Subsidized Housing in Chicago

by Devereux Bowly, Jr.

Despite the untold billions of dollars spent in this country over the last half century on subsidized housing, this subject has received too little attention. Programs have come and gone almost without evaluation of their social and economic impact. In the next few years, major decisions will have to be made about the direction of housing in America. If programs are to be planned intelligently, they can only be in the context of the achievements and failures of the past.

Chicago is an ideal case study of subsidized multi-family housing. Incorporated in 1833, it is one of the youngest of the major cities, its entire development occurred during the post-industrial revolution period. It has long been an innovator in the technology of building, and is unexcelled in the quality of its architectural design, yet its experience with subsidized housing has, on the whole, been a negative one. This raises serious questions as to the very nature of subsidized housing, whether or not we should have it, and if so in what form.

The more than half century of experience with major subsidized housing projects in Chicago could have taught many lessons. The unfortunate fact is that it is a story of decline. The first subsidized housing in Chicago was built by wealthy social reformers without governmental assistance. Between 1919 and 1930 three significant developments were constructed: the Garden Homes by real estate developer Benjamin J. Rosenthal, the Michigan Boulevard Garden Apartments by Julius Rosenwald, and the Marshall Field Garden Apartments. They are still standing, and provide better housing than the great majority of the public housing that followed. Although those

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projects have been successful socially, and are well designed, none was viable economically. The problem of providing adequate housing for the poor could not be solved by philanthropic endeavors alone.

PUBLIC HOUSING

The second major wave of activity occurred as part of the New Deal—the creation of the Chicago Housing Authority (CHA) to build public housing. By 1976, on its 40th anniversary, CHA had become the largest landlord in the city and the second largest local public housing agency in the country. It owned 30,462 units of family housing, another 9,175 apartments for the elderly, and controlled 3,098 private units under its leasing program. The units owned by CHA were in 1,273 separate buildings which cost $563 million including land acquisition.[1] As of June 30, 1976 the total CHA tenant population stood at an estimated 140,000 people, or about 4.5% of the population of Chicago. This was down from 144,188 at the end of 1975,[2] and 147,842 at the end of 1974.[3] The decrease reflects a slightly higher vacancy rate in CHA units and the overall trend toward smaller families.

Although it has built and now maintains a massive number of housing units, CHA has failed to fulfill the expectations of its creator, the social reform movement. That movement saw public housing as a major component in the effort to rid the city of slums and to transform those at the bottom of the social spectrum into healthy, upwardly mobile citizens. CHA has eliminated large slum areas and constructed a body of sound, safe, and sanitary housing for poor people, not an insubstantial accomplishment. There is no evidence, however, that the housing has helped to make the residents more self-sufficient or contented; in fact, the opposite may be the case.

Among the residents of CHA family housing at the end of 1975, there were 40,439 adults and 911,074 children.[4] Only 13% of the families had both parents in the home, and that same percentage (although not necessarily the same families) were self-sufficient, the rest receiving some form of governmental income grant, mostly AFDC.[5] Of the total CHA households, 13% had annual incomes under $2,000, 24% between $2,000 and $2,999, 25% between $3,000 and $3,999, 10% between $4,000 and $4,999, and 28% over $5,000.[6] Of the family housing population, 95% were black, 3% were white, and 2% had Spanish surnames. In the CHA elderly units, 50% of the residents were black, 48% white, and 2% Spanish.[7]

The original intent of the federal public housing program was that rental income should cover operating expenses of the housing projects. Construction was paid for by the local housing authority's sale of forty-year bonds, the principal and interest of which are paid by the federal government. There are three major subsidies involved in such housing: 1) the direct federal payment of the construction bond principal and interest, 2) the loss to the federal treasury due to the fact that the holders of such bonds do not have to pay income tax on the interest received from the bonds, and 3) the loss to local taxing authorities because the housing authority does not have to pay real estate taxes, but only an amount equal to 10% of rental income (which for CHA in 1975 was only $695,290[8]).

Through the early 1960s, CHA tenant rents were at least enough to pay the projects' operating expenses. As late as 1965, a small operating budget surplus existed, which was used to reduce the federal payment of construction bond principal and interest. After that date, rental income failed to keep up with greatly increasing operating and maintenance costs. In 1967 the federal government started paying CHA an operating subsidy (ten dollars per month) for each elderly apartment. The major operating federal operating subsidies came with the Brooke Amendment: a provision in the 1969 Housing Act that limited a tenant's rent in the federal public housing program to 25% of the family's adjusted gross income, with the federal government paying the local housing authority the difference between the actual operating cost and the rent received.[9]

By 1976 the basic rent schedule on units for families at or below CHA income admission limits was $50 for an efficiency, $60 for a one-bedroom, $70 for a two-bedroom, $80 for a three-bedroom, $90 for a four-bedroom, and $95 for a five-bedroom apartment. However, due to the Brooke Amendment, the majority of the tenants paid even less than these basic rents. By 1973 the average rent of CHA federal developments was $45.15 per unit, per month, representing 42% of the total operating cost per apartment, which averaged $106.81.[10] By 1975 the average rent had increased to $53.54 but represented only 39% of the operating cost of $137.64 per unit.[11]

CHA's income figures demonstrate its increasing reliance on direct federal subsidies. In 1971 CHA received a total of just over $31 million from the federal government, about $19 million for debt service, $3.5 million for the Brooke Amendment subsidy, $6 million for the elderly and other special programs, and $2.7 million for the leased-housing program.[12] By 1975, the total from Washington had more than doubled to $67 million, broken down approximately as follows: $25 million for debt service, $37 million for the deficit subsidy, $3.6 million for the leased housing program, and $1.6 million for the Target Projects program.[13] In 1975, CHA tenants paid only $23.8 million in rents for the federal projects.[14]

The 42,735 units controlled by CHA in 1976 were less than 4% of the total residential housing units in Chicago. Although the absolute number of CHA units is large, it is statistically almost insignificant as a proportion of the total number of units in the city. The majority of the poor families live in private housing. The public housing program might have achieved more if it had been conceived and carried out as a demonstration of high-quality housing design and innovative construction techniques, instead of being scaled down, as it was, to the bare minimum.

EARLY OBJECTIVES

It is difficult to ascertain the exact design objectives of early public housing projects, because they were not articulated by the administrators or architects. Economic considerations played a part in the housing design but were by no means the entire picture. Although the reasons for those decisions are now a matter of conjecture, it is possible to isolate certain factors. 1) In the understandable concern for quickly replacing some of the terrible slums that existed, too little attention was paid to the aesthetic and social implications of this new type of housing. 2) The federal and CHA officials responsible for the projects knew little about architecture. 3) A conscious effort to make the building modest, to blunt public criticism that poor people were getting something for nothing from the government, also assured that public housing would not compete with the private housing market. 4) The overly detailed specifications formulated by the governmental bureaucracies inhibited creativity. Also important was the lack of public pressure on CHA to produce well-planned and designed housing. What resulted were dreary rows of barrack-like dwellings, physically better than the slums they replaced but not very attractive compared to the majority of the housing in the city.

The greatest defect and ultimate irony in the history of public housing is that the social reformers, who were its most dedicated early supporters, neglected the social dimensions of their creation. The very people who should have been most sensitive to the consequences of building massive projects inhabited solely by poor families, and containing no facilities for broad social interaction except a few parks and community centers, completely disregarded them. The philosophy of both the social reformers and public housing officials was paternalistic. The residents were treated like children, and the tragedy is that for some it was a self-fulfilling prophecy—they acted like children and were satisfied to have public housing and welfare policies control their lives. Public housing thus tended to perpetuate a permanent class of dependent people.

The public housing concept's most basic fault was isolating poor families into enclaves. Such limited exposure fails to provide residents, especially the children, with the opportunity for contact with people in a variety of circumstances. Even in slum areas there is usually some better housing occupied by middle-class families, who may even own their homes. The ideal of making the extremely poor population upwardly mobile, part of the original philosophy of public housing, would have been best achieved by getting them out into the general population where there is some interaction across class lines, some exposure as to how the economy and the business world operate, and some exposure to persons with more education.

Another reason for family public housing's lack of success was simply that it had too many missions. In addition to providing housing for the poor and jobs for construction workers, it was a major vehicle to empty the slums. This added tremendously to land acquisition costs, and required by definition that the projects be located in slum areas where often the only tenants attracted would be those on the very bottom of the income scale, usually with large families, who simply could not afford to go elsewhere. The slum clearance itself displaced thousands of families, many of whom were relocated to existing CHA projects under special priorities. A *de facto* purpose of public housing (after Elizabeth Wood, CHA's progressive first director, left in 1954) was to isolate the poor and especially the black population away from the white middle-class areas of the city. Although nominally CHA is an independent agency, in reality it has operated as an arm of city government; its commissioners are appointed by the mayor, much of its planning is done by city agencies, and its sites have had to be approved by the City Council.

Public housing construction during the 1950s and most of the 1960s involved almost exclusively high-rise buildings. This type of housing was viewed by CHA as having a certain inevitability. CHA could have constructed the same number of units in low-rise buildings, on the same sites where the high-rise projects are located but apparently felt unable, or unwilling to do so. Throughout the period there were numerous small vacant lots and large vacant tracts of land available both in the inner city and in the outlying areas. Other major cities including Cleveland, Pittsburgh, and Los Angeles built no elevator, family public housing whatsoever. The high-rise projects in Chicago are ironically anti-urban in their planning. With 80% or more of their sites left vacant, they lack the characteristics that differentiate a city from a suburb: intensity of land use, a variety of building types, the presence of small shops and other businesses, churches and institutions of various types.

MODERATE INCOME PROJECTS

The attempts to develop moderate-income subsidized housing, like public housing, were not very successful, but for different reasons. The endeavors of the Chicago Dwellings Association, and later the Kate Maremont Foundation and the Community Renewal Foundation, involved smaller projects than those of CHA, with better architecture and some experimentation in rehabilitation of existing housing. They were financial failures, however, because of inadequate subsidies and mismanagement. Those Section 221(d)(3) and Section 236 projects built with federally subsidized mortgages at below market interest rates and developed by community organizations were also fiascos. In retrospect it is incredible that completely inexperienced groups were allowed to develop multimillion-dollar projects, with 100% financing. The input of such groups into planning housing is highly desirable, but it should have been recognized that the housing field is a highly complex and competitive one. To turn over such undertakings to amateurs is comparable to teaching a novice to fly an airplane by putting him in the cockpit and giving him the controls. The better course would have been to let the community groups start with small rehabilitation projects, and allow only the ones which showed real proficiency to get involved in the large undertakings.

According to HUD statistics as of mid-1976, 50 Section 221(d)(3) and 236 projects, with 2,639 units, had been foreclosed or were in the process of foreclosure. This represents more than 13% of the city's units.[15] The foreclosures were heavily concentrated in the projects developed by nonprofit sponsors. Some of the buildings rehabilitated under the two programs have already been demolished, just a few years after their rehabilitation. In addition there were 33 projects with 4,620 units that had their mortgages in default as of 1976.[16] Many of these were for new construction projects by for-profit developers. Some were only a few months behind in their mortgage payments, and some had been in default since 1971 and were more than 50 months in arrears.[17] HUD does not want to take back the projects because it is not set up to own and manage housing, and the market values of the projects are considerably below the balances of the mortgages. Also, too many foreclosures are embarrassing to HUD, because it shows they financed nonviable projects. HUD thus plays along with the owners of many properties in default, especially if at least the interest on the mortgages is being paid. If the Chicago foreclosure and default figures as of 1976 are combined, they comprise 83 projects, with 7,259 units, or 36.4% of all 221(d)(3) and 236 projects built in the city, a dismal record. HUD hires private real estate companies to manage the properties it takes over, and eventually hopes to sell them to new buyers. Many are in bad locations, and some are in terrible physical condition.

Even with the high delinquency and foreclosure rates, some of the 221(d)(3) and 236 developments have been financially successful, especially those built by professional real estate developers. They were, on the whole, much more careful about the sites they selected than the nonprofit developers. A few have achieved the full permissible return of 6%, but many others have made a lesser profit. They have presumably all benefited from the tax shelter afforded by the projects, and some investors have even contributed additional capital to help cover operating expenses in order to prevent a project with a negative cash flow from going under, to preserve the tax advantages and their equity position.

In addition to selecting better locations, the private developers have tended to hire experienced managers or management companies for their properties, which some of the community organizations have not done. Professional management has not guaranteed success, but has achieved a better record than that of community groups which managed their own properties. Professionals were more insulated from local pressure, for example, to rent apartments to the friends and relatives of the leaders of community groups, regardless of their desirability as tenants. The professional managers tended to screen potential tenants more carefully, and to favor elderly tenants who are more dependable than younger families with children in the home.

For many of the 221(d)(3) and 236 developments, even those with good locations and management, unexpectedly high real estate taxes and sharply increasing expenses and federal limits on rent increases were simply too much of a liability and they failed to break even.

The subsidies received were not enough to make the projects viable. There were those who benefited regardless of the viability of the projects, including the building contractors and mortgage lenders. Both groups lobbied aggressively for the programs, and saw to it that they were designed in such a way that they lost nothing even if the projects failed.

DEVELOPMENT AUTHORITY AND SECTION EIGHT

By 1976, with the virtual construction halt of CHA projects and the 221(d)(3) and 236 programs, additional multi-family subsidized housing in Chicago was limited basically to projects with mortgages from the Illinois Housing Development Authority. IHDA is able to issue below-market-rate mortgages because its bonds offer tax-exempt interest.

It must be remembered that the cost of IHDA projects is not free to the taxpayers. In fact, the mechanism of tax-exempt bonds to finance mortgages is actually very expensive when considering the drain on the federal treasury. Research shows the cost of mortgages financed by tax-exempt bonds to be high in relation to the benefits conferred. Because most of the bonds issued by state housing finance agencies are held by persons in the high income tax brackets, and by banks and insurance companies, it has been estimated that the tax loss is equal to 48% of the amount of interest paid on the bonds. The dollar benefit conferred, in the form of lower interest rates on the mortgages, is considerably less than 48%.[18] It would be less expensive for the federal government to simply subsidize the mortgages directly, rather than losing a greater amount of tax revenue through tax-free bonds. Also, the presence of more tax exempt bonds on the market tends to bid up the interest rates that have to be paid on them, and increases costs to all local and state governmental units raising funds on the bond market.

The United States Housing Act of 1968 and the Housing and Community Development Act of 1974, with its Section 8 program, heralded a change in federal policy away from developments built specially for the poor, and toward getting them into the private housing market. Under the Section 8 program the local housing agency, CHA, leases privately-owned apartments and in turn subleases them to low and moderate income families at rents equal to 25% of their adjusted annual income. The federal government pays the difference to CHA. The program has not had a major impact as it involves only a few thousand units, although there are an estimated 600,000 families eligible for it in the Chicago area.

Because of the tremendous amount of paperwork involved, many landlords are reluctant to participate. Also, the program has been misused. CHA secretly secured 1,384 Section 8 subsidies for units that it owns, built in the 1950s by state and city funds and thus not part of its main body of federally subsidized housing. It then used the federal commitment of continuing Section 8 subsidies of high "market rents" for the units to secure a $10 million mortgage to rehabilitate them. The transaction was not announced until it was an accomplished fact. The effect was not to provide additional housing for poor people, but instead to provide an additional federal subsidy to CHA. HUD has also approved Section 8 commitments to 100% of the units in newly constructed buildings financed by IHDA. Again this is in contravention of the intent of Congress in formulating the 1974 Act which seeks an economic mix in housing, and thus avoidance of geographical concentrations of poor families.

HUD is currently misusing the program to help unload its inventory of foreclosed Section 221(d)(3) and Section 236 projects. It has agreed to give virtually all such projects on Chicago's West Side, several hundred units, to a community group complete with millions of dollars in grants to renovate the properties which were built or rehabilitated only 10 to 12 years ago, and with continuing Section 8 subsidies to insure their future viability. In light of the previous failure of the projects, a strong argument can be made that good money is being sent after bad.

THE CHICAGO CONTEXT

Future housing policy must be formulated in the context of what is happening to our cities generally, and can only be made intelligently if major demographic forces are understood. The most dramatic change in Chicago during the quarter century from 1950 to 1975 was the accelerating loss of population. As recorded by the census, its population reached a peak in 1950 at 3,620,962. It declined to 3,550,404 in 1960, a drop of 70,558 or just under 20%, and by 1970 the population had fallen another 181,045 to 3,369,359, or a decline of more than 5%. It has been estimated that the 1975 population of the city stood at 3,094,143, a decline of 275,216, or 8.2% in only five years.[19] It is predicted that the city's population will be below 3,000,000 by 1980 for the first census year since 1920.

This decrease is due to the combination of the declining birthrate and a greater number of people moving out of the city than moving into it.

As the total population of the city has decreased, its black population has increased steadily, from 14% in the 1950 census, to 23% in 1960, 32% in 1970, and an estimated 38% in 1975.[20] The decline in population has been so great that, according to estimates of the United States Bureau of the Census, between 1973 and 1974 the entire metropolitan area lost population because the suburban growth was less than the city's population loss. Specifically, in the six-county Chicago Standard Metropolitan Statistical Area (SMSA), the population fell from 6,999,800 on July 1, 1973, to 6,971,200 a year later; the 1974 figure was actually 6,500 less than the 1970 Chicago SMSA total.[21] These declines are part of the national phenomenon of migration to the "sunbelt" areas of the South and Southwest, especially Florida, Texas, and Arizona.

The housing stock of Chicago also shifted during the period. In 1950 there were 1,106,100 units in the city and the total increased by 108,800 units, or 9.8%, to about 1,215,000 in 1960.[22] The housing supply in the city increased significantly during the decade, even though the population decreased slightly. This is a result of the ending of the postwar housing shortage, less doubling up of two or more families in a single unit, and the creation of a vacancy reserve which is normal in a market without an acute shortage of housing. Since 1960, however, the housing stock has fallen in Chicago. In 1970, according to the census, it stood at 1,209,200,[23] a decline of 5,800 units or about one-half of one percent during the decade. A special Census Bureau study called Component of Inventory Change (CINCH) found a slightly smaller total of 1,197,300 units in the city in 1970, and found that there had been a decrease of 19,300 units during the 1960 to 1970 decade.[24]

During the years 1970 through 1975, building permits (excluding public housing) were issued for only 18,673 units in Chicago,[25] accompanied by demolition permits for 30,282 units,[26] yielding a decline of at least 11,609 units. The actual decrease in housing units during the period was probably considerably greater because of: 1) units demolished without permits, 2) the surplus of mergers of small apartments, over-conversion to smaller units of large apartments, caused mainly by the banning of glass emergency fire doors opening into other apartments and, 3) the withdrawal of marginal units from the market (for example, the city has been aggressive in forcing discontinuance of use of illegal basement and attic apartments). As the stock of housing has fallen in Chicago ... and the suburban areas have grown, the city's proportion of the housing units in the metropolitan area has decreased from 66% in 1950 to 56% in 1960, and to 49% in 1970—the first year the suburbs had more units than the city.[27]

Even though the supply of housing has fallen in Chicago since 1960, the decrease has been much less than the population drop, and thus the housing market is nowhere near as tight as it was then. Available evidence indicates that by the 1970s there was no longer an overall housing shortage in Chicago although specific shortages remain, most notably sound housing for poor families, and rental units in specific areas such as Hyde Park, the North Side lakefront neighborhoods, and the Far Northwest Side. The vacancy rate of housing units in the city increased from 4.7% in 1960 to 5.8% in 1970.[28] The 1970 vacancy rate was twice as high as New York City's 2.8%, and higher than the 4.6% rate in Los Angeles.[29]

Traditionally the greatest shortage of housing in Chicago has been in that available to the black population. In the last three decades there has been so much white out-migration from the city, and such massive racial change, that by 1976 there was not even a general shortage of housing units in the predominantly black sections of the city. As the black population has become increasingly middle class and moved to neighborhoods not previously occupied by blacks, the vacancy rate in the traditional ghetto areas has gone up; for example, Woodlawn and Lawndale became depopulated as many of their residents moved to South Shore and Austin respectively. The remaining shortage of sound housing for the poverty population is more a function of the inability to pay rentals necessary to support such housing than of a physical shortage of housing units.

In the late 1960s and the 1970s, a new phenomenon has come upon the scene in Chicago and many other American cities—the large-scale abandonment of housing by owners who simply walk away from their buildings and leave them to be demolished by the city. Housing abandonment has been most prevalent in the old ghetto areas of the South and West Sides, but is also occurring in Uptown and the Near Northwest Side Humboldt Park area. The ultimate cause of housing abandonment is lack of demand for marginal and slum housing. Rents in the late 1960s and the 1970s have stayed constant, or at least not gone up enough at the lowest end of the housing spectrum to offset inflation of costs, especially heating costs, maintenance, repair of vandalism, and real estate taxes.

ONE CONTRIBUTING CAUSE MAY BE INEQUITY IN PROPERTY TAXATION

A 1973 study for HUD by Arthur D. Little, Incorporated, evaluated real estate taxes in 10 cities and found that in Chicago tax rates were relatively higher in slum areas than in other sections of the city. The study isolated "Stable Neighborhoods" (Hyde Park and Norwood Park), "Upward Transitional" ones (Lincoln Park), "Downward Transitional" (Logan Square), and "Blighted" (Woodlawn). The effective real estate tax rates (property tax as a percentage of owner-reported market value of the property) for the selected Chicago neighborhoods were as follows: Stable, 5.2%; Upward Transitional, 0.8%; Downward Transitional, 4.7%; and Blighted, 10.7%.[30] Thus the effective tax rate was 13 times higher in the Blighted neighborhoods than in the Upward Transitional ones.

The precise effect of real estate taxes on housing abandonment is difficult to ascertain. The Arthur D. Little study found that when real estate taxes in Chicago were considered as a percentage of rental receipts, the differences between types of neighborhoods were not as great. The figures were: Stable, 20.7%; Upward Transitional, 9.9%; Downward Transitional, 17.4%; and Blighted, 19.9%.[31] The study may have become obsolete by the late 1970s because of new assessment practices in Cook County. As each of the four assessment districts is being reassessed, according to the regular quadrennial pattern, there is greater input into the system of recent sales of comparable real estate in the area (by the use of computerized data). Many properties in the inner city actually have had their assessments lowered for the first time in many years. It is difficult to evaluate real estate taxes and housing abandonment because taxes have in fact usually not been paid for several years prior to the abandonment.

As demand for housing in the worst area of the city has decreased, the nature of slum ownership has changed. Multiple ownership of buildings in such areas by real estate companies and investors has been reduced, because of their declining profitability. The buildings are increasingly individually owned, or at least being bought on contract, by people who live in the buildings themselves or in the area. If there were still high demand for housing in the inner-city areas, the rents there would be bid up and there would be an incentive to maintain the buildings at least at the minimum level necessary to avoid a demolition suit by the city.

An important factor for the future of Chicago is whether the city will be able to maintain its existing middle-class population, both black and white. In recent years there has been some middle-class relocation from the suburbs to Chicago, but of course a much greater outmigration of middle-class families to the suburbs. Chicago has always had very strong neighborhood identification, especially by its middle-class population which was originally based to a high degree on ethnicity. It is unrealistic for the city to try to attract middle-class families in any great numbers to the highly blighted areas, even if attractive housing were made available there. Due to its limited resources, the city seems to have no choice but to limit large-scale expenditures in those areas. Possibly in 20 years or more, when the cycle has been completed, there will be the chance of a revitalization, accomplished by a new wave of urban renewal, in which the city sells the land it has accumulated by virtue of demolition liens and unpaid real estate taxes.

LOOKING AHEAD

A controversial philosophy concerning the city's role in the current urban dilemma has been articulated by Anthony Downs, former chairman of the board of the Real Estate Research Corporation and influential in Chicago and national housing policy. In recommending how cities should spend the limited funds available under the federal Community Development Program, he draws the analogy to the military medical technique called triage. Under triage, combat surgeons divide their patients into three categories: 1) those who will probably survive whether operated on or not, 2) those who are so badly injured they will probably die whether operated on or not and 3) those for whom an operation would probably make the difference between life or death. Like the surgeon, Downs advocates that cities should devote their major resources to neighborhoods in the third category, which he calls "in-between areas," as opposed to the "healthy areas" or "very deteriorated" ones.[32] Although such a policy is unpopular with many people, it seems the only rational course at the present time with the federal funding of housing and urban programs at a very low level. If cities tried to spread the funds out to all problem areas, they would probably have no discernible effect, as has been the case with many urban programs in the past.

The economic and social forces affecting housing in Chicago are so vast that the city government itself is unable to have any major impact on them, and it is questionable whether even the present program of the federal government, unless funded at a very high level, would have much effect. It is clear that modest programs such as those of Sections 221(d)(3) and 236 have not been very important in the overall recent history of the city. Rather than trying to provide housing by programs such as these, the ultimate solution to the problem of low-income housing is to provide the poverty population with the necessary funds to compete adequately in the private market.

The main housing problem of the poor is simply that they do not have the funds to secure adequate housing. There are two major ways this could be remedied: by a guaranteed annual income, or by a system of housing allowances. The guaranteed annual income would be the most comprehensive solution to the problem, and the one that would promote maximum freedom. It would allow poor families to afford sound housing in the private market but would also permit them, if they chose, to live very modestly and spend a small proportion of their income on housing and the rest for other things. Although the idea of a guaranteed annual income has been widely discussed for more than a decade, support for it does not seem to be increasing because of the high projected cost and the unknown effect such a system would have on employed persons with marginal incomes just above the level of the guarantee figure.

Sections 501 and 504 of the Housing Act of 1970 directed HUD to set up an experimental program to determine the feasibility of a system of housing allowances. The Experimental Housing Allowance Program was launched in 1971 by HUD's Office of Policy Development and Research. Among the major institutions participating in various aspects of the experiments are the Urban Institute, Stanford Research Institution, Rand Corporation, the National Opinion Research Center, and the M.I.T.-Harvard University Joint Center for Urban Studies. The project is actually composed of three major studies. The first is a three-year consumer or demand experiment to measure the effect on low-income recipients of different types and levels of allowances. It is being conducted in Allegheny County, Pennsylvania (Pittsburgh), and Maricopa County, Arizona (Phoenix). Over 1,700 households at each location are being provided with 17 different forms of housing allowances, for comparison to each other and with a control group not receiving any allowances.

The second major experiment is a market one called the Housing Assistance Supply Experiment, to determine what effect housing allowances have on the supply of housing. Major questions being considered are: will the allowances merely bid up rents in poverty neighborhoods, or enable the poor to move out of them? Will housing allowances cause an increase in the supply of sound housing by encouraging rehabilitation and new construction? This experiment, which is to last five years, is being conducted in Brown County, Wisconsin (Green Bay), and St. Joseph County, Indiana (South Bend). It started in 1974, and ultimately was planned to involve about 15,000 households. The program is open to all families (but not to single people under 62 years old unless handicapped) unable to afford standard housing, using one-quarter of their adjusted gross incomes. Each household receives monthly cash payments to bring it up to that level, provided each resides in safe and sanitary housing. The study includes both renters and homeowners. As of the end of September 1975 the median income of those enrolled in Green Bay was $3,480 and the median monthly housing allowance was $59. In South Bend, the median income was lower, only $2,730, and thus the median allowance of $74 per month was higher.[33] The final experiment, to run for two years, will evaluate administrative methods and costs. It involves eight public agencies administering small housing allowance programs of 400 to 900 families each in various urban and rural locations around the country.

By the early 1980s these studies should be finished and evaluated, and there may then be an effort to enact a housing allowance program. Such a system, unlike earlier federal housing policies that were funded at such a relatively low level that they failed to touch most of the poor, would be based on universal entitlement and would thus be a major income transfer program. Like other such programs—public aid, food stamps and Medicaid—it would be aimed at a specific national goal. It could be funded at any level, but to be effective the cost would be large. Very early estimates have ranged from $5 to $7 billion per year.[34] A realistic estimate for the cost during the 1980s would be $10 billion annually. That amount could theoretically be raised simply by cutting back the $2.38 billion direct federal budget outlay for subsidized housing and eliminating the indirect federal housing subsidy now in existence, based on the income tax deductibility of real estate taxes and mortgage interest, which totals more than $9 billion per year.[35]

These indirect federal housing subsidies accrue overwhelmingly to families with incomes of $10,000 or more per year.[36]

If a national housing allowance system were enacted it would cause a large inflow of resources into the Chicago housing market, and might well provide sufficient demand to stimulate the maintenance and rehabilitation of a considerable amount of existing housing. In the past, housing policy has experimented with several subsidized housing programs in an attempt to find solutions to the problem of adequate housing for poor people. The programs have not made a decisive impact, at least not in Chicago. The potential of a housing allowance program is that it would involve large-scale resources and that it would work through the private housing market, which has efficiently produced a tremendous supply of largely well-designed and constructed housing. The housing allowance remains the best hope for a solution to the low-income housing problem, and perhaps for the future viability of the housing stock of Chicago.

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