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Public Housing as an Instrument of Income Redistribution: Social and Economic Impact

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Housing possesses certain characteristics which qualify it for an instrumental role in income redistribution policy. Housing is a commodity which for the poor is generally deficient in quality and frequently inadequate in quantity even at modest quality levels. The poor pay a substantial share of their income for housing. The majority of families with incomes under four thousand dollars spend over one-fourth of their total income on housing, while most of those with incomes under two thousand dollars annually normally spend over one-third for housing, as compared with less than one-sixth of average family income devoted to housing in the case of the total population.\(^1\) And the poor are generally concentrated, in part because of a lack of cheap housing elsewhere, in neighborhoods where the pathology of poverty reinforces itself. In such areas public facilities, including schools, health care services, police protection and sanitation, are generally inferior.\(^2\) Minority persons generally are compelled to pay prices for housing that reflect the racially discriminatory attitudes of whites.\(^3\) Poor minority persons, therefore, may be obtaining even less housing for their outlays of money and deriving even less in the way of public services as a result. Some of the economic costs incurred by the poor or by public agencies on their behalf as a result of inadequate housing may be indirectly reflected in expenditures for medical care. Social costs of deficient housing may be identified with poverty behavior patterns, such as the incidence of juvenile delinquency.\(^4\)

Housing is one item among a stock of high priority economic and social goods with which the poor are inadequately endowed. The list includes sufficient food, medical care and education facilities, among many goods and services.\(^5\) The provision of housing by public agencies, in some contrast to most of the items of priority for the poor which may be provided by this source, commits the intervention of government for a period of extended duration because of the characteristic durability of housing.\(^6\) Unlike the alternative goods and services which government might furnish to the poor, a housing program once embarked upon employs resources which are not easily reallocated for other purposes and represents a commitment duration of the useful life of the housing, in many cases. The amounts involved may be substantial even for a modest number of poverty family recipients.\(^7\)

The private market by itself offers slight prospects for resolving the supply problems of quality housing for the poor. Among the many
factors contributing to the remoteness of a market type solution to the problem of housing the poor, are the characteristics associated with the location of housing and the structure of the housing supply industry. Location figures importantly in decisions relating to all housing, of course, but perhaps it is even a more critical factor in the case of location of housing for the poor in urban areas. Typically, there exists potentially more lucrative alternative uses for the land occupied by much of the low rent housing stock. However, particularly in urban core areas, this land can often be efficiently redeveloped in relatively large blocks and sometimes only in huge tracts. Urban renewal has played a key role in the contraction of the housing supply available to the poor. Private investors and the financial institutions which facilitate their acquisition and development of residential property are motivated by profit incentives while low-income housing situated on valuable tracts of central city area land represents an unprofitable form of investment.

The operation of existing low-income housing is no more attractive to investors than the construction of new units to house the poor. The severe constraints upon the ability of the poor to pay for housing do not effect the increasing costs encountered by landlords. In New York City, over one-third the cost of operation of low-income housing is represented by maintenance, while about one-fourth is real estate taxes and the residual represents interest and other forms of return to capital. Maintenance is the only significant item eligible for substantial reduction and to do so will appreciably reduce the quality and usable lifetime of the housing. When the savings through reduced maintenance are not sufficient to make the operation profitable the next, and the last, step is the accumulation of tax arrears on the property, after which the property is abandoned and defaulted to the city. The process inevitably leads to a reduction in the stock of housing for the poor.

The filter-down process is inadequate to offset the contraction caused by intolerable deterioration of low-rent housing, or its demolition or abandonment by landlords. Overall, there is no shortage of housing in the United States. Aside from cases of mis-matching housing and people by location, due to migration and other factors, it is only the poor who actually experience a serious deficiency of supply of the housing they can afford. No investors are interested on their own in building or operating low-rent housing. Government assistance is a required stimulant to attract and maintain investor interest in such properties. Without financial aid to investors from public sources, the filter-down process is likely to deteriorate to trickle-down. Further, an increasing amount of the total stock of housing in the United States, and particularly of that built in the post World War Two period, has been single family owner-occupied units. Typically, this is located physically distant from the poor and well beyond their socio-economic horizons. Generally, the poor, unassisted, are unqualified to be owners. And many of the poor are minorities who have been effectively deprived of opportunities to locate in many areas by discriminatory behavior of home owners, neighborhood
associations, financial institutions and even government agencies. The increment of annual housing stock expansion, on the average, is less than two percent, which is sufficient to provide for household expansion but inadequate to replace existing deteriorating and demolished residences for the poor.\textsuperscript{13}

Presented with the dilemma that the poor cannot pay for a basic economic good like housing in amounts sufficient to generate increased market supply, pressure for government intervention is generated. Government is not a stranger to participation in the housing market, but until recent years this activity had been nearly exclusively on behalf of the more affluent. The FHA and VA mortgage guarantee programs have facilitated home ownership for approximately nine million middle class Americans since initiation in 1934, through provision of low interest and low downpayment requirements. Urban renewal, where it has resulted in additional housing units, has frequently provided urban housing for the more affluent at the expense of the poor. More low-income housing has been demolished than constructed under urban renewal, with a resultant negative effect for the poor.\textsuperscript{14}

American society tends to identify two categories of poor as eligible for assistance. The one group includes the incapacitated, composed of the aged and infirm and households headed by females who are immobilized from securing paid employment by reason of their work commitment in rearing their children. The condition or circumstances of these persons make them ineligible to participate effectively in the labor force. Their sources of income may include charitable donations and limited assistance from relatives and others but, generally, their main means of support comes from public agencies. Another group experiencing poverty includes those considered employable but who are involuntarily unemployed and also the low-income employed. Even when fully employed, their incomes fall at or below that defined as the poverty level. The residual of the poor — a small fraction but, nonetheless, the focus of inordinate attention — includes the voluntarily unemployed, those who reject employment available to them or who have deferred entry into the labor market for various motives, including additional education. Whether this last group should receive public assistance has been a matter of considerable controversy, obscuring the issues involved in the case of the majority of poor: the incapacitated and the low-income, low-productivity employed.\textsuperscript{15} The majority of the poor, through no choice of their own, have slight capacity to effectively generate market demand for housing of adequate quality in sufficient quantity.

Cash transfers to the poor is perhaps the most obvious solution, in that it is simple and direct and would allow the low-income family to make its own market choice. However, there are serious objections to this. For one thing, even if the direct grants are intended primarily for improvement of the housing situation of the poor, there is little assurance the money will be spent that way. Possibilities of divergent consumption patterns with expanded shares of the increased income to, say, entertainment instead of housing, even though not in fact practiced by the poor, may be sufficient to convince the
more affluent and their public officials to restrain the levels of assistance. In practice, where such programs as AFDC dispense direct grants to recipients, these are most notable for their inadequacy in meeting all but the most basic needs at subsistence levels. Supposed work disincentives appear to be another common grounds for objection to direct grants. An unmentioned but implied objection undoubtedly originates in the fear of the more affluent that direct grants to the poor would, in effect, make their neighborhoods more accessible to the poor. Then, too, direct grants are not specific and the public more strongly identifies the social injustice involved in inequities as regards such items as housing or food than, say, clothing, automobiles or entertainment. Direct grants without specificity of purpose would be allocated to poor families only at levels inadequate to purchase satisfactory housing, even if the bulk of funds were so dedicated.

An alternative to direct cash payments that is equally as apparent as a solution is the direct provision of housing to the poor: in short, public housing. In practice, in the United States, the evidence offers slight consolation to public housing advocates. Notoriety surrounds a number of large scale public housing projects, such as Pruitt-Igoe in Saint Louis. New York City, which has one-half the total of public housing units in the United States, finds them to generally be high crime areas, with highly stigmatized residents who have slight positive identity with their projects. Rates of deterioration, partly induced by vandalism and tenant neglect, reinforce the unattractiveness of these large scale city public housing projects. Units in smaller communities, including suburbs of New York City, such as White Plains, have, in contrast, achieved satisfactory living conditions for tenants. Smaller units, widely dispersed among private and, ideally, higher income housing, tend to present acceptable solutions to public housing needs of low-income families. However, the hostility generated by the more affluent in such areas as the Forest Hills section of New York over the threat of public housing sites in their neighborhoods suggests that the capacity for such dispersal is probably quite limited.

A variation on the public housing pattern with its concentration of low-income residents may be seen as a mixture of social and economic elements. Conceivably, for one thing, the middle class might be more receptive to their officials appropriating funds for programs from which they might anticipate personal benefit. Presently established residents of areas adjacent to or in the vicinity of public housing sites are likely to view such developments more benignly if the project tenants more closely resemble themselves. However, in practice, the desired socio-economic heterogeneity frequently fails to occur. Government subsidized housing programs in Britain, intended mainly for lower-income wage earners, but without income restrictions, in fact serve, for the most part, the more affluent members of the working class and, also, many white collar workers in higher job categories. The new town housing in Britain tends to attract large numbers of higher paid workers, since the employment categories in new towns often fail to match the qualifications of working members...
of low-income families. The Dutch new town of Lelystad, where housing eligibility is closely related to job placement, and where government is attempting to encourage establishment of the more productive, high technology industries, has few low skilled, low-income workers in residence.  

An alternative to having the poor rent housing, whether from public or from private landlords, is to have them become homeowners. This would presumably give the poor a vested interest in society, as property owners, subduing anti-social characteristics which might otherwise surface. It would give the poor family an incentive to maintain its housing. The stability of payments under ownership would tend to insulate the low-income family from speculative or other unpredictable causes of housing price increases to which tenants are frequently subjected. Section 235 of the 1968 Housing Act, the home ownership subsidy program which HUD has now suspended under the 'housing moratorium', was intended to do just that. Under the program, housing was developed by private builders. In addition to new housing, older units which were determined to meet the standards established by HUD were also included. Private lending institutions financed the Section 235 housing, with mortgages insured at the market rate by FHA. The procedure involved subsidy-interest payments to the mortgage holding institution sufficient to cover the difference between the amount paid by the mortgagee, limited to twenty percent of adjusted income, and the total cost of the debt service. The total debt service cost represented interest, amortization of principal, taxes, insurance, mortgage insurance, and service fees. This program, which had involved approximately one-quarter million housing starts in 1970 and 1971, had come under severe criticism for the quality of the housing acquired by the poor in many cases. The financial arrangements frequently exceeded the capacity of the poor to pay, particularly when coupled with the costs of repairs and maintenance. Long-range limitations of this program involve the scarcity of housing conveniently located and suitably priced for low income families and the reluctance of government to commit the necessarily large scale resources required for long-term periods. This type of program does not appear to be a feasible solution to the housing problems of the poor, since it largely still confines them to low-income neighborhoods and, in many cases, unsatisfactory housing, while they become saddled with mortgage debt.  

Section 236 of the 1968 Housing Act, which like Section 235 has been suspended under the 'housing moratorium', was intended to stimulate nonprofit or limited profit housing with its rent supplement program. It incorporated some of the characteristic features of public housing and was designed to offer incentives to private builders and lending institutions. Under this program, rent obligations were defined on the basis of tenant income. In the rent supplement program, which assisted tenants incapable of fully meeting rent obligations in housing developed as a result of federal incentives, the lower rent limits were established at twenty-five percent of family income. This ratio of rent to income, arbitrarily advanced, was intended to provide evidence of the serious desire of lower income families to secure better housing. It also presumably reflected
their intent to utilize and maintain it properly. The more controversial limitation involved was that of the upper income limit set for eligibility for residence in Section 236 projects. After considerable debate among the officials involved and in Congress, proposals for setting upper limits at one hundred thirty percent of the income eligibility entry levels for public housing were accepted. The income levels set tended to be very close to median family incomes in most localities although, in fact, provisions had been incorporated for establishing special allowances, such as that of raising ceilings by three hundred dollars for each additional child of an applicant family. In 1970 and 1971, the first two years of operation of the program, nearly one-quarter million families were housed under the provisions of Section 236. Few of these families were in the lowest-income categories so that Section 236 made slight contribution to the solution of their housing problems.22

The poor may not have appreciably benefited from the housing constructed under the Section 236 program, but it proved to be a lucrative activity for building contractors and financial institutions. Section 236 housing has been developed, owned and administered by non-profit or limited profit sponsoring bodies. The projects were financed through conventional lending sources and the mortgages were insured by the FHA at the prevailing market rate. However, the mortgagee only paid at an interest rate of one percent, with HUD defraying the difference. Units completed tended to be rather expensive, as this was more profitable to both contractors and lending institutions. HUD acquiesced since officials were anxious to have as many units produced as quickly as possible to prove the feasibility of the program. Since rents under the program were established on the basis of mortgage calculations at one percent interest or at twenty-five percent of adjusted income, rental levels could be made fairly high for most tenants. The prospects for high rent levels in Section 236 projects acted to reduce neighborhood hostility to such development, but it also made the housing largely inaccessible to the poor.23

A housing allowance program offers some advantages over alternative schemes in terms of making quality housing available to the poor. Clearly, some alternatives have to be rejected as possible solutions because they simply fail to provide for an adequate supply of low-income quality housing. Direct income transfers would probably not provide for adequate amounts of money for low-income families to claim decent housing, even if none of it were to be mis-allocated for low priority items by the recipients. Public housing as a possible alternative has largely failed in that the quality and the context make for an unsatisfactory residential situation. Similarly, subsidies to buildings rather than people offer slight prospects for resolving the housing needs of low-income families since the overall stock of housing appears to be adequate and, therefore, its expansion is in no apparent need of artificial stimulation. And making subsidized housing more attractive by encouraging greater socio-economic mix has generally resulted in subsidizing the middle class, frequently to the detriment of the poor. In the same vein, schemes for home-ownership by the poor have frequently saddled them with housing burdens.
at least as formidable as those from which it was intended they be liberated.

A housing allowance to occupants rather than buildings can discriminate clearly on the basis of income, so that public funds will not be mis-directed to the more well-to-do. The housing allowance to occupants would offer low-income families freedom of choice as to location and type of housing. While in practice their choice would be constrained by limitations of allowances, availability of housing in general and such factors as racial discrimination and family size, the options available to them would still be obviously greater than, say, in the case of public housing projects as the targeted destination of resources for resolving low-income housing problems. Rent allowances would facilitate the dispersal of low-income families, giving them a 'low profile' and thereby tend to generate public acceptance of the relocation of the poor to neighborhoods where amenities might be greater than in the areas they vacated. Rent allowances would provide for greater mobility among low-income families than in the case of such schemes as home purchase, where the poor family might be committed strongly to one location of residence regardless of shifts in locations of job opportunities or changes in family size.

One variation of the rent allowance scheme, as suggested by Irving Welfeld, is a sliding scale of allowances, hinged not only to income levels but to the percentage of income expended by families on rent. The greater the share of gross income expended by a poor family, as a demonstration of the seriousness of its intent to obtain decent housing, the larger the government supplement. Welfeld suggests that if the program were to be directed to the estimated ten million households in need, it might cost from five to ten billion dollars annually. This compares favorably with the annual expenditures over recent past years of nearly four billion dollars, on average, for the existing collection of inefficient programs. It is likely that the percentage of total costs devoted to administration under a scheme of housing allowances to occupants would be substantially less than under alternative programs. In the case of housing allowances to occupants, an 'invisible' means test to determine the eligibility of each applicant could be run through income tax records. Computerized, this system for processing applications could prove to be quite economical. Public agencies would not have to assume burdens involved in construction, operation or even approval of housing units. Each low-income consumer of housing would have the prerogative of choosing the housing unit that consumer considers must suitable within the constraints of income plus housing allowance supplement. Conceivably, reinforcement of the allocation of supplements for housing, rather than for other goods and services, might be instrumented by the issuance of vouchers rather than cash. The vouchers would be transferable only for housing.

Rent allowances to occupants encounter some limitations. As mentioned earlier, racial and family size factors may diminish market choices for many. The elderly and disabled frequently require special types
of housing to which the market, even with the incentives of rent supplements, might find it unprofitable to respond. If a rent allowance scheme is conducted in a localized area, such as New York City, it may succeed in retaining the poor within the confines of the city but it would not seem to offer any incentives for the more affluent to stay as well. As the more affluent gravitate to the suburbs, the ratio of poor to wealthy – and the problems of the city – would continue to rise. An efficient rent allowance scheme would have to be flexible, to allow for changes in the market prices of housing as supplements were issued and the demand for higher priced housing rose, otherwise the greater outlay by the poor for housing might buy little more than less money had previously bought. Required would be a system to control rises of local rents, such as a fair rent tribunal or a flexible rent control structure.

A program of rent allowances to occupants would seem to suggest stronger prospects for resolving the housing problems of the poor than would the other alternative programs explored here. In terms of a strategy of income redistribution, rent allowances to the poor might be palatable to the general public, since the funds could be earmarked strictly for housing and specifically to those identified as in need. Since most American families are adequately housed, it would seem advisable to avoid inauguration of a general scheme to assist the entire public so that the poor might also receive aid. The impact of a strategy of income redistribution through housing allowances in resolving the problems of poverty is unlikely to be dramatic. However, the resolution of housing problems through subsidies to tenants may alleviate some aspects of the poverty problem with the injection of relatively modest public resources. Importantly, the spatial concentration of the poor may be lessened. The dispersal of the poor and the resultant relief from congestion of their numbers as they bid for housing throughout wider areas is likely to diminish some of the problems which tend to create poverty cycles. For one thing, the models and facilities available to the children of low income families are likely to increase. For many of the poor, improved access to medical and educational facilities are items of high priority. For some of the poor, enlarged employment opportunities are part of the escape from poverty and these may be expanded by the geographical residential dispersal of the poor. For some of the poor, importantly including many of the elderly, economic improvements are only part of the answer. Social arrangements, perhaps incorporating carefully fostered living groups in specifically designed housing, may be engineered to answer the needs of many of the elderly. If the possibilities for dramatic solution of the problem of poverty through tenant subsidy programs appear modest, it should be remembered that such programs generate slight social and economic disequilibrium since the income redistribution involved is respectably small in terms of government expenditure and gross national product. A rent allowance scheme, in conjunction with other programs of assistance to the poor, can achieve some impact in the alleviation of poverty.
references


