

# HOUSING ALLOWANCES IN THE CONTEXT OF GOVERNMENT SOCIAL WELFARE PROGRAMS

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Housing allowances have been proposed as a substitute for many of the current and past government housing programs. (See “New Directions in Federal Housing Policy,” by Richard A. Kaiser, in this issue.) The failures, inefficiencies, and inequities of many traditional government housing programs have been documented in HUD’s publication, *Housing in the Seventies*. Housing allowances have been tried out on an experimental basis in a number of cities. A typical housing allowance program works like the Food Stamp program. Some proportion of the family income is established as the maximum that a family can be expected to spend on housing. This proportion may be set with the consideration of competing budget needs of low and moderate income families — food, clothing, transportation, medical care, etc. A typical proportion might be 25 percent. For a particular area an

estimate is made of the cost of “adequate” housing. Then under a fully funded program, every low-income family would receive a housing allowance certificate or check which would enable it to have enough money for “adequate” housing. The following is an example of how the program might work. Assume that the cost of “adequate” housing for a family of four was set at \$150 per month. A family of four with no income would receive a housing certificate or check for \$150. (The family might also be receiving food stamps worth \$142, presumably not counted as other income.) A family of four with an income of \$400 per month would be expected to be able to afford \$100 per month for housing, so it would get a housing allowance certificate or check for \$50.

In evaluating housing allowance programs the objectives of government housing policy

for low-income families should be kept in mind. Society may want to help improve the housing of low-income families in order to help low-income families. Society may also want to help improve the housing of low-income families in the belief that bad housing is directly or indirectly bad for people not living in bad housing. If we assume that low-income families generally are competent in making consumption decisions (and there seems to be no conclusive evidence they are worse than higher-income families in making decisions) then the best housing policy for achieving the first objective would be a direct cash transfer such as a negative income tax or unrestricted cash housing allowance. The best housing policy for achieving the second objective obviously depends on what the external effects of bad housing are.

One obvious negative external effect of bad housing is that some people don't like the way bad housing looks. This is one of the reasons for zoning, building codes, and urban renewal. There is no strong reason why Federal housing programs should deal with this problem, since the neighborhood effect of ugly housing can be dealt with by local governments.

Another possible external effect of bad housing is that bad housing may cause social problems such as high crime rates, low school attendance, mental illness, etc. The evidence on this relationship is rather weak. It seems much more plausible that a set of limitations from low-income and discrimination may tend to increase social problems, and that bad housing is more a symptom than a cause. Again, the best housing policy would be a direct cash transfer.

Typically, low-income families don't have housing problems in isolation from other problems, such as getting an adequate diet. Education and counseling may be important for some low income families lacking adequate information to effectively satisfy their needs. But this does not mean that the most effi-

cient housing program would be to directly provide all low-income families with housing.

One important consideration in evaluating proposals for a national housing allowance program is that money for such a program may result in less public money directly available for large scale planning, housing projects, and new towns. In effect, housing allowances would tend to lead to free residential choice, within limitations of discrimination, limited transportation, and lack of information and ability to pay. A similar amount of public money available for residential planning might make it possible for planners rather than sovereign consumers in the market place to determine such things as neighborhood composition. However, given the present state of knowledge available to planners, it is difficult to prove that planners would achieve "better" neighborhoods than is currently possible with the private market regulated by local zoning. (For more on neighborhood composition, see Gertrude Fish, "Residential Homogeneity and Neighborhood Interaction," this issue.)

There is a fairly high degree of variability of family preferences for housing — with two middle income families of equal ability to pay, one may choose to live in a mobile home and spend only 15% of its income on housing, and the other may choose to live in a conventional home and spend 30% of its income on housing. Although middle and upper income families may face many constraints such as limitations in mortgage loans, a limited supply of housing available, zoning and building code restrictions, and racial discrimination, typically they have a wide range of choices available. Government programs which restrict choices for low-income families may have bad results for society by further setting apart the poor from the rest of the society. Public housing, commodity food programs and low-income health clinics are examples of programs which may help the poor but restrict their choice. A negative income tax program, which would

provide cash to low income families, has had problems being enacted because many people fear it would give too many choices to low-income families. However, there may be a middle course of action. As the Brookings report, *Setting National Priorities: The 1974 Budget* points out, a housing allowance program combined with the food stamp program and national health insurance program could serve as a guaranteed annual income — putting a floor on subsistence below which no family may fall. The federal government could continue to provide welfare programs for special groups such as blind or disabled people. State and local governments could provide higher levels of benefits. But a combination program of food stamps, housing allowances, and national health insurance would be a feasible program to help all low income families, giving them some freedom of choice while achieving social goals.

## References

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