Chapter 9

The Role of Government: Housing Policies and Programs

Throughout previous chapters, it has been stressed that governments play a large and increasing role in almost all aspects of housing production and consumption. They act as financiers, insurers, regulators, speculators, administrators, builders, landlords, and frequently destroyers. Even in the most market-oriented of economies, the role of the state in housing is pervasive. There is no pure market for housing.

In this and the next two chapters we examine three distinct dimensions of government involvement: first, housing policies (primarily national policies), examples of specific policy issues, and the impact on housing of other policies whose objectives are not explicitly related to housing; second, the role of the state as house builder and landlord (Chapter 10); and third, the variety of alternative systems of housing policy (Chapter 11). There is no need here, however, to provide a detailed chronology or inventory of housing policies and programs in the U.S., U.K., Canada, or any other country. There is now an extensive literature, much of it recent, which provides such reviews.[1]

Why Does the State Intervene?

The simplest response to this question is that government intervenes in the housing market precisely because, unlike the market for T-shirts, but like that for food, it is far too important–socially, financially, economically, and politically–to be left exclusively to an unfettered, unregulated, private market. This should not be surprising since what is primarily a competitive economic market could not be expected (even in theory) to produce outcomes which are entirely in accord with social needs or political objectives.

The rationale for government intervention in housing has generated a lengthy debate on the relationships between political structures and the established housing system (see Donnison, 1967; Downs, 1975; Stafford, 1978). Essentially the arguments boil down to one's view of the structure of society in general and of housing's role in that society in particular, as well as the prevailing concept of "equity" and the means available for achieving that equity. Here our concern is primarily with means rather than ideologies, but we must not lose sight of the context provided by the dominant ideology of the society we live in and of the government in power.

Most governments recognize at least three major purposes for public intervention in the private market, even if that intervention is approached reluctantly:

allocation: the need to ensure that the productive resources of society are used as effectively as possible;

stabilization: to minimize the short-term and long-term fluctuations in the economic system; and

growth and redistribution: to see that economic growth continues, that incomes increase, and that social and spatial inequalities are reduced.

These same three functions underlie the objectives of housing policy identified in the following sections.

Others see the increasing degree of government intervention in market-based economic systems as both inevitable and contradictory. One such view argues that that intervention is inevitable because of the symbiotic relationship between government and the capitalist system of production (Harloe, 1978b). In this context, housing becomes part of the capital accumulation process on which the logic of the capitalist system is based, and a means of maintaining the established socio-economic order. The principal source of conflict is between the need for "efficiency," in maintaining the accumulation process, and the need for "legitimacy" on the part of government in a capitalist state. Legitimacy, in turn, is based on the postulates of a universal participation in consensus formation and of government as an unbiased social arbitrator. The "state," however, in this view, cannot satisfy the latter postulates at the same time as that of efficiency in capital accumulation.

This view has served as a basis for studies of housing policies by an increasing number of geographers, sociologists, and other social scientists (Harvey, 1973; Castells, 1978; Conference of Socialist Economists, 1975; Lambert et al., 1978). Such studies have been particularly valuable in stressing the inherently political nature of housing policy and its internal contradictions. The latter are not, however, unique to any particular economic system.

Differing Concepts of Housing Policy

Given the different concepts of housing summarized in Chapter 2, it might be expected that approaches to housing policy would vary widely. The principal distinction, however, is between differing concepts of the role of housing itself.

Some see housing policy as similar in purpose to those regulatory policies directed to any other economic markets. Thus, it is basically concerned with the regulation of private market initiatives, perhaps supplemented by modest public housing production or shallow subsidies for those least able to cope in the market.

Others, in contrast, see housing policy as one area of social policy. Like health and education, the view is that housing should be provided to all members of society as a social service. This approach can vary in intent from one which simply recognizes the responsibility of government to house those left behind by the market, to one which sees the market as an aberration which the government must recognize but would restrict to serving as a minor contributor in the provision of housing. It is interesting to compare the differing emphases placed on this social service component in the following discussions of housing policies in individual countries.

National Housing Priorities

Regardless of the political philosophy underlying housing provision, most western governments face a relatively similar set of basic issues. The resolution of these issues, in turn, mirrors each society's political and social philosophy, as subsequent sections demonstrate. The major issues include:

the relative weight to be given to housing goals compared to other economic and social goals;

whether or not to subsidize housing directly or indirectly and if so the *form of subsidy* to employ;

the *level of intervention*, in terms of the housing value and household income levels at which investment and subsidies are to be concentrated;

the *location* incentives to be incorporated into housing policy, particularly with respect to low-income households;

the *administrative* question of what level of government should do what for whom; and

the question of what administrative *methods* or techniques are needed to achieve defined housing objectives.

Since each country differs so widely in its housing policies and institutions, a separate chapter on each would be a necessity. This following selective review concentrates on the recent experience of two countries, the U.S. and the U.K., but with frequent comparative reference to Canada and western Europe.

HOUSING POLICY REVIEW 1: THE U.S. EXPERIENCE

History of Housing Policy

For the most part, U.S. housing policy effectively dates from the 1930s and particularly from WW II. Even so, these policies represented the outcome of over a century of struggle for improved housing conditions (Wood, 1934). For example, the housing inspector of New York City in 1834 made one of the first public references to inadequate housing in America's congested cities. In 1847, the "Association for Improving the Condition of the Poor" was founded and carried out an initial survey of the appalling housing conditions in some of the city's tenements. Yet it was not until 1857 that even rudimentary municipal controls on privately-built tenements were introduced.[2]

During the rest of the 19th and early 20th centuries, progress was (painfully) slow. Housing standards in cities were gradually raised, primarily by municipal and state governments. Local zoning was introduced and there were some efforts by wealthy individuals, private firms, and housing associations to build housing for the poor. The Board of Housing in New York State actually began construction of low-rent housing in the late 1920s, some 30 years after similar programs of building working class housing began in Britain. It was not until 1918, however, that the federal government undertook to directly provide housing for its citizens; in this case, for returning war veterans.

The great depression and the New Deal period brought the most substantial policy changes. In 1932 the Federal Home Loan Bank Act was passed, facilitating the spread of SLAs and a rapid increase in local sources of housing finance (see Chapter 5). In 1933 the federal government initiated what we now know as public housing through the Public Works Administration, and in 1934 the FHA was created to stimulate residential construction and stabilize the residential mortgage market by insuring private mortgages.[3] Finally, in 1937 the U.S. Housing Authority was created to assist in improving levels of health and welfare through higher housing standards.

World War II brought both sharp policy changes and massive government involvement in housing. Private house-building virtually came to a halt (see Chapter 3). Government then stepped in through the National Housing Agency to build over 850,000 units of "defense" housing. Insurance was also provided to encourage private builders to construct housing for war workers. Moreover, in 1944 the Veterans Administration (VA) was established to assist in housing returning veterans. Since 1944, over 9 million VA housing loans have been extended—worth over $120 billion—the largest single U.S. housing program for a group with "special needs."

Postwar Policies and Programs

The Housing Act of 1949 was an important landmark. It established the goal of "a decent home for every family in a suitable living environment," and initiated what has since become a bewildering array of federal programs and policies. The Act also broadened the concept of housing policy by recognizing the importance of the neighborhood environment and community services and called for a comprehensive approach (i.e., urban renewal) to the solution of housing problems. It also widened the concern of government to include the provision of housing for all, not simply for those of low income; and it initiated federal efforts in urban redevelopment (Title I). In addition, termination of the war presented the nation with a number of economic problems of which housing was both a component as well as a possible solution. There was, for example, a considerable housing shortage and an urgent need to provide jobs in the subsequent transition to a peace-time economy. Increased housing production and mortgage finance became part of this attempt to induce economic growth.

Unfortunately, the 1949 Act was vague in its intent and carried little political weight.[4] No explicit overall targets for housing production were set. Nor was it clear how the objective of a decent home for all would be translated into reality. One interpretation is that the latter was not a policy objective as much as a statement of a desirable state of affairs at some time in the future (Wolman, 1975). Nevertheless, the Act did embrace the concept of government's "responsibility" for housing, a recognition at least of the social service philosophy described earlier.

Since the 1949 Act, we can identify at least five major phases of emphasis in U.S. national housing policy. The dates here are somewhat arbitrary, although most represent points of major revision in national housing legislation.

Urban redevelopment and slum clearance (1949–1960): This was a period of increased public housing construction, slum clearance, and urban redevelopment. Under the provisions of Title I of the 1949 Act, the federal government was empowered to pay up to two-thirds of the difference between the costs of assembling, clearing, and servicing designated slum areas and the market price at which these areas could then be sold to private developers. The objectives were twofold: to stimulate private enterprise in rebuilding older cities and, secondarily, to improve overall housing conditions by removing the worst slums.

The most contentious aspect of the 1949 Act was precisely the public housing component. The Act called for the construction of at least 140,000 units a year for 6 years. Yet less than 250,000 units were actually built during that period. At the same time the stock of low-cost housing was reduced through urban renewal and slum clearance, programs which destroyed three times as many housing units as they built. The combined forces of conservative politicians, federal government indifference, and the unwillingness of many local governments to accept public housing in their midst resulted in a dwindling new supply of such housing throughout the 1950s and 1960s. The reactions of local authorities, and the political problems of locating public housing in cities, are vividly conveyed in Meyerson and Banfield's (1955) study of Chicago.

Urban redevelopment and slum clearance—what soon became known as the federal "bulldozer"—were initially far more popular locally, for obvious reasons. Although the 1949 Act stipulated that cleared lands were to be used for "predominantly" residential purposes, local agencies were not closely regulated and the principle was gradually relaxed. Commercial use of renewal sites was attractive because it helped improve business conditions and added to the local tax base. Moreover, much of the new housing built was not for the poor that renewal initially displaced.

Subsequent acts during this period further deflated the social objectives of the 1949 Act. The Housing Act of 1954 relaxed the emphasis on using renewal lands for residential purposes and extended the financial incentives for private builders.[5] In the 1956 and 1959 Acts, the initial concept of slum clearance was broadened to include neighborhood and community renewal. Although laudable in themselves, these revisions allowed local agencies even more freedom to remove deteriorating housing and replace it with what they saw fit.

The transitional period (1960–65): Subsidizing the private sector: Growing dissatisfaction with the urban renewal bulldozer (in reducing the stock of low-cost housing) and the tendency for public housing to become segregated ghettoes contributed to a gradual shift in attitudes and in housing policy during the 1960s. Although housing was assigned even lower priority as a national policy issue in this period, there was a significant move away from urban renewal towards the provision of subsidies for both low- and middle-income groups.

The 1961 Act brought in subsidized below-market-interest-rate (or BMIR) mortgage loans, through Section 221(d)3, designed for low- and moderate-income households who did not qualify for public housing. While not many units were constructed (about 190,000), most did reach the intended target populations, and some success was achieved in attracting private investment into subsidized housing construction. The purpose of the program was to lower the rent (or less frequently, the ownership costs) for households living in new or rehabilitated housing by subsiding interest charges.[6] This program was also severely hampered, however, by opposing special interest groups, including some banking associations, by limited federal funds, and by management difficulties.

Reflecting a similar philosophy, the 1965 Housing and Urban Development Act introduced a modest rent supplement program. This was, in some ways, a watershed decision, but one which Headey (1978) describes as abortive. Under this program, the federal government was to pay the difference between market rents and one-quarter of the gross income for those households who were below the income limit for public housing but were compelled to rent privately. Although it was initially intended to help moderate-income households, and to "integrate" the suburbs, inadequate funding and fears of competition with the private sector limited the subsidies to a few thousand households of very low income. Nonetheless, it did act to complement Section 221(d)3 and 202 housing, and it introduced the concept of linking subsidies to changes in income.

These innovations in housing policy, modest as they were, however, were swamped by other related policy changes and by changing social conditions. Urban renewal not only displaced hundreds of thousands of households, it forced many employers out of business and sent others to the suburbs. The displaced low-income population simply shifted into other low-income neighborhoods, accelerating their decline and spreading blight over even larger areas. At the same time, massive expressway construction wiped out thousands of low-income units and opened the suburbs to a widespread decentralization of middle-income households and jobs.

Social unrest and policy reassessment (1965–68): In the mid-1960s, a number of dramatic events stimulated a major reassessment of housing policy. Most obvious among these events were the social unrest and riots which exploded in cities and on university campuses throughout the country. The subsequent report of the National Advisory Committee on Civil Disorders called for a massive increase in the construction of subsidized housing for low-income families. Parallel housing policy reviews, such as the Kaiser Committee's (1969) report, urged the acceptance of specific production targets based on an assessment of national "housing needs," something which had not been done before. At the same time, the credit squeeze tightened with escalation of the Vietnam war, sharply reducing the volume of private housing construction.

These events were directly reflected in the Housing and Urban Development Act of 1968. Among other items, this Act set a construction target of 26 million new (and rehabilitated) housing units for low- and moderate-income households over the next 10 years. Two new programs were introduced, combining aspects of interest rate subsidies, depreciation benefits, and housing allowances. These programs were Sections 235 for homeowners and Section 236 for renters. The fromer provided subsidies for low-income households in terms of an FHA-insured mortgage. The government was then to make up the difference between actual monthly carrying costs and the households income-related payments. Under Section 236, payments were made to private investors willing to finance low-income rental housing. Tenant rents were limited to a maximum of 25% of gross income for eligible households. The cost difference between the market rent and the rent necessary to cover a fixed low-cost mortgage was to be paid by the government.[7]

The 1968 Act also contained a battery of other housing provisions. It strengthened the secondary mortgage market, designed to reduce the extreme cyclical fluctuations in housing finance, extended insurance coverage for mortgage lenders in high-risk, inner-city areas, expanded funding for public housing, and increased the proportion of low-income housing required on urban renewal sites. Thus, the 1968 Act—as Downs (1975) observes—in combination with new coalitions of liberal politicians and related urban policies (such as the Model Cities program) offered the possible tools to effectuate a major reassessment of housing policy.

The high production period (1968–1974): Initially, at least, things went well. Subsidized housing starts rose from the previous record high of about 160,000 units in 1968 to over 430,000 units in 1970 and 1971. The latter total represented nearly 30% of all housing starts, a peace-time high, and much of it was attributable to the impact of Sections 235 and 236. Unfortunately, most of this housing did not go directly to those for whom it was initially intended.[8]

Private housing starts accelerated in 1971. Total construction rose from 1.9 million units in 1969 to over 3 million in 1972. This boom was in part the result of the collapse of the stock market in the early 1970s. Real estate became a relatively more attractive investment, due in part to the creation of real estate tax shelters (investment trusts, for example). Millions of dollars flowed into housing production and consumption. Widespread mortgage availability and low down payments further stimulated homeownership, particularly of new housing located in suburban areas. At the same time, mobile housing deliveries accelerated from less than 100,000 in the early 1960s to over 500,000 in 1972.

Some observers have argued that the early success of these programs brought their subsequent downfall. The extent of the subsidies to those of modest incomes alienated many in the private sector. Soon the escalating costs of subsidies, which continued over the length of the mortgage, began to be felt. The default rate on loans to low-income households and marginal landlords also increased. More broadly, the high rate of housing production, as noted earlier, contributed to an accelerated rate of out-migration from the cities. The rate of downward filtering increased, vacancies mounted, the abandonment of older housing became more widespread, and the geographical isolation of the very poor increased. These effects, which as seen in previous chapters (see Chapters 7 and 8) were due to the coincidence of many diverse factors, were no doubt exacerbated by the policy of stimulating new private construction in suburban areas.

Policy consolidation and the recession (1975 on): From 1975 on, substantial changes have taken place in U.S. housing policy and in the environment in which those policies have been introduced. The Nixon administration in 1973 placed a moratorium on Section 235 and 236 and related subsidy programs. Emphasis shifted from supply (building) subsidies, particularly for new construction, to cash assistance (or demand subsidies) for specific target households. We pick up the assistance issue in a later section.

The 1974 Act also abolished individual subsidies for such programs as urban renewal, Model Cities, and parks and sewerage treatment. These were replaced by block grants—notably the community development block grant—to local governments who would then have more discretion in how the money was to be spent. Such monies were to be allocated on the basis of a local plan for the provision of low-income housing and community improvement, but were also related to the relative level of poverty in each area. The Act also reintroduced housing assistance (after the moratorium) through such programs as low-rent public housing, Section 8 (subsidies for new construction and existing housing), and a revised Section 235 program. Each program was directed primarily to low- or moderate-income households, but to a slightly different group of households and income groups in each case.

At the same time as these revisions were taking place, economic and political climates changed. The world recession and inflation reduced the growth of income and jobs and dramatically increased building costs. In 1975 and 1976, the residential building industry almost collapsed as credit tightened and demand slackened. Overall political priorities again shifted away from housing. Governments everywhere subsequently rushed in emergency measures to stimulate construction, bolster demand, and to prevent widespread mortgage default. The recession in new house-building also had several other effects. One, as described earlier (Chapter 7), was to redirect household demand back on to the existing stock. Moreover, house prices rose overall, particularly in locations of continued employment growth.

Current Housing Programs: A Summary

The preceding discussion of the evolution of U.S. federal housing policy may be summarized most succinctly with a simple inventory of current national housing programs (Table 9.1). The right-hand column of the table provides the approximate date at which each program was initiated and the relative size of the program (in 1978) in terms of units produced or improved, households affected, or funds approved. The latter are of course difficult to measure in many instances, so the numbers should be interpreted with caution (see U.S. HUD, 1978). Note that the largest program is still that of traditional public housing. As of 1978, there were 1.15 million occupied units and nearly 200,000 units in various stages of development. Annual production, however (about 40,000 units), remains pitifully low by international standards.

Among those programs of particular interest to geographers and planners are those relating to community services and neighborhood improvement grants. The former, including Community Development Block Grants (CDBG), are designed to provide assistance for building and infrastructure rehabilitation, the costs of local government code enforcement, and household relocation. These have met with modest success. The broader concern for neighborhood revitalization is also suggestive of a growing awareness that improvement is a continuous process and that specific housing rehabilitation grants must be matched by parallel environmental and social programs.[9] Both require careful monitoring by housing researchers.

Reviewing the Objectives of Federal Housing Policy

The objectives of any policy or program include those which are stated and those which are not. This renders both the identification of objectives and an evaluation of the degree to which they were attained extremely difficult. Moreover, these objectives change frequently, either through a process of "natural evolution" or abruptly through a change in government, in the administrators of programs, or in public perceptions of the problems involved.

Nevertheless, the following objectives are frequently cited as underlying recent federal housing policy in the U.S.:

- maintaining a high level of new housing production;
- reducing the cyclical instability of the house-building industry and thereby encouraging overall stabilization in the economy;
- ensuring the availability of adequate (and affordable) housing, particularly for low-income households;
- ensuring adequate housing finance by extending the availability of mortgage credit;
- encouraging widespread homeownership;
- providing housing for households with special needs;
- providing equal housing opportunities for all and facilitating racial integration;
- improving inner city conditions through community development, neighborhood preservation, and revitalization;
- creating "good" new suburban neighborhoods; and
- reducing housing costs.

Note that there are clearly different types and "levels" of objectives in this list. Some are targeted to specific problems (reducing costs), others are diffuse (equal opportunities). Still others are little more than good intentions relating to a more ideal world. The relative weight placed on each objective also shifts from time

Table 9.1. A Summary of Current U.S. Housing Programs, 1978

Program description	a) Year introduced b) Number of housing units, projects or $ involved
HOUSING ASSISTANCE PROGRAMS	
Low-Rent Public Housing: Pays development costs and annual operating subsidies for rental projects owned and managed by local public agencies and rented to lower-income tenants at reduced charges.	a) 1937 b) 1.15 million units; 192,000 in process
Section 8 New Construction/Substantial Rehabilitation: Subsidizes rents of lower-income households occupying public and privately-developed projects.	a) 1974 b) 30,000; + 500,000 in process
Section 8 Existing Housing: Provides assistance on behalf of households occupying physically-adequate, moderate-cost rental housing of their own choosing in the private market.	a) 1974 b) 330,000; + 148,000 ready for occupancy
Section 235 Homeownership Assistance: Provides mortgage interest subsidies to lower- and middle-income households purchasing new or substantially-rehabilitated homes.	a) 1968, suspended 1973, revised 1975 b) 287,000 to 1973; 8,000 since; 40,000 in process
Section 236 Rental Assistance and Rent Supplements: Subsidizes mortgages for rental housing projects. Rent supplements make subsidy payments to the owners of private rental housing on behalf of lower-income tenants.	a) 1968 b) 648,000; only 1,600 in process
Section 202 Housing for Elderly and Handicapped: Provides direct loans for the development of rental housing for the elderly and handicapped.	a) 1959, suspended 1970, revised 1974 b) 55,000 (Section 202/8) since 1974
HOUSING-RELATED COMMUNITY PROGRAMS	
Community Development Block Grants (CDBG): Provides grants to local governments, allocated by needs-based formulae. About one-fourth of all CDBG funds go towards housing rehabilitation, building code enforcement and relocation assistance.	a) 1974 b) 3,200 grants (in 1978)
Urban Development Action Grants: Funds development projects involving both private and public investment. Available to distressed cities only.	a) 1977 b) 50 projects (1978 only)
Section 312 Rehabilitation Loans: Provides 3% interest loans for the rehabilitation of privately-owned housing for occupancy by limited-income households.	a) 1968 b) 58,000 loans
Urban Homesteading: Makes federally-held homes available at nominal expense to limited-income persons willing to rehabilitate and occupy units.	a) 1976 (demonstration) b) 2,500 (in 1978)
MORTGAGE CREDIT ACTIVITIES	
Direct Loan Programs: (1) Farmers Home Administration	1a) 1934

Table 9.1. (cont'd)

Program description	a) Year introduced b) Number of housing units, projects or $ involved
provides market-rate and subsidized home loans in credit-deficient rural areas. (2) VA provides market-rate mortgages to qualifying servicemen and veterans.	1b) 825,000 loans outstanding 2a) 1944; 2b) 180,000 loans outstanding
Mortgage Insurance Programs: FHA insures market-rate, single-family and multi-family mortgages and subsidized mortgages on assisted housing projects.	a) FHA 1934 b) 40 active programs
Credit-Market Interventions: (1) Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation, and (2) GNMA purchase and resell mortgages to encourage use of capital for housing and provide limited financing subsidies. (3) Federal Home Loan Banks (FHLB) provide advances to financial institutions to make up temporary credit shortages and stimulate lending.	1a) FNMA became private in 1968 1b) 1.5 million loans 2a) GNMA–1968 2b) $43 billion 3a) FHLB, $17 billion in advances
HOUSING-RELATED TAX EXPENDITURES	
Homeownership Incentives: Permit deduction of (a) mortgage interest and (b) property tax payments for owner-occupied housing; (c) allow deferral of capital gains.	Cost: (1977 est.) a) mortgages–$4.5 billion b) taxes–$4.2 billion c) capital gains–$0.9 billion
Promoting Rental Housing Development: Accelerated depreciation allowances for rental housing and the favorable treatment of construction-period interest and property tax payments for developers.	Cost (1978 est.) $1.0 billion
Tax Benefits for Financial Institutions: Preferential bad-debt deduction allowances for residential credit institutions.	Cost (1978 est.) $0.7 billion
HOUSING AND CREDIT MARKET REGULATIONS	
Guaranteeing Equal Housing Opportunities: Prohibitions against discrimination in the sale and rental of most housing and in mortgage lending.	—
Controlling Supply and Cost of Mortgage Credit: Regulations govern maximum interest rates paid on deposits in financial institutions.	—

Source: Adapted and extended from U.S. HUD reports and U.S. Congress (1978).

to time as social conditions, and political realities, dictate. Moreover some of the above objectives are potentially in conflict. For example, the need for overall stabilization of the economy may conflict with several other objectives since it requires a cut-back in housing production during periods of economic expansion.

Since many of these objectives tend to be highly political or ideological, the result has been a lengthy debate on the merits and attainment of various policy alternatives (see Wheaton et al., 1966; Pynoos et al., 1973; Soloman, 1974; Downs, 1975; Wolman, 1975; Headey, 1978). Harvey (1977a), for example, has argued that U.S postwar housing policy has been directed primarily to three broad goals: (1) maintaining the close links between housing finance, economic growth, and capital accumulation; (2) use of the construction industry and housing sector as "Keynesian" regulators through which swings in the economy can be smoothed out; and (3) responding to the relationship between housing supply, the distribution of income, and social unrest. He also stressed the importance of housing construction as a means of creating jobs and preventing widespread unemployment, and the role of expansionary credit policies in facilitating consumer demand for housing. One result of these policies, as suggested above, was the massive postwar suburbanization of housing and jobs.

Housing clearly does play an important role in maintaining the social order, and social status, as defined in Chapter 2. Several authors have argued that the policy of extending homeownership was in part designed to defuse potential social unrest spilling over from the 1930s and from the return of war veterans. Debt-encumbered homeowners, in theory, would be less likely to "rock the boat" of the existing economic order. Most governments would quietly admit that the objective is both present and appropriate.

There is, unfortunately, little empirical evidence on which to base an overall assessment of the relative success of federal policies in attaining their stated or unstated objectives. Nevertheless, it seems reasonable to conclude that such policies have been moderately successful in stimulating new housing construction, in increasing homeownership, in attracting more private capital into the housing sector, and in improving the quality of "new" residential neighborhoods. The objective of stimulating private investment, however, has often meant a parallel reduction in government investment—a further "privatization" of the housing sector.

Such policies have been much less successful in reducing the wide fluctuations in housing production and in targeting housing assistance to families of low and moderate income. They have had no success in reducing overall housing costs and may well have been counter-productive in their efforts at reducing social segregation and in improving conditions in inner city neighborhoods, although both remain to be proven. Equally serious, as demonstrated below, these policies have not significantly reduced the unequal distribution of housing benefits among American society's income classes.

HOUSING POLICY REVIEW 2: THE BRITISH EXPERIENCE

The evolution and current status of housing policy in Britain provide interesting parallels and contrasts with the North American experience. The British experience is, of course, of much longer duration and is more substantial, in terms of the degree of government involvement. It is also relatively better documented; fortunately so, since space only allows for a very cursory review here. Instead, this section seeks only to summarize the contrasts with American housing policies as outlined above and the differing conditions under which those policies have been formulated. Chapter 10 then looks at the public housing experience in Britain in more detail. There are now a large number of comparative studies of British and U.S. policy which provide further background.[10]

Bases of Housing Policies

Housing policy in Britain differs from that in the U.S. in its history and ideology as well as its political machinery and administrative rules. First, public concern over inadequate housing conditions began earlier and more quickly became focused in national legislation than in North America. Second, this concern was more closely related to problems of health and sanitation. The industrial revolution, which began earlier in Britain than anywhere else, when building standards were low, generated rapid, unplanned urban growth and poor-quality speculative housing development in the late 18th and early 19th centuries. The result, as Dickens and other writers so vividly described, was the teeming, polluted metropolis with its congested, working-class terrace housing, often built back-to-back, with little lighting and inadequate or nonexistent basic services. Overcrowding was widespread, and disease was rampant (Alden and Hayward, 1907). These wretched conditions lead to a long series of government (and philanthropic) actions to improve standards of sanitation and housing. Some housing improvement schemes were initiated in the early 1830s and in 1848 the first of a series of public health acts was passed by the central government.

The British experience also emphasizes the importance of public housing and the major role assigned to local governments in providing housing for their residents. The latter principle was recognized as early as the 1850s, and in 1890 the Housing of the Working Classes Act formally authorized local authorities to build and rent working-class housing. Before 1900, several British cities were involved in extensive planning and housing evaluation and some were building houses; and from 1919 on they were obliged to do so. This legislative emphasis has continued to this day. Parallel efforts were also initiated to remove some of the worst 18th and early 19th century slum housing, but such clearance did not get underway on any scale in the major cities until after 1930.

Massive expansion of public sector housing dates from WWI, largely as a response to the acute housing shortage and the need to rehouse returning veterans (homes fit for heroes). Over 720,000 housing units were built by local authorities between 1920 and 1930. Similar efforts were made again after WWII, with considerable success (see Chapter 3). The objective of a decent home for every family clearly became accepted as a national obligation in Britain long before it did in North America.

These efforts reflect not only the relatively serious housing problems inherited by postwar British governments, but also a different prevailing ideology about the role of housing in society. Compared to the North American emphasis on stimulating private investment, housing policy in Britain was seen as filling more of a "welfare" function, with housing acting, at least in part, as a social service—a national obligation—and a higher priority (although still not that high) for government expenditures. The view that "we cannot have a market solution to the housing problem" has generally prevailed (until recently) regardless of the political party in power. The most common translation of this philosophy has been the construction and ownership of housing by local government and by the new town corporations (see Chapter 10).

Current Programs and Priorities

Despite these very important differences in background compared to the U.S., the policy responses, as Wolman (1975) notes, are often surprisingly similar. The major policy objectives, as specified in the 1977 policy review (see U.K. Secretary of State for the Environment, 1977), are not unlike those of American policy cited earlier, but with some important exceptions. Moreover, at the time of writing, and like most other western countries, housing policies are again in a state of flux subject to the search for new objectives by a more conservative government faced with severe economic difficulties.

The 1977 review recommended the following rather broad priorities for housing policy over the next decade, over and above that of a decent home for all: (1) a better balance between new construction and rehabilitation, emphasizing the latter; (2) stability in housing costs, both rental and owner-occupied; (3) meeting the housing needs of special groups (e.g., the elderly, disabled); (4) increasing the access of selected groups to housing of their choice; (5) increasing the scope for geographical mobility, particularly within the public sector; (6) allowing free choice of tenure; and (7) safeguarding the rights of tenants. These objectives, although not new, were to be obtained through revised policies directed primarily at the supply and use of housing.

The Housing and Rent Acts of 1974, the Housing Rent and Subsidies Acts of 1975, building on a series of legislative acts since 1969, provided the basic outline for a new and more comprehensive housing policy. Emphasis shifted from widespread slum clearance and redevelopment to housing conservation and area improvement programs. The role of housing associations was strengthened and funding for cooperative housing was increased.[11] Security of tenure was tightened and extended to the remaining (but rapidly shrinking) unregulated part of the private rental sector—which has added to the financial difficulties of that sector and created some weird anomolies. Legislation was also introduced to increase the flexibility of local authorities in budgeting for their housing programs.[12]

One of the more significant elements of the 1974 Act was the extended use of rehabilitation in dealing with areas of the worst housing "stress." These areas, designated as either Housing Action Areas (HAAs) or Priority Neighborhood (PNs), were those in which both the prevailing social conditions and the physical state of the housing stock were considered unsatisfactory. In both cases, local authorities were given extended powers to deal with housing problems on a broader and more integrated scale.

These housing programs have been supplemented at various times by other land and area-based policies—such as the new towns program, the Community Land Act (1975) and that proposed for the inner cities (1977)—to a much greater degree than in the U.S.; but again not without some negative effects (Headey, 1978). The Community Land Act, designed to facilitate land acquisition and land banking by local authorities, primarily for future residential purposes, has, however, since been repealed. The latter proposed a comprehensive attack on the problems of social deprivation and economic decline—including deteriorated housing—characteristic of the inner areas of many of the larger industrial cities. From this initiative has emerged a "partnership" program designed to help coordinate actions by local, regional, and national governments in these declining inner cities.

Housing policy in Britain has also involved more extensive programs of housing subsidies and assistance and tighter regulation of credit and mortgage lending agencies (notably the Building Societies) than in North America. General housing assistance in Britain has taken three principal forms: (1) tax relief on mortgage interest, as in the U.S.; (2) enormous direct subsidies to public sector housing; and (3) rate (local tax) rebates to individuals and rate support contributions to the housing accounts of local governments. Rent allowances (and rent rebates) are also now available to private as well as public tenants and some low-income homeowners are also eligible for rate rebates. Tenant protection legislation, as noted, is now much more elaborate than anywhere in North America—in fact, tenants are almost granted freehold rights.

More recently the central government introduced new arrangements for local authority housing investment—the Housing Investment Programmes (HIPs). These offer a block grant for all local housing activities—building, maintenance, demolition and clearance, renovation, and loans to households—dependent on the submission of a locally-produced and comprehensive assessment of housing needs. The stated intention of the HIPs is to increase local government flexibility in designing its housing programs and to encourage more efficient financial planning (i.e., lower costs). In outline, the HIPs are considerably broader in scale and intent than the CDBGs in the U.S. (or Canada).

The HIP programs also reflect a changing perception of the nature of housing problems in Britain which roughly parallels that in North America. The prevailing view is that there is no longer a single national housing problem to which a uniform national policy solution is either necessary or appropriate. Instead, it is argued, there are a series of localized problems, which differ in nature and extent by community, and which are best dealt with by local governments and by more spatially sensitive and precise policy instruments.

In summary, recent housing programs in Britain reflect the massive and complex inheritance of housing supply and quality problems. They mirror the particular political mechanisms available for improving that quality and the changing social and economic conditions under which housing policy has been devised and implemented. Equally important is the difference in philosophy about the role of housing in Britain and North American society (a difference in degree perhaps), and the former society's more general adherence to planning practice. The U.S.

has chosen to stimulate private enterprise, while Britain has followed a more explicit course of providing a large stock of housing as a social service and a component of national welfare policy. Both, however, have sought and achieved higher homeownership rates.

SPECIFIC POLICY ISSUES

Previous sections have provided a brief review of the evolution of housing policy but little opportunity to discuss specific policy issues. Here we examine a selection of issues not covered in other chapters in more detail. Each issue is an important policy concern in its own right, but each also reflects some of the dilemmas involved in choosing among alternative policy strategies. Those issues selected for brief review here include: (1) housing (demand) allowances and production subsidies; (2) rehabilitation and conservation vs. new construction and redevelopment; (3) rent control; and (4) the question of who benefits from housing programs. Issues of public housing in general and the housing needs of special groups are discussed in the following chapter.

Housing Allowances vs. Subsidies

A continuing debate in housing policy focuses on the merits of direct-payment housing allowances, relative to those of subsidies for production, in improving housing quality for those of low income. The former, which might be introduced as part of a revised and extended welfare or guaranteed income program, are, for convenience, examined here in isolation.

The concept of housing allowances (or rent supplements) is not recent. They were considered as part of the discussions leading up to the 1937 Housing Act in the U.S. and in the 1964 Act rent supplements were introduced for privately-owned, newly-constructed or rehabilitated units and for local authorities leasing housing to low-income households (Section 23). In the U.K., there has been, as noted above, an even longer history of rent regulation and of subsidies (or rent rebates) to tenants in both the private and public sectors (see Cullingworth, 1978).

Obtaining empirical assessments of the effects of housing assistance is particularly difficult. In 1972, however, the U.S. federal government undertook one of the largest social experiments ever in order to test the impact of direct cash-payment assistance on the use of housing. This test, the Experimental Housing Allowance Program (EHAP),[13] involved some 23,000 lower-income households in 12 locations,[14] who accepted an average monthly cash subsidy for a guaranteed period of 3 to 10 years.[15] The initial purpose of the program was to provide responses to the following kinds of questions. How do households use their allowances? When the use of such funds is unrestricted, do they spend more on housing? Do households subsequently change their housing location and neighborhood? Does the quality of housing improve for participating households and what are the responses of the market itself (e.g., price)?

In general, the results to date have been disappointing. While 90% of eligible households would accept assistance which was not restricted to housing, compared to just 50% when the assistance was so restricted, only 10% of the actual assistance received would be used for housing. When households moved, the amount of housing they consumed increased by roughly 83% of their assistance, but only 40% of that increase could be ascribed to the assistance itself. The corresponding figure for households which did not move was 29%. The principal positive effect was to decrease the average proportion of household income spent on housing (from 40 to 25%).

There were, however, few other effects. Income assistance did not significantly alter household choices, either in housing or neighborhood type (by race or ethnicity). There was no major price effect and no significant new construction resulted. An assessment by the Urban Institute (1979) also concluded that the assistance appears to have done little to promote racial integration, increase production, or stimulate neighborhood revitalization.

One obvious conclusion is that money is not the only prerequisite for an improvement in housing quality. Within the EHAP, non-monetary assistance of two kinds was also provided: (1) better information on the housing market to aid in selecting and evaluating alternatives (see Chapter 2), and (2) equal opportunity and legal assistance to combat discrimination in the market. The former proved to be an important household consideration, while the utilization of legal services in contrast was very low.

More generally, the EHAP (although not yet complete) is not in itself sufficient to offer concrete evidence one way or the other on the relative merits of housing allowances. The impacts were disappointingly small—housing expenditures increased by just 19% and neighborhood effects were negligible—but then there is no way of telling what the effects would be if housing assistance were universally applied. More to the point, the results suggest that a combination of housing allowances and direct subsidies to builders is the preferred alternative. These conclusions are roughly similar to those found in Britain's parallel rent-supplement experiment (see Trutko, Hetzel, and Yates, 1978; and Cullingworth, 1979).

Rent Control

Rent control has become one of the penultimate tools for governments in regulating the private housing market, but it too is not a recent invention. Most European countries have had some form of restriction on housing rents in the private sector since the 19th century. Britain, for example, introduced rent restrictions in 1914 as a temporary war-time measure and they have persisted ever since, although in varying forms (Wolman, 1975).

In North America, on the other hand, rent controls have not been a continuing feature of government housing policy. The U.S. introduced temporary controls during WWI, but these were quickly removed, and again during WWII (1942). The latter were continued after the war and during the Korean conflict. All federal controls on rent were finally lifted by 1954, only to be briefly reimposed in 1971–72 under phases I and II of the anti-inflation program.

Among individual cities, only New York, which extended the WWII controls under state authority, has had a significant experience with rent control. In fact, New York has evolved a rather complex system combining rent control and rent stabilization in which the latter depends in large part on self-regulation by an association of landlords.[16] From 1969 on, other cities including Washington, D.C., Baltimore, Boston, and smaller centers in Massachusetts, Connecticut, New Jersey, and most recently California, have enacted forms of rent control, or what is often more accurately described as rent "review." In Canada, the provinces of Ontario, Manitoba, and B.C. have also introduced mild forms of rent control, and Quebec has had rent review for some time.

The arguments for and against rent control have filled volumes (Hayek et al., 1978). Basically, those in favor of controls argue that renters in the private market must be protected from excessive rent increases and unfair exploitation by landlords, particularly when housing supply is limited. Normally controls are imposed during periods of rapidly escalating rents, inflation, or during national emergencies. The arguments against are many: that rent control discourages adequate maintenance in the existing stock and reduces investment in new construction; that it is inequitable because it benefits renters at the expense of owners and some renters at the expense of others; that it encourages dishonest practices (e.g., key money); and that it presents a regulatory nightmare for housing authorities. Both sets of arguments are true, in part.

The effect of rent control depends essentially on the nature of the controls and the way they are applied. Some have simply frozen rents, others allow increases equivalent to some base, while others allow full cost (pass-through) rent increases. Still other areas have only rent "review" which may or may not specify a limit on rent increases, but which does provide a forum for tenant complaints.

Nevertheless, most studies, such as the Rand Institute's review of the New York City experience (Lowry et al., 1972), have concluded that controls, while often preventing "unfair" rent increases, do distort the market in undesirable ways. They have also left some owners with few alternatives but to reduce building maintenance and services (if not, in extreme cases, to abandon the structure). New construction also suffered. On the other hand, there is also little doubt that the declining real income of many tenants in older inner cities has reduced the owners' revenues and encouraged deterioration, quite independently of rent controls (Harloe, 1979).

One other long-term side-effect ascribed to rent controls is the decline of private rental housing. The rental sector in North America has declined in recent years in relative size, largely for reasons other than locally-imposed rent controls, but such controls have not helped. In Britain, the massive drop in the private rental sector has paralleled the tightening of rent restrictions, but again in combination with other and perhaps more significant factors (e.g., tax benefits from homeownership).[17] In any case, even if rent control is not a permanent fixture, procedures for rent review and tenant forums will be increasingly common.

Conservation and Redevelopment

Part of the debate on urban renewal has focused on the merits of conserving older housing (through increased maintenance and rehabilitation) in comparison to those of demolishing and building anew. Since this topic was discussed earlier in the chapter on supply (Chapter 5), it can be dealt with here relatively briefly.

It has already been noted that systematic cost figures on rehabilitation and maintenance are seldom available and are inconsistent when available (Bagby, 1974; Kirby, 1979). Thus most discussion has centered on noneconomic arguments and on political whims. Nonetheless, the clear trend of recent years has been away from those policies which encouraged widespread housing demolition in the 1950s and 1960s to those in the 1970s which encourage reuse and improvement of the existing stock. In many cities, demolitions by public authorities have virtually ceased, replaced by a series of loans and grants for housing rehab and neighborhood revitalization. Both the U.S. and Canada now have such schemes, while the U.K. again has a similar but much more extensive system of improvement grants.[18]

Even when a decision has been made to increase the emphasis on rehabilitation, however, several thorny problems remain. These include the kinds of subsidies to be extended; the restrictions placed on the use of those subsidies; and the problem of defining the criteria by which grants are distributed among people, houses, and locations. There are also a number of important side-effects to consider. In the private market, rehabilitation grants almost inevitably lead to higher housing prices and thus to increased profits for speculators, landlords, and individual homeowners when the property is subsequently sold (Hamnett, 1973; Balchin, 1979). Attempts to control resales, or to capture that proportion of the price increase attributable to the rehabilitation grant, have generally failed. Moreover, determining which housing units warrant rehabilitation poses severe administration headaches for local authorities, including opening new opportunities for discrimination and corruption.

Despite these difficulties, it is likely that more effort will be made in the next decade to improve the quality of the existing stock through private investment, insured loans, self-help and co-op programs and outright government grants. It is increasingly recognized that aggregate housing quality can often be improved faster and at less cost through conservation and selective improvement than through an exclusive emphasis on redevelopment and new construction. This is particularly true when one considers the social costs of destroying existing communities through massive redevelopment and the benefits in terms of improvements in neighborhood quality which result from rehabilitation. Clearly, however, housing rehabilitation in older urban areas needs to be judicious in the choice of houses and locations. Again, the challenge is one of finding an appropriate balance in each local housing market.

Who Benefits from Housing Programs?

Any review of the success or failure of housing policies in general leads inevitably to the specific question of who benefits from such programs and who loses. The distribution of benefits and costs in housing is, of course, such a vague and complex issue, and one which has been the subject of intense debate for decades, that clearly there are no simple answers. Nonetheless, the prevailing view is that U.S. federal policy initiatives have primarily benefitted the private building industry, existing homeowners, financial intermediaries, and middle- to upper-income households. Those who have benefitted least have been the poor, renters, and minority groups.

Since the latter groups tend to live in different locations and neighborhoods, such programs also have had a differential spatial impact within the city. The emphasis on new construction, as noted, has benefitted the suburbs at the expense of areas of older housing in the central city. This bias has acted to reinforce that which flows from the concentration of renters, the poor and minority groups in those central areas. The image and reality of the urban ghetto is all too obvious evidence.

The overall level and social distribution of housing subsidies is suggested in Table 9.2. Most people, in most countries, are unaware of the scale of subsidies provided by government through indirect measures–largely tax relief. In the U.S., for example, of a total estimated housing subsidy of $20.56 billion in 1972. nearly two-thirds represented tax relief of various kinds.[19] Most of this subsidy went to households with above-average incomes. Direct housing subsidies (e.g., public housing), on the other hand, totalled an estimated $7 billion. Even assuming that all of the latter subsidy went to households of below-average income, which is unlikely, the combined result is heavily in favor of those households who are better off. In the U.K. the same conclusion is applicable, although the balance is less heavily weighted to indirect tax subsidies.

Each of the indirect or tax-related also has a somewhat different distributional effect across the scale of household income (Fig. 9.1). Most such benefits tend to

Table 9.2. Direct and Indirect Housing Subsidies to Households By Income Level in U.S., 1972

Source of subsidy	Total benefits	
	Household income above median	Household income below median
Tax relief[a]	$11,370 million	$2,090 million
Direct subsidies[b]	–	$7,100 million
Total	$11,370 million	$9,190 million
Per household subsidy (66,676,000 households)	$341	$275

Notes: [a]Interest and property tax deductions, tax-free capital gains, etc.
[b]Rent rebates, public housing, allowances, etc.
Source: U.S. HUD (1973b).

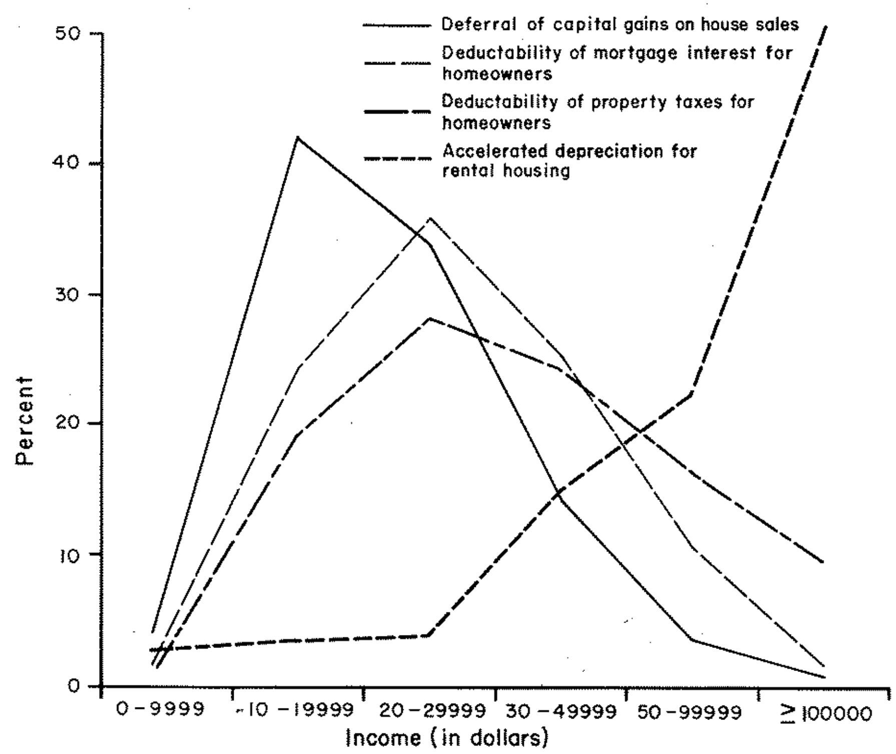

Fig. 9.1. The distribution of benefits from housing-related tax provisions, by income group, U.S., 1977.
Source: U.S. Congress, 1978.

fall to the middle-income homeowner, except for the accelerated depreciation allowance for owners of rental housing which increases with income. The least regressive of the tax-related provisions appears to be the deferral of capital gains on house sales while the most inequitable is the tax deductability of local property taxes for homeowners.

Finally, if we examine the distribution of direct housing subsidies by income group, we find both an impact which is in total limited and a distribution which has not been of pronounced benefit to the very poorest. Overall, less than 3% of households nationally received direct housing subsidies. Even in the lowest income groups (<$6,000 in 1972), less than 7% of households benefitted directly from subsidy programs.

The obvious implication from the above statistics is that housing subsidy programs in the U.S. have reached relatively few people among those in real need.

Moreover, the largest proportion of subsidies to housing have been in the form of tax credits, most of which have gone to middle-income households. On this basis, one can conclude that such programs have not been particularly successful, measured *in social equity terms*, in part because housing policy has been dominated by financial incentives and economic objectives.

The Housing Impacts of Non-Housing Policies

The preceding selective review of housing policies and issues has stressed the importance of policies which do not have housing as one of their principal objectives. To put together elements of the above discussion, Table 9.3 lists examples of the wide variety of non-housing sectoral policies which impinge on housing and

Table 9.3. Some Examples of the Housing Impacts of Non-Housing Policies

Policy sector	Example(s) of policies	Possible impacts on housing
Transport	Emphasis on highway construction rather than public transit	Encouraged decentralized new suburban housing construction
Taxation	Exemption of personal residence from capital gains tax	Shifts personal investments into housing, increasing the consumption and price of housing
	Tax deductability for mortgage interest	Encourages greater housing consumption, particularly among higher income groups, and stimulates household relocation
Investment	Depreciation allowances and investment tax shelters	Encourages new housing (rental) construction, devalues what is old
Industry and employment	Incentives to "rationalize" industry, and to stimulate high technology industries	Encourages geographical concentration and reduces the demand for housing in disadvantaged areas
Fiscal and monetary	Regulating the economy through restrictions on credit	Leads to excessive cyclical fluctuations in housing supply
Social services	Returning institutional patients to the community	May create medical ghettoes in private housing market
Environmental conservation	Environmental assessment of development projects	May delay new building and add costs through higher standards
Education	Locating new schools and closing old ones	Adds to or substracts from the price and quality of housing in a school district
Welfare	Federal transfer payments	May encourage a concentration of poor households in older housing in central cities

their possible impacts. In aggregate, the most obviously relevant policies are, first, the housing-related tax incentives and subsidies described above, and, second, those relating to local fiscal and national credit practices. Housing, and urban real estate in general, are particularly sensitive to both (see Case and Mittelbach, 1976).

Among other policies which impact on the geography of housing, perhaps those relating to transportation, employment (and economic) growth and local service provision are most crucial. Decisions on the location of new centers of employment and on whether to subsidize old industries, for example, drastically alter the demands placed on existing housing and on the location of additions to that stock. The siting of a new urban transportation facility cannot only wipe out large areas of housing, but it can and does shape geographical variations in neighborhood attractiveness and housing prices within cities. The effect of the interstate highway system in the U.S., in particular, has been one of the single most important factors in determining what housing has been built (or demolished) and where, and who has physical access to it. Other perhaps less dramatic impacts result from policy decisions on social services, welfare, school location and/or conflicts with environmental conservation legislation (see Babcock and Callies, 1973).

This inventory may be obvious to most readers, and could of course be extended in great detail. The point is, however, that what one must consider as housing policy is nothing less than the *summation of all spatial and sectoral decisions* which shape the geography of housing production and consumption in a city or country. In these terms, it is not surprising that direct housing policies, narrowly-defined, are often inadequate in scale, diffuse in their intentions, and misdirected.

NOTES

[1] See, for example, the reviews of the economics of housing in Stafford (1978), Headey (1978), and R. Robinson (1979); also comparative reviews on housing policy in the U.S. and Britain (Wolman, 1975; Headey, 1978), and Sweden (Kemeny, 1978). Useful edited collections on U.S. housing policies are provided in Wheaton, Milgram, and Meyerson (1966), Pynoos et al. (1973), and Phares (1978). British housing experience is summarized in detail in Merrett (1979), Cullingworth (1979), and Lansley (1979). Similar summaries are readily available on U.S. policy initiatives (U.S., HUD, 1973b, 1978; U.S. Congress, 1978 and on Canadian policy (see Dennis and Fish, 1972; L. B. Smith, 1977; Rose, 1978).

[2] Wood (1934) notes that it was not until 1879, for example, that legislation required that new tenements be built with a window to the outside. More than 350,000 windowless rooms had been constructed in New York City before that date.

[3] Unfortunately, the apparent emphasis of the FHA on racially-exclusive neighborhoods was to contribute to subsequent problems of racial segregation and discrimination in housing in American cities.

[4] Federal housing policy in the 1950s was largely vested in the Housing and Home Finance Agency (HHFA), which did not enjoy departmental status.

[5] In particular, the FHA under Section 220 of the 1954 Act was allowed to extend liberal mortgages to those who would invest in housing for middle-income households in cleared areas. Section 221 was to provide similar incentives for those displaced by renewal.

[6]For example, mortgage funds were provided through conventional financial institutions at roughly 3% interest, the BMIR rate set in the 1959 Act, Section 202, for housing provided by nonprofit groups for the elderly. The Federal Government National Mortgage Association (GNMA) would then purchase the mortgage at the rates of interest prevailing at the time.

[7]Subsidies were to be based on the difference between the rent necessary to cover the monthly service charges on the mortgage debt at current market rates and the rent based on a fixed 1% interest rate.

[8]It was estimated that the major benefits of Section 235 housing went to families in the moderate-income group ($5–10,000) rather than the low-income group ($3–8,000). Section 236 showed a lower bias, but subsidies in both programs tended to increase with income.

[9]Similar trends are evident in Canadian housing policy. The National Housing Act (amended by Bill C-29 in March, 1979) included measures to extend the range of nonprofit and co-op housing which could receive subsidies on interest rates or government insured mortgages, and replaced several existing programs of NHA aid to municipalities with a broader Community Services Contribution Program.

[10]See Wolman (1975), Headey (1978), Cullingworth (1979) and the 1977 Consultative Document on Housing Policy (Cmnd 6851).

[11]Nonprofit housing associations play a relatively large role (some 30–50,000 units annually) in housing supply in the U.K. Some 2,700 such associations build, rehabilitate, and manage rental housing for specific client groups. Most receive direct financing from the central government's Housing Corporation (see M. Smith, 1977).

[12]Each local authority maintains a Housing Revenue Account for its publicly-owned stock which contains its revenues from local property taxes (rates), rents from tenants, subsidies from central government (about 50% of revenue), and other sources (such as sales of council houses).

[13]Authorized under Section 504 of the HUD Act of 1970, as amended by Section 804 in 1974. The EHAP in fact consists of three sub-programs: (1) a demand experiment, to examine how households respond; (2) a supply experiment, to analyze how housing markets responded to demand; and (3) an administrative agency experiment to provide information on conducting a housing allowance program.

[14]The sites included both large cities (Pittsburgh) and small cities (Green Bay) as well as rural areas (North Dakota).

[15]Calculation of the actual amount of the allowance is complex, and varies by the specific program involved, but is generally based on the gap between that household's income and the cost of renting an appropriate housing unit in that local housing market.

[16]Rent stabilization is even more complicated, in both concept and administration, than traditional rent controls (see Harloe, 1979). Basically it imposes codes of practice and required standards of services on apartment owners and provides procedures for setting fair rents and for hearing complaints from tenants. In 1975, roughly 30% of all rental units were under controlled rents and 32% were in the rent-stabilized sector.

[17]At present, both the U.S. and U.K. allow the deduction from taxable income of interest paid on mortgages (Canada introduced a tax credit scheme in 1979). This cost the governments involved some $4.2 billion and £1.2, respectively, in 1978.

[18]Improvement grants in the U.K. increased from an annual average of 100,000 at the beginning of the 1960s to over 300,000 in the early 1970s, but have declined since then. Roughly two-thirds of these grants are to the private sector, the rest go to local authority (council) housing or housing associations.

[19]Some observers argue that the largest component in these indirect subsidies, and the most difficult to measure, is the absence of a tax on "inputed rent"—i.e., the rent which homeowners do not pay.

Chapter 10

Public Sector and Social Housing

One of the most common responses of government to the apparent inability of the private market to produce housing for all, in sufficient quantity, quality and at reasonable prices, is to intercede directly by constructing "public" housing. Traditionally this has meant housing built, owned, and managed by national or local governments (or nonprofit housing associations), but increasingly the term "public" has given way to the concept of "social" housing. The latter refers broadly to all housing directly subsidized by governments or institutions, but including conventional public (or council) housing.

This chapter examines the role of public housing in policies of national and local governments, and in urban real estate markets, as well as the behavior of the state as landlord and landowner. Given the earlier emphasis on the allocation process in the private housing market (see Chapters 2 and 4), an extended discussion is included here of the parallel allocation mechanism within the public sector. The second part of the chapter examines the increasing public attention paid to "special purpose" housing, i.e., housing primarily intended for social groups with special needs, taking as one example the purposes, politics, and locational requirements of housing for the elderly. The chapter concludes with a discussion of alternative strategies for locating housing for the poor, within the city.

THE STATE AS LANDLORD

The Size and Scope of the Public Sector

The degree of reliance of western capitalist countries on directly provided public sector or social housing varies widely. As Chapter 3 demonstrated, traditional