-slum areas that are often inaccessible by public transportation to slum dwellers.

In sum it is argued that greater social equality can mean other things than greater equality in incomes; it can be in terms of housing of a quality more equal to that of the rest of the society. In addition, greater equality may be in terms of living in an improved neighborhood, reaching the desired conditions of safety, cleanliness, service provision and even greenery and a neighborhood inhabited by a mix of people including middle class. That many of the poor strongly desire this type of equality can be illustrated by the opinions of New York City welfare recipients who, when asked by Sternlieb⁹ what they most wanted in housing, said a "good area"; their greatest dissatisfaction was that they lived in a bad area, an unsafe area, and an area of drug use problems. The greatest general fear of these welfare recipients was not over a job or their economic situation but concern over family and self. Since many were female household heads on welfare or elderly one could see why a safe area, a good neighborhood, were of more concern than a job. Another study of elderly showed a very major interest was in modern comfortable housing,¹⁰ again showing that while equality in income is important, improved housing and area are also of great concern. To many housing is "not only shelter" - "not only a physical shell for people's lives" as Gans feels but a major need.¹¹

Another type of social equality that is important when considering a housing allowance is equality of treatment of groups at roughly the same

economic level, in this case the different categories of poor. A major example of this is between the working poor who make up about 40 per cent of all poor and seldom receive welfare payments, and the rest of the poor; or between large and small families, poor families and elderly poor, white and non-white poor, or between poor in different regions, or in urban and rural areas, with the latter seldom receiving housing assistance (except for minor Rural Housing programs).

Now let us briefly discuss the degree and the ways in which past (and present) U.S. housing subsidies have served as a means of diminishing the social inequality of the poor. However, before doing this we must remind the readers that (1) the subsidized housing programs in the U.S. have had other major goals, including increasing housing production, helping a troubled housing industry and providing building industry jobs, housing special groups such as war workers, renovating deteriorated inner areas and bringing middle class families back into the city, and providing housing in relation to regional growth schemes. We must also point out that (2) the major portion of financial assistance for housing in the United States has gone not to the poor but to the middle class through home owner federal tax deductions and through FHA-insured mortgages for mainly suburban housing. Indirect subsidies in the amount of four to seven billion dollars have been given to homeowners (mainly middle class) through Federal income tax deductions of mortgage interest, local property taxes and depreciation, Aaron estimates.¹² Second, over a fifth of the housing built from 1947 through the 1960s was FHA and VA-insured housing, again a subsidy to the middle and skilled working class.

To some degree one can add to this another subsidy, the cost of renovation of inner city areas, since in a number of cases, especially in the early days, luxury or middle class FHA-insured apartments were put on this cheap urban renewal land, while many low rent housing units were torn down. Even rehabilitation funds have often benefited those of higher economic status than the poor because rents were raised after rehabilitation and thus the poor were forced out.

Regarding housing assistance specifically directed to the poor, the conventional public housing program started in 1937 is one of the oldest and largest. Yet only about one million families, mostly at every low economic level, out of 16 million poor households, are housed in these specially designed units that rent at below market prices,¹⁴ adjusted to the family's income. In other words, less than four per cent of the poor are helped by this program.¹⁵ Second, many of these projects, sited in slum areas and containing a large concentration of poor families (up to 10-13,000 families), are considered undesirable by their users.¹⁶ Users often do not feel it is home and in fact they are usually forced to leave after their income reaches a maximum that is increasingly far below median U.S. incomes. As users they are stigmatized by outsiders; as residents they suffer from exposure to a variety of deviant acts, including violence, vandalism, drug use, mainly by the large teenage groups found in these large family projects.

While projects in small towns often have a more congenial atmosphere and while in some cities use of scattered sites with a small number of turn-key units per site, such as in Oakland, California,¹⁷ has decreased these

problems, many experts feel the \$30,000 or more cost per unit, the high operating costs, and the difficulty of locating acceptable sites means one can not justify the expenditure on this type of program. They feel the results do not produce a great enough improvement in environment even though the unit is a great enough improvement in its standardness and modernness, and may include facilities and services not found in conventional housing. Provision of a physical building rather than financial assistance to the person they feel may not be the best course and certainly not the cheapest. Since the 1973 moratorium little public housing has been built and operating costs, especially with the Brooke amendment that assured families paid no more than 25 per cent of their income for rent, have gone up and caused hardships on many public housing authorities.

Starting with the Johnson administration new programs, including Section 235 and 236, have been introduced that utilized the private market to a much greater degree, using private suppliers of housing while still emphasizing provision of specifically designed units. By the January 1973 moratorium on these 236 and 235 programs they had provided almost half as many dwellings in this short period as public housing had in 35 years. Section 235 was a home purchase program, with interest rate subsidy, for moderate income. It was halted due to realtor practices in many cities of patching up old houses and selling them to unsuspecting poor.¹⁸

The Section 236 housing program has non-profit or limited profit sponsors who are assisted by below market interest rates; however, 236 users could also get a rent supplement to make up for the difference between the rent and 25 per cent of their income. Less than a fourth of the users utilized the rent supplement and most users were near the top category of the maximum income allowed for this moderate income program (median income of users was \$5,500). The hope that buildings¹⁹ would be sited in non-slum areas was unfulfilled in the majority of cases, and lack of sufficient financial reserves or management fiscal skills caused many developments to run into serious financial troubles when rent delinquencies occurred. Second, one-fourth of every subsidy dollar in the program went²⁰ to financiers and misuse occurred, even wholesale thievery, as Gans says.

Leased public housing (Section 23) has represented a change in course that brought the U.S. type assistance closer to a housing allowance type approach as it utilizes existing housing. The subsidy is in terms of the difference between the rent and a percentage of income of the tenant, with various deductions. Unlike the conventional public housing assistance is mainly in terms of giving help to the person rather than the building. The Section 23 program differs from a standard housing allowance because the public housing authority in most cases locates the unit, negotiates the lease, pays the rent and subleases the unit to the chosen public housing tenant who pays the housing authority a specified percentage of his income toward the unit's rent. In some areas of the country, notably the West, this has been a popular program with housing authorities; some authorities have only had a leased program. The program's problems have stemmed from lack of enough funding to meet administrative costs and a lack of standard units at rents low enough to meet program requirements. Thus it has been forced to send applicants out to look for their own units ("finders-keepers" hunt). According to a 1972 HUD audit

report, in some authorities prelease inspections were not made, allowing tenants to move into substandard units and rents were paid to landlords in excess of prevailing market rents.²¹ Defenders of the program point out that the agency helps the powerless poor by bargaining and negotiating a lease with landlords, paying and guaranteeing the rent, and in most cases locating the unit for them. Section 23 is now being superceded by Section 8 of the 1974 Housing Act which will have the applicant personally dealing with the landlord.

Other minor housing programs for specific groups include the Section 202 elderly housing program of direct low interest loans for non-profit and limited dividend housing - 45,000 units through 1971 - which serves mainly those slightly above the poverty level.

The biggest housing subsidy to the poor has actually come as part of welfare assistance. Over 14 million persons receive welfare; most use over 25 per cent of their check for housing. Yet even then the money is usually not enough to cover the market rent in decent housing in non-slum areas. Second, discrimination against welfare recipients, non-whites, and female heads means they must often pay above market rents. Half have been found to live in substandard housing. In New York City they were found to be increasingly concentrated in certain slum area apartment houses, usually where the landlord did a minimum of repairs and provided poor service. Almost half of these recipients in one New York City survey²² were dissatisfied with their housing, and especially with the area it was in, though many were satisfied with apartment size, apartment amenities and even maintenance. Most were in pre-1929 housing.

Thus in concluding this section on the degree that past and present housing assistance programs have helped diminish social inequality between the poor and other groups, one must say that in a number of cases the programs have not provided a decent non-slum area, although in some areas and a number of cases they have. In some instances the unit has not been standard housing meeting the very minimum qualification for standardness; in other cases while the unit has been standard, such as conventional public housing or Section 236, use has stigmatized the recipient. In some programs so little money has been provided that either the recipient can not find a standard unit or the program is in serious financial difficulties. In some cases, the moderate income and not the poor have been served; in fact the various assistance programs themselves have increased social inequality in one way as they have graded the poor into different strata of recipients with the very poor in public housing and slightly better off in Sec. 236. The programs have produced other types of gradation, with the "cream" of the poor, the more deserving poor, especially the elderly, more likely accepted in Section 23 private units (now Section 8) or 236 units.

Last, while the present programs with all the above problems for a number of users, have provided decent housing, and some type of income assistance, and allowed some to move to decent neighborhoods (especially whites in small towns and white elderly in general), the programs in toto have given assistance to only a small portion of the poor. As Heinberg points out "current federal programs to subsidize rental housing are meeting only a very

small part of the need of low income for assistance as we have defined it; only about four per cent of the recipient units estimated to be eligible for a housing allowance were being helped in 1969.²³ Yet all these programs are estimated to cost a number of billion dollars annually.²⁴

The question is can a housing allowance do a better job in meeting the desired goals of providing a degree of social equality in terms of added income for housing for the poor and improved housing units, as well as a more desirable neighborhood - for more poor and at less cost per household helped? And we must unfortunately add, is there less likelihood this program will be defeated through adverse actions by landlords, market intermediaries and administrators than past programs; can their negative actions be minimized, controlled or prevented?²⁵

A housing allowance pays the family the difference between the cost of private housing and a percentage of their income, the "housing gap" formula, or by a second formula, the applicant pays a percentage of rent and the housing allowance covers the rest of the rent,²⁶ if they move to or live in a standard unit or stay in standard units. The applicant, possibly armed with a certificate showing the landlord he is on the program, hunts for the unit and then negotiates the lease and other terms of the arrangement. He has consumer freedom of choice in hunting out a unit and the chance of moving, carrying the subsidy with him, for the subsidy goes to the person not the building. Existing units are utilized. The housing allowance amount fluctuates as family income changes but can be available up to a moderate income (this Urban Institute original design set the breakoff amount at around \$6,700 for a family of four in 1969).²⁷ Thus, a housing allowance falls in the general class of income support program, but one that falls into the category of an in-kind assistance as the recipient must use his grant, a house allowance, specifically for one good housing, and that it must be standard housing.

An experimental housing allowance is now being funded by HUD in 12 medium size American jurisdictions and effects 20,000 or so households; two are "Demand" experiments designed to give indications of the use pattern, eight are "Administrative" experiments to indicate which types of agencies or bureaucracies best run the program, and two are "Supply" experiments to try to evaluate the effect on the market of running a housing allowance program. The Demand and the Administrative experiments are now several years old but the important Rand-run Supply experiment has just gotten underway.

The potential advantages in a housing allowance in diminishing social inequality. A major advantage of a housing allowance would be it could help more people at a lower cost. Today the subsidy programs cost billions and only helps four per cent of the poor. The Urban Institute, using 1969-70 data calculates the housing allowance would cost seven billion dollars for the 16.6 million households they consider eligible (10.9 million families and 5.7 million single individuals, mainly elderly) with families up to incomes of \$6,755 receiving some allowance (decreasing as income rises) and 20 per cent of their income required as contribution to rent (if 25 per cent then families up to \$5,420). The average payment was assumed to be around \$462. Administrative costs for a mass check-giving program have been assumed to be lower than present housing programs.²⁸ This all must be compared with the

\$30,000 or more cost of new public housing units and their operating expenses. If urban and rural differences in rents were included in the housing allowance formula or the roughly 30 per cent who were homeowners had a proportion of equity in their home deducted or were not included in the program, or if singles were excluded, the cost could be reduced.

The lower cost of the housing allowance versus other programs is assuming there are no subsidized building programs and most writers, including ourselves, feel the supply of housing must be increased if a housing allowance program is to succeed. However, if as we feel and Gans³⁰ and others suggest, the supply increase in terms of a subsidy program for middle class housing, with reliance on the filter-down process to meet the housing needs of low income families, then funds for it could come from a change in the federal tax deductions for homeowners,³¹ bringing in four to seven billion dollars, as Gans has suggested. We would also have to correct the defects of the filter-down process.

Since welfare recipients would have the housing allowance as a substitute for the part of their welfare check they usually use rent (hopefully it would not be a complete deduction from these already low welfare payments) some of the funds - at least for 14 million persons - are simply substitutes that formerly were paid by a different branch of government. The difference would be that with the housing allowance one would be required to live in a standard unit or hopefully there would be more assistance on lease negotiation and general tenant landlord relations.

The housing allowance would, of course, also benefit many who are neither on welfare or do not require a full welfare grant but can get along with some minor assistance, just as in the case of Food Stamps program. Second, it would benefit those not interested in applying for the traditional stigmatized public housing or even Section 236. Application to the program would presumably be simple and be quickly processed, thus encouraging participation. One could stay on the program as one's income rose thus helping moderate income as well. The housing allowance would also benefit the poor in many parts of the country that are now not served by a public housing authority. The Urban Institute estimates almost 30 per cent of the households eligible to receive the allowance would be rural; 42 per cent would be outside SMSA areas; and another 21 per cent would be in suburban areas within SMSAs; 40 per cent of the households receive an allowance would be in the South; only 21 per cent of the eligible recipients would be non-whites.³² Thus it would be a program possibly covering the following groups more than programs: the rural poor, the working poor, and even the elderly poor, and regionally, the Southern poor, though both of the latter groups are highly represented in present programs. Thus the allowance would diminish inequality income-wise.

Another major attribute of the housing allowance is that to receive the housing allowance, users will not have to live in large, often-stigmatized public housing projects with a dominance of children in slum areas and often crime-ridden areas, or in Section 236 housing which is also sometimes stigmatized, again usually located in inner city areas. They will be using their allowance for private housing and thus be indistinguishable from other renters. They can even change units and take the housing allowance with them, thus

having the consumer freedom of private renters. Second, they can find housing outside slum areas so will benefit from an improved neighborhood and from class mix in the ways given above. In the early small OEO housing allowance conducted in Kansas City³³ where all participants had been in substandard housing Art Solomon reports these participants moved out of the deteriorated slum area in which they lived at the outset of the experiment to newer neighborhoods of higher socio-economic status, in terms of median family income, education level and head of household occupation; 58 per cent of the families moved completely out of 1970 Census-defined poverty areas. These families moved to areas with more owner-occupied units and lower density and crime rates, and often themselves moved into single family dwellings. These families usually moved to older residential areas on the fringe of the city rather than suburban areas. Minorities usually stayed within racially segregated or mixed areas. Early indications from the HUD experiments show that, at least for the elderly, those that did move after they applied for the housing allowance, usually to obtain a standard unit to qualify, changed neighborhoods in many cases, got larger units and were more satisfied with their housing.

Recipients of leased public housing assistance, which has many of the characteristics of a housing allowance, have also in many cities such as San Francisco and Oakland been found to be dispersed over a number of areas of the city;³⁴ of course this has been more true of elderly recipients. Second, if the housing recipients are the temporary poor, such as students and young married, their dispersal among a higher income group may be especially likely, as it is in Holland, Sweden, and other countries where the young are among the recipients, because they can only find expensive new units, in a housing shortage situation, at the same time that their incomes are still quite low.

In the case where users do stay in slum areas the housing allowance might be an incentive for the landlord to repair and renovate, as well as maintain his building. The landlord, of course, must provide a standard unit, and he has more reason to. He has a guarantee of continual flow of rental funds, backed by a lease and government agency rent funding, and even by a security deposit. Under a large program the landlord will be surrounded by landlords having the same guarantees and same incentive to improve, and thus he would feel his investment is more worthwhile as the area is being upgraded. In fact, rehabilitation funds are likely to go to landlords taking housing allowance recipients. Optimistically, the total result could be less red-lining or under-investment in central city areas and improvement now of such areas and more provision of municipal services.

Against these advantages, several opponents of the house allowance³⁵ have pessimistically pointed out why in the market-oriented American housing situation the program is likely to fail. Their most powerful arguments are that 1) there is not a large enough supply of low rent housing to provide standard units for those who might, under a housing allowance, seek standard units in non-slum area, thus only the "cream of the recipients" will get the available standard low rent units. 2) Furthermore, scarcity of such housing will mean the landlord can up the rents and thus the housing allowance will go to the landlord rather than the recipient. 3) "Standardness" criteria will be ignored in many cities and thus recipients will still be in slum units as welfare recipients now are and not have their housing status improved. 4) The

funds allocated by the Administration will not be enough to cover the many needy applicants or the allowance per recipient will be too small to allow the recipient to rent decent standard units (as true with U.S. welfare payments and with the housing allowance in Sweden, Holland and a few other countries). 5) Barriers of discrimination will still mean certain poor will continue to get the least desirable housing; this includes discrimination against welfare recipients, female household heads or minorities. 6) If the public housing authority had trouble locating qualified units at cheap rents, negotiating leases with landlords, tenants on their own will have more trouble. 7) the unscrupulous practices landlords, real estate personnel and developers have used in the past in their participation in HUD programs, whether 235, 236 or Section 23, may defeat this program too, mainly by upping rents and not doing required repairs to make units standard. In conclusion, these critics feel the poor will only continue to get slum dwellings at higher rents.

One can not simply deny these charges. On the other hand one should not throw out a potentially useful program for reaching a greater degree of social equality for more poor without seeing whether these obstacles can not be removed. Regarding the supply problem, there is no question that a subsidized building program or assistance on interest rates for housing, or help to saving and loan associations or some other measure to increase building is needed. We already have evidence that in cities where the vacancy rate is very low many potential housing allowance users ended up dropping out of the HUD experiment program because they could not find standard units, as was also true in the Wilmington Model Cities housing allowance experiment. With 16 million households possibly eligible, this means a large group hunting for standard units, both in urban and rural areas; where there is a vacancy rate of 1-2 per cent (and many vacant units being either not standard units or being luxury units) the poor, especially various minority categories, can not compete. Gans has suggested we help alleviate the problem by subsidizing middle class units, especially in the suburbs and also end federal income tax deductions to property owners; we agree but feel that housing should be in new towns, a more planned environment, and in inner city areas rather than the suburbs and the obstacles to the filter-down process corrected. Hartman suggests we keep building public housing but we disagree, feeling the cost and the negative feeling towards housing projects do not warrant it and, second, wonder if the poor rather than a slightly higher income group should get new housing if the program is not to suffer from alienating these other income groups. In other words, should we give a greater degree of social equality (a new house) to a few poor, followed by opposition of the higher income to a housing assistance program; a house allowance, utilizing existing housing, might cause less opposition, and give more help to more people in the end.

Besides increasing supply, another complimentary policy to the housing allowance program would be a rehabilitation program; with the "carrot" of a rehabilitation grant or loan the landlord may be encouraged to bring up to standard his units and rent them to housing allowance recipients. This and other ways, such as staff of sufficient size for inspection and code enforcement, must be used to assure the units are standard or the program is little better than a welfare check program. The program may also have to be accompanied by grants for financial assistance to improve the area. The housing allowance administrative agencies may also have to decide certain areas of the

city are unsuitable and not approve use of housing in these areas, as occurs with some Section 23 programs.

Another measure that must accompany any nation-wide housing allowance program is some sort of rent regulation. While rent control has failed, discouraging investment in rental units due to limited profit return, some sort of "fair rents" must be determined, changing as the costs rise and allowing a realistic profit to the investor but not exorbitant rent increases due to introduction of a housing allowance. New York City's MBR³⁶ (maximum base rent) program, introduced for former rent controlled housing, might be a guide but inspection to see the landlord offers full services and does repairs would need to be better than New York City. In addition, agency personnel would be needed to monitor the degree landlords participating in the program discriminate. This personnel would also have to help negotiate leases and back-up tenant demands for repairs and even help locate units.³⁷

The program to succeed would also have to give large enough allowances to realistically relate to market rents at that time so that the recipient can locate a standard unit within the program specified rent scale. The program also should not require the recipient to use over 25, or even 20, per cent of his income for rent, since even 75 per cent of a low income, say \$4,000, is hardly enough to cover non-shelter needs in this inflationary period. We feel strongly that the elderly single with his or her limited resources and high medical and drug costs should not be made to pay over 25 per cent of their small income for rents (many now pay 35 per cent).³⁸

In conclusion, we feel these complimentary programs and regulations, especially measures to increase the supply of housing are needed if the program is to succeed. With a fear that these requirements will not be fully met in large cities, one can predict the housing allowance will best help those in medium to small size cities, towns with a high vacancy rate, towns with considerable standard housing, suburban communities with an increasing number of moderate income housing units and no public housing, and rural areas where suitable reasonable units have been so seriously lacking that many have turned to mobile homes, and special groups such as the elderly, the temporary poor (students). For them in particular a housing allowance program can bring a greater degree of social equality than has occurred from past programs, especially as it can help a greater number of them.

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35. Mainly Gans, op. cit., and Hartman, op. cit.
36. New York City BMR is described by Hartman, op. cit.
37. As now being found, at least for the elderly, in the HUD experimental housing allowance.
38. Hernberg, op. cit., p. 34.