AUTHORS

C. Lance Barnett
Marc Bendick, Jr.
Grace M. Carter
Sinclair B. Coleman
William L. Hamilton
Carol E. Hillestad
William L. Holshouser, Jr.
Stephen D. Kennedy
Ira S. Lowry
Kevin F. McCarthy
James L. McDowell
Jean E. MacMillan
Stephen K. Mayo
Sally R. Merrill
John E. Mulford
Edgar O. Olsen
C. Peter Rydell
Raymond J. Struyk
James C. Wendt

THE GREAT HOUSING EXPERIMENT

Edited by
JOSEPH FRIEDMAN
and
DANIEL H. WEINBERG

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Preface

☐ THIS BOOK presents evidence on one of the most important government policy issues of the 1980s—how the government should provide housing assistance to needy families. Both President Reagan's Commission on Housing and the U.S. Department of Housing and Urban Development (HUD) have endorsed the concept of housing allowances (sometimes called housing vouchers) as a major element of U.S. housing policy. The research carried out as part of the Experimental Housing Allowance Program (EHAP) by the authors of this volume provides the best direct evidence on the likely outcomes of such a policy.

EHAP was the result of a merger of two novel elements—housing allowances and social experimentation. The country's experience with conventional housing programs since the 1930s had convinced a growing number of politicians and housing analysts that low-income families in need of decent housing might be better served if they received housing allowances—direct cash payments for housing—than if they were offered subsidized housing built by or for the government. This demand-side, consumer-oriented approach is in sharp contrast to the previously pursued strategy of new construction, carried out in such programs as the Public Housing program, dating from the Housing Act of 1937. A properly designed social experiment, following to the best extent practicable a standard experimental design with "treatment" and "control" groups and careful monitoring of results, was considered an efficient way to test such a new social program without the cost and disruption involved in full-scale implementation of an untested housing strategy.

EHAP was authorized in the early 1970s to allow HUD to evaluate the likely results of a housing allowance approach to housing assistance. EHAP consisted of three major experiments:

- the *Demand Experiment*, whose goal was to examine individual household responses to housing allowances;
- the *Supply Experiment*, intended to determine marketwide effects of housing allowances on housing prices and supply; and
- the *Administrative Agency Experiment*, focused on the behavior of local administrative agencies in running an allowance program.

The experiments began in 1973, and final evaluation was completed in 1982. EHAP involved more than 25,000 households in 12 metropolitan areas, at a cost of almost $200 million.

This volume includes research carried out by researchers at Abt Associates Inc. (contractor for the Demand and Administrative Agency Experiments) and at the Rand Corporation (contractor for the Supply Experiment), as well as commentary by researchers at the Urban Institute (contractor for the "integrated analysis" of the EHAP findings) and a former visiting scholar at HUD charged with review of some of the findings.

The book is organized in five parts. Part I presents a history and overview of EHAP and summarizes the findings of each of the three experiments. Part II discusses household eligibility and participation from three perspectives—random selection, open enrollment, and the role of agency services. Part III examines housing consumption outcomes, including price and supply effects of a marketwide program. Part IV examines a wide variety of other issues—housing search and residential mobility, economic and racial/ethnic concentration, and neighborhood change. Finally, Part V presents three papers that discuss some of the policy implications of EHAP.

We believe the book to be timely and of importance not only to housing policymakers at the national level, but also to local housing officials, housing analysts, urban planners, regional scientists, and housing economists. The book should prove of interest as well to those interested in the results of one of the largest social experiments ever conducted.

This book is the result of over a decade of work by well over one hundred researchers, so it is impossible to identify all the individuals who contributed. Without doubt, though, a major portion of the credit belongs to the Office of Policy Development and Research at the U.S. Department of Housing and Urban Development, and more specifically to Jerry Fitts and Terry Connell of that office.

The success of the research effort owes a good deal as well to the project directors of the three experiments (who are also authors in this book)—William L. Hamilton and Stephen D. Kennedy of Abt Associates Inc. and Ira S. Lowry of the Rand Corporation. Without their leadership, none of these papers would have been written. Credit must go as well to a large number of researchers, programmers, questionnaire designers, field operatives, coders, and secretaries who remain the "unknown soldiers" of the huge effort that became known as EHAP—the Experimental Housing Allowance Program.

Both editors planned and collaboratively reviewed the submissions. Weinberg had the burden of and should take the credit for coordinating the effort, handling the administrative duties, brow-beating the authors, and reviewing the galleys.

Even though the analyses in this book were supported by HUD, and one of the editors is now at the U.S. Department of Health and Human Services (HHS), this book was written by the authors in their private capacities. No official support or endorsement by HUD, HHS, or any of the contractors involved in carrying out the research is intended or should be inferred.

Part I

Introduction

☐ CHAPTER 1, by Joseph Friedman and Daniel Weinberg, presents a history and overview of EHAP. The idea of helping poor families in need of housing assistance by providing them with housing vouchers is traced from its introduction (but rejection) during the debates that led to the U.S. Housing Act of 1937 until the early 1970s. At that time, the disadvantages of conventional housing programs became increasingly apparent, and housing allowances began to be considered a viable policy alternative. (It is worth noting that the current administration has proposed to Congress that housing allowances become the major U.S. housing assistance strategy.) Even in the early 1970s, considerable doubt about a housing allowance-based housing program's effect remained, and it was decided to conduct a series of experiments. The chapter summarizes the basic questions to be addressed by each of the three experiments that made up EHAP.

Chapter 2, by Ira Lowry, principal investigator of HASE, summarizes the findings of the supply experiment. That experiment was designed to address the issue of the magnitude of the housing market response to a large-scale housing allowance program. Three issues were of particular concern to policymakers: (1) Would a housing allowance program cause significant housing price inflation? (2) Would a housing allowance program provide sufficient stimulation to cause an increased supply of adequate housing (through repairs, rehabilitation, and new construction)? (3) Would recipients change neighborhoods? Later, additional questions about recipient response were posed.

Lowry presents an extensive set of findings. Briefly, the findings relating to the initial questions were that (1) a full-scale open enrollment allowance program had no effect on rents or property values, (2) the experimental allowance program did not measurably disturb the housing markets of the experimental sites, and (3) the program had little effect on the physical appearance or social composition of residential neighborhoods. Other important findings are summarized in the chapter.

Chapter 3, by Stephen Kennedy, principal investigator of HADE, summarizes the findings of the demand experiment. Criticism of the housing allowance idea often focused on the presumed inability of low-income households to use their allowances effectively in competition for adequate housing units in the marketplace. In particular, doubts had been raised about the ability of poor households to search for adequate housing and about their ability to negotiate successfully with landlords. The demand experiment was designed to test, using randomly assigned control and experimental households, the ways such households use their allowances.

HADE researchers found that many low-income households were effective in finding adequate housing, though the successful participants were often using the allowance to reduce the out-of-pocket cost of the unit they were occupying initially. However, a number of families offered allowances did not participate (find adequate housing). Housing allowances are an efficient way of providing housing subsidies (more so than most, if not all, supply-oriented programs), but they apparently do not serve the entire population at risk because the housing requirements effectively exclude many of the households initially in substandard housing.

Chapter 4, by William Hamilton, principal investigator of the AAE, summarizes the findings of the Administrative Agency Experiment. A housing allowance assistance strategy represented a considerable change from the conventional housing programs administered in 1970 by HUD. Given the local housing agencies' difficulties with administering its traditional programs, the department believed it needed to demonstrate that existing public agencies could adequately administer a program of housing allowances.

Hamilton emphasizes the "naturalistic design" of the AAE—agencies chose and designed their own procedures rather than implementing a uniform national design. All eight public agencies were successful in designing and operating the program, in identifying and enrolling beneficiaries, and in paying housing allowances. The central theme of the research findings is that alternate methods exist for carrying out administrative functions and that any choice among the alternatives makes a difference for recipient outcomes.

1

History and Overview

JOSEPH FRIEDMAN and DANIEL H. WEINBERG

THE EVOLUTION OF HOUSING PROGRAMS: FROM SUPPLY TO DEMAND SUBSIDIES

In the nineteenth century, public concern was concentrated on sanitation rather than directly on housing, and public intervention in the housing sector was limited to regulatory measures such as building and occupancy codes to assure minimum standards of safety and health. As cities became increasingly populated by poor immigrants, public officials became aware of the severe health problems in densely settled neighborhoods. They proceeded to install or improve water supply and sewage systems. This trend was reinforced in the late nineteenth century as the germ theory of disease gained prominence (Burns and Grebler, 1977: 75). Government requirements were extended to include sanitary and running water systems and improved ventilation in newly constructed buildings.

Housing conditions that may facilitate the spread of disease have been eliminated in the United States. Nevertheless, continuing large-scale public intervention in the housing sector demonstrates that there are additional reasons for public involvement. The two major contemporary rationales for government intervention in the housing sector are "merit goods" and housing market imperfections.

The basic argument for providing cash assistance to households to be used specifically for housing instead of general cash transfers is based on the belief that housing is a "merit good—a form of consumption which society views more important than allowed for by individual choices" (Musgrave, 1976: 215), coupled with the feeling that "the poorest people among us

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AUTHORS' NOTE: *This chapter is based in part on descriptions of the Experimental Housing Allowance Program by Allen, Fitts, and Glatt (1981); Frieden (1980), Hamilton (1979), Struyk and Bendick (1980), and U.S. Department of Housing and Urban Development (1980).*

should live in better housing than they are able to afford, and that they should be assisted to do so" (Weicher, 1976: 182). In particular, the imposition of building codes to improve the quality of housing increases its cost and places a floor under the rents of such housing. This rent is typically higher than the share of income families at the lower end of the income scale would freely choose to allocate for housing. Housing subsidies could then be viewed as a way to compensate poor families for the government's actions in limiting their housing choices.

Imperfections in the housing market arise from "such factors as the fixed supply of land in urban settings, zoning and discrimination which reduce tenant mobility, linkages between location and job availability, lumpiness of housing outlays, credit risks, and so forth" (Musgrave, 1976: 215). Further, the existence of externalities in neighborhoods whereby the attributes and living conditions of one dwelling unit can affect the value and living conditions of another also argues for the government to attempt structural remedies for these imperfections.

The Housing Act of 1937 proclaimed the goal of decent, safe, and sanitary dwellings for low-income families. During the four decades that followed, various program approaches for meeting that policy goal have been either tried or debated. Beginning with the Public Housing program, which was established by the 1937 Act, these programs were usually directed at the production or supply of housing, with the subsidy permanently linked to housing units, not to families. As long as families remained eligible and lived in these particular units, subsidy benefits were passed on in the form of below-market rents.

In contrast, housing allowances (also called housing vouchers or rent certificates) link the subsidies to families and are directed toward stimulating demand for decent housing. Housing allowances are payments made directly to eligible households to help them pay the costs of living in housing of their choice. Such payments can vary, depending on what income limits or other household characteristics are used to establish eligibility; whether or not households receiving payments are required to live in housing that meets specific quality standards and, if so, the nature of those standards; and the method used to compute the size of the payment received by each household.

Housing allowances are not a new idea. The topic has been debated in Congress in some way for more than 40 years. Housing vouchers were considered but rejected in formulating the Housing Act of 1937. The favored approach was the public housing program that attempted to satisfy several objectives. These objectives included the housing-oriented goals of slum clearance and improved living conditions of low-income people, as well as anti-Depression goals of job creation and income generation through public spending.

The alternative of housing allowances or rent certificates was proposed by organizations like the U.S. Chamber of Commerce, the National Association of Real Estate Boards, and conservatives in both the House and Senate. Proponents of rent certificates argued that the program would operate through the private market and keep government out of the housing business, that it would be more manageable and less costly than building new housing, and that it would grant low-income households more choice.

On the other side of the debate, two of the nation's leading housing experts of that time—Catherine Bauer and Edith Elmer Wood—opposed rent certificates. Bauer argued that they would be administratively unworkable, while Wood held that such a program would not result in any additional housing being built for low-income families. The Senate Committee on Education and Labor finally concluded:

> In dealing with the housing of families of low income, systematic [construction of] low-rent housing should be substituted for [financial] relief [including rent certificates]. This procedure will be cheaper for the government, more beneficial to business, and infinitely more desirable to those of our citizens who are now living in slums and blighted areas, both in urban and rural parts of the country [Semer et al., 1976: 95].

Thus, Congress opted for a housing production approach, and the rent certificate approach was shelved.

Housing allowances were reconsidered in the Taft Subcommittee hearings on postwar housing policy in 1944. However, the final report of the subcommittee stated:

> It has been argued that families should be assisted by rent certificates just as grocery stamps have been furnished to needy families. The number of families entitled to rent certificates upon any such basis would be infinitely larger than those requiring other relief. It is not at all certain that such a plan would bring about improvements in the bad housing accommodations that now exist. In fact, the scheme might work to maintain the profitability of slum areas and, consequently, to retard their elimination. It would certainly require a detailed regulation of private rental quarters both as to condition and rent [Semer et al., 1976: 40].

The rent certificates idea was considered and rejected again in designing the Housing Act of 1949 and in the 1953 report by the President's Advisory Committee on Government Housing Policies and Programs.

A step toward a program of housing allowances was made in the Housing and Urban Development Act of 1965, which added two programs—the rent supplement program and the Section 23 leased housing program. Both moved in the direction of the housing allowance by giving participants more flexibility in choosing the places they could live and by making the value of the subsidy depend on a family's income. The Section 23 housing program allowed public housing authorities (PHAs) to lease existing private dwelling units and subsidize low-income households to live in them. One potential expansion of this program was to provide housing allowances—a direct payment to enable eligible households to purchase adequate housing in the private market. The households themselves would then be responsible for finding apartments and negotiating with landlords. One further step toward such an unrestricted system of housing subsidies was the 1974 revision of the Section 23 program, retitled Section 8. The revision took place after the initiation of the Experimental Housing Allowance Program and was obviously influenced by many features of the experiment's design. The Existing Housing portion of the Section 8 program focused on households as objects of the subsidy and permitted them to locate suitable units by themselves, but the government retained some control over location and assisted in lease negotiation, with payment going directly to the landlords.

During the 1960s, economists, housing specialists, and the public at large criticized most housing programs as inequitable and wasteful—inequitable because they served only a small fraction of the population eligible for housing assistance, and wasteful because the subsidized units were more expensive to build and maintain than similar units in the private housing market. Economists added an efficiency argument: that the housing subsidy received was as an in-kind benefit and was therefore valued by the recipients as worth less than its cost to the government.

The shift to demand-oriented programs was a response to widespread criticism of the production-oriented programs as either too costly, not working as desired, or not serving enough eligible families. These traditional programs had only a limited impact because they required deep subsidies. The Congressional Budget Office (1979) estimated that the cost of supply-oriented programs in 1980 dollars ranged from $2200 to 2530 per dwelling unit per year.

Because the cost per unit was so high, only a limited number of housing units could be built with the available housing funds each year. Consequently, only a small number of income-eligible households could be helped each year. Indeed, in recent years, less than 10% of income-eligible households were receiving housing assistance by occupying subsidized housing. The remaining often equally deserving 90% received nothing. National housing policy had thus created inequities within the low-income population by providing large and costly subsidies to relatively few and nothing to the rest.

A related problem is the high cost of construction programs relative to programs utilizing the existing housing stock. Mayo et al. (1980a, 1980b) estimated that the total annual program cost, including administration costs, required to provide a minimum standard unit by a new construction program was from 35% to 91% higher than the cost required to rent such a unit in the housing market. This much higher cost associated with new construction programs reflects construction, operation, and implementation inefficiencies.

Another problem with construction programs is that they restrict the locational choices of participants and tend to create high concentrations of the poor in racially segregated neighborhoods. The resulting problems were graphically illustrated by the colossal failure of the Pruitt-Igoe Public Housing Project in St. Louis.[1] Although the project should be considered an atypical extreme, its demolition in 1972 convinced many housing experts that a new approach to solving the housing problem was needed.

The research at the New York City Rand Institute lent some additional support to the housing allowance idea. Ira S. Lowry and his associates (Lowry, 1971) analyzed the New York City housing market during the 1960s. They discovered that from year to year, a large volume of sound housing was deteriorating in quality, and more than 30,000 units each year were being taken off the market through demolition, conversion to nonresidential use, or outright abandonment. Between 1965 and 1968, housing losses were greater than new construction by a substantial margin. The main reason for this rising volume of deterioration and abandonment was that a large number of the city's low-income population were unable to pay enough rent to cover the rising costs of operating and maintaining rental property. Landlords who were unable to earn a competitive return were cutting back on maintenance, and, in time, walking away from their buildings.

Lowry concluded from the Rand studies that the most effective way to meet the housing needs of low-income families in New York City was to raise the level of maintenance in existing buildings while they were still in good condition. He estimated that an annual rent increase of $400-$700 (in 1967 dollars) would be required to support moderate renovation and good maintenance in typical older apartments. Since low-income families cannot afford even these relatively small increases, Lowry proposed a housing allowance plan that would augment family income at an average cost of little more than $600 per family.

In 1968 the President's Committee on Urban Housing (the Kaiser Committee) had a mandate to analyze existing housing programs and their impacts on households and markets, focusing on low-income households. The committee's 1968 report argued in favor of a housing allowance and recommended that the government undertake an experiment to determine whether a housing allowance program would be feasible and worthwhile.

The Kaiser Committee's support of housing allowances stemmed largely from the increasing difficulty of the public housing program in finding decent sites for large housing projects and a concern for the consequence of segregating the poor and minorities in limited areas of cities. The committee also stressed that an

> allowance system offers the opportunity for the free market to operate in its traditional fashion [and that] widespread distribution of housing allowances to

> poor families should reduce the economic dependence on slum housing and shift the demand upward for standard units. In response to this shift in demand, suppliers of housing would be induced to produce more standard housing, either by upgrading slum properties or through new construction [p. 11].

The committee recommended not a full-scale national program but rather an experimental one because of several concerns. First, the committee perceived a need in the short term to stimulate new construction and felt that the conventional project subsidy approach would best accomplish that result. Second, the committee was concerned that a massive allowance program "would be likely to inflate the costs of existing housing considerably, at least in the short run. . . . Consequently, any large-scale housing allowance system would have to be introduced gradually." Finally, the committee feared that without "strong programs of consumer education and vigorous attacks on racial discrimination" an allowance system could have adverse results (p. 71).

The publication of the Kaiser Committee's recommendations coincided with the change from the Democratic administration of Lyndon Johnson to the Republican administration of Richard Nixon. Incoming officials in the Office of Management and Budget and the Department of Housing and Urban Development (HUD) were interested in the idea of housing allowance as consistent with Republican goals of increased utilization of the private market in public programs (Struyk and Bendick, 1981: 29). In 1970 the first housing allowance demonstration program (under the auspices of the Model Cities program) was launched in Kansas City, Missouri and in Wilmington, Delaware. HUD began preliminary studies and designs for a systematic national experiment in 1970 and 1971, and then organized its Experimental Housing Allowance Program (EHAP).

In January 1973, the Nixon administration suspended almost all existing federal housing subsidies for the poor and announced its intention to search for more effective programs. The housing allowance experiment, then getting under way in 12 selected cities, took on special importance as part of that search.

As EHAP was being completed in 1981, the incoming Reagan administration established a new President's Commission on Housing in February 1981. Its mandate was to review existing programs and research on housing and recommend directions for U.S. housing policy by April 1982. Once again, housing allowances are a major focus of a presidential commission's recommendations.

THE EXPERIMENTAL HOUSING ALLOWANCE PROGRAM

To elicit empirical evidence about the concept of housing allowances, Congress directed HUD to establish EHAP in Title V, Section 504, of the 1970 Housing and Urban Development Act. It authorized $20 million for the