URBAN HOUSING PROGRAMS: WHAT IS THE QUESTION?

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> *What is the answer? [Silence] In that case, what is the question?*
>
> – Gertrude Stein's last words

The record of American housing policy represents something of a paradox. The basic purpose of subsidized housing has been to enable everyone, including the poorest, to live in "decent, safe and sanitary" housing. In fact, virtually everyone now does, at least according to the traditional notions of decent housing. One inference might therefore be that past policy and programs have been successful. But that is not at all the general perception, either of housing conditions or housing programs. There is a very widespread dissatisfaction with both. This paper attempts to identify the reasons for that dissatisfaction and to examine their implications for housing policy in the future.

Such an evaluation may be particularly timely since the Reagan administration is proposing a radical departure from the policy approach established for almost half a century. Traditional housing programs have sought to help the poor primarily through subsidized construction of housing specifically for them. These programs can be termed "producer subsidies," because the federal government makes payments directly to housing producers who in turn provide housing to the poor at reduced rents. The government and the producer jointly determine the characteristics of the housing – its location, type, size, amenities, etc. The tenant's choice of housing is restricted to the units produced under the subsidy program.

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In place of this approach, the administration has recommended a system of grants to tenants, who use the funds to find their own housing in the private market. The shift from producer-oriented to consumer-oriented subsidies or "housing allowances" is simultaneously a shift from reliance on new construction to utilization of existing housing, and from the government to the private sector as a provider of housing.

This brief description of the traditional and alternative policy approaches is far from complete, but it may help us to analyze the public attitude toward the programs of the past and the possible effectiveness of the proposed policies.

This paper focuses on the actual and perceived results of housing programs, rather than the fundamental rationale for housing subsidies of any sort. It thus discusses the programs within the policy context that it is appropriate for the government to help poor people live in decent housing. This has been the goal of housing policy for at least three decades and has been accepted by the present administration, which is merely proposing new ways to help meet the goal. The broader philosophic questions of the proper role of government in redistributing income and subsidizing the consumption of particular goods, and the extent to which government activity may actually be contributing to the problems which it attempts to ameliorate, are beyond the scope of this paper. Some of these issues are discussed in other conference papers.[1]

Postwar Trends in Housing Quality

When the public housing program was established in 1937 and expanded in 1949, there was general agreement that many Americans, particularly in the big cities, lived in substandard housing.[2] The Housing Act of 1949 established a "national housing goal" of "a decent home and a suitable living environment for every American family." Although the act did not contain an explicit definition of "decent" – or, for that matter, either "suitable" or "living environment" – a consensus had developed around the notion that a "substandard" house was one that did not have complete plumbing or that was in need of major repairs. The Congressional Joint Committee on Housing used this criterion in attempting to count the number of

[1]See for example Edward S. Banfield, "The Zoning of Enterprise," *Cato Journal* 2 (Fall 1982).

[2]For a more extensive discussion of housing quality trends and perceptions of the trends, see John C. Weicher, *Housing: Federal Policies and Programs* (Washington, D.C.: American Enterprise Institute, 1980), chap. 2.

substandard units in its 1949 report, and many witnesses had described their local housing problems in terms of the same measures.[3] Through the postwar period, the definition remained unchanged; presidential studies of housing conditions and housing policy in 1967 and 1973 used it, as did most policy analysts. Housing space was another important but subordinate criterion; the most widely used space measure was the ratio of persons to rooms within the unit, with more than 1.5 persons per room being defined as "overcrowded."

Since World War II the country has enjoyed steady, substantial declines in the incidence of all of these undesirable housing conditions, to the point where very few households are now living in housing that would have been considered substandard in 1949. Table 1 shows the changes. By all of these measures, the United States is close to achieving the goal of a decent home, as it was originally conceived. (Some minimum level of inadequate housing remains, and will probably always remain, unaffected by housing policy or economic improvement; about one percent of the stock seems to be a lower bound for any housing deficiency.)

The figures in Table 1 refer to the nation as a whole, not to the cities which are the primary focus of this conference. But the same pattern of improvement has occurred in urban areas, in central cities, and in the large central cities of the Northeast and Midwest. The last category is especially interesting, since it includes the cities which are usually perceived as being the "worst." There were 14 SMSAs with more than one million population throughout the postwar period in the quadrangle bounded by Boston, Washington, St. Louis, and the Twin Cities. Overall and individually, these cities report the same kind of improvement as the rest of the country. For example, the incidence of substandard housing declined from 17 percent in 1950 to less than 4 percent in 1970; overcrowding dropped from 15 to 3 percent. Little substandard housing remains even in these cities.

Actual and Perceived Progress

The virtual achievement of the original national housing goal is a major accomplishment. But it attracts little attention, and indeed the common perception is that we are far from meeting the goal. Why is there so much dissatisfaction, in the face of so much progress?

One reason is that we simply don't know that the goal has been nearly achieved. This is not a facetious explanation. For a variety of reasons, improvements in housing quality have received little atten-

[3]*Housing Study and Investigation: Final Majority Report*, 80th Cong., 1st sess. (Washington, D.C.: Government Printing Office, March 15, 1949), part 1.

TABLE 1

MEASURES OF HOUSING INADEQUACY, 1950-1976
(Occupied Housing)

Inadequacy	1950	1960	1970	1973	1976	1979
Substandard	35.4%	18.0%	8.9%	N.A.	N.A.	N.A.
Lacking some or all plumbing	34.0%	14.7%	5.5%	3.6%	2.6%	2.4%
Overall physical condition*	9.1%	4.6%	3.7%	N.A.	2.8%	2.5%
Overcrowded (more than 1.5 persons per room)	6.2%	3.8%	2.0%	1.3%	1.0%	0.9%

*"Needing major repairs" in 1940; "Dilapidated" in 1950, 1960, and 1970; "Poor overall structural condition" in 1976 and 1978 (latest data available)
N.A. = Not Available
SOURCES: Census of Housing: 1950, Vol. I, Part I; 1960 Census of Housing, Vol. II, Part I; 1970 Census of Housing, Components of Inventory Change, HD(4)-1; Annual Housing Survey: (various years), United States and Regions, Part B.

tion from the public or from policymakers. It is worthwhile to examine these reasons.

Physical Condition: The Problem of "Dilapidation"

The most basic reason is that we no longer have the same measure of housing quality. Data are still collected on housing units lacking complete plumbing, as they have been since 1940, but not on the overall physical condition of the unit – or at least, not the same data. From 1940 through 1960, census enumerators were asked to assess the housing units that they visited. The Census Bureau provided a number of criteria for classifying a unit as "sound," "deteriorating," or "dilapidated" ("needing major repairs" in 1940), including pictures of homes and apartments in each category, in an attempt to minimize the degree of subjectivity in the responses. Despite these efforts, a post-census evaluation in 1960 showed a high incidence of classification error, with enumerators and evaluators disagreeing over which units were dilapidated.[4] From the standpoint of estimating the total number of substandard units, the error was not overly serious, since a high fraction of the misclassified units lacked complete

[4]U.S. Bureau of the Census, *Measuring the Quality of Housing*, Working Paper no. 25 (Washington, D.C.: U.S. Bureau of the Census, 1967).

plumbing and were thus substandard, regardless of their overall physical condition. After examining the census evaluation, Frank Kristof estimated that the classification errors resulted in an understatement of substandard units by about 585,000, about 6 percent of the number originally counted as substandard or 1.2 percent of the total occupied housing stock. Kristof concluded that the issue was merely "a tempest in a teapot."[5]

Nevertheless, the Census Bureau decided to discontinue measuring overall housing condition, because it planned to conduct the census by mail in 1970, as well as because of the results of its evaluation. After significant objections, particularly from city governments that relied on the physical condition data, the decision was partially reversed, although the 1970 data were collected in a different way. Instead of a 25 percent sample of the housing stock, a much smaller number of units were surveyed, and the incidence of dilapidation was correlated with the incidence of other characteristics; then the total number of dilapidated units in the country was inferred from the overall incidence of these other characteristics.[6] The resulting numbers for 1970 are probably less reliable than the earlier data, but they are the latest we have, or ever will have, because the question was not asked in the 1980 census. The Census Bureau's decision to discontinue collecting data on overall physical condition has generated some confusion in housing policy, because since 1970 policymakers and analysts have had information for only one component of the quality measure that they are used to.

New Definitions of Housing Quality

As the 1970 census phased out the traditional measure of overall physical condition, new and different information on housing quality began to become available through the Annual Housing Survey (AHS), conducted by the Census Bureau for the Department of Housing and Urban Development, beginning in 1973.[7] The AHS collects far more

[5]Frank S. Kristof, *Urban Housing Needs through the 1980's: An Analysis and Projection*, Research Report no. 10 (Washington, D.C.: National Commission on Urban Problems, 1968), p. 90.

[6]U.S. Bureau of the Census, *1970 Census of Housing, HC(6): Plumbing Facilities and Estimates of Dilapidated Housing* (Washington, D.C.: Government Printing Office, 1973).

[7]U.S. Department of Housing and Urban Development and U.S. Bureau of the Census, *Annual Housing Survey: United States and Regions*, Part B (Washington, D.C.: Government Printing Office, various years). Unless otherwise indicated, data on housing conditions for 1970 and earlier years are taken from the decennial censuses, data for 1973 and later years from the Annual Housing Survey.

information on housing than has previously been available from any data source, for approximately one of every 1,000 dwelling units in the United States.

Among this information is a new kind of question on general housing quality, in which residents, rather than census enumerators, are asked to rate the structural conditions of their dwellings. In 1978, 2.5 percent considered their housing "poor," compared with 14.6 percent rating it "fair," 43.4 percent "good," and 39.5 percent "excellent." This is the measure used in Table 1 to continue the data series over the postwar period, but it is not necessarily commensurate with the earlier census classification, and it has not been widely used in housing-policy discussions. A case can be made that the subjective evaluation of housing quality by the resident is more valid than an outsider's opinion, no matter how expert.

In addition to the overall physical rating, the AHS collects information on some 30 different specific housing defects, far more than the decennial census. Questions are asked not only about the presence of facilities, but also about their functioning – for example, not only, "Do you have complete plumbing?" but also, "Has it broken down in the last year? If so, how often? For how long?" Similar questions are asked about the heating, electrical, and other major systems of the unit.

A number of analysts have sought to use this data to develop a new definition of substandard housing, in view of the increasing irrelevance of the original one. To date, nobody has been able to formulate a simple criterion that has the obvious intuitive appeal of the traditional definition. Instead, several analysts and federal agencies, including HUD, the Office of Management and Budget, and the Congressional Budget Office, have developed rather complicated criteria.[8] They differ in detail but generally use a similar approach. An example is the most recent HUD definition, shown in Table 2. Defects are grouped into 10 categories, and a criterion for adequacy is established for each category. A housing unit is classified as "inadequate" if it fails to meet the criterion in any category. As can be seen in Table 2, the criteria are rather complex.

According to this definition, the number of occupied inadequate units has been declining during the 1970s, from 11.8 percent in 1973

[8]U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *How Well are We Housed?: 1. Hispanics*, U.S. Department of Housing and Urban Development, September 1978; Jonathan Sunshine, "Preliminary Findings of Section 8 Study," unpublished memorandum, U.S. Office of Management and Budget, October 1977; U.S. Congressional Budget Office, *Federal Housing Policy: Current Programs and Recurring Issues* (Washington, D.C.: Government Printing Office, 1978).

TABLE 2

DEFICIENCIES WHICH CAUSE A HOUSING UNIT TO BE JUDGED PHYSICALLY INADEQUATE – BASED UPON AHS ITEMS, REVISED DEFINITION (1981)

Type of Deficiency	Description of Deficiency
Plumbing	*Lacks or shares some or all plumbing facilities.* The unit must have hot and cold piped water, a flush toilet, and a bathtub or shower – all inside the structure and for exclusive use of the unit.
	Lacks adequate provision for sewage disposal. The unit must be connected with a public sewer, septic tank, cesspool, or chemical toilet. (Units with this deficiency also are almost invariably defined as having a plumbing deficiency as well.)
	Had breakdown of flush toilet for 6 consecutive hours or longer 3 or more times during last 90 days.
Kitchen	*Lacks or shares some or all kitchen facilities.* The unit must have an installed sink with piped water, a range or cookstove, and a mechanical refrigerator – all inside the structure and for exclusive use of the unit.
Physical Structure	*Has 3 or more of 6 structural problems:* leaking roof; open cracks or holes in interior walls or ceiling; holes in the interior floors; either peeling paint or broken plaster over one square foot of an interior wall; evidence of mice or rats in last 90 days; leaks in basement.
Common Areas	*Has 3 or more of 4 common area problems:* no light fixtures (or no working light fixtures) in common hallway; loose, broken, or missing steps on common stairways inside the structure or attached to it; loose or missing stair railings; no elevator in building (for units two or more floors from main building entrance in buildings four or more stories high).
Heating	*Has unvented room heaters which burn oil or gas.* If unit is heated mainly by room heaters burning gas, oil, or kerosene, the heaters must have flue or vent.

TABLE 2 (cont.)

DEFICIENCIES WHICH CAUSE A HOUSING UNIT TO BE JUDGED PHYSICALLY INADEQUATE – BASED UPON AHS ITEMS, REVISED DEFINITION (1981)

Type of Deficiency	Description of Deficiency
	Had breakdown of heating equipment for 6 consecutive hours or longer 3 or more times during last winter.
Electrical	*Lacks electricity.*
	Has 3 out of 3 signs of electrical inadequacy: one or more rooms without a working wall outlet; fuses blown or circuit breakers tripped 3 or more times during last 90 days; exposed wiring in house.

SOURCE: John Simonson, "Measuring Inadequate Housing Through the Use of the Annual Housing Survey," U.S. Department of Housing and Urban Development, Office of Policy Development and Research, July 1981.

to 10.1 percent in 1978. This continues the postwar period's record of progress. Alternative definitions show a similar pattern; for example, the most recent CBO standard shows a decline in inadequacy from 8.1 to 7.5 percent of the stock between 1973 and 1977.

Rising Expectations and Redistribution

By any of these newer criteria, there is a greater incidence of "inadequate" housing in the late 1970s than of "substandard" housing in 1970. This clearly implies that the newer measures set a higher quality standard than the traditional one. (There is no reason to believe that an abrupt decline in housing quality occurred between 1970 and 1973, as would be implied if the two measures corresponded.)

In itself the new standard is not necessarily bad. As the society becomes richer, it is possible to seek levels of well-being that formerly seemed beyond reach. In the case of crowding, this process has in fact been going on gradually. The 1949 standard of overcrowding, more than 1.5 persons per room, has been superseded by a ratio of more than 1.0 persons; the latter measure has been used by presidential commissions and studies since 1967. By this yardstick, also, the incidence of overcrowding has been declining sharply – from

15.8 percent in 1950 to 4.0 percent in 1979 – and in a few years, another ratio, such as 1.0 or more persons, may become the generally accepted minimum level of housing space.

George Stigler has written that "from an Olympian peak, one may say that the economic system has as its purpose forcing people to find new scarcities."[9] The search for new standards of housing quality certainly illustrates his point. The society can always find new wants in housing as elsewhere and thus is never "satisfied" with its housing.

But the new criteria tell us other things besides the fact that we are richer than we used to be. They pose problems of interpretation which emanate from fundamental differences between the traditional and current definitions. It is not very clear what "inadequacy" really means, either for the occupants of the units or for housing policy. It appears that housing units shift easily from "inadequate" to "adequate," and vice versa. The most important category of defects, numerically, under any of the newer criteria, is "maintenance." But defects in this category can be easily repaired in many instances, and in fact the vast majority are.

One of the virtues of the AHS is that it resurveys the same units each year, permitting longitudinal analyses of quality changes. The changes are dramatic: 89 percent of the housing units with leaky roofs in 1974 no longer had the same problem two years later; similarly, repairs had been made in 88 percent of those with broken plaster or peeling paint.[10] The overall incidence of defects declined much less, however, meaning that many units without the problem in 1974 suffered from it in 1976; downgrading was almost as common as upgrading. The HUD definition attempts to take this into account by requiring that a unit suffer from three or more defects simultaneously. That is surely better than counting every home with a leaky roof as "inadequate." But one may still wonder at the validity of a criterion which allows so many units to jump from one category to the other in such a short time.

Stated simply, as housing quality standards rise, they become increasingly arbitrary. Complete plumbing and structural soundness are reasonable minimum standards on health and safety grounds, even if it has apparently been difficult to measure the latter very precisely. But the newer definitions have no such clear-cut rationale, and over time their rationale is likely to become still less clear. Each year, fewer and fewer of the units classified as "inadequate" fall into

[9]George J. Stigler, *The Theory of Price*, rev. ed. (New York: Macmillan Co., 1952), p. 2.

[10]President's Commission on Housing, *Interim Report* (Washington, D.C.: Government Printing Office, October 1981), p. 15.

that category because they lack basic facilities of any sort; more have problems of system breakdowns or structural maintenance. Such housing is worse than that occupied by the majority of American households, but it is not obviously "bad." The newer standards provide more of an ordinal, less of a cardinal, measure of housing quality. They describe the distribution of housing quality. To the extent that the society is interested in redistribution, such standards can be very useful. The traditional standard also served that purpose, but it served others, probably more important ones, as well.

Expense/Income Ratios

Besides these variations on the original concept of minimally acceptable housing quality, in recent years some totally different types of standards have been developed. For example, instead of physical condition, some analysts have stressed the cost of housing.[11] Typically, cost is measured by a rent/income ratio: drawing on the common rules of thumb among mortgage lenders and family financial planners, a ratio greater than 0.25 is taken as evidence of financial hardship and therefore of a housing problem. Such a ratio is frequently used by mortgage lenders in evaluating loan applications: if the mortgage payment, property taxes, and mortgage insurance (if any) exceed 25 percent of the applicant's income, the application is likely to be rejected. A similar ratio is often used by family financial advisers for renters. Rent/income ratios, of course, by definition refer only to renter households, but until the AHS there were virtually no data on housing expenses for owner/occupants, and thus no corresponding expense/income ratios could be constructed.

Unlike the various measures of physical deficiencies, the overall rent/income ratio and the fraction of renters paying more than 25 percent of their income for rent have been rising steadily over time, from 31 percent in 1950 to 32 percent in 1960, 39 percent in 1970, and 49 percent in 1979. Data for owners is available since 1974 and also shows an increase, but the level is much lower; the fraction rose from 19 percent to 25 percent by 1979. Together, some 36 percent of all households, or 23.0 million, are paying more than 25 percent of their income for housing, far more than the 1.7 million living in units without complete plumbing, the 3.1 million with more than one person per room, or the 7.2 million living in inadequate housing according to the HUD definition.

[11]For example, David Birch et al., *America's Housing Needs: 1970 to 1980* (Cambridge, Mass.: Joint Center for Urban Studies, 1973), pp. 4-4 to 4-6. This report uses a rent/income ratio of 0.35 or more for elderly or single-person households, and 0.25 or more for all other households, to measure "high rent burden."

The rent/income ratio is simpler and thus may have more intuitive appeal than any index of housing deficiencies; it is increasingly being used in policy discussions. But it is a fundamentally inadequate measure of housing quality. Expenditures on housing are determined simultaneously by supply and demand in housing markets; they may change when either changes. The rising rent/income ratio is usually regarded as evidence of a decrease in supply or a rise in price, and therefore as evidence of a "problem," without reference to the demand side of the market. Rising prices may well affect housing expenditures, of course, but so also may rising incomes or changing tastes among the population.

All of these have in fact been changing over the postwar period. Rents have been rising less rapidly than other prices, while incomes have increased very substantially. Only if both the price and income elasticities of demand are unity would expenditures for housing be expected to remain stable over time, as a share of income. Research on these elasticities suggests that both may be fairly close to unity, or slightly above it. These research findings imply that rent/income ratios should be rising as they have. The declining relative price of rental housing also implies that renters could in fact lower their rent/income ratios and remain in the same quality of housing that they have been occupying. Instead, most renters have apparently chosen to live in better housing.

Over the same period tastes have been changing also, as the age distribution and family structure of the population have changed. In particular, a rising proportion of the elderly have chosen to live apart from their children and families when they retire. The elderly typically have higher expense/income ratios for housing than those of the rest of the population, in part because they are able to finance their current expenditures on housing out of past savings.

Another factor affecting rent/income ratios is the growth of "in-kind" welfare programs in recent years, under which low-income households receive goods, such as food stamps or medical services, rather than money income. These in-kind transfers enable low-income households to spend larger fractions of their cash incomes on the goods that are not subsidized, including housing for the large majority which does not already live in subsidized housing; as a result, they can afford to incur high rent/income ratios.

The expense/income ratio is thus a misleading indicator of housing adequacy. Nonetheless, the growth in its popularity is one of the best indications that we have reached the point where physically substandard housing is so rare that we can no longer usefully measure housing quality in simple physical terms.

Production Targets

The housing goal has become confused in public discussions with two numerical production targets enunciated by Congress in 1968. The overall target was 26 million new housing units in the next 10 years, 6 million of which were to be constructed for low- and moderate-income households, probably but not explicitly by means of government subsidies. These production targets are frequently referred to as the national housing goals, but in fact the legislation drew a distinction between the 1949 goal, which it reaffirmed, and the production targets, which were to be the means of substantially achieving that goal within the next decade.

Once established, the production targets were soon outdated by changing political attitudes in both Congress and the executive branch of the government. Since at least 1973 these targets have had little impact on policy, and when the original 10-year period expired no new targets were set. But they have received far more attention in discussions of housing policy than the actual goal of "a decent home."

The targets were not reached; in particular, there were only about 2.7 million new or rehabilitated subsidized units, less than half of the target. (By contrast, unsubsidized production amounted to about 18.5 million units, close to the 20 million target.)

This shortfall has contributed to the popular perception of housing conditions. It has largely been forgotten that the original target for low-income housing was based on an estimate in 1968 that there were then about 6.7 million occupied substandard units (lacking complete plumbing and/or dilapidated), and that there would be 6.3 million in 1978 in the absence of new government-subsidized production programs.[12] That 1968 estimate was essentially an educated guess, since the most recent data then available were from the 1970 census. Two years after the target was established, the 1970 census estimated that there were only about 5.3 million occupied substandard units, even though the new federal programs were barely under way; but the target was not updated. Because of the Census Bureau's decision to stop trying to count dilapidated units, we will never know how many substandard units there were in 1978; but the improvement from 1973 to 1978 according to the newer criteria strongly suggests that the number was much smaller than in 1970, even though such an assertion cannot be proven.

[12]G.E. – TEMPO, "United States Housing Needs, 1968–1978," *Report of the President's Committee on Urban Housing, Technical Studies*, vol. 1 (Washington, D.C.: Government Printing Office, 1967), p. 26.

Other Purposes for Subsidized Housing

The foregoing discussion may lead one to infer that the general dissatisfaction with subsidized housing programs is largely the result of data problems: If we "really" knew what has occurred in the postwar period, we would be satisfied with the housing policy that has given birth to public housing and the later subsidy programs. That is probably not the case. Subsidized housing has been advocated for other reasons than achieving decent housing for all Americans – it has been seen as the "answer" to other "questions." This section briefly describes the most important of these "questions."

Housing Production

Subsidized housing has often been seen as a macroeconomic policy tool, as well as a vehicle for improving the housing conditions of the poor. This emphasis goes back to the earliest days of public housing, during the Depression.[13] The first federal support came through the Reconstruction Finance Corporation and the Public Works Administration as part of the general effort to promote economic recovery. The focus on macroeconomic impact was underscored in 1935 when President Roosevelt rescinded over half the funds for public housing, on the basis that alternative public works provided more jobs in a shorter time. Later subsidy programs, particularly Section 221 in 1961, have been advocated as countercyclical stimuli. More recently, the homebuilders and other groups interested in housing have urged the federal government to "smooth out the housing cycle," using low-income housing as one mechanism among several to achieve this purpose. The 1968 production targets for subsidized housing partly result from a long-standing macroeconomic concern.

Social Benefits

The national housing goal is "a decent home in a suitable living environment," not just a "decent home." Decent housing has traditionally been regarded as a means to achieve better living environments, or neighborhoods. When the first subsidized housing programs were enacted during the Depression, they were advocated by many urban reformers on the basis that bad housing was the cause, or at least a major contributing factor, of many of the social and even physical problems confronting the poor. Tearing down the slums and replacing them with good new housing was expected to reduce crime,

[13]For a more extensive discussion of the use of subsidized housing as a macroeconomic policy tool, see Weicher, chap. 3.

delinquency, and antisocial behavior generally, and improve the mental and physical health of the poor.[14]

Intrametropolitan Issues

A related public policy concern has been the problem of the "big cities." Inadequate housing has often been regarded as primarily a "big-city" problem, because the concentrations are especially noticeable in many city neighborhoods.[15] In fact, this is not correct: Housing deficiencies are found disproportionately in rural areas, particularly in the South, and central city housing has improved in line with housing quality generally during the postwar period. But in policy discussions, the more common comparison is between cities and their suburbs, and an avowed policy goal has been "strengthening" the cities in relative as well as absolute terms: narrowing the gap between city and suburban economic positions, and stemming the continuing deterioration of the central cities' economic situation vis-à-vis their suburbs. This of course is really an issue of urban, rather than housing, policy, but the two are not clearly distinguished in most policy discussions, or in most policies either. Federal urban programs, beginning with urban renewal in 1949 and continuing to the Urban Development Action Grants of today, have had a substantial housing component, including subsidies ostensibly designed for "moderate" or "middle" income families.

Racial Discrimination and Segregation

Members of racial and ethnic minorities, particularly blacks, have historically lived in much worse housing than the white "Anglo" majority, in neighborhoods apart from the majority. Some 80 percent of nonwhite households lived in housing without complete plumbing in 1940, twice the percentage of whites. And 23 percent of nonwhite households were overcrowded, more than three times the frequency for whites. The extent of racial segregation cannot be simply summarized by any analogous statistics, but surely need not be belabored. Subsidized housing is provided to all eligible households on

[14]For a more extensive discussion of the "social benefits" originally expected from the subsidized production programs, see Milton P. Semer et al., "A Review of Federal Subsidized Housing Programs," *National Housing Policy Review, Housing in the Seventies, Working Papers*, vol. 1 (Washington, D.C.: Government Printing Office, 1976), pp. 82–144.

[15]For a more extensive discussion of intrametropolitan issues in housing policy, see John C. Weicher, "Government Urban Policy and the Lender," *Urban Housing*, Proceedings of the Fourth Annual Conference, Federal Home Loan Bank of San Francisco, 1979, pp. 187–246.

the same terms. The projects can be integrated themselves, and their sites can be selected in such a way as to promote integration within the neighborhood in which they are located. Support for public housing has been particularly strong among black political leaders, both in and out of Congress.

The Effectiveness of Subsidized Housing

If these are the "questions," is building low-income housing the "answer"? This section evaluates the efficacy of subsidy programs in terms of the various objectives, based on scholarly research and program experience. Before doing so, however, it briefly discusses the way in which the programs are perceived by policymakers. This is not at all the same thing: research and even program experience often have little impact on the latter, particularly when the results are counter-intuitive. The most common "model" in general public discussions of policy issues can be described as simple time-series regression: $y = f(x)$, where y is the desired outcome, x the policy or program, and the observations are for successive time periods. If x is adopted as a policy, and y does not change in the desired way, then the policy is regarded as a failure. This of course commits the logical fallacy of *post hoc, ergo propter hoc* and is not the methodology that policy analysts from any discipline would use, but it is common in Washington.

Using this model, it is no wonder that subsidized housing is unpopular. It hardly needs saying that the economy and the housing industry still suffer from cyclical downturns. Neighborhoods, especially in the big cities, have been getting worse as housing has been improving; crime rates have risen and school quality has deteriorated. Blacks and other minorities continue to live in worse housing than average, and segregation is still the norm, though it should be noted that both discrimination and segregation appear to be much less severe than they were 30 to 50 years ago. And, despite some spectacular improvements in specific city neighborhoods, most big-city economies have continued to lose ground relatively, and in some cases absolutely. In addition, the New York City fiscal crisis of the mid-1970s has added a new dimension to the public perception of central city problems. The near-elimination of substandard housing is the only "success" that can be offset against these "failures."

The professional literature is more rigorous and systematic than this crude "analysis," but its findings are no more favorable to the subsidized production programs. The remainder of this section briefly reviews the relevant research. On many of these issues, it is somewhat surprising to find that there has been very little study. Indeed,

the paucity of serious research is one reason – but by no means the only reason – for the unsophisticated level of debate about subsidized production.

Housing Quality

The research shortage is most noticeable and most surprising on the question of the role of subsidized housing production in eliminating substandard housing. Since this has been the central objective of federal housing policy with respect to the poor, and since it has nearly been achieved, one might reasonably expect that a number of analysts would have investigated the impact of the programs. At the very least, the government agencies charged with administering the programs should have found it in their self-interest to commission studies which they could expect to demonstrate their accomplishments, particularly when the programs come under fire. But I can identify only two scholarly empirical studies and not many more theoretical analyses.

Most housing market theorists have agreed that public housing clearly results in housing improvement for each poorly-housed family who becomes a program beneficiary. The major point of divergence concerns the indirect impacts on other poor households. Edgar Olsen argues that they are neither helped nor harmed, in the long run, because of the competitive nature of the housing market; landlords will provide housing of the type and quality desired by poor households, at the same cost, whether or not there are public housing projects.[16] However, those displaced by the projects (and perhaps other poor families) may be hurt in the short run. More recently, James Sweeney and James Ohls separately argued that other low-income families probably benefit because the overall demand for private, low-quality housing is reduced, and landlords are forced to lower their rents in order to attract and hold tenants.[17] Sweeney differentiates public housing from the newer mortgage subsidy programs for families above the public housing income limits, such as Section 235 and 236; he argues that the latter are likely to hurt the poorest people.

The first serious empirical study on this question dates only from 1973. Davis, Eastman, and Hua analyzed the improvement in hous-

[16]Edgar O. Olsen, "A Competitive Theory of the Housing Market," *American Economic Review* 54 (September 1969): 612–621.

[17]James L. Sweeney, "A Commodity Hierarchy Model of the Rental Housing Market," *Journal of Urban Economics* 1 (July 1974): 288–323; James C. Ohls, "Public Policy Toward Low Income Housing and Filtering in Housing Markets," *Journal of Urban Economics* 2 (April 1975): 144–171.

ing quality, measured as the reduction in substandard housing, for a cross-section of 50 large cities during the 1960s.[18] Their work is hampered by the previously mentioned data problems in the 1970 census; they were forced to compare the incidence of substandard housing in 1960 with that of units lacking complete plumbing in 1970, because they did not have data on the number of dilapidated units in the latter year. They also compared the change in the proportion of units lacking complete plumbing. They did not have a direct measure of subsidized housing production during the decade, but used instead the fraction of the 1970 housing stock consisting of units built during the 1960s and renting for less than $80 per month.

Their results are ambiguous, but do not provide much support for the notion that subsidized production contributed to the improvement in housing quality. They regressed the first, less commensurable measure of housing improvement against new low-rent housing and the 1960 incidence of substandard housing; the subsidized production variable was barely conventionally significant. In a similar regression for the change in housing without complete plumbing, however, the variable was insignificant, with a t-ratio of about 0.5; it remained insignificant in more elaborate formulations, containing up to 11 economic and demographic variables, primarily measures of household income, and of the level, composition, and change in city employment.

Within the last few years I and several associates have studied the relationship between subsidized production and substandard housing, as part of "housing needs" projections undertaken for HUD and the Congressional Budget Office.[19] We have data on subsidized production, taken from HUD program records and the Annual Housing Survey, but we do not have a consistent measure of substandard housing for our study period, and we can only relate subsidized production over a several-year period (the early 1970s) to substandard housing at the end of that period (1974, 1975, or 1976). Our sample is the 60 selected SMSAs of the Annual Housing Survey.

The most important factors affecting the incidence of substandard housing are income, household composition and other demographic characteristics, and the relationship between private new construction and net new household formation. Subsidized production gen-

[18]Otto A. Davis, Charles M. Eastman, and Chan-I Hua, "The Shrinkage in the Stock of Low-Quality Housing in the Central City: An Empirical Study of the U.S. Experience over the Last Ten Years," *Urban Studies* 11 (February 1974): 13–26.

[19]John C. Weicher, Lorene Yap, and Mary S. Jones, *Metropolitan Housing Needs for the 1980s* (Washington, D.C.: Urban Institute Press, 1981), pp. 109–113.

erally has much less impact, but its importance varies according to the definition of inadequate housing. Using a definition developed by HUD in the later 1970s, we find that subsidized housing production does not have a significant effect on the incidence of substandard housing. The coefficient is slightly larger than its standard error, and the point estimate of the coefficient implies that there is about one fewer substandard unit in the mid-1970s for each four subsidized units built during the early 1970s. We were able to separate public housing from the mortgage subsidy programs; the impact of public housing was essentially the same as that of all subsidized housing production, while the other programs had no effect at all. These results suggest that it is useful to differentiate housing programs, as Sweeney does, but they are at best only partly consistent with his model.

But in a subsequent analysis using a definition of "housing in need of rehabilitation" devised by the Congressional Budget Office, we get different results, although the definition does not seem to be very different on the surface.[20] The coefficient of subsidized production is significant, and the point estimate implies that there are six fewer substandard units in the mid-1970s for every seven subsidized units built during the preceding five years. This is the strongest result in any attempt to analyze the relationship.

It may seem surprising that the coefficients are all less than unity, although in the CBO analysis, not significantly less. There are several explanations. The simplest is that not all public housing tenants come from substandard housing. HUD program data indicate that only about half have done so. Moreover, the HUD program definition of "substandard" is not the traditional policy definition, but a rather elastic, even vague, notion based on local housing codes and the perception of the tenant. It seems clear that the program data overstate the extent to which subsidized housing replaces substandard units.

A second possibility is that there may well be a difference between the short- and long-run impacts of subsidized production, as hypothesized by the various theoretical analyses. To investigate this possibility, we included past levels of subsidized production, as well as current ones. Our results were surprising. For either the HUD or CBO definitions, we found that production five to ten years earlier had no impact on substandard housing in the mid-1970s, and production 10 to 15 years earlier had, if anything, an adverse impact. We were unable to account for this, but it may be the result of peculiar-

[20]Ibid., pp. 113–117.

ities in the definitions of inadequacy, which all give substantial weight to maintenance items (public housing maintenance has become an increasing problem in the last decade or so). Whatever the interpretation of this result, our findings generally indicate no long-run reduction in substandard housing as a result of subsidized production. This is hardly the last word on the subject – it is more nearly the first – but it certainly indicates that there is much more to be done in studying the housing market. Its potential policy implications will be discussed in the concluding section of this paper.

Housing Production

The countercyclical impact of subsidized housing programs is also a topic which has attracted little serious research. There have apparently been only two studies, both concluding that the impact is small or negligible, primarily because subsidized production is in large part a substitute for unsubsidized production that would probably have occurred anyway. Craig Swan has estimated that about 85 percent of the starts under the Section 235 and 236 interest rate subsidy programs between 1969 and 1972 would have occurred without the program. Swan argues that mortgage interest rates were driven up by the programs, reducing unsubsidized starts as private buyers chose to wait for lower rates.[21] This conclusion has been reaffirmed in a more recent study by Michael Murray.[22]

The conclusions of Swan and Murray with respect to Sections 235 and 236 are especially noteworthy because these programs are often credited with having cushioned the cyclical downturn in 1970. There have been no similar studies of other programs and other recessions, but the raw data alone indicate that any impact would have been negligible: the programs were small, and they produced little housing during the recovery. For example, in 1961 the government began to subsidize interest rates on mortgages for privately owned low-income apartment projects (the Section 221(d)(3) program) during, and partly because of, a recession in housing. The industry recovered without significant help from the program, however: subsidized production did not reach 10,000 starts a year until 1964, while overall production rose from 1.25 million starts in 1960 to 1.60 million in 1963, the third highest yearly total recorded at that time. Similarly, the Section 8 new construction program was enacted in 1974, just

[21]Craig Swan, "Housing Subsidies and Housing Starts," *American Real Estate and Urban Economics Association Journal* 1 (Fall 1973): 119–140.

[22]Michael P. Murray, "Subsidized and Unsubsidized Housing Starts, 1961–1977," U.S. Department of Housing and Urban Development, August 1979.

before the trough of the recession in housing; however, overall production doubled, going from a rate of 1.0 million starts annually at the low point to more than 2.0 million in mid-1977, before Section 8 had resulted in 125,000 starts.

Housing industry trade groups are clearly aware of this record, though it would be too much to imply that they have been influenced by anything as academic and counter-intuitive as the Swan and Murray studies. But in the last two recessions the industry has argued for interest rate subsidies on conventional new homes and apartments for middle- and upper-income families, not public housing or other subsidies for the poor.

However, Murray also examined public housing and other construction financed directly by the government, apart from the interest rate subsidies, and found a different pattern. About 60 percent of the public housing units represented an increment to housing production at the time they were built. Over time, this impact has dissipated, because the public housing units generate an increase in the overall vacancy rate and thereby reduce the demand for private housing; ultimately, about one-sixth of the public housing units represent an increase in the stock, although it takes many years for the initial increase in production to be absorbed in the market.

Murray's results suggest that public housing ought to be an effective countercyclical program: it adds to the stock of housing "now," in a recession, and restrains production "later," in a boom. But in fact public housing has been regarded as a rather poor macroeconomic policy tool, for the same reason that President Roosevelt gave in 1935: it takes too long. Public housing projects have typically required about a year of federal processing before site acquisition can begin, and another year until construction is underway. That is far too long to be effective in any recent cyclical downturn.

Social Benefits

The social benefits and neighborhood effects of better housing is the one subject where there is a very large body of scholarly research, from the perspective of a number of disciplines. There is little evidence in that body of research that better housing has any of the desirable effects that the original public housing advocates expected.

The effect of housing on health has probably attracted more research attention than any other category of social benefits. In the most exhaustive recent evaluation of this research, Stanislav Kasl reviewed 178 studies in the fields of public health, medicine, and social psychology, and concluded that:

> . . . the link between parameters of housing and indices of physical health has not been well supported by the reviewed evidence, at least not in any direct sense . . . the relationship between housing and chronic conditions and disability is not at present supported by any firm evidence . . . the association between housing and mental health (excluding housing satisfaction) is supported only by the weakest, most ambiguous studies. . . . The best designed studies do not demonstrate any mental health benefits, and it now appears that some of our most cherished hopes – such as raising educational and occupational aspirations by moving people out of slums – never will be realized.[23]

Kasl's conclusion was not entirely negative. He cited a number of studies showing that people are more satisfied when they live in better housing, which may contribute to their mental health; and noted that there are some "obvious" relationships, such as the presence of rodents and a higher probability of rodent bites, or the lead-based paint commonly found in older buildings and the incidence of poisoning. But he found little basis for the argument that better housing leads to better health. These studies largely refer to housing in general, not the subsidized housing produced by the federal government specifically for the poor.

There is still less evidence that any of these programs have specifically improved the health of their beneficiaries. Probably the best known and most systematic evaluation is a longitudinal study of public housing tenants in Baltimore, conducted by Daniel Wilner and his associates at Johns Hopkins University.[24] They compared the tenants with a similar control group living in private housing over a three-year period that spanned the move from substandard housing to the housing project. The results were mixed and did not systematically favor either group. Disease rates for persons under 35, and especially for children, were significantly reduced in the project, but those for older persons were not, and there was no difference in death rates. Even the statistically significant differences were quantitatively minor.

Studies of the relationship between housing and crime or delinquency have yielded similar results. An analysis by Bernard Lander shortly after World War II exemplifies the literature: He found that bad housing and delinquency were strongly correlated – until edu-

[23]Stanislav V. Kasl, "Effects of Housing on Mental and Physical Health," *National Housing Policy Review, Housing in the Seventies, Working Papers*, vol. 1 (Washington, D.C.: Government Printing Office, 1976), pp. 286–304. The quotation is from p. 296.

[24]Daniel M. Wilner et al., *The Housing Environment and Family Life* (Baltimore, Md.: Johns Hopkins University Press, 1962).

cation and race were taken into account, when the relationship disappeared.[25] Lander's study was one of the first to attempt to separate the effect of housing from those of socioeconomic and demographic factors; previous studies, particularly before World War II, tended to focus only on the simple correlation between housing and crime or delinquency.

Most economists and other analysts who have reviewed this literature have found little support for the view that better housing helps to solve social and physical problems. At the same time, housing practitioners have been reaching similar conclusions as a result of their personal experiences with subsidized housing projects. By the late 1950s, it was increasingly recognized that many public housing projects were not providing a satisfactory living environment; by 1961 Jane Jacobs could refer matter-of-factly to "low-income projects that have become worse centers of delinquency, vandalism, and social hopelessness than the slums they were supposed to replace."[26] By 1968 the Douglas Commission, which strongly supported subsidized housing programs, devoted much of a chapter to the negative impact of "multiproblem families" in public housing projects.[27]

Later programs, particularly Section 8 New Construction, have shifted from providing housing for these families toward serving the low-income elderly. The latter are generally regarded as desirable tenants because their major problem is their income; they do not suffer from social and psychological problems which create an undesirable living environment in the project. At present it is rare, though not unheard of, to hear the social benefits of better housing invoked as a justification for subsidized production programs.

Racial Segregation

Subsidized housing programs do not have a very impressive track record as vehicles for promoting racial integration. This is partly because, for many years, integration was in fact not really a goal of the programs. The location of public housing projects traditionally followed local racial boundaries: projects designed for blacks were located in black neighborhoods; those intended for whites, in white ones. Occasional integration within projects, or between project and

[25]Bernard Lander, *Toward an Understanding of Juvenile Delinquency* (New York: Columbia University Press, 1954).

[26]Jane Jacobs, *The Death and Life of Great American Cities* (New York: Random House, 1961), p. 4.

[27]National Commission on Urban Problems, *Building the American City* (New York: Praeger, 1969), part II, chap. 3, especially pp. 123–131.

neighborhood, sometimes resulted in racial tension and even violence.

Within the last 10 to 20 years there have been a number of policy changes for the purpose of promoting integration, and a number of court cases challenging the project site selection criteria of local zoning ordinances. (The latter may have contributed to the former, but they are not the only reason; both reflect a change in the social and political climate of the country.)

At the same time, there have been various efforts to study the impact of subsidized housing production on segregation and residential location patterns generally. Attention has focussed on the Section 8 New Construction program, which since 1974 has supplanted traditional public housing as the main subsidized production program.[28]

It appears that this program has not been particularly successful in promoting integration or serving minority households. Most projects have been located in low-minority, suburban areas and have served few minority households relative to their proportions in the eligible population. Instead, the program has concentrated on serving white elderly households. Minority households represent about 15 percent of subsidized tenants, compared with 35 percent of eligible households. But for the small number of minority households actually served by the program, their new housing is typically in a much more integrated neighborhood than their old: on average the original neighborhoods were 54 percent minority in population, while their new neighborhoods were only 35 percent minority.

These findings suggest that the subsidized production programs work like a lottery. A small number of minority households "win" a big change in their neighborhood; most get nothing at all. This may represent some sort of improvement from the 1940s and 1950s, but it hardly indicates that subsidized production, even today, is a very effective way to promote racial integration, or to help poor minority households find better housing.

The Administration Program

The policy proposals of the Reagan administration, as set forth in the 1983 budget and the report of the President's Commission on Housing, represent a major break from the programs of the past.[29]

[28]President's Commission, *Interim Report*, pp. 38–40.

[29]*FY 1983 Budget, U.S. Department of Housing and Urban Development, Summary, February 1982*, "Introduction," and "Housing" sections; *The Report of the President's Commission on Housing* (Washington, D.C.: Government Printing Office, 1982), section 1.

The administration would rely on the existing stock to house the poor. It would permit low-income households to choose where they live, as long as their chosen dwelling meets minimum housing quality standards or can be made to meet them. Households could choose to stay in their present unit, if it meets this criterion. The amount of the subsidy is based on the "fair market rent" for modest but decent housing in the local market, and on the household's income; the household is expected to contribute 30 percent of its income toward the rent, and the government pays the rest. The household can also choose to occupy a unit renting for more than the "fair market rent," but if it does so, it must meet the additional cost from its own resources.

Critics of the proposed policy have offered four major objections:

1. It does not help people living in the worst quality housing; they won't participate in the program.
2. It does not add to the stock of housing.
3. It does not help minorities who suffer from discrimination and segregation in the housing market.
4. It simply drives up rents for all housing occupied by the poor.

This is not an appropriate place to evaluate each of these objections. There is a very large body of research and program data about the effects of housing allowances -- much larger than has been available to policymakers for any previous low-income housing program or policy when it was first established. Several extensive discussions and summaries of that experience also exist. My own conclusion is that the first two criticisms are more or less true – the second more than the first – and the last two are clearly wrong. But what is more important is that the same criticisms – at least the first three – could be made of the present policies and programs, according to the available evidence. Much of that evidence is counter-intuitive, and there is obviously room for a great deal of further investigation; many of the findings might be reversed in the future. However, there is still very little evidence to suggest that these are areas in which public housing and other subsidized production programs are clearly superior to housing allowances.

The Questions of the Future

At this writing, it appears more likely than not that the administration's proposal will become the nation's low-income housing policy. It seems fitting to conclude by considering what that policy can be expected to achieve and how it will be perceived.

The first question is the easier one. Past research suggests that housing allowances will result in modest upgrading for housing that is already close to whatever minimum quality level is set in the program – units which might be termed "high substandard." It will neither promote nor discourage racial integration, and minority households will participate roughly in proportion to their importance within the eligible population. It will have no particular impact on neighborhood environments, nor will it make central cities more or less desirable places to live or work.

The perceptual question is more complicated. My basic view is perhaps cynical: The program will get credit for the "good things" that happen in housing after it has been enacted, and blame for the "bad things." This is consistent with the *post hoc, ergo propter hoc* "model" to which I referred earlier. The most important phenomenon will be the change in housing quality that occurs after the program has been enacted. The program's actual contribution to this improvement will be slight, compared with the total improvement that is observed. That improvement will result primarily from continued increases in real income; over a decade or two, continued growth in the economy will dominate all other factors affecting quality. The complaint that those in the worst housing are not helped by housing allowances will gradually fade away, true or not, because the worst housing will continue to drop out of the stock, or be upgraded.

Critics of the program may argue strongly that progress would be faster if low-income housing were built by the government, but this argument will gradually lose its force. I should add, however, a cautionary note: if federal budget stringencies result in further reduction in housing data collection, and deterioration in data quality, the nation may be even less aware of quality improvements in the future than it has been in the past, and policy discussions will become even more confused.

But on most of the other issues discussed in this paper, progress will be less noticeable. The country will not be able to eliminate housing construction cycles, although the financial deregulation now under way should ultimately mitigate them significantly. Crime, schools, and other aspects of our living environment will continue to be "problems," and suburbanization of economic activity will probably continue.

How then will housing allowances be perceived? The answer, I think, depends on whether the new policy is expected to resolve these problems; whether the same "questions" are asked of low-income housing policy. If they are, then the nation will be dissatisfied

with consumer-oriented housing subsidies, as it has been with subsidized production.

But there is a difference which may be decisive. Advocates of housing allowances seldom claim that these other problems will be solved. A shift in policy therefore may also result in a major shift in policy discussion. We will ask fewer questions of low-income housing policy and be satisfied if it appears to be answering, successfully, the "basic" question of housing quality. We will have an answer, because we will have decided what the question is.