HOUSING VOUCHERS
A COMPARATIVE INTERNATIONAL ANALYSIS
E. Jay Howenstine
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Preface

Housing vouchers provide cash assistance to low-income households to help pay the rent for a minimum-standard dwelling they cannot afford. The voucher is not tied to a particular unit; it is paid directly either to the program participant or the landlord.

The idea of a voucher—that is, a consumer housing subsidy—is not new in the United States. The Housing and Urban Development Act of 1965 established a leased-housing program under Section 23. Administered by public-housing authorities, the program involved direct payments to landlords on behalf of tenants to reduce excessive burdens. In 1972 the Department of Housing and Urban Development (HUD) launched a 10-year Experimental Housing Allowance Program (EHAP), which paid monthly housing allowances to more than 30,000 families in 12 locations. Drawing on EHAP experience, anExisting Housing Program was created in the Section 8 program of the Housing and Community Development Act of 1974. This program continues to make housing affordable for more than 800,000 households by paying a monthly stipend to the landlord on behalf of low-income tenants living in privately owned, existing housing. When other forms of Section 8 assistance are added to the Existing Housing Program, an estimated total of around 2,139,000 lower-income households will receive payments in 1985.

The President's Commission on Housing, in its final report in 1982, declared that “affordability is the primary housing problem of the poor” and recommended that:
"The primary Federal program for helping low-income families to achieve decent housing should be a Housing Payments Program. This program, coupled with housing supply assistance through the Community Development Block Grant Program, should replace future commitments to build or substantially rehabilitate additional units under Federal housing programs."\(^1\)

In July, 1984, HUD embarked on a new housing demonstration, under the Housing and Rural Recovery Act of 1984, to compare and test certain features of the Section 8 Existing Housing Program and the voucher program. The new demonstration provides vouchers to 4,543 very-low-income families living in privately owned, existing housing in 20 cities. In launching the demonstration, Secretary of Housing Samuel R. Pierce, Jr. stated, "We believe it has the potential to shape housing policy for decades to come."\(^2\)

Among foreign governments the idea of a consumer housing subsidy is a highly developed concept. Housing allowances, shelter allowances, rent allowances—or rent rebates as they are variously called (the term "housing voucher" is rarely used)—have been paid out on a larger scale for longer periods of time on an entitlement basis, with a much greater variety of rationales than in this country. As the United States moves ahead with its new demonstration program, it is timely to examine and evaluate foreign experiences with the consumer housing subsidy approach.

This study is divided into three major parts. The first part reviews the historical background and analyzes the various housing allowance strategies that foreign governments have adopted. The second part examines in detail the major principles and elements with which governments have fashioned their systems. The accent is on issues of maximum relevance to the American scene, and an attempt is made to define quantitatively the place of housing allowances in national housing subsidy policy. In the third part the impact of housing allowance systems is weighed in the light of the original objectives. Conclusions are also drawn about foreign experiences with respect to two central policy issues: 1) Should financial assistance to low-income families be in the form of consumer housing subsidies or producer housing subsidies, or in some synthesis of the two systems? 2) Should the housing allowance be maintained as a separate housing policy, or should it be integrated into a general income maintenance policy?

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Summary

Beginning in the 1940s the housing voucher (or housing allowance) concept inched its way into European housing policy following many different routes.

The earliest developments in the housing allowance were motivated mainly by compassion for two needy groups—the large family and the elderly—as they struggled to make ends meet. A later, more sophisticated, rationale employed the housing allowance as a means of relieving individual hardships which inevitably accompany a relaxation of wartime rent controls, so that individual households would not suffer unduly as the general social welfare was advanced through a realignment of prices in the housing market. In other cases the allowance was used in a pragmatic attempt to cope with the growing gap between the rents of new housing built at high cost levels and the rents of the existing housing stock built at much lower cost levels. Thus, people were provided with an incentive to move into new projects that might otherwise remain vacant.

Often, two conflicting motifs played important roles in the development of housing allowance systems. On the one hand, there has been a strong desire to preserve social stability by providing an allowance that strengthens the ability of financially weak households to keep the housing they have. On the other hand, an increasingly important objective has been to promote the labor mobility required by national economic growth and changing job markets. A housing allowance can be an effective tool in inducing families with grown children to move from large, low-rent, centrally located apartments to smaller, high-rent, newly constructed apart-
ments, and in encouraging young workers to move into expanding urban areas.

More recently, the housing allowance has grown in favor in some countries because of cost considerations; that is, the per-household cost of a consumer housing subsidy system is substantially less than that of the more traditional producer housing subsidy system, which provided capital grants and interest subsidies to builders and developers. During the last 10 years, the direction of European national housing subsidy policy has been vigorously debated: Should the major accent be put on producer subsidy systems or on consumer subsidy systems?

Two governments—France and Sweden—have shown preference for the consumer approach over the producer approach, and other governments have been increasingly sympathetic to the idea. The scale of housing allowances is fairly impressive. In four countries, approximately one-fifth or more of the total households receive some form of housing allowance, and in three additional countries the figure is approximately one-tenth. Nevertheless, the reality is that as a proportion of total national housing subsidies, consumer subsidies remain secondary. In the seven major countries housing allowances constitute only about one-quarter of the total national housing subsidies.

The seeming contradiction between stated policy preferences and the allocation of housing subsidies is somewhat puzzling. The weight of traditional producer subsidy systems backed by strong producer constituencies could be expected to be important considerations in explaining the contradiction. But several other factors also help explain the weight given to producer housing subsidies. First, notwithstanding periodic statements that housing supply has caught up with housing demand, serious housing shortages have recurred on a regional and local basis and in certain sectors of the housing market. In retrospect, perhaps projections of housing requirements have not taken sufficient account of such factors as higher rates of household formation, higher housing aspirations accompanying rising affluence, and greater dependence on a foreign labor supply.

Second, in light of trade union, religious, and political traditions, there is a special sensitivity to social deprivations attributable to continued local and/or sectoral housing shortages. Hence, there is pressure for a subsidy policy that will ensure the construction of new dwelling units. Third, there seems to be a lack of confidence that even with an adequate housing allowance system the private market will, in fact, meet the remaining unfilled housing needs of certain low-income groups such as the elderly, large families, and immigrant workers and their families. Greater freedom and flexibility in the housing market, particularly with regard to rent regulation, might provide some reason for greater confidence in the private sector.
Unquestionably, affordability has emerged as a major, if not the central, issue in determining a housing subsidy policy. In this respect, primary importance is attached to the housing allowance approach. But, at the same time, there is a strong feeling that as long as housing shortages persist, even on a regional, local, or sectoral basis, producer subsidy programs are essential. Since the cost per household under the producer subsidy system is three to four times higher than under the consumer subsidy system, housing allowances may well continue to be the smaller part of total national housing subsidies among European governments for some time to come. In short, practically speaking, European governments are not opting overwhelmingly for one system or the other. Rather, some kind of mix is the order of the day.

A final central, long-term issue is: Should the housing allowance be folded into a general income maintenance policy on the grounds that the basic problem of the poor is a deficiency of income rather than housing space? At the present stage of social development European governments are resisting the integration of the two systems and are maintaining their housing allowance systems intact for several reasons. First, in many countries, housing inspections accompanying a housing allowance program are believed essential to ensuring that subsidized housing meets minimum housing standards. Second, in promoting and protecting shelter programs, a separate housing allowance is regarded as a more powerful political tool than a general income maintenance policy. Third, a housing allowance system deals more effectively with the housing needs of the working poor than a general income maintenance policy. Fourth, the general view is that there will always be a need for housing programs for households that are not able to afford the costs of that housing.

But whether housing allowance programs ultimately are fully integrated with income maintenance systems or only coordinated with them, there are at least seven specific issues that the two systems need to address and develop in consonance:

- More uniform income definitions;
- more uniform eligibility requirements;
- simpler and more comparable formulas for benefit payments;
- better identification of the needy categories of the population;
- greater program adequacy in coping with poverty;
- preservation and enhancement of work incentives; and
- streamlining of management systems.
The Problem and Its Setting
Historical Background

As the Industrial Revolution swept over Europe, workers were squeezed out of agriculture and drawn to the burgeoning cities. There they became the landless working class quartered in appalling slums that were growing apace. It was a struggle to obtain a roof over one's head.¹

At the turn of the twentieth century, workers and their instruments of power—trade unions, cooperatives, and political parties—placed slum clearance high on the agenda of essential reforms. Slum eradication was conceived in simple terms.² If there were not enough houses, if even those dwelling units which did exist were abominable, and further, if it was great hardship for workers to pay the rents of this housing, then a drastic remedy indeed was required. Only by government financing of large-scale production of low-cost housing through a social housing policy, they contended, would workers obtain decent living conditions.

There are two general ways of subsidizing housing: the producer subsidy system and the consumer subsidy system.³ In the producer subsidy system the national government finances and builds houses directly and sets rents within workers' ability to pay, or it extends subsidies to another body which produces the house—e.g., a provincial or local government, a non-profit enterprise such as a housing cooperative, or a private firm. These subsidies are generally either direct capital grants, tax concessions, or mortgage loans at subsidized interest rates and are conditional on rents being set at levels that workers can afford. The essential feature of the
producer housing subsidy is that public financial assistance goes to the actual producer of the new dwelling unit.

After World War I, the producer housing subsidy grew in popularity, and by the Great Depression of the 1930s, it was being applied in most highly industrialized countries of Europe. World War II intervened, bringing with it disaster for the housing sector—not only in the destruction of existing housing but also in the postponement of new building. As long as the huge housing backlog remained during the early post-World War II period, the producer housing subsidy principle reigned supreme. Producers of housing were pushed to the limit to catch up with housing need. Then, as the pressures of physical shortages began to slacken in the late 1950s and early 1960s, an alternative concept—the consumer housing subsidy—began to surface.

In the consumer housing subsidy concept, government financial assistance generally goes directly to the low-income household that is unable to obtain decent shelter by paying a fair share of its income in rent. With this assistance, the household is able to obtain housing without paying an excessive rent burden. The assistance may be in a regular housing allowance that is applied to the rent or a rent rebate in the case of publicly owned housing. The essential feature is that it is a flexible, personalized payment to the family on the basis of need (as the French say, "a la personne") and not a fixed, general, impersonal, and anonymous subsidy to "bricks and mortar" (or as the French say, "a la pierre").

The first use of the consumer housing subsidy appears to date back to the early 1900s when the Netherlands introduced the principle of a rent subsidy into the Housing Act of 1901. But the beginning of World War I, various Dutch municipalities had granted rent subsidies to families displaced from slums. In the 1930s, Sweden made a housing allowance available to families with children. Finland adopted its first housing allowance system for large families in 1941.

In a burst of wartime social consciousness, in 1943 Australia appointed a Commonwealth Housing Commission to prepare recommendations for the Ministry of Post-War Reconstruction. A comprehensive report presented in August 1944 proposed, inter alia, the adoption of rent rebates for low-income families. The proposal was accepted by the government and incorporated in the Commonwealth and State Housing Agreement in 1945.

After World War II—in 1948—France introduced the housing allowance as a supplement to the family allowance system to assist large families. By the late 1950s and early 1960s, the consumer housing subsidy concept had been incorporated into the national housing policy of a majority of European countries.
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