

REPORT TO THE CONGRESS

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*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

An Assessment Of The Department Of Housing And Urban Development's Experimental Housing Allowance Program

Social research and development is in its early stages compared to the physical or biological sciences. Social experimentation has, by nature, definite limitations regarding its conclusiveness and ability to project beyond an experiment.

A \$174 million experiment of the Department of Housing and Urban Development to test the feasibility of a national housing allowance program will not provide conclusive evidence to answer the principal research questions. The 12 sites selected by the Department were too few, and they lacked the characteristics typical of the urban areas they were intended to represent, to permit a reasonable projection to a national program.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

In this report, we discuss the Experimental Housing Allowance Program of the Department of Housing and Urban Development which provides direct cash assistance to low-income families to enable them to obtain adequate housing. We believe that the experiment cannot provide conclusive evidence of the feasibility of a national housing allowance program.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary, Department of Housing and Urban Development; and interested congressional committees and other parties.

A handwritten signature in black ink, reading "Elmer B. Staats", is positioned above the typed name of the Comptroller General.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

AN ASSESSMENT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S EXPERIMENTAL HOUSING ALLOWANCE PROGRAM

D I G E S T

Social research and development is in early stages compared to physical science or engineering or biological science and medicine. Social experimentation has, by nature, definite limitations regarding its conclusiveness and ability to project beyond an experiment. Few large-scale social experiments have been completed, and the technical capacity to carry out such experiments is not well developed in most U.S. agencies and institutions. However, GAO believes that carefully designed and operated experiments offer very useful techniques for gaining information necessary to make informed decisions on major public policy issues. (See pp. 12 and 13.)

The Department of Housing and Urban Development's housing allowance program, a social experiment, has been operating for about 5 years. It consists of three separate but related experiments--supply, demand, administrative agency--to test the feasibility of providing direct cash assistance to low-income families so that they may obtain adequate housing. The results will be brought together and generalized to a national program by the integrated analysis.

Although the experiment will provide a wide range of information on housing markets and on the behavior of low-income families, it will not provide answers to the principal research questions regarding the feasibility of a national cash allowance program.

The 12 experimental sites selected by the Department were too few, and they lacked the characteristics typical of the major urban areas they were intended to represent, to permit a reasonable projection to a national program. (See pp. 15, 34, and 40.)

GAO concludes that the Department did not clearly apprise the Congress from the outset of the experiment's limitations and raised its expectations too high as to its usefulness. The Department representations to the Congress should have more fully disclosed the fact that the experimental results

could not be statistically projected and that the various analytical techniques to extrapolate and infer involve assumptions and subjective judgments. (See pp. 62 to 64.)

During the review of the experiment, the Department questioned GAO's need for access to data provided by program participants which the Department considered to be confidential. GAO has long been concerned about the need for an adequate review of federally funded experiments, particularly those having major policy implications. GAO believes that the right of access to experimental data is essential for it to effectively carry out its responsibilities to the Congress. However, the need to exercise this right of access might vary from case to case depending upon the nature and subject matter of a given experiment. GAO is working with various members of the research community to identify and develop effective review methods that will meet the needs of GAO and the Congress without risk to an experiment's research objectives. (See p. 65.)

GAO recommends that the Secretary:

- Provide the Congress periodic detailed reports on the program's status and the progress made in providing answers to the research questions. The reports should indicate the limitations in extrapolating and inferring results to a national program, including the degree of reliability in projecting the results beyond the experimental sites.
- Merge the results of the Department's evaluation of the section 8 program for existing housing into the integrated analysis of the experiment, to increase its knowledge of the housing allowance approach.
- Include in Department research procedures a requirement that it will not enter into any research grant or contract that might conflict with GAO's right of access to any information resulting from the research without GAO's explicit advance approval. (See pp. 79 and 80.)

GAO recommends that the Congress:

- Hold oversight hearings to discuss the Department's reports on the experiment's status and to decide whether it should be continued, modified, or terminated.

GAO also recommends that, because of the increasing importance of social science research in influencing public policy decisions, the Congress should, in authorizing future social research programs such as the experiment, require the agencies to:

- Set forth clear experimental objectives at the outset of the experimental research.
- Advise the Congress in the experiment's early design stages of the limitations on extending the experimental results beyond the sample, including the reliability of the results.
- Report periodically to the Congress on research results in terms of meeting the original objectives. (See p. 80.)

GAO recommends that the Director, Office of Management and Budget, require Federal agencies to consult with GAO when it appears that a confidentiality pledge extended to participants in future social experiments might conflict with GAO's right of access. (See p. 80.)

AGENCY AND CONTRACTOR COMMENTS

The Department fully concurred with the recommendations directed to the Secretary. The Office of Management and Budget stated that in the absence of widespread abuse on access to data, it saw no need for the action GAO recommended. The contractors operating the experiment disagreed with such matters as GAO's position on the representativeness of sites as a basis for projecting experimental results, and GAO's need for access to experimental data. (See pp. 81 to 85.)

C o n t e n t s

Page

DIGEST

i

CHAPTER

1	INTRODUCTION	1
	Supply experiment	2
	Demand experiment	6
	Administrative agency experiment	7
	Integrated analysis	9
	Cost of EHAP	9
	What will a nationwide program cost?	10
	Prior GAO report	11
	Social science research: an emerging tool	12
2	SUPPLY EXPERIMENT	15
	Sites selected	15
	Status of results in answering research questions	22
3	DEMAND EXPERIMENT	31
	Household responses to allowance payments	31
	Experimental sites and conditions	34
4	ADMINISTRATIVE AGENCY EXPERIMENT	40
	Sites and agencies selected	41
	Answering the principal research question	43
	Verification of reported income and family size	48
5	INTEGRATED ANALYSIS	52
	Limitations of the integrated analysis	59
	HUD congressional testimony on EHAP	62
6	PLEDGE OF CONFIDENTIALITY: A PROBLEM IN AUDITING SOCIAL EXPERIMENTS	65
	Issue of confidentiality	65
	HUD and contractor positions	67
	Our evaluation of HUD's position	67
	Access is refused	68
	Results of the participant consent approach	70

7	CONCLUSIONS AND RECOMMENDATIONS	74
	Conclusions	74
	Recommendations to the Secretary of HUD	79
	Recommendation to the Director of OMB	80
	Recommendations to the Congress	80
8	HUD AND CONTRACTOR COMMENTS AND OUR EVALUATION	81
	HUD comments	81
	Rand comments	83
	Abt comments	84
	Urban Institute comments	85
9	SCOPE OF REVIEW	86
APPENDIX		
I	Name and operating locality of the eight administrative agencies	87
II	Letter dated November 30, 1977, from the Assistant Secretary for Policy Development and Research, Department of Housing and Urban Development	88
III	Letter dated August 23, 1977, from the President, Rand Corporation	98
IV	Letter dated August 15, 1977, from the Vice President, Abt Associates, Inc.	106
V	Letter dated August 22, 1977, from the Director of Housing Studies, Urban Institute	110
VI	Letter dated March 8, 1977, from the Director, Office of Management and Budget	126
VII	Principal HUD officials responsible for administering activities discussed in this report	128

ABBREVIATIONS

EHAP	Experimental Housing Allowance Program
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
SMSA	Standard Metropolitan Statistical Area
TRIM	Transfer Income Model

CHAPTER 1

INTRODUCTION

The Congress authorized the Department of Housing and Urban Development (HUD) under sections 502 and 504 of the Housing Act of 1970 (12 U.S.C. 1701z-1 and z-3) to establish an experimental program to test the feasibility of providing housing allowance payments to assist families in meeting rental or homeownership expenses. HUD called this program the Experimental Housing Allowance Program (EHAP). The Housing Authorization Act of 1976 (Public Law 94-375) substituted for the provision in section 504 which authorized sums to be appropriated as necessary for carrying out research and demonstrations authorized in section 502, a provision authorizing up to \$65 million for fiscal year 1977 for those purposes.

The core of the housing allowance concept involves the provision of direct cash assistance to low-income families to enable them to obtain adequate housing. Families select housing as long as the units meet the housing quality requirements established for the program. Allowance payments are then made directly to the families, in contrast to the more traditional HUD public housing and subsidized construction programs that subsidize housing units.

According to HUD the desirability of the housing allowance approach will depend on the answers to 10 research questions such as:

- Who participates in a housing allowance program?
- How do participating households use their allowance payments?
- Does the quality of housing improve for participating households?
- Does a housing allowance program cause participants to change the location of their housing?
- Are there significant market responses to a housing allowance program? For example, what happens to the price of housing?
- What alternatives exist for administering the program?
- What are the likely costs of a nationwide housing allowance program?

EHAP is designed to answer such questions through operation of a housing allowance program on an experimental basis at 12 sites: Green Bay, Wisconsin; South Bend, Indiana; Pittsburgh, Pennsylvania; Phoenix, Arizona; Salem, Oregon; Jacksonville, Florida; Peoria, Illinois; Springfield, Massachusetts; San Bernardino County, California; Tulsa, Oklahoma; rural counties in the Bismarck, North Dakota, area; and Durham, North Carolina.

These sites represent broad geographic, economic, and demographic diversity. (See map on p. 3.) Program areas are located in all the major regions of the country and range from a large metropolitan area with a population of 1.6 million to a four-county site with a total population of 100,000.

HUD advised us that as of October 31, 1977, about 22,400 households had received at least one housing allowance payment since EHAP enrollment began in March 1973 and that about 8,200 households were receiving allowances in October 1977.

HUD designed EHAP in three separate but related experiments--supply, demand, and administrative agency--linked together by a common program design. Each experiment was designed to focus on a principal cluster of issues.

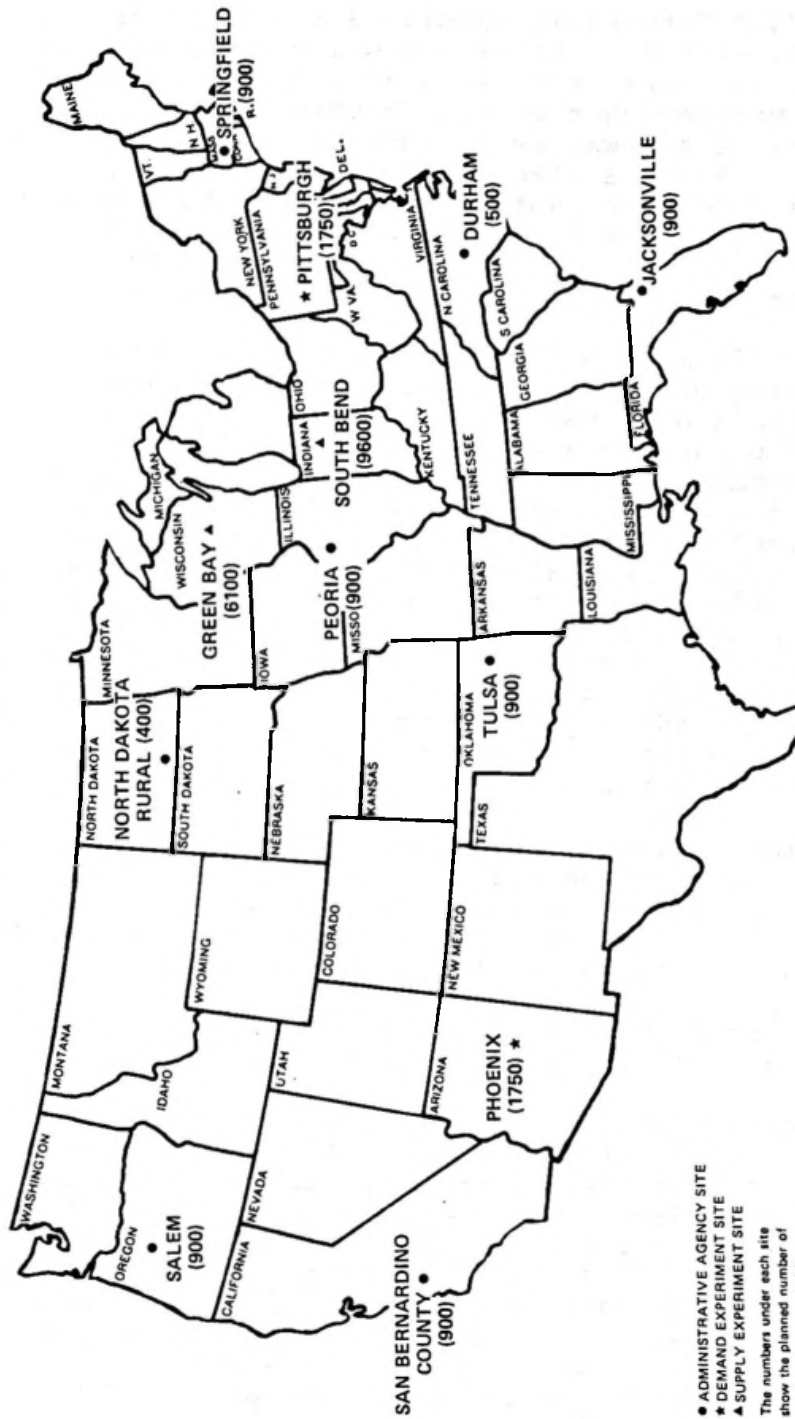
SUPPLY EXPERIMENT

Designed to analyze how the housing market will respond to a housing demand created by a full-scale housing allowance program, this experiment provides open enrollment to the entire eligible population, including renters and homeowners. This design emphasizes the measurement of changes in the price and quality of housing-related services brought about by the program.

The supply experiment addresses four primary research areas: measuring the reaction of the housing market in terms of housing or rent costs, the behavior of bankers and realtors, residential mobility patterns, and general community reaction to the program.

The experiment is being conducted at two sites--Brown County, Wisconsin (the central city is Green Bay), and St. Joseph County, Indiana (the central city is South Bend). The enrollment goal for the two sites is 15,700 households.

LOCATION OF EHAP SITES



• ADMINISTRATIVE AGENCY SITE
 ★ DEMAND EXPERIMENT SITE
 ▲ SUPPLY EXPERIMENT SITE
 The numbers under each site
 show the planned number of
 participating households

The Rand Corporation designed and operates the experiment. For 5 years Rand and its subcontractors will (1) gather and analyze data concerning the effects of the allowance program on the local housing market and (2) control the payment of allowances to participants. Payments will continue for 5 years after the experiment ends. A 10-year period was established to see whether housing suppliers would make capital improvements and other long-term investments because of the program and to make the program more attractive to eligible households.

Rand will monitor the experimental effects on the local housing market and the community principally through annual surveys of a sample of residential properties, once before the program begins and each year for 5 years thereafter. Through its field work subcontractors, Rand is observing changes in each sample property (and in its neighborhood) and is interviewing the owner and occupants. From landlords of rental properties, these interviews seek a detailed account of property financing, property income, expenses, repairs, and improvements for the preceding year. Tenants and homeowners are queried about the characteristics of their expenses and feelings about their housing and neighborhoods. Landlords, tenants, and homeowners are asked for their views on the experiment and its local effects.

The landlord and tenant/homeowner interviews are planned to provide complete data for a sample of residential properties in each site. The data and conclusions will then be projected to all residential properties in each site and to various housing markets nationally. Rand collected baseline data (before the program began) for a sample of over 4,000 properties in each site and hopes to have complete 6-year data for at least 900 properties in each site.

The experiment is administered at both sites by a housing allowance office, a nonprofit corporation composed of members of the Rand Corporation and local citizens. At the end of the 5-year monitoring program, in 1981, it is expected that the offices will operate entirely under local control. Funds for the program come from a 10-year annual contributions contract between HUD and a local housing authority, pursuant to section 23 of the Housing Act of 1937, as amended. The local housing authority, in turn, delegates operating authority for the program to the housing allowance office.

The Office's major activities include (1) informing eligible households about the program, (2) interviewing

applicants, (3) enrolling eligible applicants, (4) certifying and verifying documentation submitted by applicants, (5) evaluating housing units, (6) periodically reverifying eligibility, and (7) making allowance payments.

To be eligible for the allowance, a household must meet prescribed requirements of size, income, and assets and must live in a unit that meets program standards.

The allowances are paid monthly, are limited to the difference between 25 percent of the household's income and the maximum fair market rental, and can only be used for housing expenses.

Current status

Research activities and program operations are well underway in Green Bay and South Bend:

- In Green Bay, Rand conducted surveys of 4,000 residential properties and selected 1,945 as a baseline against which subsequent changes in price and maintenance costs will be measured. During the first half of 1975, Rand conducted second surveys to evaluate the changes. These surveys involved more than 2,700 residential buildings and interviews or attempted interviews with 1,300 landlords, 3,000 tenants, and nearly 700 homeowners.
- In South Bend, Rand conducted baseline surveys of 4,000 residential properties between November 1974 and June 1975. In addition, Rand completed field reports on over 5,000 residential buildings and 12,000 street segments.
- Enrollment in Green Bay began in June 1974. As of October 31, 1977, 3,169 households were receiving allowance payments, far below the planned 6,100.
- Enrollment in South Bend began in April 1975. As of October 31, 1977, 5,049 households were receiving allowance payments; the goal is 9,600 participants.
- Families in Green Bay were receiving allowances averaging \$69.10 a month; in South Bend the average payment was \$71.88 a month.

DEMAND EXPERIMENT

To examine how households use housing allowances, this experiment tests the effects of 17 different forms of housing allowances on the housing choices families make. Some of the important research areas are participation rates of eligible households; changes in expenditures for housing by participants, housing quality, and mobility and locational patterns; and participant satisfaction with housing obtained.

The experiment was conducted at two sites--Pittsburgh, Pennsylvania, and surrounding Allegheny County and Phoenix, Arizona, and surrounding Maricopa County. At each site about 1,750 renter households were planned to be enrolled, with about 1,250 households to receive allowance payments. About 500 other households were not to receive allowance payments but were to serve as a control group to be compared with the households receiving the allowance.

The Stanford Research Institute came up with the experiment design, and Abt Associates completed it, operated the experiment, and is analyzing the results. The experiment continued for 3 years ended in 1977, during which time Abt paid allowances to the eligible households. If the household is eligible, payments will continue for 2 years after the experiment ends.

Abt selected a random sample of households on the basis of various population characteristics and offered each household the opportunity to participate. From this data Abt hopes to measure the effect of experimental variations on participation rates. Each household selected was assigned to 1 of 17 experimental variations or treatment cells that differ by payment formula, payment levels, and housing requirement.

To be eligible for an allowance, the participant must meet the eligibility requirements of the treatment cell to which he was assigned. The requirements are generally based on family income and size. Participants are generally required to spend their allowance on housing expenses.

The demand experiment differs from the supply and administrative agency experiments in that its participants generally are not required to live in housing meeting program standards. In only 5 of the 17 treatment cells must the participant live in housing meeting certain physical standards to receive the allowance payment. Participants in the other 12 cells are not required to live in standard housing--whether they decide to use the allowance to live in such housing is one question the demand experiment is attempting to answer.

According to Abt the design has a sufficient range of payment plans to permit extrapolation and direct estimation of program performance of alternative national payment plans the experiment is not directly testing.

Abt set up site offices in Pittsburgh and Phoenix to carry out day-to-day operations, which includes conducting housing evaluations, processing payments, administering data collection forms, maintaining and monitoring household files, and collecting and processing data for transmission to Abt's computer data bank in Cambridge, Massachusetts.

Current status

The demand experiment is completed in Pittsburgh and Phoenix:

- Enrollment was completed and goals met in March 1974.
- Of the 3,601 participants initially enrolled, 2,930 (81 percent) were still enrolled on September 10, 1975. Most of the dropouts moved out of the county, did not submit required forms, or disliked the program.
- All households have terminated. Households that met program requirements received monthly allowance payments that averaged \$54.37 in Pittsburgh and \$74.82 in Phoenix.

ADMINISTRATIVE AGENCY EXPERIMENT

This experiment addresses the question of how a national program might best be administered. Its purpose is to determine the appropriate administrative means for delivering direct housing assistance to families and to identify those agency characteristics important for efficient and effective performance of administrative and program functions. Eight agencies were given broad latitude in designing and carrying out methods to accomplish the administrative tasks required in a housing allowance program. Agency operations were analyzed and compared to assess alternative approaches to the administrative functions involved in operating a program. Two local housing authorities were located in Salem, Oregon, and Tulsa, Oklahoma; two metropolitan area government agencies in Jacksonville, Florida, and San Bernardino County, California; two State community development agencies in Peoria, Illinois, and Springfield, Massachusetts; and

two State welfare agencies in Durham, North Carolina, and Bismarck, North Dakota. (See app. I for the specific name and operating locality of the eight agencies.)

About 900 renter families were scheduled to receive allowances at each site, except at Durham and Bismarck where about 500 and 400 renter families, respectively, were to receive allowances. Abt Associates designed the experiment; the eight public agencies operated it; and Abt evaluated the results. For 2 years ended in 1976, the agencies paid allowances to participating households, which will continue for 3 years after the experiment ended.

The experiment is designed to evaluate the administrative agencies' performance of 11 program functions, including outreach and screening, enrollment, certification and recertification, payment operation, counseling, and housing inspection.

The agencies designed a housing allowance program that involves the 11 functions, within certain HUD-imposed requirements. For example, HUD determined the participant eligibility requirements, housing allowance payment computation method, and financial and nonfinancial reporting requirements.

Abt evaluated the experiment by reviewing program operating forms, surveying program participants, interviewing a sample of participants, and inspecting their units.

To be eligible for the allowance, a household was required to meet prescribed requirements of size, income, and assets, and to live in a unit meeting program standards. Housing allowances were paid monthly, were limited to the difference between 25 percent of the household's income and the maximum fair market rental, and could only be used for housing expenses.

Current status

This experiment is complete:

--During calendar year 1973 the eight agencies negotiated contracts with HUD, prepared plans to administer the experiment within HUD guidelines, had their plans reviewed and approved by HUD, and hired staff.

--Enrollment began in March 1973 at the Salem site and was completed at the Tulsa site in May 1974. The agencies enrolled about 5,800 recipients, or

about 9 percent less than planned. Because only one-third of the enrollees planned for the Jacksonville site were able to find suitable housing, a second enrollment period began in September 1974.

- About 45 percent of the recipients moved to become eligible for the initial allowance payment.
- At August 1975, 34 percent of the recipients dropped out before completing the 2-year program. Another 11 percent completed the program, and the remaining 55 percent were still receiving payments.
- All participants have terminated. Average monthly housing allowance payments at the eight sites ranged from \$72 in Tulsa to \$87 in Springfield.

INTEGRATED ANALYSIS

A fourth research component, the integrated analysis, will place the research findings from the three experiments into a common framework. This analysis has three purposes: (1) to analyze comparable data obtained across the three experiments to synthesize the individual results; (2) to bring together information and data from the experimental elements to extrapolate from experimental findings to a national program level, providing estimates of the costs and characteristics of such a program; and (3) to permit inferences about responses (e.g., participation rates) to combinations of program elements not being explicitly tested in the individual experiments.

The Urban Institute designed and is operating this experiment.

COST OF EHAP

HUD estimates that it has spent \$107 million on EHAP as of September 1977 and expects to spend an additional \$67 million by 1981, for a total cost of \$174 million. The chart below details the costs for each phase, including integrated analysis, and estimated completion date:

<u>Phase</u>	<u>Estimated to be spent as of Sept. 1977</u>	<u>Estimated cost to complete</u>	<u>Total estimated cost</u>	<u>Estimated completion date</u>
Supply	\$ 49.2	\$63.0	\$112.2	1981
Demand	29.4	1.0	30.4	1978
Administrative agency	23.1	-	23.1	1977
Analysis and integration	<u>5.3</u>	<u>3.0</u>	<u>8.3</u>	1981
Total	<u>\$107.0</u>	<u>\$67.0</u>	<u>\$174.0</u>	

HUD estimates that \$68.5 million (64 percent) of the \$107 million was spent for design, research, and operating the experiment at the 12 sites. The remaining \$38.5 million (36 percent) was spent for participant allowance payments.

The cost of EHAP will increase far beyond \$174 million when postprogram assistance to former participants is included. We estimated in a previous report to the Congress (see p. 11) that such assistance would range from \$47 to \$78 million, depending on how many persons seek and are eligible for the assistance. Payments will continue up to 5 years for former supply experiment participants, 2 years for former demand participants, and 3 years for former administrative agency participants.

HUD funded EHAP from policy development and research appropriations and section 23 leased-public housing funds.

WHAT WILL A NATIONWIDE PROGRAM COST?

During fiscal year 1976 hearings before a House appropriations subcommittee, HUD estimated allowance payments for a nationwide housing allowance program at between \$7.6 and \$11.1 billion annually. The estimates are based on predictions of eligible households in 1976 under two variations, various participation rates, an intensive outreach enrollment effort, use of moderate housing quality standards, and payments based on the projected fair market rent of HUD's section 8 existing leased-housing program.

	<u>Average monthly payment</u>			
	\$66	\$66	\$66	\$66
Eligible households (millions)	<u>a/15.8</u>	<u>a/15.8</u>	<u>a/15.8</u>	<u>b/20.6</u>
Participation rate (percent)	60	70	75	70
Participating households (millions)	9.6	10.8	11.4	14.2
Costs (billions)	\$7.6	\$8.6	\$9.1	\$11.1

a/Assistance for these households equals the difference between the cost of adequate housing and 25 percent of gross income.

b/Assistance for these households equals the difference between the cost of adequate housing and 25 percent of net income. Deducted from gross income are taxes, social security payments, and estimated work-related expenses.

HUD has not estimated the costs to administer such a program. EHAP's results should provide such estimates.

In an earlier report we estimated that administrative costs would be about 15 percent of the allowance payments. This would add \$1.1 billion to the low estimate or a total cost of \$8.7 billion annually and \$1.7 billion to the high estimate or a total cost of \$12.8 billion annually.

PRIOR GAO REPORT

Our report to the Congress on March 28, 1974 entitled "Observations on Housing Allowances and the Experimental Housing Allowance Program" questioned HUD's decision on proposing the operation of a national housing allowance program until EHAP was more complete.

We concluded that EHAP should be expanded to include some test sites with low housing quality and some with low vacancy rates. HUD disagreed, stating that the criteria it used to select sites were adequate to insure valid generalizations about experimental findings by means of direct inferences and that analytical extrapolation would be

possible for most, if not all, sectors of the housing market. HUD said that expanding EHAP would involve huge additional expense that could not be justified by experimental considerations. We concluded that while there may be a theoretical basis for generalizing about experimental findings by inferences and extrapolation, we believed that the results could not be validated with any degree of certainty.

We also concluded that because the impact of a direct cash assistance program was unknown and because of the great cost involved, the Congress, in considering future legislation authorizing a national program, should weigh the benefits of waiting until EHAP was complete and more information was available on its likely impact.

We also concluded that because the sites HUD selected for EHAP were near or above average in terms of housing quality and vacancy rates, the Congress should require HUD to provide assurances that the results achieved represent what might occur at locations which have low housing quality and low vacancy rates and are representative of many urban metropolitan areas.

SOCIAL SCIENCE RESEARCH: AN EMERGING TOOL

Social research and development is in a primitive state compared to physical science and engineering or biological science and medicine. However, the social sciences have methods of collecting data, techniques for analysis, and theoretical models of social and behavioral phenomena that are scientifically sound and practically productive. One major way that society can use social science is by applying experimental methods to analysis of social problems and to the development, testing, and assessment of interventions intended to lessen such problems.

The primary purpose of social experimentation is to estimate the effect of alternative policy measures on clearly defined variables of interest. The policy measures can range from cash grants to changed wage rates to educational programs to alternative housing or health care assistance programs. Variables of interest can range from the supply of labor to actual achievement to the quantity, quality, and location of housing services. For successful social experimentation several conditions must be present, all of which are designed to determine the effect of the policy measures on the variables from changes in the variables caused by other factors. These conditions include

the existence of control and treatment groups composed of randomly assigned individuals, sample sizes of sufficient magnitude to enable estimates of effect with preestablished confidence levels, continuance of the treatment for a sufficient time to allow behavior adjustment, observation of behavior over a sufficient time to determine the ultimate response to the treatment, and administration of the experiment and collection of the data in a way that does not contaminate results. These conditions are extremely difficult to achieve, and no experiment will ever fully achieve them. However, even if conditions are not fully achieved, the experiment may still provide valuable and reliable estimates and other information that can narrow the range of uncertainty and, hence, guide policy decisions. The difficult task is determining when these conditions fall so far from the ideal that the information and estimates the experiment will yield are not worth the cost of the experiment.

The technical capacity to carry out social experiments is not very well developed in most U.S. agencies and institutions. Only a limited number of research institutions (usually connected with universities) have the high standards, management capability, and staff continuity necessary to conduct a serious social experiment spanning 3 to 5 years. The incentive and reward system for academic social science does not favor the development of such capacity, and graduate education usually does not provide enough experience with the practical problems of management in the field.

Experimentation is a tool for finding answers to policy questions. Experiments may be expensive compared with traditional forms of social research, but their costs are small compared to the costs of social policies that do not work or that might have been significantly more effective if experimental results were available.

EHAP is not an experiment in the standard sense of randomized experimental and control groups, with an experimental stimulus delivered to one group and withheld from another and both groups selected and assigned by randomization. Only the demand phase fits this criteria. For the supply and administrative agency phases, there was neither random selection of cities nor inclusion of control cities. These phases should be characterized as field demonstration projects.

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To assist us in our work, we hired five consultants with expertise in the fields of social and evaluation research and economics. Their opinions were considered in preparing this report.

CHAPTER 2

SUPPLY EXPERIMENT

The supply experiment was set up to provide reliable and creditable answers to research questions about the market effects of a national housing allowance program. However, the experimental sites selected are too few in number and lack the characteristics typical of the urban areas they are intended to represent, to permit a reasonable projection of a national program.

SITES SELECTED

A critical factor in the supply experiment's ability to determine the feasibility and desirability of a national housing allowance program is whether the experimental sites are typical of the housing markets they are intended to represent. We believe that the sites HUD selected--Green Bay and South Bend--will not provide a meaningful indicator of how an allowance program will affect major urban housing markets because:

- They were not selected from the major urban areas with fast growth and high black population, such as Los Angeles and Houston, and the urban areas with slow growth and low black population, such as Minneapolis-St. Paul and Denver.
- They do not exhibit certain critical characteristics prevalent in the large metropolitan areas they are intended to represent. For example, South Bend was selected to be typical of New York, Chicago, Detroit, and Washington, D.C., but South Bend's black population is far below the percent in these four cities.

Site selection process

Principally for budgetary reasons HUD decided to operate the supply experiment in two relatively small Standard Metropolitan Statistical Areas (SMSA). As the purpose of the supply experiment is to determine market response to an allowance program, the entire city must be given the opportunity to participate in the program. If large cities were selected the experimental costs, particularly for allowance payments, would be extremely high. HUD officials told us that while EHAP had no dollar limit, they sensed that the Congress would not approve any experiment costing billions

of dollars. They also said that when EHAP began the state-of-the-art of social research was very limited, and HUD did not have the organizational capability to manage an experiment any larger than the present size of EHAP.

HUD gave the Rand Corporation responsibility for suggesting sites. Rand suggested sites that differed in relation to critical features of housing services and had as much structural resemblance as possible to larger SMSAs. Rand determined that in addition to size the two factors most pertinent to a housing allowance program were economic vitality and minority population in the central city.

From 1970 census data Rand used the population growth rate between 1960 and 1970 to measure economic growth and the percentage of blacks to measure minority population. The SMSAs were then classified according to these two variables, which resulted in dividing the 231 SMSAs into four groups:

(1) Slow growth and low
black population

This category covered
53 SMSAs with 19 million
people, including

Minneapolis-St. Paul, Minn.
Seattle-Everett, Wash.
Denver, Colo.
Syracuse, N.Y.
Des Moines, Iowa
Topeka, Kans.

(2) Fast growth and low
black population

This category covered
64 SMSAs with 20 million
people, including

Anaheim, Calif.
San Diego, Calif.
San Jose, Calif.
Phoenix, Ariz.
San Antonio, Tex.
Madison, Wis.
Ann Arbor, Mich.

(3) Slow growth and high
black population

This category covered
63 SMSAs with 73 million
people, including

New York, N.Y.
Chicago, Ill.
Philadelphia, Pa.
Detroit, Mich.
Boston, Mass.
San Francisco, Calif.
Washington, D.C./Md./Va.

(4) Fast growth and high
black population

This category covered
51 SMSAs with 29 million
people, including

Los Angeles-Long Beach,
Calif.
Houston, Texas
Dallas, Texas
Miami, Fla.
Indianapolis, Ind.
Charlotte, N.C.
Tallahassee, Fla.

Among the four groups the greatest share of metropolitan population was within the slow growth/high black population category 3, and based on this Rand chose to select a site from this category. Rand also chose to select for contrast the fast growth/low black population category 2 for the other site.

Rand systematically eliminated SMSAs in each category with the following characteristics:

- Population exceeding 250,000.
- Central city growth due primarily to annexation.
- Population less than 100,000.
- Interstate housing markets.
- No local housing authority.
- Atypical SMSAs, such as Honolulu, Hawaii.

This left two lists of SMSAs:

Slow growth and high
black population

Lynchburg, Va.
Saginaw, Mich.
Springfield, Ohio
Roanoke, Va.
Muskegon, Mich.
Galveston, Tex.
Asheville, N.C.
Jackson, Mich.
Tuscaloosa, Ala.

Fast growth and low
black population

Vallejo-Napa, Calif.
Lubbock, Tex.
Colorado Springs, Colo.
Green Bay, Wis.
Ann Arbor, Mich.
Manchester-Nashua, N. H.
Vineland-Millville-
Bridgeton, N.J.
Anderson, Ind.
Cedar Rapids, Iowa
Eugene, Oreg.

Rand presented these lists to HUD as the most suitable candidates. In the fast growth/low black population category, Rand's first choice was Green Bay, Wisconsin, and negotiations with local officials went smoothly. By the end of 1972 HUD designated Green Bay as the first supply experiment site.

In the slow growth/high black population category, Saginaw, Michigan, was Rand's first choice. Rand stated that Saginaw was a classic case of a central city with a large segregated minority population, ringed by white suburbs. Although the central city of Saginaw readily accepted the experiment, the suburban jurisdictions would not participate. Since a key feature of the allowance program is the portability of the payment--the participant

is free to choose housing anywhere in the SMSA--Rand stated that the suburbs' nonparticipation seriously limited the experiment and suggested alternative sites.

Of the original nine sites Rand suggested to HUD, Rand noted that three were in Michigan and five were in the South. They judged (1) it would be difficult to negotiate with other Michigan SMSAs after the failure in Saginaw and (2) there was greater policy interest in the effects of a housing allowance program on the northern pattern of ethnic segregation than on the southern pattern. A HUD official told us that Rand did not consider any southern city as typical of any other city in the Nation and that results from a southern city cannot be projected to other cities. Thus, only one SMSA--Springfield, Ohio--was left as an alternative to Saginaw.

A HUD official told us that HUD tried to persuade Springfield to join the experiment. He said the center city agreed to join but that one township on the edge of the black section of the city refused to join. He said the townships voted down joining the experiment by one vote.

Rand then raised the population size constraint to 350,000, thus adding 10 SMSAs for consideration:

West Palm Beach, Fla.	Charleston, S.C.
York, Pa.	Greenville, S.C.
Beaumont-Port Arthur-Orange, Tex.	South Bend, Ind.
Chattanooga, Tenn./Ga.	Jackson, Miss.
Trenton, N.J.	Augusta, Ga./S.C.

Rand eliminated West Palm Beach because of its retired population; York because it had over 60 local government units, Chattanooga because it included two States, and Trenton generally because it had been the target of many research programs and had been extensively surveyed. Rand also eliminated all southern cities because of its interest in northern segregation patterns. Only South Bend was left.

Rand stated that unless a southern strategy was substituted for the northern strategy, the most promising alternatives to Saginaw would be Springfield and South Bend. Rand conducted detailed evaluations of both sites and concluded:

"Springfield has the flavor of a large town. South Bend on the other hand, feels more like a small city. There is more of a central core

in South Bend, and, altogether, it is much more reminiscent of a large industrial city than is Springfield.

"Moreover, it is entirely possible that the housing markets in the two cities are different. Although we have no data on this question, Springfield seems to be more loosely and informally tied together, and the infrastructure serving the housing market does not appear well developed. South Bend gives just the opposite impression, with a large well-developed housing market and probably an extensive infrastructure serving the market. If such is the case, we would have very little foundation for extrapolating from findings in Springfield to the type of city whose problems we would like to address. To the extent that South Bend more closely approximates a large industrial city, we would be more justified and face less of a credibility gap in projecting experimental data from South Bend to such an area than we would in extrapolating from data on Springfield."

Rand also noted that only the central city of South Bend but none of the suburbs, which included the large city of Mishawaka, was willing to participate in the experiment at that time. Rand concluded that the restriction to the central city would hamper the research plan and weaken its ability to make conclusions about residential mobility patterns. However, it judged that it was unlikely to find a better site elsewhere, and there was a good chance that the experiment would eventually extend to other county jurisdictions. In April 1974 HUD chose South Bend as the second site. Thus, the reasons HUD used for not selecting Saginaw and Springfield were not used to reject South Bend.

In summary, Green Bay was chosen to be typical of 64 SMSAs with a total 1970 population of 20 million persons, including the major urban cities of Anaheim, San Diego, Phoenix, and San Antonio. South Bend was chosen to be typical of 63 SMSAs with a total 1970 population of 73 million persons including the major urban cities of New York, Chicago, Philadelphia, Detroit, Boston, San Francisco, and Washington, D. C.

Rand concluded that although no two metropolitan areas can reflect all the important combinations of housing market features, the two cities selected offer contrasting environments for EHAP. By observing and analyzing similarities and differences between the sites in market responses to EHAP, Rand expects to be able to evaluate the pertinence of the housing allowance concept to housing problems in other metropolitan markets.

Many major urban areas excluded

HUD's decision to operate the supply experiment in only two cities forced Rand into a very difficult site selection situation. Finding two cities with characteristics typical of the majority of our Nation's cities was an impossible task. By choosing cities from the fast growth/low black population and slow growth/high black population categories, HUD excluded two other categories of cities that contain a substantial portion of our population. These two categories include 104 SMSAs with 48 million people or 34 percent of the total 1970 population living in such large urban areas as Los Angeles, Houston, Minneapolis-St. Paul, Seattle, Denver, Dallas, and Miami.

Rand was concerned that the two small SMSAs selected would not be typical of larger SMSAs and suggested that HUD consider a third experimental site consisting of a low-income neighborhood in a large metropolitan area, with enrollment restricted to that neighborhood. Rand stated this would assist in the application of experimental results to larger SMSAs at a relatively low cost. We made a similar recommendation in our March 1974 report. However, HUD dismissed these suggestions because of budgetary considerations.

Further, we question the rationale for eliminating potential sites primarily because of their location in the South. If these cities, or SMSAs, are atypical, it would seem that determinations as to the effect of housing allowances in southern communities would be very difficult to make.

Sites do not contain critical characteristics

Neither Green Bay nor South Bend exhibit characteristics of large metropolitan areas, such as large ghettos, a high incidence of multiple dwellings, and a large minority population.

The basis for generalization about a national housing allowance program is not the individual residential structures or households but the local housing market. How individuals react to a housing allowance within each housing market is generally influenced by market characteristics of size, type of households, inventory of available standard housing, location of different cultural groups, location of businesses and history. U.S. metropolitan areas vary considerably in these respects, and two sites cannot provide a basis for statistical inference to the Nation.

Both experimental sites have shortcomings regarding their similarity to other metropolitan areas. Rand stated that two small metropolitan areas limit the kinds of housing markets available because market characteristics of spatially extreme ethnic ghettos, high incidence of rental tenure and multiple dwellings are common to large metropolitan areas only.

The minority population of the Green Bay SMSA is almost negligible. Of the total 1970 population of 158,244, there were only 368 (.2 percent) blacks, 641 (.4 percent) chicano, and about 1,700 (1.1 percent) American Indians. Together, they represented less than 2 percent of the total population. In contrast, there are large black populations in the SMSAs Green Bay is intended to represent.

<u>SMSA</u>	<u>Number (percent) of blacks</u>	
Anaheim	10,000	(.7)
Phoenix	33,000	(3.4)
San Antonio	60,000	(6.8)
San Diego	62,000	(4.6)

In addition, we noted that:

- The black population percentage in South Bend (14 percent) and SMSA (7 percent) is very low compared to most major metropolitan cities (34 percent).
- For the 63 slow growth/high black population SMSAs, from which South Bend was selected, the median black population in the central cities was 29 percent, with a range between 12 and 54 percent. South Bend had a black population of only 14 percent.

HUD made the Urban Institute responsible for projecting EHAP's results. The Institute recognized the uncertainty in extrapolating the findings in the two experimental sites to other areas and reported the following about the two supply sites:

- Generalizing from the experiment to other markets cannot be done with statistical reliability since there are only two market observations in the experiment. Consequently, any projecting to other sites must involve intuitive judgments about the probable similarity of basic features across markets.
- The experimental sites were chosen to provide contrasts on two market features felt most likely to affect outcomes: the growth rate of the central city and SMSA-wide racial composition. Still, with only two sites, there remained many factors that could not be varied. Among these are the size of the SMSA, amount of rental housing, and geographic region. Both supply sites are small SMSAs in the Midwest with mostly owner-occupied housing. The effect of similar allowance programs in large eastern, southern, or western cities with more rental housing is difficult to predict on the basis of experiences in the two supply sites alone.

The Urban Institute is presently simulating market responses through its Housing Market Model. The model is a computerized simulation geared to project 10-year changes in housing quality and location within a metropolitan area. The Institute will attempt to generalize market responses from Green Bay and South Bend by using this model. As the experiment is far from completion and the model's assumptions have not been fully evaluated and validated, we cannot predict the reliability of the results. Chapter 5, on the integrated analysis of EHAP, provides greater details on the housing market model.

STATUS OF RESULTS IN ANSWERING RESEARCH QUESTIONS

Some data is available on the results of the supply experiment with respect to its ability to obtain answers to the primary research questions:

- Do housing allowances allow families better housing or do housing suppliers reap larger profits?

- How will mobility of households and residential patterns be affected?
- What is the response of bankers, brokers, and maintenance and rehabilitation firms to the increased demand for standard housing?
- How will nonexperimental families react to the experiment or to possible increases in housing costs?

Supply response

Rand is attempting to measure the effect of the housing allowance program on the community's economy, housing market, landlords, developers, and homeowners, as differentiated from other market forces. Rand has prepared and implemented an extremely complex design plan using the technique of before and after comparisons. Data collected before the experiment began will be compared to the data collected annually. Rand will attempt to identify the source of any observed changes, remove the outside effects, and determine the change the experiment stimulated. Specifically, Rand is to provide HUD answers to the following questions on the supply response:

- How will housing suppliers--landlords, developers, and homeowners--respond?
- Specifically, how much change in price and housing services will result from the allowance program?
- When will the amount of housing supplied match demand?
- How will these changes differ among market sectors?

Answers to these questions will assist in proving or disproving several concerns expressed by housing experts, including rent inflation, speculation in real estate, and home improvement frauds. Thus, the research plan was predicated on the assumptions that (1) participants would increase their housing expenditures, (2) participants would attempt to obtain better housing with their augmented resources, which would provide a measurable market stimulus, and (3) the program would encourage landlords and homeowners to make substantial housing improvements to meet program standards. It was anticipated that at both sites a certain number of participants would be enrolled and that the housing allowances

these participants would receive would be sufficient to create an economic stimulus that could be measured by Rand's analysis techniques.

Because Green Bay's enrollment began almost 1 year before South Bend's, we concentrated our analysis of the market response in Green Bay. Rand's data shows that although the allowance program made payments of \$736,000 to 2,400 participants during its first operating year, there was no evidence that it contributed to housing price inflation in Green Bay.

Some important reasons for the noninflationary effect on housing prices in Green Bay are:

- Rand has been unable to attract the number of participants expected, thus reducing the economic stimulus that might have caused inflation.
- Rand's results show that, generally, participants have not increased their housing expenditures, moved or substantially repaired their units. The allowance has supplemented income.

In Green Bay Rand expected to enroll 6,100 participants in the 2-year enrollment period beginning in June 1974. According to Rand the Green Bay SMSA in 1970 had about 43,000 dwelling units, including owner-occupied and rental-occupied, and the median monthly rent was \$86. Thus, the annual rent for the 43,000 units was \$44.4 million. Assuming that Rand was able to enroll the 6,100 participants with a monthly housing allowance of \$59 (the average monthly payment as of August 1975), the housing allowance program would inject \$4.3 million into the housing market each year. There would then be increased economic stimulus to the housing market of about 10 percent, an amount that could probably affect housing prices if the participants did not reduce expenditures for goods and services.

During the first year of operation, Rand initiated an extensive outreach program in Green Bay which included news coverage by local press; radio and television broadcasts; and contacts with 130 civic, fraternal, and religious organizations. Enrollment started smoothly in 1974, but applications began declining in early 1975. In August Rand began advertising on television and radio and in newspapers. Applications in August doubled over July but declined again in September. As of November 30, 1975, only 2,402 participants were receiving allowances--3,700 short of the goal.

Rand revised its goals downward. In its May 1976 report to HUD, Rand stated that it seemed unlikely that the number of households receiving payments at any given time would ever much exceed 4,000 households. In its February 1977 report to HUD, Rand stated that it was clearly possible for the program to grow well beyond its September 1976 enrollment of 3,600 households if its rate of enrollment growth (100 per month) continued for another 30 months. However, Rand added that few persons close to program operations in Green Bay expected enrollment ever to exceed 5,000 households, except under unusual economic circumstances. We noted that as of October 31, 1977, enrollment has not picked up; 3,663 households were enrolled, of which 3,169 were receiving payments.

HUD officials advised us that it has become clear that the allowance program has not and probably will not cause any housing price inflation. They said that it was probable that further research to measure market response in Green Bay will be discontinued in 1977 and 1978. In September 1977 HUD advised Rand that the research would be discontinued in the spring of 1978.

Two of Rand's research assumptions were that participants would use the allowance to increase housing expenditures and obtain better housing and that these factors would create a market stimulus. However, Rand statistics show that during the first 2 experimental years, 88 percent of those obtaining certified units did not move and the majority of those who did were renters. Nearly two-thirds of the nonmoving renters were paying the same rent 2 years later, whereas those renters who moved generally paid higher rents.

Participants used the allowance for housing expenses as program regulations required but not to increase housing expenditures. In effect, the allowance has been a substitute for funds previously spent on housing, thereby increasing disposable income for nonhousing expenses.

Because few participants are increasing housing expenditures, the local housing market has experienced limited economic stimulus; the stimulus needed to produce the anticipated market impact has not occurred. In the first experimental year in Green Bay, participants received allowances of \$736,000, of which only 20 percent or \$147,200 could have been spent to increase housing expenditures. In relation to the \$44.4 million spent in Green Bay annually, the \$147,200 (3 one hundredths of one percent) could not

significantly affect housing prices. Assuming Rand is able to meet its plan of 5,000 recipients and the recipients do not increase their housing expenses by more than 20 percent, the impact will still be insignificant.

Rand's other assumption was that landlords and homeowners would make substantial housing improvements to meet program standards. This has not happened. Rand data shows that participants generally lived in housing that met program standards or could meet standards with minor repairs. The housing stock in Green Bay was in fairly good condition before the experiment began. Of 1,130 units that failed their first evaluation, 1,101 (97 percent) were subsequently repaired, reevaluated, and approved as of August 1975. Most had only minor problems such as the absence of or poor condition of handrails, defective windows, and defective heating vents. Rand reviewed over 900 repair actions and found the median cost of materials for all repairs to be about \$8.50 each unit. Labor costs were not reported.

Thus, Green Bay participants have not increased their housing expenditures, obtained better housing, or caused major repairs to be made to meet program standards. For most recipients the allowance payment increased their disposable income because they already lived in housing that met program standards but housing expenses exceeded 25 percent of their adjusted gross income. Thus, the housing allowances have enabled participants in Green Bay to increase expenditures for goods and services other than housing.

It should be recognized that Green Bay's results are preliminary, and changes might occur in participation or in expenditures for housing. Also, Rand's analysis of market effects in certain sectors of Green Bay's market might show some measurable inflation. The reasons for the lower than expected participation must be carefully analyzed. These factors lead us to conclude that the Green Bay results obtained thus far must be used with considerable caution and cannot be considered a basis for assuming that the housing allowance program in Green Bay would not cause inflation in housing prices. Even when a more definite conclusion is reached for Green Bay, we are concerned about projecting these results to other cities because of the questions concerning the typicalness of the site, as discussed earlier. (See p. 15.)

Participant mobility

Rand is to provide answers to the following questions on participant mobility:

- Will many allowance recipients relocate within the metropolitan area in an attempt to find better housing?
- What essential factors influence a decision to move or to stay?
- What types of neighborhoods will movers seek and succeed in entering?
- Will nonrecipients move in response to the relocation pattern of recipients--either into neighborhoods vacated by recipients or out of neighborhoods entered by recipients?

An important aspect of the mobility analysis is to determine how successful minorities would be in relocating from deteriorating central city neighborhoods to typically white suburban areas. This mobility is at least theoretically possible because the allowance can be used for units anywhere in the SMSA. This analysis can be made only in South Bend because Green Bay's minority population is less than 2 percent. South Bend was selected to be typical of cities with high minority populations.

The major shortcoming of South Bend's being used to represent cities with high minority populations is that the city has a relatively low percentage of minorities. SMSA's that include major metropolitan cities average a black population of 34 percent, as compared with 14 percent in the city of South Bend and 7 percent in the South Bend SMSA.

A necessary ingredient of the analysis is suburban jurisdiction participation. Until March 1976 most suburban communities around South Bend declined to participate. When HUD selected South Bend in 1974, it was aware of the resistance to the experiment, but it and Rand were hopeful that these communities would join later. In December 1974 Rand began operating the experiment in the city of South Bend, which contained only 52 percent of the site's households. HUD and Rand officials met frequently with governing bodies of the jurisdictions that declined to join to encourage their participation. In June 1975 the jurisdiction of the experiment was expanded to

unincorporated areas of the county with a 5-mile radius to the city of South Bend. In August one of the seven towns in this unincorporated area voted to join the experiment.

The city that is crucial to the experiment is Mishawaka. Largely blue-collar and white and with a population of about 36,000 (about 15 percent of the county population), Mishawaka initially refused to participate by a close city council vote. The residents were concerned about the problems of poverty, crime, drug abuse, and social tension they believe to afflict South Bend. They were also concerned about political dominance by the larger city. In March 1976, after a change in its city council membership, the city council of Mishawaka reconsidered its earlier refusal to participate and voted by a slim majority to join the experiment.

As noted earlier on pp. 17 and 18, the two cities HUD considered for the slow growth/high black category--Saginaw, Michigan, and Springfield, Ohio--were not selected because of the surrounding areas' nonparticipation. Also, we noted similar problems in Jacksonville, Florida, an administrative agency site, where participants had severe difficulty in locating housing because landlords were reluctant to rent to minorities.

Market intermediaries and suppliers' reactions

Questions in this category were designed to determine whether program participants would encounter difficulties in obtaining better housing because of banker, real estate agent, or rehabilitation firm practices. In other words, would there be any redlining, steering, or excessive prices charged? Specifically, Rand is to provide answers to the following questions:

- How will mortgage lenders, insurance companies, and real estate brokers respond to the allowance program?
- Will their business policies facilitate or hinder allowance recipient attempts to obtain better housing and those of suppliers (landlords) to improve their properties?
- How will the suppliers of building, repair, and remodeling services react to changes in demand?
- What will be the availability, price, and quality of these services?

--What would be the reasons for any observed changes in policies of market intermediaries and indirect suppliers after the allowance program begins?

In Green Bay the experiment has had little impact on market intermediaries or suppliers because program participants have generally remained in their preenrollment units, and only minor repair work has been needed to bring units up to program standards. Whether the South Bend site will be able to provide a different answer will not be known until more data becomes available.

Effects on nonparticipants

Rand is to provide answers to the following questions:

--How will nonparticipants, particularly low-income households, be affected by the program?

--Will the increase in housing demand resulting from the program cause an increase in housing prices for nonrecipients?

--How will nonparticipants react toward the program?

In Green Bay, as noted earlier, the program has not increased housing demand or housing prices. Because very few participants have moved, opportunities for nonparticipants to move into housing vacated by participants are limited.

The South Bend site has not been operating long enough to determine the effects on nonparticipants.

Observations on operating difficulties of supply-type experiments

In a 1974 paper Dr. Alice Rivlin, then with the Brookings Institution, discussed the problems of execution and inference of an experiment dealing with a market response to a change in economic incentives, such as the supply experiment. Dr. Rivlin stated that this experiment is difficult to carry out because an area must be saturated to reach everyone who would be eligible under a national policy and to see how the market responds. Saturation experiments are costly, unless the communities are so small as to be of little national interest. Dr. Rivlin also pointed out that the problem of inference from such experiments is due to its nature--the costs of saturation experiments limit the number of sites. She contended that it is risky to generalize about

the behavior of markets from samples of one or two and that local events outside the experiment might invalidate the experiment. She said that it might be possible to compare the treatment sites with control sites but that one can hardly place confidence limits on the differences; it would not be clear how control sites might be chosen or when two cities are really comparable. She also said that such experiments raise the familiar uncertainties as to whether responses are affected by the temporary nature of the treatment or by the fact that behavior is being observed. Dr. Rivlin concluded that saturation experiments are probably feasible but should be used with great caution. They are difficult to interpret because controls are not really possible and special local circumstances may confound the results. Hence, they are more likely to be useful as a dry run for a policy that will probably be adopted than as a way of estimating a market's structural parameters.

CHAPTER 3

DEMAND EXPERIMENT

Preliminary data compiled after 1 experimental year for the Pittsburgh and Phoenix sites shows that the allowances have not significantly improved the quality of participants' housing.

- After receiving housing allowances for 1 year, most households were not living in units meeting Abt Associates housing standards.
- Even though a control group did not receive allowance payments, it behaved about the same as the households that received housing gap allowance payments. For example, both groups that met standards at enrollment also met standards 1 year later.
- Households that lived in units that did not meet standards, but were required to live in standard units as a condition to receiving a payment, generally decided not to move to standard units. Such households were not terminated from the experiment but received only a small stipend.

As this data is based only on the first-year results, more detailed analysis of this data is planned, and another year of data is yet to be analyzed. The results should be considered in terms of these qualifications. The data does roughly indicate how households in Pittsburgh and Phoenix reacted to the program.

The design and analysis plan and sampling scheme for the experiment, for the most part, appear theoretically sound. However, the sites selected and certain other issues we noted could seriously limit the applicability of the experimental results.

HOUSEHOLDS RESPONSES TO ALLOWANCE PAYMENTS

Abt reported to HUD the results of how households reacted to the demand experiment in terms of housing expenditures and housing quality during the first experimental year. A January 1977 report dealt with households under a percent-of-rent housing allowance. A May 1977 report dealt with households under a housing gap allowance.

The reports stated that the program tested in the demand experiment would be evaluated on the basis of 2 years of program operations and that the reports were intended to lay the groundwork for further analysis by developing appropriate analytic techniques and identifying key analytic issues. The reports also stated that the findings must, therefore, be regarded as partial and preliminary.

The demand experiment differs from the supply and administrative agency experiments in that its participants generally are not required to live in housing meeting housing standards. In only 5 of the 17 treatment cells must the participants live in standard units to receive the allowance payment. Whether the participants in the other 12 cells decide to use the allowance to improve their housing quality or simply to increase nonhousing expenses and continue to live in the same unit are some of the questions the demand experiment is attempting to answer.

Abt's reports contain an extremely technical, detailed, and comprehensive analysis of results under the housing gap and percent-of-rent allowance programs. The data that follows is not intended to depict the data of these reports.

Housing gap participants

Under a housing gap allowance eligible families are assisted, on the basis of their size and income, in obtaining decent housing by an allowance. The payments are designed to make up the gap between the cost of modest, existing, standard housing and the fraction of the income a household might reasonably be expected to devote to housing. Families receive allowance payments only if the housing that they rent meets housing requirements.

Some of the major conclusions of Abt's analysis of the first-year data follows:

1. In terms of households that were still actively enrolled in the experiment after 1 year including those that met requirements and were receiving allowance payments and those that had not, 39 percent in Pittsburgh and 32 percent in Phoenix met the requirements at enrollment. After 1 year 52 percent met requirements at each site. Thus, almost half of the households enrolled in the experiment still had not met requirements after 1 year.

2. Even though a control group did not receive allowance payments, it behaved about the same as the households that did. In Pittsburgh 88 percent of the gap households meeting requirements at enrollment met them 1 year later; 84 percent of the same control group behaved the same. In Phoenix 85 percent of housing gap households that met requirements at enrollment met them 1 year later; 81 percent of the control group behaved the same.
3. The program appeared relatively unsuccessful in inducing households that normally would not have met requirements to meet them by the end of 1 year. In Pittsburgh and Phoenix 71 and 63 percent, respectively, of those households not meeting standards at enrollment failed to meet them 1 year later. For the control groups in these cities, 83 and 80 percent, respectively, of those not meeting standards at enrollment did not meet them 1 year later.
4. On the average recipients of housing gap allowances only modestly increased their housing expenditures during the first year. The allowance programs are estimated to have increased recipient housing expenditures by an average of 6 percent in Pittsburgh and 13 percent in Phoenix. These increases represent changes in expenditures beyond those that would normally have occurred due to changes in economic conditions such as inflation, changes in income or other household characteristics, or changes in the housing markets at the two experimental sites.
5. Overall, recipients devoted less than one-third of the allowance payment to increased expenditures for housing. Estimated increases in recipient housing expenditures above normal levels amounted, on the average, to less than one-third of the allowance payment at both sites (26 percent in Pittsburgh and 32 percent in Phoenix).
6. Recipients that moved increased their housing expenditures much more than those who did not move. However, they still spent less than one-third of the allowance on increased housing expenditures.

Percent-of-rent participants

A percent-of-rent housing allowance subsidizes households for a certain fraction of its monthly rent expenditures. Such a subsidy should encourage households to increase expenditures on housing and, thus, housing quality.

Because percent-of-rent subsidies provide an incentive to increase rent expenditures, percent of rent households ought to increase expenditures relative to control households that have no such incentive. Abt reported that the percent-of-rent subsidies significantly increased first-year housing consumption at experimental sites of both control groups. Average monthly increases above control group changes ranged from \$2 to \$8 in Pittsburgh and \$5 to \$21 in Phoenix, depending on the amount of subsidy offered.

Abt's data shows that of those who moved during the first year, 69 percent in Pittsburgh and 55 percent in Phoenix of those receiving a subsidy were not living in housing meeting program standards. Of the control households that moved, 64 percent in Pittsburgh and 58 percent in Phoenix were not living in housing meeting standards. Movers among the percent-of-rent and control households increased their housing quality during the first year. A greater proportion of the control group increased their housing quality than of the percent-of-rent group.

Abt's report did not contain data on the results of those who did not move.

EXPERIMENTAL SITES AND CONDITIONS

HUD selected Pittsburgh and Phoenix generally because of their adequate economic environments; housing with medium or high vacancy rates; medium racial concentration; and acceptance and encouragement by local government, community leaders, and HUD representatives. Because only two experimental sites are involved, the results cannot be projected to the Nation. Moreover, certain experimental conditions occurred that must be considered in making conclusions.

Site selection

In late 1971 HUD began its selection process for the demand experiment sites. It decided to provide for the HUD Secretary's consideration large urban areas that broadly represented differing housing markets in terms of vacancy

rates, costs of housing, racial concentration, growth, location, and size. HUD set five criteria to eliminate those cities with the following characteristics:

1. Non-SMSAs. SMSAs are an accepted unit of analyses for housing market studies. This excluded rural and small town areas.
2. All SMSAs with less than 60,000 rental units. This criteria was set to choose those SMSAs with a supply of available housing to easily accommodate the resulting increase in demand without excess pressure on the market to increase prices. This criteria eliminated all SMSAs with populations of less than 500,000.
3. Less than 80 percent of the population was in one State or there was an adjacent city with a population over 30,000 in another State. HUD's reasoning was that it would be difficult to operate an experiment where families were likely to move from one State to another. This eliminated New York City, Philadelphia, Washington, D.C., and St. Louis.
4. No new public housing projects completed since 1969 or leased-housing or completed rental assistance program projects. HUD's reasoning was that the experiments would not be able to answer a design question calling for a comparison of similar Federal housing programs with allowances unless these programs were operating. This eliminated Dallas and Houston.
5. Significant Federal or HUD activity or atypical market characteristics. HUD's reasoning was that it would be difficult to maintain the low visibility needed for the experiment and, in certain cases, to conduct the experiment. This excluded Boston and Detroit; Chicago was excluded because of a public housing suit; and Honolulu was excluded because of its unrepresentativeness.

The exclusion procedure reduced the number of SMSAs to 31. HUD then evaluated the 31 SMSAs on the basis of four characteristics considered important indicators of the nature of housing in an area: (1) growth rate, (2) renter vacancy rate, (3) racial concentration, and (4) housing cost. Each SMSA was scored as low, medium, or high on each characteristic. HUD attempted to choose cities where the experiment would be

successful; that is, the city would provide an economic and social environment for the experiment to facilitate answers to the research questions. For example, HUD assumed that the least likely city for a successful allowance experiment would be one with low economic growth and renter vacancy rates and high racial concentration and housing costs. The city most likely to allow a successful experiment would have high economic growth and renter vacancy rates and low racial concentration and housing costs.

A HUD Assistant Secretary asked the Secretary to choose 5 to 7 sites, of which at least two would permit a successful experiment and at least two that would not. The Secretary selected six sites, two in the successful category, one in the least likely category, and three in between. HUD then requested the regional administrators for the six sites to provide their assessments of and concurrence in the appropriateness of conducting experiments in the SMSAs. The assessments included the regional administrators' judgments as to the receptivity of the current central city administrations to the experiment, The administrations' ability to assist in the experiment, and particularly, the effectiveness of the fair housing laws throughout the metropolitan area and housing code enforcement within the central city and important local jurisdictions. HUD also asked for updated information on housing cost, growth rates, racial concentration, and rental vacancy rates.

After considering this data on the six cities and other cities, HUD selected Pittsburgh and Phoenix as the two demand experiment sites.

--Pittsburgh has a medium vacancy rate, low housing cost, medium racial concentration, and low economic growth.

--Phoenix has a high vacancy rate, high housing cost, medium racial concentration, and high economic growth rate.

According to HUD's criteria the two cities were near the top of the rankings of the cities where the experiment would be most successful. Pittsburgh had one characteristic HUD considered necessary for a successful experiment--low housing costs, while Phoenix had two of these characteristics--high vacancy rates and a high growth rate. Pittsburgh had two characteristics in the medium category--vacancy rates and racial concentration, Phoenix had one--racial concentration.

Other experimental conditions

Because of the conditions that existed at the two demand sites and the experimental design, the number of persons choosing to participate in the experiment and their behavior in terms of improving the quality of their housing may not be typical because (1) there was no competition for vacant units, (2) outreach efforts were extensive and continuous, and (3) certain potential participants were excluded from the experiment. These conditions must be considered, carefully evaluated, and fully discussed as part of the experimental results.

Lack of competition

An individual's response or behavior under the experimental conditions that existed in the two cities may differ when many persons participate and compete for the same units.

In setting the experimental design, HUD intentionally kept the number of participants relatively low to insure that the increased housing demand would not significantly affect the housing market. HUD also wanted the participants to have the opportunity to shop relatively unnoticed for housing in the two cities.

In both cities the participants comprise an insignificant portion of the total population. In Pittsburgh 1,760 participants or .1 percent of the 1970 Allegheny County population of about 1.6 million were enrolled; in Phoenix 1,841 or .2 percent of the Maricopa County population of about 967,000 were enrolled.

The demand experiment tests whether participants move and if so, where. HUD is particularly interested in whether the participant used his housing allowance to improve his housing quality when he moved and whether the participants moved from areas of high racial concentration to areas of lower racial concentration and if they had difficulty in moving to such areas. The number of people competing for an existing supply of housing or wanting to move into a particular area of the city will significantly affect whether the individual will be able to find the house of his choice in the area where he wants to live.

Assume that a city has 20,000 vacant units meeting certain housing quality standards and that there are 1,700 or 1,800 households desiring to move into these units.

The household would have little, if any, difficulty in finding a unit and would probably be able to find a unit where it wants to live. This is the situation in the demand experiment--few participants and relatively no competition for housing units.

However, assume that in a national housing allowance program, the number of eligible participants in the same city was 20,000 or even higher, as is the case in most public assistance programs. Intense competition for the units would ensue, and individuals would not always be free to choose the units they want. They may become dissatisfied and drop out of the program.

Special outreach program

Abt conducted an extensive outreach program to encourage household participation in the experiment. It directly contacted each sampled household and invited the household to apply. Forty-five households in Pittsburgh and 55 households in Phoenix initially declined the offer but were recontacted and then decided to participate.

Outreach in other similar Federal assistance programs generally consists of mass media advertising through newspapers and radio and television. Personal referrals are not common because of the high costs involved.

Any estimation of the participation rates based on the demand experiment must carefully consider the outreach efforts Abt used. It would appear likely that the personal contact procedure would indicate a higher participation rate than would the outreach methods generally used in other Federal assistance programs.

Certain individuals excluded

Abt excluded from the experiment certain groups of individuals that might be eligible for a nationwide program:

- Homeowners.
- Families living in subsidized housing.
- Single-member households under age 62.
- Households in which the head or the spouse of the head is a full-time student.

--Seasonal residents.

--Households consisting of unmarried minors.

When Abt completed its selection process, it had enrolled participants who were renters; did not live in public or subsidized housing; agreed to accept a certain type and amount of housing allowance payment; and agreed to Abt's lengthy enrollment interview, monthly reporting requirements, periodic interviews, and housing inspections.

Thus, the demand experiment participants represent individuals with certain personal characteristics that may not be typical of individuals eligible or willing to participate in a nationwide housing allowance program. For example, renters' mobility patterns may be totally different from homeowners'. To the extent that behavior differs, the experimental results may not indicate what might be expected under a national allowance program free of such constraints; the results would have to be appropriately qualified.

CHAPTER 4

ADMINISTRATIVE AGENCY EXPERIMENT

This experiment was intended to provide reliable information on how to best administer a national housing allowance program. While it provides information on the various housing allowance delivery systems used by eight administrative agencies, problems in design and operation of the experiment will seriously affect the usefulness of the experimental results.

- The experiment will only demonstrate those administrative practices and procedures workable under above average management and economic conditions.
- The experimental data will not specifically identify the administrative procedures most appropriate for administering a national program.
- The effectiveness and efficiency of the most important administrative function--certification of participant eligibility in terms of income and family size--will not be adequately determined.

Abt reported to HUD the results of its evaluation of the administrative agency experiment. It produced separate reports on the major administrative functions--outreach, certification, supportive services, and inspection; reports on the experimental costs and an administrative cost-simulation model; two reports on the Jacksonville site which experienced enrollment difficulties; a special report on elderly participants; and an overall summary report.

We believe the reports generally reflect the results of the experiment at the eight sites. Except for the summary report, Abt appropriately qualified the reports to advise the reader of the limitations of the experiment. A HUD official told us that HUD plans to add the qualifications to the summary report when it reissues the report as its product.

SITES AND AGENCIES SELECTED

The experiment was conducted in only eight locations that could not typify all possible locations of a national program or all possible types of agencies. Also, HUD selected only agencies with very capable administrative staffs and in locations with housing conditions conducive

to a successful experiment. Administrative problems likely to be encountered in a national program in many major urban areas that historically have administrative difficulties were not addressed. The experiment will provide information on what administrative practices and procedures were workable under above average conditions; it is improbable that such practices and procedures will be fully effective in major urban areas. The experiment would be more credible if HUD had included some agencies with the capabilities expected to exist, particularly agencies located in major urban areas.

In March 1972 HUD headquarters staff briefed representatives from 9 of the 10 regions on the nature of the experiment and requested them to have their respective Administrators nominate four types of agencies to participate in the experiment:

- Local housing authorities.
- Metropolitan agencies.
- State agencies.
- Others, such as county housing authorities and rural, nonprofit agencies.

HUD left the methods for nominating candidate sites to the discretion of the regional administrators but required that only sites with capable administrative agencies and high housing vacancy rates be considered.

The regions recommended 42 agencies as possible candidates for the experiment, including 10 State public housing or finance agencies, 10 metropolitanwide agencies, 13 local housing authorities, and 9 other agencies. In April 1972 a committee of HUD headquarters and regional officials evaluated the 42 proposals on the basis of rating criteria that considered the agencies' qualifications and site characteristics. Generally, a high numerical rating went to agencies with administrative competency and good site conditions, such as favorable housing vacancy and new construction rates, above average housing, and low unemployment rates. For instance, if the site had many standard units available in good condition, it received six points. However, if the site had a much higher than average number of units that lacked plumbing or were overcrowded, it received no points. Also, if the administrative agency at

a site was rated excellent in its capacity to successfully carry out the experiment, it received 14 points. A site received no points if the administrative agency rated poor in this category.

In most cases the committee selected the two agencies with the highest point totals for each of the four agency types as potential experimental sites.

Subsequently, at the suggestion of the Office of Management and Budget (OMB), HUD added a welfare agency category and dropped from consideration any planning or non-public agencies the rating committee selected. To assist in selecting the welfare agencies, HUD requested the Department of Health, Education, and Welfare (HEW) to submit a list of welfare agencies HEW considered to be well administered.

To further assess the suitability of the sites, the six State, metropolitan, and housing authority agencies, and the welfare agencies HEW recommended, teams of HUD and Abt representatives visited the sites during late 1972 and early 1973. They used the same basic criteria the HUD rating committee used. For example, one site team selected one housing authority because it considered the agency to be very efficient; would be able to operate in the suburbs, providing experiment participants with a greater choice of suitable housing; and the location had a high housing vacancy rate. On the basis of the rating committees' recommendations, HUD selected the eight administrative agencies.

HUD officials said that it selected only the best qualified agencies because it was felt that less qualified agencies would drop out of the experiment or fail to complete the experiment in a timely manner. The officials stated that sites with high housing vacancy rates were chosen so that the experiment would not increase the price of local rental units, which could affect the experimental results, and to allow participants greater opportunities to locate suitable housing.

Abt and HUD recognized that the sites selected will not permit national application of the experimental findings. Abt stated in its second annual report on the experiment that the eight locations generally represent typical U.S. urbanized areas but that extreme situations are somewhat less represented. Abt stated that since the locations do not include the Nation's largest cities or the locations with the highest poverty rates or worst housing stock,

experimental findings can be applied to these situations only with considerable caution. However, Abt believes that the findings should be generally applicable to the bulk of the localities where a housing program might be operated.

An example of the experiment's limitations is indicated in Abt's February 1977 report on the inspection function. Abt stated that generalizations from the experimental findings--even to a hypothetical national housing allowance program--must be approached with caution. The experiment includes eight cases that roughly seem to represent U.S. urban areas, but eight cases represent a limited sample. Many agencies involved in the experiment had little previous experience in setting and implementing housing quality requirements. Some of their problems may reflect a start-up phenomenon that might disappear in an ongoing program.

Abt contends that despite these limitations, there have been few, if any, comparable opportunities for detailed examination of the implementation of housing quality requirements. The experiment, therefore, offers some unique insights, not only into its new approaches, but also into the problems and benefits of more traditional procedures. The experiment offers no simple solution: the reported observations offer an empirical base for additional experimentation and some practical guidance to those responsible for administering housing quality requirements.

HUD officials advised us that the experimental results only represent what can be expected to occur in a national program under the best possible situations. However, no readily available information exists which shows how frequently these best possible situations will occur, nor is there any indication as to what can be expected under less favorable conditions.

ANSWERING THE PRINCIPAL RESEARCH QUESTION

The experiment's principal research question--what are the appropriate administrative means for delivering a nationwide housing allowance program?--cannot be fully answered because of the experiment's design. The experiment will show how each of the eight agencies, operating within a certain management and economic environment, carried out a particular procedure. It cannot show whether the results achieved at one site under these conditions would be applicable to other sites or a nationwide program.

The effectiveness and efficiency of an administrative procedure is greatly affected by the agency's perspectives and capabilities and physical operating environment. For example, a welfare client-oriented agency may tend to accept its clients' statements more readily than a State housing office that may have a history of problems with ineligible clients. The same housing agency may perform an inspection more effectively than a welfare agency because the housing agency accrued inspection expertise over the years. One site may be heavily populated and have poor housing stock and high vacancy rates; another site may have the opposite conditions.

With these possible significant differences, it is difficult to determine whether an administrative procedure used under given conditions would be workable under different conditions. An administrative procedure appropriate under the conditions at one site may be the least desirable at another site with dissimilar conditions.

HUD selected what it calls a naturalistic design for the experiment. The naturalistic design differs from the more commonly used structured experimental design in that the experimental agency was allowed to decide how the experiment would be carried out. Each administrative agency selected and implemented the administrative procedures it considered most appropriate. In a structured experiment the experimental agency is directed to carry out the experiment in a specified manner, with no freedom to vary. If the experiment were structured, HUD could have selected the procedures for each agency to follow. A structured experiment would have allowed HUD to require that each agency use more than one type of procedure at the site. By comparing the results HUD could have more readily determined whether a particular procedure was more effective or efficient at that site.

According to HUD officials the naturalistic design was chosen because a more realistic approach to a housing allowance program would be developed if the agencies could select the procedures they considered the best. The officials said they believed that more could be learned by observing the actions of any agency given much latitude as to the type of procedures it could use than by HUD making the decisions.

An Abt official also said that the naturalistic approach allowed the study of the choices agencies make, thus helping to determine whether local agencies in a national program must be regulated or are capable of making

their own procedural decisions. He said that it also allowed more careful examination of the costs of implementing particular procedures as they would be implemented in an operating program, without the confounding effect of artificial variation of procedures within agencies.

There was some disagreement, however, as to whether the naturalistic design was the best. Early in the experiment HUD requested five experts with backgrounds in economics, organizational theory, sociology, and research methodology to evaluate the design. Four of these experts criticized the naturalistic design and favored a more controlled experiment. For instance, one expert stated that:

"With eight sites including five different kinds of governmental units, it will be virtually impossible to tell whether differences in administrative effectiveness are due to organizational differences, personnel policies, local politics, or any number of locally specific circumstances."

Another expert stated:

"My only concern is that it may be more of a social science study of eight agencies and their activities, rather than an experiment which can give some recommendations as to which administrative structures and practices will achieve the objectives of a housing allowance policy most effectively."

However, HUD felt that these experts were basically oriented toward the structured approach to experimentation and, thus, excluded other equally acceptable approaches. HUD concluded that these experts had the wrong skills and orientations for reviewing a naturalistic experiment.

While the naturalistic design will provide information on the type of and reasons for the procedures selected by each agency, it will have only minimal value in comparing the efficiency and effectiveness of different procedures under the same conditions. Different procedures among sites cannot be compared for their effectiveness and efficiency because too many other variables among sites would influence the results of the procedures. For example, one function performed at each of the eight sites was the housing unit inspection to determine if the unit was standard, that is, safe and sanitary. HUD made the agencies responsible for planning and implementing the inspection function, under

the general condition that the participant had to reside in standard housing as defined by the agency and had to locate such housing within a specific number of days after enrolling in the program.

The agency was allowed to select who would make the housing inspections. Options included the agency itself, contracting with another public or private agency and relying on a local code enforcement program, or allowing the program participants to perform the inspection (self-inspection). The agencies also had latitude in selecting the factors determining whether a housing unit was standard; the agencies could adopt the local housing code or a national standard or develop their own minimum standards.

The administrative agency in Salem (a local housing authority) decided to use a self-inspection procedure whereby the participant would determine whether the unit he wanted to occupy was standard. The agency counseled the participant on what to look for when inspecting the unit and provided a list of items to check. Developed by the agency, the list contained items ranging from the conditions of the roof to whether the closets were adequately sized. If the participant moved to another unit during the experiment, that unit was inspected to determine if it was standard.

In contrast, the administrative agency at Jacksonville (a metropolitan agency) used a more stringent housing inspection procedure. Before a participant could receive an allowance payment, the unit he wanted to live in had to be inspected by city housing inspectors and certified that it met the standards of the Jacksonville City Housing Code. If the participant moved during the experiment, the city inspectors had to inspect the new unit.

Abt collected data at both sites on the cost to perform the inspection procedures and whether the housing unit met the housing quality standards. The experimental results showed that the Salem's self-inspection procedure cost less than Jacksonville's but that participants generally did not perform adequate inspections. However, in Jacksonville the more stringent city inspection procedure was more costly than Salem's but the inspections were adequately carried out. These results do not necessarily show that Salem's procedure was more effective and efficient than Jacksonville's. Each agency was operating in different economic settings. Jacksonville differs from Salem in many important respects. It has a different type of operating agency, larger population, higher concentration of poorer quality housing

stock, lower vacancy rate, and higher poverty level. Thus, Abt cannot conclude that the procedures used in Salem would be effective or efficient in Jacksonville or whether the stringent procedures used in Jacksonville would be desirable in Salem.

HUD and Abt officials agreed with us that the experiment will not provide information for drawing such specific conclusions. HUD officials said that the experiment will provide a range of procedures for possible use in a national program. The officials said that to make conclusions on the most appropriate procedures will require additional research after the eight agencies complete operations.

We noted that Abt's February 1977 report on the outreach function brought out the difficulties encountered in using a naturalistic experiment. Abt concluded that data from the experiment did not permit conclusions about the relative cost-effectiveness of various outreach techniques; only research with controlled variation of techniques would allow confident analysis. Abt stated that the content and packaging of the outreach message probably influenced the number and type of applicants but that experimental data did not allow exploration of this hypothesis. Abt said that because the experiment was of limited duration, new research would be required to examine the effects of outreach in an ongoing program and that such research could shed further light on participation in many social services, as well as provide a basis for planning a housing allowance program.

In its February 1977 report on supportive services, Abt stated that, except for its conclusion that service approaches must be tailored to local market conditions, the experimental experiences should be considered suggestive rather than conclusive. Abt said that it would be premature to prohibit or require certain services on the basis of these findings; more research would be required to justify any such decisions; and, in a national housing allowance program, the most effective administrative strategy at this point would appear to be the control of the level of funding by the national agency, with local agencies deciding the nature of their programs.

To help overcome the problems of selecting sites and agencies that may lack characteristics typical of major urban housing markets, HUD required the Urban Institute to

integrate the data of the administrative operations from the supply and demand locations with the data from the administrative agency experiment. This data should provide HUD a broader coverage of administrative operations. However, it will not readily overcome the problem of whether the results achieved at these sites would be applicable to other sites or a national program.

VERIFICATION OF REPORTED INCOME AND FAMILY SIZE

Whether the eight administrative agencies properly determined the eligibility of program participants in terms of income and family size is unknown at most sites because HUD did not require independent verifications. For the same reason the effectiveness and efficiency of the agencies' certification procedures cannot be adequately determined.

One of the most important functions operating agencies carry out in any Federal assistance program is the formal determination and certification of participant eligibility for program benefits. Programs have varied criteria for determining eligibility, but all require accurate assessments of income and family size. If these assessments are incorrect, ineligible recipients receive payments or eligible recipients may receive more or less than they are entitled to, resulting in an inequitable distribution of benefits.

As shown in the following table, the eight agencies used a variety of procedures to determine an applicant's income:

<u>Site</u>	<u>Types of procedures used</u>				
	<u>Items</u> <u>verified</u> <u>with third</u> <u>parties (e.g.</u> <u>employers)</u>	<u>Documents</u> <u>required</u> <u>for all</u> <u>sources</u>	<u>Combination</u> <u>third party</u> <u>and</u> <u>documentation</u>	<u>Selected</u> <u>items</u> <u>verified</u>	<u>Agency</u> <u>accepted</u> <u>applicant</u> <u>statement</u>
----- (percent) -----					
Tulsa	86	2	-	11	1
Durham	64	20	7	8	1
Salem	53	26	5	11	5
Peoria	29	39	4	12	16
San Bernardino	35	5	1	11	48
Jacksonville	8	32	1	15	44
Springfield	4	-	-	1	95
Bismarck	1	-	-	1	98

To measure the effectiveness of the agencies' income certification procedures, Abt compared the amount of income reported by the applicant when he first applied for the program with the amount of income determined by the agency--an average of 58 days later--through the use of the above certification procedures.

For instance, when an agency used a certification procedure that involved verification with third parties, Abt found, in 63 percent of the cases, differences between the income initially reported by the applicant and the amount determined by the agency. In contrast, when the agencies accepted the applicant's statement without verification, Abt found in only 28 percent of the cases, differences between the income reported on the application form and the income on the enrollment document the applicant subsequently submitted. Overall, Abt found that payments were reduced by three times when verification was used as when it was not. After analyzing the frequency and the amount of the income differences, Abt concluded that verification techniques seem to yield substantially better results than accepting signed statements.

One reason we noted for the differences between the income amounts was that the operating agencies did not specifically require the applicant to state on the application form his precise income amount but only an approximate amount so that the agency could determine that the applicants were generally eligible. The agencies intended to perform a detailed income check later.

To determine applicant family size, the agencies generally accepted the applicants' statements, and performed no verification.

The limitations of Abt's analysis were noted by a consultant HUD hired to evaluate Abt's approaches to analyzing the enrollment data. The consultant advised HUD that:

"The Abt comparisons between reported and certified income do not demonstrate the effectiveness of the certification procedures used because the agencies in taking applications were more concerned with getting an applicant into the enrollment process rather than obtaining a completely accurate income statement."

Responding to the consultant's comments, Abt agreed that the method used was not ideal but the best that could be done with the data that was available.

The most desirable method for measuring the effectiveness of the certification procedures is to compare the amount of income determined by the agency to that an independent audit reveals as being correct. HUD officials told us that independent audits were not performed because Abt's comparisons between the income reported by the applicant and the income determined by the agency give an indication of a procedure's effectiveness without an independent audit. The officials said while conclusions from Abt's analysis are limited, the cost of performing independent audits to obtain data that, in their view, would probably not be significantly more accurate did not seem to be justified.

Independent audits of participant income and family size on a sample basis would have provided valuable data for measuring the effectiveness of the certification procedures the agencies used. Such audits were particularly needed for the Springfield and Bismarck agencies which, for the most part, accepted applicant statements that the income reported was accurate and for the San Bernardino and Jacksonville agencies which accepted the applicant statements about half the time.

Abt's March 1977 report on the certification function recognized that generalizations from the experimental findings must be approached with caution. Abt said the eight agencies represented a variety of geographic areas, participant characteristics, and organizational backgrounds, but eight cases is, at best, a very limited sample for drawing conclusions. Abt also said that there was no independent audit of participants' circumstances against which to measure applicants' statements or agency findings. Abt said that future research would include an independent audit of participant incomes conducted at about the same time as agency certification to assess the absolute accuracy of the procedures used.

Abt's report also pointed out the experimental limitations of letting the agencies decide whether to verify household size. Because most agencies chose not to verify household size, Abt said that it could not conclude whether some methods were more effective than others. Abt stated that the low number of household size changes observed at initial certification might accurately reflect the household

size figures reported on applications or may be an artificial product of the lack of verification. Abt further stated that this question requires further systematic investigation under more carefully controlled conditions for reliable answers.

CHAPTER 5

INTEGRATED ANALYSIS

HUD designed EHAP in three separate experiments to keep supply and demand responses analytically separate and to test alternative administrative approaches. However, limitations resulted in the extent that any one experiment could address all policy and research questions concerning a housing allowance program. The role of the integrated analysis is to (1) analyze and report the EHAP experience as a total entity--taking into account the individual experimental settings and findings as well as analysis across experimental lines--and (2) interpret how the experience can be appropriately generalized for use in developing national housing policy. The Urban Institute is carrying out the integrated analysis.

Although HUD considered dividing EHAP into three separate experiments necessary, it believed that each experiment would provide valuable complementary and corroborative information on the behavior analyzed in the other two experiments. By cross-experimental analysis the integrated analysis is attempting to overcome many deficiencies inherent in the design of any one of the three experiments, taken individually, and to contribute to a balanced and comprehensive understanding of the total EHAP experience.

In addition to cross-experimental analysis, the integrated analysis is also concerned with generalizing EHAP findings. To develop a general understanding of research results and relevant policy implications, it is important to know how representative the behavior observed in the EHAP sites would be of other settings and how the results can be used to project the principal effects of allowances at a national level. These considerations necessitate the use of nonexperimental data.

The Urban Institute believes that although each experiment has its own objectives, together they provide information for ascertaining the advantages and disadvantages of the housing allowance approach; determining in what form it should be developed; demonstrating how it should be related to other housing programs, as well as other income-conditioned transfer programs; and indicating how it should be administered. The Institute designed the integrated analysis to address the following kinds of questions:

1. How many households will benefit from different national housing allowance programs and what would be the national cost?
2. What price effects will housing allowances have in different housing markets and who will feel these effects?
3. How will housing allowances affect the process of housing choice for low-income families?
4. To what extent will recipients acquire improved housing services in the different experimental contexts?

Integrated analysis' methods vary. Depending on the data available and the approach to a particular policy question, the analyses range from simple approaches, such as contingency tables, to more complex techniques involved in simulation models. Some techniques for policy questions follow:

<u>Policy questions</u>	<u>Analysis technique</u>
How many households will benefit and what are national costs?	Transfer Income Model (TRIM), Housing Market Model, benefit/cost analysis
What price effects will housing allowances have in different housing markets?	Housing Market Model, special study of large cities, annual housing survey
How will housing allowances affect housing choice?	Analysis of variance, factor analysis, regression, TRIM

The Institute is primarily using TRIM to estimate national program costs and the Housing Market Model to estimate supply responses to a housing allowance.

TRIM

TRIM will be the principal tool for the Institute to estimate national costs and benefits of alternative housing allowance programs. TRIM is a computer-based simulation model designed to answer such questions as how much a particular program would cost the Federal Government, how benefits would be distributed among demographic groups,

and how changes in program standards and definitions would affect costs and benefit patterns. Estimates from the model are based on representative national cross sections of households, such as the Current Population Survey or one of the Public Use Samples prepared as a part of the 1970 census.

To simulate an income-conditioned transfer program such as housing allowances, the demographic characteristics and economic criteria are explicitly defined to determine whether a family is eligible for program benefits and the amount of benefit it is eligible to receive. The data base is then aged to consider expected changes that will occur by the year for which the simulation is being run. TRIM then applies the program's eligibility and benefit criteria to each sample family in the household data file to determine eligibles and the amount of program transfers received, if any, by each family. Next, the individual family benefits are weighted and summed to calculate the total transfers for the entire population. Finally, tabulations are prepared to show the impact of the program on various economic and demographic subgroups of the population.

Even though TRIM was specifically designed to simulate income-conditioned transfer programs, the integrated analysis work on housing allowances created a need to modify and expand the model. The Institute developed a data base with more detailed geographic coverage and an expanded representation of the potentially eligible population.

Since there are intrinsic differences between housing allowance and other income-conditioned programs, the payment formula for a housing allowance program could be conditioned on housing costs or other housing-related variables. The Institute, therefore, developed information on such variables as mortgage debt and equity for owner-occupants and housing costs for homeowners that are equivalent to rent. These variables were imputed to each household record on the expanded data base.

The Institute then developed the assumed future environment into which the housing allowance program could be introduced. Before it can analyze how the program would operate during a particular year, the Institute makes general assumptions about the state of the world, including the assumed economic environment (inflation and unemployment), probable welfare environment, and projected demographic composition of the population.

TRIM simulations are based on many assumptions. The assumptions and the data base imputations that were developed from them, are considered the best available or most reasonable when the original data base was developed. With experience in carrying out simulations and as time passes, many of these assumptions must be validated and revised as appropriate. Four areas are particularly important: revision of the demographic and economic assumptions underlying the simulations, revision of housing allowance participation assumptions, validation and revision of simulations of other transfer programs, and validation and revision of the housing-related data.

The Urban Institute is validating TRIM's data base. Early TRIM simulations were based on 1970 census information the Institute had to age to the time of the simulation. As this aging process may not have been totally accurate, the Institute will be using HEW's Office of Education Survey of Income and Education which contains more recent demographic data. The survey was conducted in March 1976 but has only recently become available.

TRIM simulations will be based on certain EHAP data. A principal source will be participation rates from the demand and supply experiments. As the supply experiment has a 5-year open enrollment period that will not end until April 1980, final TRIM estimates will not be available for some time.

Our report to the Congress on November 25, 1977, entitled "An Evaluation of the Use of the Transfer Income Model--TRIM--To Analyze Welfare Programs" concludes that the model can be very useful in certain circumscribed areas but should not be used for other types of analysis. Although we did not specifically evaluate the housing market module of TRIM, we noted several limitations of the basic TRIM model which will impact on any conclusion the Institute reaches for EHAP. For example, because none of the currently available data sources contain all the requisite information for analyzing income-conditioned programs, assumptions are made in the model to compensate for the lack of accuracy, completeness, and currentness of the available data. These assumptions affect the estimates made by the model.

Housing Market Model

The Institute's Housing Market Model is a computer simulation model geared to predict 10-year changes in housing quality and location within a metropolitan area. The

Institute believes that a finding that the Model adequately predicts allowance program outcomes in the two supply sites would lend credence to the ability of the model, bolstered with information from the supply experiment, to predict results in other sites. Since the Housing Market Model could be fit relatively cheaply to most SMSAs in the 1970 census, the Institute believes that it could provide the link for carrying the findings of the supply experiment beyond the two experimental sites.

The usefulness of the Housing Market Model for generalizing from the supply experiment depends on how much the Model can be validated by the experimental outcomes. The Institute is testing the actual outcomes of the experiment in Green Bay and South Bend against the Model's prediction on the effects of a full-scale allowance program. As the experimental results from the two sites will not be known for some time, it is not yet possible to determine whether the Model will be able to generalize results from these experimental sites to other sites and with what degree of reliability.

One limitation of the Model is that it predicts effects 10 years after the program is introduced. Shorter run responses of, say, prices or neighborhood changes can be of crucial policy importance.

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As of March 1977 the Urban Institute had prepared 35 papers, reports, or working papers on EHAP that cover a broad range of topics, including several theoretical papers on housing allowances and the welfare system, simulations using TRIM, and development of an analysis technique for measuring housing quality. The Institute has also prepared reports summarizing EHAP's early findings and showing evidence of program feasibility and other preliminary findings. Several papers are in process.

Advantages and disadvantages of modeling techniques

A model is a documented set of rules, methodologies, techniques, procedures, mathematical formulas, and logic designed to simulate or approximate selected elements and/or situation or system being studied. Modeling is one of the principal tools the operations research and systems

analysis community uses to simulate, game, or study complex problems or situations. Its purpose is to provide decisionmakers results that should present objective and statistically reliable bases for decisions.

A model abstracts the relevant features of a situation by means that may vary from a set of mathematical equations or a computer program to a purely verbal description of the situation where intuition alone is used to predict the consequences of various choices.

The model furnishes a logical structure or framework for the data involved. Once operational it provides a means to better understand a proposed course of action and to make and correct errors without the costs or risks of application in the real world.

It can be manually or mechanically manipulated to obtain output results. The mechanical operation of a model is frequently handled by a computer. The computer has made feasible the application of ideas and techniques that involve numerous variables and many mathematical computations, as well as numerous reiterations using varying assumptions.

For analytical purposes the model can be regarded as a substitute for reality. Thus, instead of investigating and experimenting with the real world, one can do the same with a model--usually with less time and money. As abstractions of reality it is somewhat less complex than the phenomena it attempts to explain but can be of great assistance in describing, explaining, and perhaps predicting behavior.

To the extent that a particular model appropriately represents reality, it can be a valuable aid in assessing alternative strategies associated with reality and in identifying the consequences of these strategies.

In providing this assistance models enable the analyst to:

1. Test hypotheses that underlie the construction of a model.
2. Determine which variables are the most pertinent in explaining changes in the model.
3. Investigate the relationship that exists among variables.

Once these relationships are established and tested, the analyst can use the model to extrapolate to the future or to better determine maximums or minimums--at considerable cost savings over implementing a program in full.

Limitations of the modeling approach

The purpose of the modeling approach is to provide quantified results over a spectrum of situations to minimize dependence on intuition. Nevertheless, the choices of scenarios, behavior patterns, and economic projections are somewhat based on unknowns and uncertainties. The extent that the model reflects the real world situation depends on the accuracy of the model builders' judgment. The degree that model results simulate real world behavior is best determined by actual comparison of the outcome derived by exercising the model with real-world occurrences.

Of necessity, many modeling efforts involve events that have not occurred or, for various reasons, preclude experimentation. Examples include a simulation of housing demand or mortgage availability in 5 to 10 years. In such cases the model results often cannot be compared with real world occurrences, and consequently, the model's predictions of real world behavior remain essentially unverifiable.

As abstractions of reality models involve the use of many assumptions, of which some may be unrealistic in order to be able to use the model. Care must be taken to insure that the model remains a valid representation of the problems. The data required to use the model may be partially missing or, if available, may be no better than mere "guesstimates." Regression analysis, prominently used in many models, explores the relationship between variables but does not establish causality between variables.

In these situations it is apparent that if the decisionmaker is to be enlightened and aided by modeling efforts, he must be advised of important qualifying factors, such as assumptions and uncertainties, reflected in the results. Unless the decisionmaker is aware of the assumptions made and the way uncertainties were treated, the benefits to him will be substantially diminished.

Additionally, because human judgment plays an important role in modeling efforts, disagreement over assumptions and uncertainties, as well as conclusions and recommendations, can be expected. To facilitate constructive debate, it is imperative that qualifying factors reflected in the results be clearly identified.

The Operations Research Society of America, a professional society of operations research analysts, formulated guidelines for professional practices of operations research. One part of the guidelines addresses the reporting of study results and includes, among other things, the following guidance for operations research analysts:

- Report clearly the problem formulation finally adopted, key assumptions used, major alternatives considered, essentials of the input information (and inaccuracies therein), criteria employed, and findings (including their sensitivity to realistic changes in assumptions or the uncertainty in data) and their implications for policy and action.
- Delineate conscientiously what was accomplished by the study and, perhaps even more important, what was not considered or accomplished.
- Specify the limitations on methodology or conclusions that should be observed and specify with candor instances where the analysis did not provide definitive results.

LIMITATIONS OF THE INTEGRATED ANALYSIS

In the design of the integrated analysis, the Urban Institute identified three major shortcomings:

- Limits on generalizing findings beyond the experimental sites.
- Limits to the combination of information from more than one experiment.
- Limits on findings within each experiment.

Following are excerpts from the Institute's integrated analysis design:

Limits on generalizing findings beyond the experimental sites

No statistical basis exists for determining the reliability of experimental findings for national application. There are only 12 experimental sites. The sites were not randomly chosen from the U.S. housing market nor were households chosen for the allowance program as a probability sample of the population of eligible households. Further,

there is considerable variation in the experimental treatments among the sites. Individuals will have to make their own judgments on the reliability of predictions about national responses based on experimental findings.

The greatest amount of experimental information stemming from EHAP will be collected on household responses to the allowance. Though only the two demand sites were primarily designed to observe household responses, some observations will be collected from households of all 12 sites. The integrated analyses of attitudes, improvements in housing quality, and mobility use household data from all of these sites. The extent to which findings on households are judged to reflect the Nation depends, in part, on how representative the households in these 12 sites--and the sites themselves--are of the Nation.

To assist in making the judgment, the Urban Institute will develop a study of types of U.S. housing markets arranged by what the Institute believes are their significant characteristics for a national housing allowance program. The Institute plans to construct a national profile of allowance recipients arranged by household characteristics through the use of TRIM and then compare this profile to that of allowance recipients in the 12 sites.

The results of the supply experiment will be the most difficult to generalize to the Nation. There are only two sites, both between 200,000 and 250,000 in population. Moreover, both are in the upper Midwest. These sites have high proportions of single-family dwellings and high rates of homeownership. However, they were chosen to represent two important categories of national housing markets. One site has rapid growth and a low minority population; the other has slow growth and a high minority population. Their significant differences will provide good information in predicting how markets react to allowances.

Regarding the size of the sites and their associated high rates of single-family dwellings and homeownership, the supply experiment focused its sample design on the lower rent groupings of dwellings and, to the maximum extent possible, the larger rental structures. Some analytical modeling can be done to suggest what these findings imply for larger SMSAs. For additional information on larger SMSAs, further research is needed. The Urban Institute Housing Market Model is an example of one source of additional information. Expansion of the supply experiment to a larger SMSA is another alternative source.

Limits to the combination of information from more than one experiment

Only one allowance program is being tested across the supply and administrative agency experiments. Thus, findings from cross-experiment analyses hold strictly only for that program. Testing an additional program, say, a percentage of rent formula, would have required additional sites in the supply and administrative agency experiments. The program chosen for cross-experimental use is the one most likely for a national program.

A second source of limitations on the combination of cross-experimental information is the lack of controlled variation between sites of two separate experiments. For example, differences in behavior of households between the supply site of Green Bay and the administrative agency site of Jacksonville could be attributed to differences in the residents, housing markets, or program administration. Controlling one but not all of these variations limits the ability to isolate the source of cross-experiment variation. To some extent the existence of more than one site for each experiment compensates for this but not a great deal. A total of two supply (or demand) sites is not many, and the eight administrative agency sites are not much better because administrative practices differ across sites.

A third limitation to comparisons across experiment arises from the small number of households within any one treatment cell in the demand experiment (30 to 50 households after 2 years). For some comparisons among households within the demand experiment, cells can be combined to raise the effective number of observations. However, when one program variation in the demand experiment is to be compared to that same program in the supply or administrative agency experiments, experimental comparisons can strictly be made for households in one cell. These are very few households. Cells within the demand experiment cannot be combined for comparisons across experiments as extensively as within the demand experiment because only one program is conducted in the other experiments.

The Institute recommended that the number of households in the two cells most similar to programs in the other experiments be raised to 80 households in each, but HUD did not adopt this suggestion.

Limitations on findings within each experiment

The supply and administrative agency experiments have used only one allowance program--housing gap payment. Thus, their findings strictly apply to this program. The Institute does not expect that the administrative response to a different program--say, a percent-of-rent payment--would produce significantly different administrative behavior. However, the supply response could be quite different. The Institute plans to make projections using the findings of both of these experiments but applied to different types of allowance programs. It also proposes to take special care in studying the extent that the supply responses might differ under the different programs.

The major potential shortcoming of the supply experiment is the absence of controls. Short of increasing the number of supply sites, no experimental controls are possible. Consequently, it will be impossible to be sure that responses associated with introduction of allowances are truly caused by allowances. The design of the supply experiment has gone a long way to reduce the uncertainty of what is or is not allowance-caused by collecting existing data in many other sites. Still, these analytical controls can not perfectly replace experimental ones.

Another limitation of the supply experiment is that its findings apply to only one scale of program. A larger or smaller program might have considerably different results. HUD and Rand tried to choose a program scale closest to what they judge a national program would be. Clearly, however, no one can be certain.

The administrative agency experiment suffers from the same lack of experimental controls as the supply experiment. A further limitation is the lack of controlled variation across sites. Differences among sites could be due to a host of different administrative procedures or to differences in the characteristics of the sites themselves.

HUD CONGRESSIONAL TESTIMONY ON EHAP

HUD has not clearly apprised the Congress from the outset of the experiment's limitations and has raised the Congress expectations too high as to EHAP's usefulness. HUD representations to the Congress should have discussed in-detail the fact that EHAP's results could not be statistically projected and that the various analytical techniques to extrapolate and infer involve assumptions and subjective judgments.

HUD's fiscal year 1972 budget justification stated that the Urban Institute was developing the experimental design that involved the data to be obtained, factors to be examined, experiment's duration, and number of persons needed to make the experiment a statistically meaningful one.

In 1973 HUD provided the House Appropriations Subcommittee with background data on the three EHAP experiments. For the supply experiment HUD stated that the two cities chosen for the experiment greatly differed regarding housing market conditions and population characteristics and that, consequently, the results of the experiment should span a range of local characteristics, permitting some generalization of results.

At the May 1973 hearings a HUD Assistant Secretary was asked whether HUD was confident that it could adequately test the supply concept using only two small cities. He replied that HUD would be able to conduct an experiment that would provide answers to that question.

In May 1974 the HUD Assistant Secretary was again asked if the two supply experiment sites were adequate because of their small size. He responded that HUD believed that it would learn a great deal about market responsiveness from those two cities.

In the budget justification submitted in January 1974 for fiscal year 1975, HUD stated that the integrated analysis was designed to combine the household, market place, and administrative responses as measured in the experiments to estimate the probable effects of a national direct cash assistance program.

In May 1975 a House Appropriation Subcommittee Member stated that the committee raised some questions over the past couple of years as to whether the supply sites were sufficiently large cities with typical urban housing problems to obtain the kind of data HUD needed for accurate analysis. The Member asked the HUD Assistant Secretary whether he still thought the sample was sufficient. The Assistant Secretary replied that he did. He also said that HUD had supplemented the effect with certain technical studies and looked at some large city housing markets to estimate the impacts there of an operating program on housing costs. He said that what HUD was actually doing was simulating a nationwide program. He explained that to try to simulate a national program, one had to have nearly everyone who would be eligible for the program on a nationwide basis also be eligible for the experiment itself and that this was the case in Green Bay and South Bend.

In the April 1976 House hearings, the HUD Assistant Secretary reiterated that the purpose of EHAP was to determine what would happen if a full-scale housing allowance program was initiated. The Subcommittee Chairman also asked whether the supply experiment was a valid test. The EHAP Director answered:

"I am firmly convinced that it will be a valid test for a number of reasons. One, in the selection of the supply experiment sites, * * * we have selected two contrasting sites that will tell us much about the impact of housing allowances on housing markets. We will be able to project this experience to most of the Nation. I think the most difficult part of that projection will be to accurately assess what the impact will be in large cities. But, if one looks at the profile of cities throughout the United States, Green Bay and South Bend do represent a large portion of the housing markets of the United States in terms of demographic characteristics as well as population and other housing market factors."

We believe that HUD's budget justifications submitted to the Congress and discussions on the justifications over the years gave the Congress the firm impression that EHAP would provide answers as to what would happen if a national housing allowance program were adopted. HUD made no attempt to inform the Congress that EHAP has certain inherent limitations brought about by the simulation modeling and other analytical techniques that involve various assumptions and relationships. By addressing these issues, particularly at the early experimental stages, HUD would have provided the Congress better information for deciding whether EHAP should be continued, modified, or terminated.

HUD's February 1976 report to the Congress on EHAP provided findings on about 2 1/2 years of testing the housing allowance concept. It contained data on the experimental results from the 12 sites and preliminary evidence on the feasibility of a housing allowance approach and EHAP's policy questions. We believe that the report would have been more informative and useful to the Congress if it had indicated the experimental limitations brought about by the small number of sites, how the modeling and other analytical efforts under the integrated analysis component would be used to make estimations and projections on the basis of EHAP and other data, and, most importantly, the reliability of such estimations and projections in terms of ranges or other parameters.

CHAPTER 6

PLEDGE OF CONFIDENTIALITY: A PROBLEM IN AUDITING SOCIAL EXPERIMENTS

Our audit efforts were hampered and our review considerably delayed because we could not readily obtain access to data on program participants HUD and its contractors considered confidential. HUD and the contractors contended that if we had access to the participant names and addresses, the pledge of confidentiality made to the participants would be breached, causing serious damage to the experiment. After many months of negotiation, we and HUD agreed on an approach whereby we would examine the records of a selected sample of participants who agreed to be interviewed. The results of this approach are discussed in this chapter.

The significance of the confidentiality of data obtained as part of a social experiment became a real issue in our study. In our opinion, unless it is resolved in a satisfactory manner, the issue of confidentiality will greatly affect our ability to effectively monitor future federally sponsored social experiments. This chapter presents a detailed discussion of our attempts to resolve the problem in this particular study.

ISSUE OF CONFIDENTIALITY

To assure EHAP participants that the information they gave would not be made available to anyone outside the experiment, HUD decided that participants should be guaranteed complete confidentiality. The EHAP contracts include confidentiality clauses that authorize the contractors to withhold from HUD the identities of program participants in association with specific information received in confidence. For example, the Rand contract states:

"CONFIDENTIALITY OF INTERVIEW INFORMATION"

"Notwithstanding any other provisions of this contract, the Contractor and its subcontractors shall have the right to withhold specific data obtained by interview or direct observation from HUD in the form in which it was collected, provided that said data was obtained by the Contractor, or its subcontractor in confidence and, provided further that said data reveals the identity of the respondent or subject with specific information obtained by such interview or observation.

To implement the confidentiality provisions, the documents the contractors distributed to EHAP participants were worded to assure program participants that their identities would not be revealed as a matter of course. For example, all survey documents distributed by Rand bear the notation:

"NOTICE: ALL INFORMATION WHICH WOULD PERMIT IDENTIFICATION OF RESPONDENTS AND THEIR HOUSEHOLDS WILL BE REGARDED AS STRICTLY CONFIDENTIAL, WILL BE USED ONLY FOR THE PURPOSES OF THE SURVEY AND WILL NOT BE DISCLOSED OR RELEASED FOR ANY OTHER PURPOSES WITHOUT PRIOR CONSENT, EXCEPT AS REQUIRED BY LAW."

HUD and the contractors contended that the contract confidentiality clauses precluded us from obtaining access to the identities and addresses of program participants. All contracts negotiated without advertising are required by law (41 U.S.C. 254(c)) to include a clause to the effect that we have access to pertinent contractor records. The contracts negotiated between HUD and the EHAP contractors contained the following general provisions:

"The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of 3 years after final payment under this contract or such lesser time specified in either appendix M of the Armed Services Procurement Regulations or the Federal Procurement Regulation Part 1-20, as appropriate, have access to and the right to examine any directly pertinent books, documents, papers, and records of the Contractor involving transactions related to this contract."

We consider records of participants who receive housing allowance payments or who otherwise provide data to the contractor as pertinent records. Thus, our legal right to participant names and addresses is clear, not only under general statutes but under the specific provisions in the various EHAP contracts.

The confidentiality clauses the contractors used do not bar our right of access. Those clauses specifically provide that the information received from program participants will be kept confidential, "except as required by law." Such a law is 41 U.S.C. 254(c), and publication of information, therefore, conforms with the assurance given to program participants.

HUD AND CONTRACTOR POSITIONS

On February 12, 1975, we began our audit of EHAP operations. We told the Director, Division of Housing Assistance Research, at that time that part of our audit would be directed to evaluating the accuracy and reliability of the data the contractors provided HUD. We said that to do this, we would have to review participants' files, contact them, and inspect their homes. The Director said that this would not be possible since the contractors had promised the participants complete confidentiality. HUD contended that if we contacted EHAP participants, the experiment could be affected in four major ways: the creditability of the experimental findings might be reduced, participants might drop out of the experiment, participants might answer questions differently, and our asking questions would influence responses to other experimental stimuli. HUD also contended that large amounts of data were also being obtained from participants such as landlords and bankers who were not receiving housing allowances but were voluntarily furnishing the contractors information. HUD stated that it was concerned that these sources of information might be lost to them if the pledge of confidentiality was breached.

HUD stated that it was difficult to quantify the effects of the breaching of the confidentiality pledge, but in Rand's judgment the effects would be significant and could be of sufficient scale to jeopardize experimental objectives by reducing program participation in the supply experiment. HUD contended that breaches of confidentiality could have a devastating effect on the analysis of the demand experiment. HUD said that fear of audit by a Government investigatory agency was likely to have considerable effect and that control groups would be most likely to drop out. For the administrative agency experiment, HUD stated that the experiment had passed the point where our interviews would bias experimental data. However, HUD contended that violation of promises of confidentiality would have a substantial negative impact on EHAP in general because news of the violation would quickly reach other experimental sites, creating substantial damage.

OUR EVALUATION OF HUD'S POSITION

The confidentiality clauses in the HUD contracts specifically exclude HUD from obtaining the names and addresses of EHAP participants. By these clauses HUD has allowed the private contractors almost total control over the operation of EHAP and cannot be sure that the contracts are being carried out effectively. Specifically,

HUD does not know whether the housing allowance payments are made to an estimated 22,400 individuals who actually exist and are eligible for the payments; whether the individuals are, in fact, occupying the units the contractors report they are occupying; or whether the housing quality data is accurately reported by contractors. All HUD knows is that the allowance checks are being cashed, and the contractors are reporting data based on some evidence. We consider HUD's lack of management control over these areas to be contrary to basic management concepts.

HEW is involved in two social science experiments: (1) an income maintenance project operated under an HEW contract with two State welfare agencies and (2) a health insurance project operated under an HEW grant to the Rand Corporation. Both experiments are similar to EHAP in design and operation. The grant and contract provisions relating to confidentiality provide that such data will be treated as privileged, held strictly confidential, and not be divulged without the participant's express written consent. These provisions are similar to those of the HUD contracts.

Unlike the HUD contracts, however, the HEW grant and contract clearly provide for audit of the confidential data. For example, the contract with the State welfare agencies states, in part, that permission by the Secretary of HEW and the Director of the experiment

"* * *will be granted for release of names of families or data which can be associated with a family only to authorized Federal and State Government auditors and only then for the express purpose of conducting an official audit relevant to the performance of the contractor carrying out the project." (Underscoring supplied.)

ACCESS IS REFUSED

We carefully considered the concerns HUD and its contractors raised in determining whether we should demand access to participant names and addresses. We recognized that there were risks. Social science researchers with whom we spoke recognized the need for confidentiality and indicated that there might be repercussions on future social science research; our contacting program participants might bias EHAP results.

On the other hand we were aware of our responsibility to the Congress to provide information as to the reliability of data as a basis for formulating a national housing allowance program. We decided that we would request access to data obtained from program participants and the right to interview a representative sample of those participants to verify compliance with eligibility criteria in terms of income, family size, and housing quality. We also decided not to insist at this time on access to the names and addresses of participants, such as landlords and bankers, who did not receive allowances.

On September 19, 1975, we reiterated our request for access in letters sent to HUD, Abt Associates, the Rand Corporation, and the Housing Authority of the City of Salem, Oregon, informing them of the specific number of records they should make available to our representatives at the Pittsburgh, Green Bay, and Salem sites.

We assured HUD and the contractors that we recognized the sensitive nature of the data and guaranteed that the data would be appropriately safeguarded. We said the participant names would not be disclosed; the information would be used solely for the purpose of evaluating the experiment's results; and the participants' identities would remain anonymous.

The HUD Assistant Secretary for Policy Development and Research responded that to comply with our request would be blatant violation of the confidentiality pledges. He also said he was gravely concerned about the impact that violating pledges might have on EHAP, particularly the supply experiment. He said that he had asked the EHAP contractors to honor HUD's pledges of confidentiality. The three contractors, acting on the advice of HUD, refused to provide us the requested records.

On October 14 the Comptroller General formally requested the Secretary of HUD that all pertinent records be made available for our examination, as provided by the terms of the negotiated contracts HUD awarded. He also requested that if HUD again refused to grant us access, the Secretary should provide the legal basis for refusal.

On November 6 the Secretary of HUD told the Comptroller General that HUD could not provide us with participant names and addresses because of HUD's contractual assurance of confidentiality to its contractors and participants. The Secretary did not provide us with HUD's legal basis for refusal.

However, the Secretary offered to provide us the names and addresses of participants who would consent to an audit by us. The Secretary said that in the future HUD would not commit itself to denying us access to any information arising out of its research efforts without our explicit advance approval.

RESULTS OF PARTICIPANT CONSENT APPROACH

Although we could obtain access to some participant records at the Pittsburgh, Green Bay, and Salem sites, we believe the percentage of participants agreeing to the audit was not sufficient for us to draw valid conclusions about contractors' determinations of income, family size, and housing quality for the entire population of housing allowance participants at these three sites. Thus, we cannot comment on the validity of EHAP data from the three sites that will help form the basis for HUD's conclusions. We did review the records and inspect the housing of those participants consenting to our audit.

Procedures used to obtain access to participant records

The three contractors--Abt, Rand, and Salem Housing Authority--gave us the identification numbers of the EHAP participants who were active in June and July 1976. At each location we randomly selected 100 numbers.

Under agreements with HUD a certified public accounting firm was hired to contact the sampled participants and obtain their consent to our audit. We turned over to the firm the 100 numbers for each site. The firm mailed letters to the EHAP participants requesting consent from them for us to review their case files, talk to them, and inspect their dwelling units. The request letters were printed on EHAP stationery and signed by a housing allowance site official. The firm mailed the request letters and controlled the receipt of replies by having them sent to a post office box it controlled.

The letter sent to the participants involved negative confirmation; participants were asked to only send a negative response back to the site office. Participants did not need to do anything if they consented to our review. For the participants who did not send a negative reply, the site offices called them about 10 days after the letter was mailed to set up specific appointment dates and times for us and the HUD housing inspector to visit their units. The

accounting firm monitored the telephone conversations, as agreed by us and HUD. For participants who could not be contacted by telephone, the firm in some cases made visits to their homes.

Response rates

To make statistically valid inferences from a sample to the universe, the response rate must be sufficiently high so that any nonresponse bias will not distort the results. The informed consent approach, however, introduces by its very nature an element of bias since those choosing to consent may be quite different from those refusing. Because of this limitation conclusions drawn from the sample are valid only for those who would choose to respond. The assumption that those who do respond are representative of those who do not respond could result in misleading conclusions.

The results which follow show that the largest category of nonresponse was refusal, rather than random events such as moving away or illness. One possibility is that the non-respondents who refused may have been ineligible participants who feared discovery.

The results were as follows:

Pittsburgh

At June 25, 1976, the date of our random sample, 881 participants were enrolled in Pittsburgh. Initially, 1,248 were enrolled.

Seventy-six of the 100 participants agreed to our request to review their case files and make home visits. At our request the Pittsburgh site office contacted the 24 who refused our audit and were given the following reasons:

- Health (3).
- Out of town on vacation (2).
- Too much bother (1).
- Participation terminated (1).
- No reason given (17).

We were able to make housing inspections of only 58 of the 76 households in our sample. Of the other 18 households,

- 8 moved since the last inspection,

--5 could not agree on the scheduling of the inspection,

--3 did not show up for the inspection, and

--2 refused us entry at inspection time.

To determine the representativeness of the sample participants, we compared their demographic characteristics with those of the 1,248 participants originally enrolled. This analysis showed general similarities between the two groups. The only noticeable difference was that our sample had considerably fewer females as heads of households than did the universe.

We also compared the characteristics of those who refused us access to their files to those who agreed. Generally, the refusers were more elderly, single, and white.

Green Bay

At July 29, 1976, 2,905 participants were enrolled in Green Bay.

Of the 100 participants sampled, 65 agreed to our request for case file review and home visits. For the 35 who refused their reasons varied, such as being ill, too busy, or not wanting to be bothered.

The Green Bay housing allowance office performed for us an analysis of demographic characteristics of the universe enrolled at July 23, 1976, the 100 selected for our audit, and those who refused the audit. There was no significant difference between the three groups.

Salem

At the time of our audit in June 1976, the administrative agency experiment in Salem was complete. The last participant was terminated in December 1975. About 300 former participants were still receiving allowance payments, as the experiment allowed continued payments for 3 years after the experiment terminated if participants met certain conditions. A total of 947 participants had been initially enrolled.

To help us select our sample the housing authority gave us a list of 253 participant numbers so we could evaluate the housing quality determinations. The participants were receiving allowance payments and were living in the same units as during the experiment.

Of the 100 participants in our sample

- 81 consented to our audit,
- 14 refused, and
- 5 had voluntarily terminated or moved.

One participant who consented could not be contacted later, and our sample was reduced to 80 participants. The reasons for refusing included plans to travel or move, did not want to be bothered, or was in jail.

Generally, our sample was not representative of the total enrolled. Our sample had a greater percentage of elderly participants, smaller gross annual incomes, households of two or less in size, and female heads of households.

We compared the characteristics of the 14 participants who refused with the 80 that consented. The most significant difference was in the age of the head of household. Sixty-four percent of those refusing had a head of household under age 45, whereas only 38 percent of those consenting were in this age group.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

EHAP represents a major effort on HUD's part to experiment with the housing allowance concept to determine the feasibility and desirability of a national housing allowance program. Large-scale experiments are useful techniques for gaining information necessary to make informed decisions on certain types of major public policy issues involving multibillion dollar programs. In the final analysis the number and type of sites and agencies selected for the experiment will determine whether HUD can reach reasonably valid conclusions for projecting how a national housing allowance program might affect such important issues as participation, inflation, residential mobility, housing quality, or program administration. We believe that EHAP as presently designed has not and cannot provide conclusive evidence that a national program would or would not be feasible and desirable.

On the other hand EHAP will provide a wide range of information on housing markets and the behavior of low-income persons that has not been available before. Such information will make the eventual policy decision better informed than is typical of public policymaking. The questions "Of what value is that information?" and "At what cost is it being obtained?" are yet to be answered.

The experimental sites, particularly the two supply experiment sites, lacked the characteristics typical of the major urban areas where a housing allowance program would be most needed. For the demand experiment HUD selected cities where the experimental conditions were conducive to a successful experiment; for the administrative agency experiment, the agencies chosen had demonstrated very capable administrative ability. The less typical the sites, the more difficult it becomes to extrapolate and infer from the experimental results.

EHAP's integrated analysis component will attempt to generalize beyond the experimental sites to a national program. The analysis involves aggregating data from the 12 experimental sites and also using simulation modeling and other analytical techniques that involve various assumptions and relationships. Although the integrated analysis will supplement the data obtained from the EHAP sites with non-experimental data such as annual housing survey data and

the 1970 census population data, its results will be heavily influenced by the EHAP data. As the EHAP data will have serious limitations, the end product of the integrated analysis will also reflect these limitations. The results from the integrated analysis will have to be stated with many major qualifications because of the limitations of the EHAP data and the many unprovable assumptions inherent in simulation modeling. Because the integrated analysis is now in process and reports will not be available in the near future, the degree of reliability of the modeling and other analytical efforts cannot as yet be assessed. Of particular concern to us, and presumably to the Congress, would be the reasonableness of the assumptions being made, how variables are measured, the reasonableness of the relationships showing causality, the statistical validity of the data, and the treatment of the various limitations caused by the number and type of sites and other experimental conditions.

Although we have serious doubts about EHAP's ability to give reliable answers to the major research questions initially posed in formulating the experiment, HUD and other Federal agencies can capitalize on the experience as lessons learned for future social science experiments. We recognize that EHAP represented HUD's first effort in designing and operating large-scale social research activities.

Social research and development is in its early stages compared to physical science or engineering or biological science and medicine. By nature social experimentation involves definite limitations concerning its conclusiveness and ability to project beyond the experiment. Few social experiments of EHAP's magnitude have been completed. The technical capacity to carry out social experiments is not well developed in most U.S. agencies and institutions. Only a limited number of research institutions, usually connected with universities, have the combination of professional standards, management capability, and staff continuity necessary to execute a long-term social experiment.

We do not intend to convey the impression that social experimentation is not useful. Carefully designed and operated experiments offer very useful techniques for gaining information necessary to make informed decisions on major public policy issues when they provide the appropriate means of gaining such information.

Social experiments are by nature representations of what might be expected to happen in reality. They are operated at only a few locations because of the high cost

involved. A key element to any experiment is its transferability or replicability of the experimental results to locations not tested. The program manager must decide at the outset of the experiment the number and type of experimental locations needed to strike a reasonable balance between the validity of the findings and the financial limitations imposed. For large-scale social experiments such as EHAP, when a multibillion dollar program is being considered, the probable experimental validity should be stated as definitely as possible and at the experiment's early stages. We believe that HUD has not clearly apprised the Congress from the outset of the experiment's limitations and raised its expectations too high as to EHAP's usefulness. HUD representations to the Congress should have discussed in detail the fact that EHAP's results could not be statistically projected and that the various analytical techniques to extrapolate and infer involve assumptions and subjective judgments.

HUD's February 1976 report to the Congress on EHAP provided findings on about 2 1/2 years of testing the housing allowance concept. It contained data on the experimental results from the 12 sites and preliminary evidence on the feasibility of a housing allowance approach and EHAP policy questions. We believe that the report would have been more informative and useful to the Congress had it contained some indication of (1) the experimental limitations brought about by the small number of sites, (2) how the modeling and other analytical efforts under the integrated analysis component will be used to make estimations and projections on the basis of EHAP and other data, and (3) most importantly, the reliability of such estimations and projections in terms of ranges or other parameters. We believe that as a general rule, HUD should be advising the Congress of any changes in or limitations of EHAP as the experiment progresses. For example, if HUD concludes that it will no longer be able to provide the Congress definitive, statistically reliable conclusions on whether a national housing allowance program is feasible, this conclusion should be brought to the Congress attention so that it can make a decision on whether the experiment should be allowed to continue because of its value to other HUD programs or whether it should be modified or terminated.

Savings would be available if EHAP were terminated, particularly from the supply experiment. HUD estimated that if the experiment were terminated in July 1977, savings would range between \$10 and \$23 million, depending on the extent that enrollment and research activities were continued.

The House Committee on Banking, Currency and Housing questioned the need to continue the experiment for other reasons. In its May 1976 report on the Housing Authorization Act of 1976, the Committee, in part, stated:

"While the experimental housing allowance program has been specifically authorized by the Congress, the committee believes that the time has come to re-evaluate the whole approach. There is little likelihood of a comprehensive housing allowance program being provided as a substitute for the ongoing programs of housing assistance for low-income families. Without waiting for the results of the experimental program, the Congress has adopted the section 8 existing housing program which is substantially similar to the experimental program, with the major exception that it is not a universal entitlement. At this point in time, the experience with the section 8 existing housing program is far more relevant to national expectations than are the results of the experiment being carried out under carefully controlled "hothouse" conditions."

In our report to the Congress entitled "Major Changes Are Needed in the New Leased-Housing Program," 1/ we discussed various impediments to timely and effective implementation of the section 8 program for existing housing. We made several recommendations that the Secretary of HUD agreed to implement, but it is too early to measure the full effect of these improvements. We believe that the section 8 program for existing housing warrants HUD's close attention because it is available in the major urban areas where EHAP is not operating.

We recognize that HUD has underway an evaluation of the section 8 program. The evaluation is directed to some areas EHAP is examining such as participation rates, mobility patterns, the adequacy of the rental amounts, and administrative costs. Results from this evaluation will allow HUD to increase its knowledge of the housing allowance approach. We believe that HUD should add these results to the integrated analysis component of EHAP.

We have been concerned for some time about the need to assure adequate review of federally funded experiments, particularly those that may produce results having major

1/ CED-77-19, Jan. 28, 1977.

policy implications. The problems we encountered in this study regarding the right of access to confidential data provided by program participants indicate a much broader problem that will impact on our ability or that of other independent evaluators to effectively monitor future social research experiments sponsored by Federal agencies. As a general rule, we need access to all experimental data to effectively carry out our responsibilities to the Congress. However, we recognize that this need for access to data might vary depending on the nature and subject matter of a given experiment. The function of audit of social research and social experimentation and its need for direct access to the data raises the question of privacy and protection of individually identified social research data. There have been various occasions in which we have obtained selective access to such data, adequate for the objectives of the particular audit.

In our reviews of social research and social experimentation programs such as EHAP, we are not interested in personal information about individuals to make determinations about them or about their rights and entitlements. We are interested in that information only as an aid in evaluating the research or the experimental program being reviewed.

We are working with various members of the research community to identify and develop effective review methods that will meet our needs and those of the Congress without risk to an experiment's research objectives. We have asked the Social Science Research Council to help us develop techniques that might be considered alternatives to reinterviewing participants when our review involves the validity of a social experiment or social research.

The approach we used to obtain access to the records of EHAP participants, which involved obtaining their consent, was not fully effective. We could not draw valid conclusions from the results of our work because the participant response rate was low and the approach used to obtain the sample involved possible bias.

Until other review methods are developed, we believe that the degree to which data provided as part of a social experiment is to be considered confidential must be determined on a case-by-case basis before a grant or contract is awarded.

We suggested that the Director of OMB insure that Federal agencies be made aware of the problems presented by the confidentiality of data obtained in social research experiments. The Director should also require that, until we reach a mutually acceptable arrangement with the research community for obtaining access to research data, Federal agencies consult with us when it appears that a pledge of confidentiality extended to program participants might conflict with our right of access.

The Director disagreed with the suggestion. (See app. VI.) He stated that restrictions on access to data in contracts should be kept to a minimum needed for the Government to independently verify that public funds were properly disbursed and to assess the effectiveness of Federal programs. He said that there was no evidence of widespread abuse in this area, and executive agencies must have the authority to provide confidentiality guarantees. He said that congressional oversight and our audits are the best methods to decide whether executive agencies granted confidentiality properly and legally. He said that OMB did not wish to interpose its authority into the process of reviewing and approving individual agency research procedures.

Our suggestion to OMB did not deal with it becoming involved in agency research procedures but simply that OMB issue a directive requiring executive agencies to consult with us when it appears that extending a confidentiality pledge as part of a social science research experiment might conflict with our right of access.

RECOMMENDATIONS TO THE SECRETARY OF HUD

We recommend that the Secretary:

- Provide the Congress periodic detailed reports on the status of EHAP, including a discussion of the progress made in terms of providing answers to the 10 research questions HUD originally developed. These questions involve such matters as the possible effects of an allowance program on housing prices, the changes brought about in the quality of housing participants obtained, whether participants changed their housing location, and the most appropriate administrative means for administering a national program. The reports should indicate the limitations in extrapolating and inferring the results of these questions to a national program, including the degree of reliability in projecting the results beyond the experimental sites.

- Merge the results of HUD's evaluation of the section 8 program for existing housing into EHAP's integrated analysis, to increase its knowledge of the housing allowance approach.
- Include in its research procedures a requirement that HUD will not enter into any research grant or contract that might conflict with our right of access to any information resulting from the research without our explicit advance approval.

RECOMMENDATION TO THE DIRECTOR OF OMB

We recommend that the Director require Federal agencies to consult with us when it appears that a confidentiality pledge extended to participants in future social experiments might conflict with our right of access.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress hold oversight hearings to discuss HUD's reports on the status of EHAP and to decide whether EHAP should be continued, modified, or terminated.

We recommend that, because of the increasing importance of social science research in influencing public policy decisions, the Congress should, in authorizing future social research programs, such as EHAP, require the agencies to:

- Set forth clear experimental objectives at the outset of the experimental research.
- Advise the Congress in the experiment's early design stages of the limitations on extending the experimental results beyond the sample, including the reliability of the results.
- Report periodically to the Congress on research results in terms of meeting original objectives.

CHAPTER 8

HUD AND CONTRACTOR COMMENTS AND OUR EVALUATION

In November 1976 we gave HUD and the contractors copies of our proposed report for their review and comment. The comments we received in December 1976 and January 1977 expressed considerable disagreement with the conclusions and recommendations, expressed concern over the tone of the report, raised questions regarding our expertise in evaluating social science research experiments, and suggested that we obtain the views of a panel of experts.

We seriously considered the comments received, performed additional audit work to respond to some of the suggestions, and extensively changed the draft.

A copy of the revised draft report was made available to a panel of selected experts in the social research field, and written comments were received from each. Additional changes were made based on those comments, and the panel met with us to provide oral comments on the final version.

A copy of the revised draft was provided to HUD and its contractors for review and comment in July 1977.

HUD COMMENTS

By letter dated November 30, 1977 (see app. II), HUD fully concurred with our recommendations and expressed appreciation for our bringing together the panel of experts to review the draft. In addition, HUD provided five items it considered to be factual errors or misinterpretations that should be corrected.

HUD stated that it concurred with our recommendations, but its comments raised some questions as to whether it would fully adopt the recommendations. For example, our first recommendation suggested that HUD provide the Congress with periodic reports on the status of EHAP and that the reports indicate EHAP limitations in extrapolating and inferring to a national program. In its comments HUD stated that it provided the Congress with four reports on EHAP, the latest one in February 1976, and also provided the House Committee on Banking, Currency and Housing a response to a House report that described HUD's approach to the experiments. A HUD official said he believed that HUD's February 1976 report to the Congress contained appropriate qualifications. However, he agreed that there could be a difference of opinion between HUD and us as to whether the qualifications were adequately stated.

We believe that this report was not properly qualified as to EHAP limitations. The report did not indicate EHAP's inherent limitations brought about by the simulation modeling and other analytical techniques which involve various assumptions and relationships.

HUD's comments on the recommendation concerning access to records raise some doubt as to whether HUD fully understands the purpose of the recommendation. The recommendation states that HUD should include in its research procedures a requirement that HUD will not enter into any grant or contract that might conflict with our right of access to research information without our explicit advance approval. HUD stated that from the start of EHAP, we have been provided review copies of all contracts limiting access to information within EHAP, and it would continue to make such contracts available for our review. HUD said it believed that the contract review process was the most appropriate point for determining access to information.

HUD's comments indicate that, in the future, it would enter into contracts and then ask for our position on the contracts, as was done on the EHAP contracts. HUD apparently misunderstood the purpose of the recommendation. We recommend that HUD should discuss with us any possible restrictions to our access authority before it enters into any research contracts that might affect our authority. Allowing us the opportunity to review the contracts after the fact would not be any change from the EHAP case, and our access authority might be questioned again.

Of the five items HUD considered to be factual errors or misinterpretations, we believe that only one has merit. HUD suggested that we replace our analysis of the response to allowances under the demand experiment with data from the first-year analysis reports. We obtained two Abt reports on housing expenditures and quality under a percent-of-rent housing allowance and under a housing gap housing allowance. We included data from these reports on pages 31 to 34.

The other four items deal with the general subject of the nature of social experimentation and our alleged criticisms of EHAP. HUD contends that (1) we have a basic misunderstanding of the purpose and structure of experimental research, (2) we do not understand how parts of EHAP complement each other, (3) the report inconsistently deals with the subject of the conclusiveness of social experiments, and (4) we fail to recommend alternatives to the sites and agencies selected.

We believe that HUD incorrectly interpreted our position on the nature and usefulness of social research in general and EHAP in particular. Our position is that EHAP as a social experiment has by its very nature certain limitations which were not adequately disclosed to the Congress. HUD has taken other statements in the report to be criticisms or shortcomings of EHAP. Such characterizations have no basis.

We provided this report to a panel of selected experts in the social science research field. They generally agreed with the presentation of the facts, findings, conclusions, and recommendations.

RAND COMMENTS

Rand's comments (see app. III) continued to express concern over the issues of (1) site representativeness, (2) generalizability of results, and (3) our need for access to experimental data. Rand contended that we apparently intend, by our statement that the sites are too few and not typical enough to permit a reasonable projection to a national program, that experimental results should be projected with statistical validity from the sites to the Nation. Rand stated that the report criticized the characteristics of the two supply sites but fails to propose more suitable alternatives. Rand also contended that we have minimized the benefits to be gained from the supply experiment.

Rand's assumption that we are looking to EHAP to provide statistically valid results is incorrect. To the contrary, we are concerned that HUD and the contractors may have misled the Congress into thinking that the results could be projected. We recognize the monetary constraints that preclude operating the experiment in a large number of cities. Our concern over the sites selected is that they lack certain basic characteristics typical of the major urban areas where problems are most prevalent and where a national housing allowance program would be most needed. We believe that HUD should have more clearly advised the Congress of the limitations of the data as a result of the sites selected.

We do not agree that we minimized the supply experiment benefits. We recognize that the supply experiment will provide data on many issues not previously available. The question is "Of what value is this data and at what price?" When data being obtained under federally sponsored social

research programs is to be used for purposes other than those specifically authorized, we believe that the Congress should be fully informed as to the justification for the data and the estimated cost.

We are particularly concerned about Rand's continuing argument that we do not need access to participant data to meet our responsibilities. As we point out in chapter 6, the issue of confidentiality of participant data will significantly affect our ability to effectively monitor future federally sponsored social experiments, unless it is resolved in a satisfactory manner. Rand contends that a review of controls should be sufficient for us to determine whether the underlying data is of sufficient quality. Rand continues to question our position that we will not accept limitations on our right of access when we consider such access necessary.

Throughout our review we repeatedly advised Rand that controls cannot be relied on to adequately determine data quality. Controls are only as good as their implementation. If we cannot test the implementation of the controls, we cannot be assured that the controls are working effectively. This is one major reason why an independent assessment of the implementation of the controls is necessary for any audit, be it our audit or that of a public accounting firm. Furthermore, the Congress looks to us for such independent assessments of executive agencies' program operations. Looking only at the controls would not allow us to adequately discharge our responsibilities to the Congress.

We have not questioned the adequacy of Rand's control mechanisms. We are concerned with HUD abrogating its responsibility to adequately manage an expensive research experiment by not having access to contractor data.

Changes have been made where appropriate to reflect other issues raised by Rand.

ABT COMMENTS

Abt comments (see app. IV) stated the opinion that we largely ignored its previous comments. Abt basically offered the same criticisms made on the earlier draft.

We believe that Abt did not carefully and fairly and objectively evaluate the changes made. Many comments indicate that it was unaware of changes or deletions from

the earlier version. For example, Abt claims that the report states that the administrative agency sites were not statistically representative of all possible locations of a national program or all possible types of agencies. The report states nothing about the statistical representativeness of the sites. Abt also disagreed with our position on the need for an independent audit of participant incomes. Abt commented that such an audit was not necessary to achieve a substantial increment of information on the effectiveness of the income certification function. We revised the report to recognize Abt's own report which states that its findings on the certification function must be approached with caution and that future research needs would include an independent audit of participant incomes. We question whether Abt fairly considered the changes we made.

Abt included a lengthy criticism of certain facts in the report, and changes were made where appropriate.

URBAN INSTITUTE COMMENTS

The Urban Institute comments (see app. V) generally agreed with our evaluation of EHAP's integrated analysis it is operating.

CHAPTER 9

SCOPE OF REVIEW

We reviewed the design of the supply, demand, and administrative agency experiments and integrated analysis component and the operating procedures and controls for implementing the experiments. We examined HUD contracts to design and implement the experiments and integrated analysis component. We reviewed EHAP's legislative history, interim and final reports on experimental results, and other related documents and interviewed contractor officials responsible for administering and operating EHAP.

A certified public accounting firm assisted us in obtaining the consent to our audit of sampled participants in Green Bay, Wisconsin; Pittsburgh, Pennsylvania; and Salem, Oregon. We visited participants' homes and interviewed them; HUD inspectors performed inspections of their homes.

We made our review at HUD headquarters in Washington, D. C., and its regional offices in Chicago, Philadelphia, and Seattle; Rand Corporation in Santa Monica, California; Abt Associates in Cambridge, Massachusetts; Housing Authority for the City of Salem in Salem, Oregon; Jacksonville Department of Housing and Urban Development in Jacksonville, Florida; housing allowance offices in Green Bay, Wisconsin; South Bend, Indiana; Pittsburgh, Pennsylvania; and the Urban Institute in Washington, D. C.

We were assisted by five consultants with expertise in the fields of social research, economics, and evaluation research.

NAME AND OPERATING LOCALITY
OF THE EIGHT ADMINISTRATIVE AGENCIES

- (1) Salem Housing Authority; Salem, Oregon, metropolitan area
- (2) Tulsa Housing Authority; Tulsa, Oklahoma
- (3) Department of Housing and Urban Development;
Consolidated City of Jacksonville, Florida,
Duval County
- (4) San Bernardino County Environmental Improvement
Agency; Valley portion of San Bernardino County,
California
- (5) Illinois Department of Local Government Affairs;
city of Peoria and Fulton and Woodford Counties
- (6) Massachusetts Department of Community Affairs;
Springfield, Massachusetts, metropolitan area
- (7) Durham County Department of Social Services;
Durham County, North Carolina
- (8) Social Services Board of North Dakota; Burleigh,
Stutsman, Morton, and Stark Counties



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

November 30, 1977

ASSISTANT SECRETARY FOR
POLICY DEVELOPMENT AND RESEARCH

IN REPLY REFER TO

Mr. Henry Eschwege
Director, Community and
Economic Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your letter of July 21, 1977 which forwarded a revised draft of the GAO report on the status of the Experimental Housing Allowance Program (EHAP). Your new draft follows an earlier version on which the Department commented in our letter of January 19, 1977.

The GAO report contained three recommendations to the Department:

- (1) provide the Congress periodically with reports on the status of EHAP;
- (2) consider merging results of EHAP and the Section 8 Existing Housing program evaluation into the Integrated Analysis (a phase of the EHAP evaluation); and,
- (3) include in its research procedures a requirement that GAO's access to information will not be abrogated without GAO's advance approval.

The Department fully concurs with these recommendations. The Congress has been provided with four reports on EHAP, the last one in February 1976. The Department also provided the House Committee on Banking, Currency and Housing a response to House Report No. 94-1091, in a letter to the Chairman in December 1976 (copy enclosed). The letter describes the Department's approach to the experiments and indicates how EHAP will be integrated with Section 8 Existing Housing program evaluations.

APPENDIX II

APPENDIX II

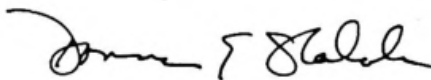
On the second recommendation, the information obtained from EHAP has been utilized in the design, development and implementation of the Section 8 Existing Housing program and is continuing to be used, together with evaluation data from the Section 8 Existing Housing program.

Finally, from the start of the experiments, GAO was provided with review copies of all contracts limiting access to information within EHAP. The Department will continue to make such contracts available for GAO review. The Department believes that the contract review process is the most appropriate point at which to determine information access. The Department continues to hold the position on information access detailed to the GAO in letters of September 24, 1975 and November 6, 1975.

We appreciate the fact that the GAO brought together a group of outside experts to review the proposed report. As noted, we concur with the recommendations. However, there are instances of factual errors or misinterpretations in the GAO draft report which should be corrected. Enclosed is a listing of the major errors.

We agree with the GAO that carefully designed and operated experiments offer useful mechanisms for making informed decisions on major public policy issues. To assure the quality of EHAP, the Department created advisory panels of outstanding social scientists. These groups, whose members are listed in the second enclosure, have been continuously consulted throughout the experiment.

Sincerely,



Donna E. Shalala

Enclosures



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

COPY

ASSISTANT SECRETARY FOR
POLICY DEVELOPMENT AND RESEARCH

December 9, 1976

IN REPLY REFER TO:

Honorable Henry S. Reuss
Chairman, Committee on
Banking, Currency and Housing
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

The purpose of this letter is to present our position concerning the orderly completion of the Experimental Housing Allowance Program (EHAP). We take issue with the position expressed by the House Committee on Banking, Currency and Housing in House Report No. 94-1091, Housing Authorization Act of 1976 which is enclosed.

The Committee Report questions in general terms the cost-effectiveness of completing EHAP research, and alludes to unnamed "experts consulted by the committee" who held that view. The question of determining the cost-effectiveness of any research activity is always a very difficult one. We have, as a part of our annual budget review process, questioned all aspects of EHAP, looked for means of reducing costs, and have, in fact, reduced costs from those originally projected. In addition, our approach in the development of EHAP has been to involve independent, outside expert review and scrutiny. So far as we know, this has been done to a greater degree than in other comparable research efforts undertaken by the Federal Government in the area of domestic social policy.

In brief, EHAP is being carried out both to add to our basic knowledge of housing circumstances of low-income families and to explore more specifically the benefits and costs of providing direct housing assistance to them.

This broad approach to policy research takes on added usefulness in the context of current housing policy. The implementation of the "existing housing" part of the Section 8 Program, which has some similarities to a housing allowance, will make information stemming from EHAP even more valuable than was true when project was originally conceived and developed.

To illustrate, there are several specific program approaches in EHAP which will prove valuable in the immediate future of Section 8. These include program variations which permit cost-effectiveness analysis in such important administrative areas as outreach; income determination and verification; payments procedures; housing inspection standards; and the delivery of other housing-related services, such as housing market information and equal opportunity support.

Because of its program design and data availability, EHAP also has the capacity to test the implications of modifications in basic features of the Section 8 Existing Housing Program. These include allowing participants to pay rents in excess of fair market rents if they choose; extending program eligibility to homeowners; allowing greater scope for participant responsibility; using a different payment formula; using different definitions of income, different levels of fair market rents, different housing quality requirements, and different methods or incentives for channeling assistance payments into housing expenditures.

All of the above areas offer strong promise for multi-million dollar savings in administrative costs and subsidy payments, and for better service to those needing housing assistance.

It is also important to evaluate the Section 8 Program directly, and we are doing so. Direct evaluation of the Section 8 Existing Housing Program will tell us how well that program works, but only analysis based on EHAP will tell us whether something else might work better and thus allow for modifications in Section 8 based upon actual experience. Analysis of the alternatives to the Section 8 Program as currently operated will be of great value to HUD and to the Congress in carrying out continuing responsibility for the conduct of assisted housing programs.

More generally, because of the way EHAP was designed, its value goes beyond specific modifications in any particular program such as Section 8 Existing Housing. Answers to broader policy questions will also be significantly advanced by the orderly completion of EHAP. Such questions include:

- understanding the operation of housing market generally, as well as determining the impact of the allowance-type programs on housing prices and rents in different housing markets;
- determining the relative costs and benefits of direct housing assistance programs in comparison to other subsidized housing programs and to unrestricted cash grants or welfare reform options;

- consideration of how housing assistance programs can be better integrated into the existing welfare system; and
- understanding possible differences in effectiveness of direct housing assistance on minority populations, the elderly and other demographic groups.

We frankly do not understand the logic of shutting down EHAP at the very point that its original objectives are near realization.

In summary:

- We remain confident of the value of the Experimental Housing Allowance Program research;
- We will continue our efforts to carry out this research in a responsible manner and will continue to reduce the costs as much as possible; and
- We would be pleased to discuss with you, or with your Committee staff or consultants, any evidence which would lead to a different conclusion.

Sincerely,

Charles J. Orlebeke

Enclosure

cc: Honorable William Proxmire
Honorable John J. Sparkman
Honorable Thomas L. Ashley
Honorable Edward P. Boland

11/30/77

EXPERIMENTAL HOUSING ALLOWANCE PROGRAM REVIEW PANEL

Professor Phyllis Wallace
Industrial Relations Section
Sloan School of Management
Massachusetts Institute of Technology

Professor Donald Campbell
Department of Psychology
Northwestern University

Professor Harold Watts
Center for Social Sciences
Columbia University

Professor Marcus Alexis
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at Chapel Hill

Mr. Henry Schechter
Director
Department of Urban Affairs
AFL-CIO

PAST (RESIGNED) PANEL MEMBERS

Henry Aaron
Former Panel Chairman, former
Senior fellow at Brookings Institution

Professor Peter Rossi
Director
Social and Demographic Research Institute

Thomas K. Glennan, formerly with
National Research Council, National
Academy of Sciences

Professor Edwin Mills
Department of Economics
Princeton University

Professor John Kain
Harvard University

Mr. Anthony Downs
Real Estate Research Corporation

Design Review Panel for the Supply Experiment

Henry Aaron, Senior Fellow, the Brookings Institution

David M. Austin, Research Associate, Harvard-M.I.T. Joint Center for Urban Studies

Lee Hawden, Department of Economics, University of Wisconsin

Robert Crane, Department of Social Relations, The Johns Hopkins University

Frederick O'R. Hayes, Fund for the City of New York

Raymond J. Jessen, Graduate School of Management, University of California, Los Angeles

John F. Kain, Department of Economics, Harvard University

Edwin S. Mills, Department of Economics, Princeton University

Alexander M. Mood, Director, Public Policy Research Organization, University of California, Irvine

Richard Muth, Department of Economics, Stanford University

Alice M. Rivlin, Senior Fellow, The Brookings Institution;
Chairman, Design Review Panel

Harold M. Watts, Director, Institute for Research on Poverty, University of Wisconsin

John Wilson, North Star Research and Development Institute, Minneapolis

Design Review Panel for the Integrated Analysis

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William G. Grigsby, Professor, Department of City Planning, University of Pennsylvania

John M. Quigley, Assistant Professor, Department of Economics, Yale University

Lee Rainwater, Professor, Department of Sociology, Harvard University

John O. Wilson, North Star Research and Development Institute, Minneapolis, Minnesota

Stephen B. Withey, Program Director, Survey Research Center, Institute for Social Research, University of Michigan

Design Review Panel for the Demand Experiment

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Lee Bawden, University of Wisconsin

John Flueck, Temple University

Harold Freeman, Massachusetts Institute of Technology

Robinson Hollister, Swarthmore College

Richard Muth, Stanford University

Design Review Panel for the Administrative Agency Experiment

Henry Aaron, Brookings Institution

Pamela Roby, Brandeis University

David Porter, University of California at Riverside

Lee Bawden, University of Wisconsin

Wray Smith, Office of Economic Opportunity

11/30/77

COMMENTS ON GAO'S DRAFT REPORT ENTITLED:"THE EXPERIMENTAL HOUSING ALLOWANCE PROGRAM: A STATUS REPORT"

The following discussion highlights the more significant errors, omissions, misunderstandings, and inconsistencies which HUD has found in the GAO draft report. In their individual responses sent directly to GAO, the EHAP contractors comment in detail on the points raised here as well as on additional areas which GAO should carefully consider and act upon in determining the final form and disposition of the report.

1. The analysis of response to allowances in the Demand Experiment (pp.39-44) is limited by inappropriate analytical techniques and selective presentation of results. Some of the problems are as follows:

- participants and nonparticipants are not distinguished from each other
- groups of participants are inappropriately lumped together
- inappropriate comparisons are made (e.g., "control" households had higher income limits than did the households receiving allowances)
- inappropriate use is made of housing quality measurements
- incorrect comparisons of percentages are made while other percentages which would allow for more realistic comparisons are not reported

In general, the section entitled "Participant Responses to Allowance Payments" is flawed. It could be replaced with actual results from the first year analysis reports, which take into account differences between treatment groups in the Demand Experiment.

2. A basic misunderstanding of the purpose and structure of experimental research is illustrated in GAO's discussion of supply response beginning on page 27 where the research approach in the Supply Experiment is described. GAO refers to Rand's goals, assumptions, and expectations concerning enrollment, housing expenditures, housing improvements, etc. whereas the purpose of the experiment is to determine what the facts are through testing of hypotheses, not the confirmation of pre-existing hypotheses. For example, the fact that fewer enrolled than could have under the contract providing assistance funding is a finding from the experiment and not a failure of the experiment to reach "goals".
3. GAO cites as shortcomings of the experiments deliberate choices made in the design without recognizing how the various experimental components complement each other. For example, the "lack of competition" in the Demand Experiment discussed by GAO (p. 47-49) seems to imply that the Demand Experiment should have been a Supply Experiment. The Demand Experiment was designed to assess the effects on household responses of various types of allowance payments and requirements. If it had

been conducted at a scale allowing observation of supply effects, then Demand Experiment treatment effects could not have been disentangled. Another example from the Demand Experiment concerns GAO's claim that the exclusion of certain groups from the experiment will lead to results that may not be indicative of what might be expected in a national program (p.49, 50). However, two of the groups, homeowners and nonelderly singles, are included in the Supply Experiment. The other excluded groups (seasonal residents, those not agreeing to enroll, those whose head or spouse is a student, unmarried minor heads of household, and those residing in subsidized housing) are all consistent with program rules of existing housing programs.

4. There are a number of inconsistencies in the report. For example, on page i GAO concludes that social experiments can be useful though their conclusiveness is limited. The report then faults EHAP for not providing conclusive evidence. The report also faults EHAP for inadequate site selection. However, at the conclusion of the report GAO recognizes that a larger number of sites with characteristics typical of major urban areas "would be prohibitively costly and still require subjective judgment in extrapolations and inferences of the results to smaller urban areas and rural areas in the nation" (pp. 102-103).
5. An important type of omission in the report is the failure of GAO to recommend any alternatives to the choices made in the design of EHAP which the draft report criticizes. Following are two examples of this:
 - The number and choice of sites in the Supply Experiment are criticized beginning on page 17, but given the reasonable budgetary constraints which allowed for only two medium sized sites, no alternatives are proposed by GAO. Similarly, the GAO does not offer alternatives as part of their criticism to the site and agency selection in the Demand and Administrative Agency Experiment (AAE). GAO has criticized the AAE's choice of competent agencies (p. 53), but offered no alternative approach that would have provided useful data.
 - Outreach procedures in the Demand Experiment are questioned on page 49. Yet GAO proposes no alternative approach for obtaining a valid cross section of the eligible population.



DONALD B. RICE
President

August 23, 1977

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G. Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

This letter presents our comments on the revised 7/21/77 draft of the GAO status report to Congress on the Experimental Housing Allowance Program (EHAP). It supplements my letter to you dated January 18, 1977 which gave comments on an earlier draft. As in that earlier case our review has been based primarily on our experience in carrying out the Housing Assistance Supply Experiment (HASE).

As I wrote on January 18, we are very confident that the findings of the Supply Experiment in particular and EHAP in general will prove extraordinarily valuable to federal policymakers. In this letter we limit our comments to our reactions to the draft report, but we also would welcome the opportunity to discuss more broadly with you and your staff or with members of Congress and their staffs why we are so positive about the benefits to be gained from the Supply Experiment.

Although we are somewhat encouraged by the changes in substance and tone from the earlier version, we remain concerned by a number of important weaknesses in the draft that greatly limit and perhaps destroy entirely its usefulness as a basis for evaluating EHAP. Most of the recommendations (pp. 108-110), for example, are presented in a fairly noncontroversial manner, but when they are combined with the reasoning underlying the main text, the result becomes unacceptable. Some of the weaknesses are new and some are continued from the earlier report even though we noted them in my earlier letter. We offer the following comments to help make the GAO review, which we support, as constructive as possible:

- o In general, the present draft is so internally inconsistent and incohesive that it does not provide a basis for a systematic evaluation of EHAP.
- o The draft continues to mislead the general reader about the degree of certainty that can reasonably be expected in social science research and underplays the relationship between certainty and costs.
- o In discussing the Supply Experiment the draft criticizes the characteristics of the two sites (p. 17) but fails to propose any more suitable alternatives.

Mr. Elmer B. Staats

August 23, 1977

- o The draft also tends to minimize the benefits to be gained from the experimental sites we selected.
- o The GAO still apparently fails to understand that the purpose of experimental research is to test hypotheses and not to confirm them.
- o We remain unconvinced by the GAO's contention that it generally needs access to all experimental data, including information that violates the privacy of individuals (pp: viii, 106); this, in our view, is a misconception of the most useful role the GAO can play and ignores the importance of other management data that are available.
- o The draft includes many oversimplifications of complex points and misstatements of fact; these demonstrate an incomplete understanding of the Supply Experiment and seriously undermine the usefulness of the draft as an evaluation of EHAP.

I elaborate on each of these points on the following pages.

1. In general, the present draft is so internally inconsistent and incohesive that it does not provide a basis for a systematic evaluation of EHAP.

We are concerned in general about inconsistencies and fragmentation in the draft. Some examples are the following:

- o Different sections of the draft deal with important issues in significantly different ways as discussed below. Also the detailed discussion of the Supply Experiment does not elaborate on a number of the key points made in the more general sections (e.g., the importance of what is being learned; the prohibitive cost of additional sites).
 - o Many of the references to the merits and nature of research appear to have been simply added to the text rather than integrated into the reasons underlying the GAO's thought process (e.g., the opening of the Digest, the close of the Introduction, and the discussion of Alice Rivlin's paper).
2. The draft continues to mislead the general reader about the degree of certainty that can reasonably be expected in social science research and underplays the relationship between certainty and costs.

The opening two paragraphs of the Digest demonstrate this confusion. The first paragraph states:

By nature, social experimentation involves definite limitations concerning its conclusiveness and its ability to project beyond the experiment. . . . GAO believes, however, that carefully designed and operated experiments offer very useful techniques for gaining information necessary to make informed decisions on major public policy issues (p. 1).

Mr. Elmer B. Staats

August 23, 1977

Having just asserted that social experiments can be useful even though their conclusiveness is limited, the draft proceeds in the next paragraph to fault EHAP for not providing "conclusive evidence."

The principal obstacle identified is the nature of the experimental sites, which are in the GAO's view too few and not typical enough to permit "a reasonable projection" to a national program (p. 1). Nowhere, however, does the GAO suggest explicitly what sites would provide such "conclusive" answers or would provide a "reasonable projection." Apparently, the GAO intends that experimental results should be projected with statistical reliability from the sites to the nation. The draft also specifically faults the Supply Experiment for not having sites with characteristics of large metropolitan areas (p. 24).

Yet, the costs of such approaches are hardly mentioned until the end of the report. In a few places the draft notes without comment that HUD declined to expand the experiments for budgetary reasons (pp. 18, 24). Only on pp. 102-103 do we find any recognition that:

To operate an experiment like EHAP, at a larger number of cities which would have characteristics . . . typical of the major urban areas . . . would be prohibitively costly and still require subjective judgment in extrapolations and references of the results to small urban areas and rural areas in the nation. (Emphasis supplied.)

3. In discussing the Supply Experiment the draft criticizes the characteristics of the two sites (p. 17) but fails to propose any more suitable alternatives.

If the GAO accepts the limitation to two medium-sized sites, it is then obligated to review whether the sites chosen are appropriate within those limitations. Yet the draft also faults the Supply Experiment for not including a site with a fast-growing high-black population (p. 17) and for not including a southern city (p. 24). Does the GAO in fact propose a southern site as higher priority to a northeastern one? Does the GAO propose a high-black, high-growth site instead of a low-black, high-growth one? Since the draft is simply not clear on these points, we would be interested in knowing which two sites the GAO would have chosen.

The discussion of Saginaw and Springfield^{*} misses two important points. In considering the rejection of the experiment by suburban jurisdictions in Saginaw, Springfield, and South Bend, we judged that there was a greater range of possibilities for the movement of minority residents into new neighborhoods within the city limits of South Bend than in either Saginaw or Springfield. Another factor we considered was the likelihood in each site that the suburbs would change their minds. We judged South Bend to be the most promising in this regard; and history has supported that judgment since all of St. Joseph County is now participating.

The draft draws heavily on the fact that the "black population percentage in South Bend (14 percent) and SMSA (7 percent) is very low compared to most major metropolitan cities (34 percent)." As of 1970 the following situation existed:

^{*} The draft states (on p. 22) that "the reasons HUD used for not selecting Saginaw and Springfield were not used to reject South Bend."

Mr. Elmer B. Staats

August 23, 1977

<u>Population</u>	<u>Number of SMSAs</u>	<u>Percent Black in Central City</u>	
		<u>Median</u>	<u>Average</u>
All SMSAs	243*	10.6	15.1
Over 750,000	43	20.2	22.9
Over 1,000,000	33	20.5	24.5
Over 1,500,000	16	25.8	31.9
Over 2,000,000	12	32.8	33.4

We would ask for the GAO's definition of a "major metropolitan city." If you mean the 12 SMSAs with populations of over 2,000,000, why are they the sole standard? Are not the more than 200 other SMSAs also important for national housing policy?

As I have written before, no one connected with the planning of the Supply Experiment has ever supposed that two, or even ten, metropolitan housing markets could embody the enormous variety of special characteristics of the nation's 272* metropolitan areas, much less the remaining nonmetropolitan territory.

The two experimental sites were chosen with care for what each might teach us. In retrospect, we see little reason to be dissatisfied with those choices. What we are learning from them provides valuable guidance to those charged with making national policy. In our *General Design Report*, we considered at length the methods for and limitations on quantitative generalization from our local data. The authors of the GAO draft give little, if any, recognition to this fact and did not directly challenge the reasoning presented there.

4. The draft also tends to minimize the benefits to be gained from the experimental sites we selected.

The report is inconsistent in the way it treats the usefulness of EHAP data from the two sites we did select. In the Digest (p. ii) the draft does recognize that "a wide range of information on housing markets and on the behavior of low-income persons which was not available before is now being obtained." Yet only on p. 100 do we find the additional critical phrase that this "will make the eventual policy decision better informed than is typical of public policy-making." (Emphasis supplied.) Nowhere in the detailed discussion of the Supply Experiment is there any mention of the usefulness of the data being collected.

As noted in my letter of January 18, without evidence of the kind produced by EHAP, decisions entailing billions of dollars would undoubtedly be made in unnecessary ignorance of their consequences.

*The number of SMSAs increased from 1970 to 1977.

Mr. Elmer B. Staats

August 23, 1977

We believe that the Supply Experiment will help HUD and the Congress to:

- o Estimate how many and what kinds of households would be likely to participate in national housing allowance and related programs and how effectively they would use their benefits.
- o Understand the circumstances, if any, under which such programs might affect rents and home prices in local housing markets; and in the process, to learn much more than is now known about how such markets function.
- o Judge the probable effects of such programs on the quality of the existing housing stock and on neighborhood settlement patterns.
- o Compare the costs and benefits of housing allowances to those of other forms of federal housing subsidy and to those of alternative income maintenance programs.
- o Decide how housing assistance programs of all types might be better integrated with each other and with other federal, state, and local transfer programs.

Because of the scope of the data gathered about local housing markets as well as about the allowance programs in our two experimental sites, our findings will also help resolve issues in existing programs. For example, the Section 8 Existing Housing Program shares some features of housing allowances. EHAP in general and the Supply Experiment in particular offer opportunities to learn about the effects of modifications in Section 8 such as extending its provisions to homeowners or giving participants more choice in the cost and characteristics of the housing they occupy.

We also believe that the Supply Experiment's data files will be an extraordinarily valuable resource for housing policy analysis in general.

5. The GAO still apparently fails to understand that the purpose of experimental research is to test hypotheses and not to confirm them.

The discussion of the supply response question in the Supply Experiment (pp. 27-32) erroneously describes our research approach. It repeatedly states that Rand had assumptions, anticipations, expectations or goals about points which in fact were central elements to be studied. How many households would enroll and how much housing expenditures would be increased by housing allowances are two examples.

A major purpose of the experiment was to learn how many and what kinds of households would choose to join an open enrollment program. For a valid experiment, program ceilings on enrollment obviously must be set high enough to accommodate all eligible applicants. Our field objective was and is to ensure that those who are eligible know about the program and have a genuine opportunity to enroll.

So far it does appear that the allowance program in Brown County was not disturbed the housing market enough to cause a strong "supply response" in the form of housing price increases. The important point is that this is a result that few

Mr. Elmer B. Staats

6

August 23, 1977

anticipated with confidence; uncertainty about the market effects of a full-scale program was a central issue in policy deliberations when the experiment was being planned.

6. We remain unconvinced by the GAO's contention that it generally needs access to all experimental data, including information that violates the privacy of individuals (pp. viii, 106); this, in our view, is a misconception of the most useful role the GAO can play and ignores the importance of other management data that are available.

The principal purposes of the GAO review, as we understand, have been (1) to evaluate the research design and (2) to determine whether the data collected are of sufficient quality to answer the research questions posed. The first function does not require access to any experimental data; the second can best be served by reviewing controls applicable to the process of data collection and data preparation. For these purposes, GAO does not need direct access to data in a form that includes personal identifiers.

We recognize that the draft describes the GAO's need for access to all data "as a general rule" and that the "need might vary depending upon the nature and subject matter of a given experiment" (p. 106). However, in our experience the GAO has tended to interpret its needs in a very unrestrained manner and has accepted limitations on its access only in very exceptional cases.

Part of the GAO's short-sightedness in this respect can be seen in the following statement (on p. 91) concerning HUD's access to EHAP data:

The confidentiality clauses in the HUD contracts specifically exclude HUD from obtaining the names and addresses of EHAP participants. By these clauses, HUD has allowed the private contractors almost total control over the operation of EHAP and cannot assure itself that the contracts are being carried out effectively. Specifically, HUD does not know whether the housing allowance payments are being made to an estimated 14,000 individuals who actually exist and are eligible for the payments; whether the individuals are, in fact, occupying the units the contractors report they are occupying; or the housing quality data is being accurately reported by contractors. All HUD knows is that someone is cashing the allowance checks and the contractors are reporting data based on some evidence. We consider HUD's lack of management control over these areas to be contrary to basic management concepts. (Emphasis supplied.)

The underlined statements must be viewed as absurd if all of the various audits and quality control mechanisms applied in the Supply Experiment are taken into account. The results of these audits and control mechanisms have been and will continue to be available to both HUD and the GAO.

Arthur Young and Company has conducted audits of the financial positions and the payments systems of the HASE housing allowance programs as well as end-use audits that verify such points as the existence of recipient households, the receipt of payments and the level of housing expenses. Other quality control measures are described in the working note on the GAO's evaluation of EHAP sent to the GAO by HUD on June 23, 1975.

Mr. Elmer B. Staats

August 23, 1977

We also are puzzled by the GAO's conclusions about the special audit sample of participants in the allowance program in the Green Bay area (on pp. 94-99). In particular we question the following key paragraph on p. 96:

To make statistically valid projections from a sample to the universe, an 80 percent rate is needed. The informed consent approach, however, introduces by its very nature an element of bias since those choosing to consent may be quite different from those refusing. Because of this limitation, it is not possible to make statistical projections regardless of the response rate except in the case where everyone consented.

We have not reviewed the GAO's sample design in detail, but the conclusion quoted indicates a great insensitivity to the interrelationships among sample sizes, response rates and nonresponse bias.

Survey research, for example, typically relies on "informed consent" interviews and requires a close analysis of possible biases in the responses obtained. To state categorically, as the GAO does, that statistical projections are not possible unless everyone consents is simply unsupportable. We, therefore, remain unconvinced by the GAO's conclusions about the special audit approach employed in the Green Bay site.

7. The draft includes many oversimplifications of complex points and mis-statements of fact; these demonstrate an incomplete understanding of the Supply Experiment and seriously undermine the usefulness of the draft as an evaluation of EHAP.

There are many questions of fact and interpretation which we believe undermine the effectiveness of the report. We list here only some examples; there are numerous other cases which we would be glad to discuss with the GAO.

- o To label the Supply Experiment only as a "field demonstration" (pp. iv, 16) ignores the benefits to be gained from comparing the effects of the experimental program with: (1) the pre-experimental experience in each site; (2) the other contrasting site; and (3) regional and national data. The sites for the Supply Experiment were not the result of a random selection and do not include control cities, but, as pointed out in the discussion of Dr. Rivlin's article (on pp. 36-37), "controls are not really possible" in a saturation test such as the Supply Experiment. See Alice M. Rivlin, "Allocating Resources for Policy Research: How Can Experiments Be More Useful?," *American Economic Review*, Vol. 64, No. 2 (May 1974), pp. 346-354.
- o The reference to the black population in South Bend is out-of-date (pp. iv, 25). In 1970, 17,700 blacks comprised 14 percent of the population of South Bend. By 1975, 20,000 blacks comprised 18 percent of South Bend's population. In 1970, there were 18,600 blacks in St. Joseph County. By 1975, we estimate from survey data that there were 21,000 blacks in the county, 95 percent of which lived in South Bend.

APPENDIX III

APPENDIX III

Mr. Elmer B. Staats

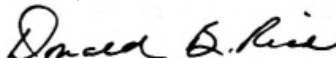
August 23, 1977

- o The data collection period of five years (pp. 4-5) has always been an estimate of the time required to study the effects of the experimental allowance program. Initially we planned for six annual cycles of field surveys. We have since altered the frequency for some of our minor surveys (e.g., residential buildings and neighborhoods). Also, as noted on p. 30, field surveys in the Green Bay area will probably be discontinued after the current cycle is completed. (In the South Bend area our plans remain unchanged.)
- o The description of our sample is inaccurate and uses the term "baseline" in a confusing manner (pp. 5, 6-7). In our baseline surveys we attempted to collect data on 5,039 properties in the Green Bay site and 4,333 properties in the South Bend site. Second wave surveys in the Green Bay site involved about 2,500 residential buildings; in our baseline surveys in the South Bend site we attempted to collect data about approximately 3,000 buildings.
- o The Supply Experiment does not base benefits on "maximum fair market rent" (p. 6). Also, our rule is that allowance payment cannot exceed housing expenses.
- o EHAP does not prohibit participants from spending more than 25 percent of adjusted gross income for housing. In the Supply Experiment they can spend as much as they choose (p. 30A).
- o Saginaw was the original choice for the second site in the Supply Experiment. When negotiations stalled there, a second round of site studies centered on South Bend, Springfield, and Saginaw. These were all considered concurrently, while the degree of local support for the program was determined. Thus Springfield was never a "first site choice" in the sense that Saginaw had been (p. 34).

* * *

We would welcome the opportunity to discuss the draft further with you and your staff. We also strongly recommend that the revised version be referred to the research consultants retained by the GAO before the report is made public; we reiterate our earlier suggestion that if GAO continues in this type of program evaluation (and we think it should), we urge that well-trained social scientists be added to the staff. When you have completed a final report for publication, we would appreciate the opportunity to prepare a final letter of comment to be published together with your report.

Sincerely,



Donald B. Rice
President

cc: Secretary Patricia R. Harris (HUD)
Assistant Secretary Donna E. Shalala (HUD)
Mr. Jerry J. Fitts (HUD)
Mr. Henry Eschwege (GAO)

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August 25, 1977

Mr. Henry Eschwege
U.S. General Accounting Office
Community and Economic Development Division
441 G Street, N.W., Room 6146
Washington, D.C.

Dear Mr. Eschwege:

Dr. Abt has asked me to transmit to you our comments on the information on the Housing Allowance Demand Experiment and Administrative Agency Experiment contained in sections of the GAO's Draft of a Proposed Report to Congress on the Experimental Housing Allowance Program, transmitted to us on July 21, 1977.

We have carefully reviewed the draft report and, frankly, we are disappointed that the numerous criticisms of the report which we submitted to you in our letter of December 30, 1976, were largely ignored. Most of those comments are as valid concerning the present draft as they were of the previous draft. Specifically, the draft report makes many incomplete and misleading statements about the purpose of the experiments and their design. The Demand Experiment is one of three experiments being conducted by HUD. It does not provide, has never been claimed to provide, and never was intended to provide all of the information necessary to evaluate a possible national program.

Thus, for example, concerning the dangers of generalizing to tighter housing markets in a full-scale program (the "lack of competition") discussed in the draft report (pp. 47-49), the fact that the participant responses observed in the Demand Experiment would have to be combined with estimates of market response from the Supply Experiment to project the impact of a full-scale national allowance program was a basic rationale for the design of these two experiments. (The Demand Experiment is, of course, more directly applicable to evaluating smaller scale, limited enrollment allowance programs.)

Likewise, the implications of the outreach effort in the Demand Experiment for the analysis of participation are well known (see, for example, The Design and Analysis Plan of the Demand Experiment, pp. 5-9). The Demand Experiment analysis of participation focuses on differences in participants' willingness to participate. These results should be combined with those of the Supply and Administrative Agency Experiments to estimate overall participation rates under different types of allowance programs and outreach efforts.

Concerning the sites selected for the Demand Experiment, whatever HUD's selection process, the critical facts are the range of conditions in the two sites during the experiment. We are curious as to the source for the report's assertions about the economic conditions and housing markets in

Mr. Henry Eschwege

August 25, 1977

the sites during the experimental period (concentrated in 1974 to 1975). In addition, at enrollment, over 70 percent of the participants in each site failed the Minimum Standards requirements; we do not understand why the report describes these sites as generally having "good housing quality."

With respect to the Administrative Agency Experiment, the report concentrates on two well-known design features, each of which reflected conscious trade-offs in planning the experiment. First, the experiment was conducted in only a limited number of locations, which could not be statistically representative of all possible locations of a national program or all possible types of agencies. Selection criteria were similar to those that might be used to establish the first few locations of a national program: in the face of uncertainty about the administrative requirements of the program, agencies were chosen that seemed capable of implementing a program without the benefit of prior examples. In any event, the agencies turned out to demonstrate varying levels of management competence, just as the housing markets turned out to have strikingly varied vacancy rates for the submarkets in question.

Second, the experiment was naturalistic, allowing each agency to choose its own procedures rather than imposing systematic variation on them. Such a design imposes clearly recognized limitations. It also has strengths: it allows study of the choices agencies make, helping to determine whether local agencies in a national program must be regulated or are capable of making appropriate procedural decisions on their own; it allows more careful examination of the costs of carrying out particular procedures as they would be implemented in an operating program, without the confounding effect of artificial variation of procedures within agencies.

In short, the AAE design has important limitations, like any social research effort. The only effective way to avoid those limitations would have been to conduct a much larger and much more expensive experiment. Considering the substantial learning possible with the design choice, it is doubtful that the additional information from a much larger experiment would justify the enormously increased cost.

The report would be much improved if it spelled out its alternative to the limitations of the allowance experiments. On two important points, the report severely underestimates the amount of information possible from the AAE analysis. First, the absence of planned systematic variation in agency procedures does not mean that conclusions about any agency's procedures can only be applied to that particular agency's setting. The AAE analysis can and does group sites that used similar methods in order to provide comparisons that take into account substantial variation in administrative and environmental contexts. Further, there was within-agency variation in several administrative procedures--such as outreach and certification --which allows analysis to take account of site-specific factors.

Mr. Henry Eschwege

August 25, 1977

The absence of an independent audit of participant incomes does not mean that no useful analysis of the certification function is possible. The analysis carried out with the AAE data goes well beyond anything that has been possible in previous research efforts, providing substantial information about the relative effectiveness of alternative procedures. An independent audit would have made additional analysis possible, as noted in our reports, but was not necessary to achieve a substantial increment in information.

The draft report is problematic with respect to the premature finding of "results" from the Demand Experiment. When we forwarded data to the GAO in December 1975, we cautioned in our cover letter that the specific data requested did not allow valid comparisons among treatment groups. Nonetheless, the report fails to properly caveat the data that were used, or the analyses based on these data. For example, households in some of the treatment cells had lower income eligibility limits, so that the distribution of income varies among cells. Meeting Minimum Standards, for example, is probably related to the level of household income. Thus differences in meeting Minimum Standards between different cells cannot be described as an effect of the different housing allowance treatments without controlling for income. This income bias is especially critical when the Control group is used for comparison, since the income eligibility limits for Control households was significantly higher than for any other group. The sample that the report uses also contains households that moved into their own homes or subsidized housing subsequent to enrollment. In describing households that "received allowances," it incorrectly includes households that are receiving only a \$10 cooperation payment similar to controls, rather than their full payment. For these reasons, any "results" from the analysis conducted on this sample are questionable.

The findings presented in the report imply that improvement in housing quality took place only when participants moved from units that did not meet Minimum Standards to those that did. A household failed to meet Minimum Standards if it failed any of the requirements incorporated in the standard; it passed only if all requirements were passed. Thus a household could improve its housing quality substantially and show no change in Minimum Standards status. This applies particularly to households that were not explicitly informed of or subject to the Minimum Standards requirement.

As we indicated in our letter of December 12, 1975, and as is well known to housing experts, the Minimum Standards program requirement cannot be characterized as a general measure of housing quality. Rather, it served operationally as a housing requirement for some participants, and will serve analytically as one of several measures of the physical attributes of housing occupied by participants. The Minimum Standards requirement includes no components of neighborhood quality or location (despite many surveys having indicated this characteristic as a major factor in housing preferences), and

Mr. Henry Eschwege

August 25, 1977

only some of the many physical components of the dwelling unit. We have not posited the Minimum Standards requirements as a single best definition of quality, and we would hope that the GAO would also refrain from doing so.

As the report points out, the data used are preliminary, based only on the first year of participation for each participant. The responses reported are limited only to one of several response areas under study and, as previously indicated, are based on a sample of noncomparable households. These flaws cannot be corrected by minor editing--only by complete excision and replacement with a competent analysis.

Because the report is more specific concerning the Demand Experiment, and because the report is factually incorrect, we are appending a more detailed commentary on specific points.

We must stress again that the report does not do credit to the GAO. The analysis generally does not meet standards of competent social science research. The arguments presented are often misleading and more of the nature of a brief than a presentation of fact.

We remain, as always, ready to discuss these issues with you.

Sincerely,



Barbara C. Sampson
Vice President

BCS:bjr [See GAO note.]
Enclosure

GAO note: The enclosure has not been included since it generally relates to material which was not considered in this report.



THE URBAN INSTITUTE 2100 M STREET, N.W. WASHINGTON, D.C. 20037

August 22, 1977

Mr. Henry Eschwege
Director
Community and Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

As requested in your letter of July 21, 1977, this letter transmits a response to the proposed report to the Congress, "The Experimental Housing Allowance Program: A Status Report." The review was prepared principally by John Heinberg, Project Manager for housing allowance research, with participation by others on our staff.

Of necessity, we have concentrated our response on major areas which we consider crucial to an understanding of the Integrated Analysis, our primary responsibility to HUD within the Experimental Housing Allowance Program.

We would welcome further discussion of the report.

Sincerely,

Morton L. Isler
Director of Housing Studies

cc: Jerry Fitts, HUD
Terrence Connell, HUD

**RESPONSE TO A GAO PROPOSED REPORT:
"THE EXPERIMENTAL HOUSING ALLOWANCE
PROGRAM: A STATUS REPORT"**

**The Urban Institute
August 22, 1977**

The Urban Institute appreciates an opportunity to review the GAO draft of a proposed status report to the Congress on the Experimental Housing Allowance Program sponsored by the U.S. Department of Housing and Urban Development. The task which the GAO has undertaken of performing an independent assessment of a large-scale experimental effort is an extremely complicated one--one without precedent so far as we know that was carried out prior to the completion of a complex research effort. As those charged with an integrated analysis of EHAP, we are keenly aware of the difficulty of the GAO's task.

Our comments on the draft GAO report are presented in four sections. The first section is a general discussion of the state of the art of social experimentation as it applies to the Experimental Housing Allowance Program. The second section identifies areas of our analysis that are omitted from the GAO report and whose inclusion would enable the report to reflect more fully the scope and status of the Integrated Analysis. The third section comments on the report's discussion of the two simulation models used in the Integrated Analysis--TRIM and The Urban Institute's Housing Model. The last section assesses the GAO observation that serious limitations on data from the component experiments of EHAP will necessarily be reflected in the end product of the Integrated Analysis and concludes with brief summary remarks.

I. The State of the Art of Social Experimentation

In reviewing the GAO report as a status report to the Congress on the Experimental Housing Allowance Program, it is important that the report should characterize EHAP as accurately and fully as possible as a major new use of social experimentation.

Social Experimentation as Policy Research

Our view of social experimentation is that it falls within the rubric of policy research, which must be carefully distinguished from disciplinary research in the social sciences. It is this distinction between policy research and disciplinary research that is crucial to an understanding of social experimentation generally and the Experimental Housing Allowance Program specifically.

While there is no consensus on the precise division between disciplinary and policy research in the social sciences, one convenient codification emphasizes (1) definition of the primary audience, (2) interest in and formulation of the research problem, (3) definition of guidelines for the mode of dissemination and, most important, (4) criteria used to judge research quality and research utility.¹

Policy makers are the primary audience for policy research, whereas the scientific community takes on the same role for disciplinary research. Policy research, including social experiments, is formulated around questions of policy, whereas a variety of concerns prompt disciplinary research. Much of this disciplinary research entails testing hypotheses about relationships totally unconnected with policy. Policy research is typically carried out under severe time constraints, often involving multiple interim points of assessing results and reporting associated with deadlines ordinarily not subject to such time limitations; indeed, disciplinary norms work against partial and early reporting of results. Finally,

¹From I. N. Bernstein, "Validity Issues in Evaluative Research: An Overview," Social Methods & Research, Vol. 4, No. 1, August 1975, p. 3.

the criteria applied to the quality and utility of policy research are heavily influenced by concerns of policy relevance, timeliness and cost. Disciplinary research emphasizes conclusiveness of results and extreme care in presenting these conclusions; it is much less likely than is policy research to be faulted for being irrelevant, late and costly.

A basic consideration for those engaged in social experimentation--if it is truly to be carried out as policy research--is that the certainty of their results must be continuously balanced against these concerns. Uncertainty in answering fully all the policy questions raised by those involved in decision making is a fact which must be squarely faced.

From this perspective, we question the relevance to policy research of the major conclusion of the GAO report: "We believe that EHAP as presently designed has not provided and cannot provide conclusive evidence that a national [housing allowance] program would or would not be feasible or desirable" (p. 100). We think the GAO's subsidiary conclusion is appropriate to assessing EHAP as policy research: "EHAP ... will make the eventual policy decision better informed than is typical of public policy making" (p. 100). Considering the context in which policy research is undertaken and the associated limits of cost, time and knowledge, this is a favorable assessment indeed.

Application to EHAP

Our view of social experimentation as policy research characterized by uncertainty can be specifically applied to EHAP. In contrast to other completed programs of social experimentation of which we are aware--the New Jersey and

Rural Income Maintenance Experiments--EHAP was designed in a much more comprehensive and complex way to address all the policy questions surrounding housing allowances that could be feasibly incorporated in a coordinated research effort.

From a methodological perspective, we think the most precise characterization of EHAP is that of three component evaluations—one of which (the Demand Experiment) is randomized—designed into a larger quasi-experimental framework for assessment (the Integrated Analysis). In its emphasis on household behavior, the Demand Experiment, like the New Jersey and Rural Experiments, lends itself to randomization. While many controlled features have been designed into the Administrative Agency and Supply Experiments, their basic units of analysis--agencies and housing markets--do not form definable populations appropriate to systematic sampling, random assignment to treatment and control, and application of strict treatments to the experimental sample units. The following methodological statement is highly useful in understanding why EHAP is designed in the way it is:

Despite what may appear to be a need for evaluation of a total social program, designing an activity as a homogeneous activity is often poorly justified. To be specific, the view that a complex program should be (or can be) evaluated using a single randomized experiment is not necessarily profitable On the other hand, there is often ample justification for the view that components of a complex program should be tested using randomized experiments ... even if political or ethical constraints prevent randomized tests of macroelements or of the complete program.¹

Our overall characterization of the research design (developed in May 1972), which was later substantially implemented as the Experimental Housing Allowance Program, was as follows:

¹Robert F. Boruch, "Coupling Randomized Experiments and Approximations to Experiments in Social Program Evaluation," Sociological Methods & Research, Vol. 4, No. 1, August 1975, p. 39.

... policy-related questions about the effects of housing allowances have been formulated by HUD. The Urban Institute was requested to design a housing allowance experiment(s) to help answer these policy questions ...

In general, answering these policy questions would require combining information about: (1) the behavior of individual households in response to the availability of different forms of housing allowances; (2) the market or supply response to the increase in aggregate demand stemming from the introduction of a housing allowance; and (3) the administrative behavior--and administrative costs--of the government agency or agencies likely to have the responsibility for making housing allowance payments.

While it will be necessary to integrate these different types of information in order to answer fully the policy questions, that does not mean that all three types of information can or should be obtained within the same experimental framework. In fact, obtaining these different types of information requires that different units of analysis be investigated. There are, moreover, a number of methodological and practical reasons to suggest that for experimental purposes, the behavior of the different units of analysis be studied separately. These reasons involve the precision and accuracy with which one can estimate the separate effects and the combined effects in the same experimental setting and the equally important problem of obtaining representative samples of more than one unit of analysis in the same experimental framework. Our recommendation was that these different units of analysis be studied separately and that the results be integrated analytically.

As a result of this recommendation, The Urban Institute has designed an experiment [the Demand Experiment] to measure the effects of a housing allowance on the behavior of households under conditions where the aggregate supply of housing services should remain substantially unaffected by the increased demand from the allowance recipients.

At the request of The Urban Institute, The Rand Corporation carried out the preliminary design of an experiment [the Supply Experiment] to test the responsiveness of housing supply to the increased aggregate demand expected from a housing allowance program. As another approach to measuring supply responses, Frank deLeeuw of The Urban Institute is developing a model of the housing market which is designed to be used to obtain estimates about the effects of alternative public policies, including housing allowances, on the quantity and price of housing services. To obtain information about the effectiveness of different administrative agencies and procedures, HUD is also conducting a number of experiments into the use of housing allowances.

Together, these efforts would appear to provide the necessary information for answering the HUD policy questions. However, it is important to stress that uncertainties about the exact types of information that can reliably be obtained from each study, the comparability of these data, and the practical and budgetary limitations on the scope of each of the designs makes it impossible to say with certainty that the policy questions can be fully answered.¹

Five years later, we believe this characterization to be a realistic picture of the Experimental Housing Allowance Program as it is being actually carried out. This assessment—supported by much more detailed discussion of design features and generalization considerations—provided major information on probable validity and limitations and was available to all interested parties who were subsequently involved in decisions to implement EHAP.

II. Areas of Omission in the Discussion of the Scope of the Integrated Analysis

Although the GAO report recognizes that the Integrated Analysis addresses each of the major research areas of EHAP—household behavior, market behavior, and administration of housing allowance programs—the discussion is restricted almost entirely to the first two areas and more narrowly to two specific models used to analyze household and market behavior. The report thereby omits a number of other important lines of investigation in the Integrated Analysis, including analysis of cross-experimental differences in program housing standards, mobility analysis, use of the Annual Housing Survey to develop housing quality

¹Urban Institute Working Paper 205-4, pp. 2-5. The Appendix to this paper contains a discussion of the strengths and weaknesses of the Demand and Supply Experiment design concepts (as they existed at that time) in providing information relevant to these policy questions.

benchmarks, and examination of site characteristics. In each of these areas, relevant reports and papers have been produced.¹

Of special concern here is the integrated analysis of administrative questions. These questions have increased in importance as EHAP has progressed. The original scope of the Integrated Analysis was in fact expanded to include a full treatment of administrative questions on a cross-experimental basis, in part because of specific strengths in each of the experiments for addressing these questions.

To give some examples of these strengths, the Administrative Agency Experiment has the advantage of cross-site variation in procedures used to carry out the major administrative functions of the program. The Demand Experiment is the only experimental component to employ a monthly income reporting system; these monthly data on recipients' income are necessary to determine the cost-effectiveness of accounting systems with varying frequencies of required reporting. Finally, the Supply Experiment offers evidence on possible economies of scale that might be realized in a program with open enrollment; it also provides opportunities for testing variations in procedures within a given site for different subsets of households.

¹In addition to the modeling work which is discussed by the GAO, the major substantive areas and documents produced on each and made available to the GAO for its review include the following: History of the development of the integrated design and analysis of EHAP (four annual reports); program administration (Urban Institute report numbers 216-17 and 216-31); analysis and synthesis of experimental data on household behavior--program housing standards (216-30), mobility (216-25 and 249-1); and housing conditions (249-2); program integration and comparisons--welfare system (216-4 and 216-21), other housing and community development programs (216-2 and 216-12); interim synthesis and appraisal of research findings concerning housing allowances (210-5, 216-11 and 216-24). Other papers and reports in many areas, including interim synthesis and appraisal, will be completed in the near future.

The GAO's report concludes that this cross-experimental approach "should provide HUD with a broader coverage of administrative operations [than does the Administrative Agency Experiment], but it will not readily overcome the problems of whether the results achieved at these sites would be applicable at other sites or would be applicable in a nationwide program" (p. 64).¹ While it is true that EHAP does not—and indeed could not—systematically sample every kind of agency that might conceivably administer a housing allowance program, it does in fact monitor administrative activities under a wide range of circumstances. Furthermore, by combining EHAP results across experiments with the experiences of other ongoing programs external to EHAP, the Integrated Analysis is expanding the utility of information gained in the experiments, and providing a richer perspective on how experimental results can be generalized to other settings.

III. Modeling Work in the Integrated Analysis

In general, we feel that the GAO report captures the motivation and basic approach we are following in adapting, validating and applying The Urban Institute's Transfer Income Model and Housing Market Model for use in the Integrated Analysis. One specific point with respect to the GAO's discussion of the TRIM model is that we plan to incorporate information on household behavior concerning participation and housing consumption from all three experiments and all 12 experimental sites in building behavioral response into the TRIM simulations—rather than only

¹An assessment of the GAO's discussion of the limitations of the external validity of the Administrative Agency Experiment is presented in Section IV of this response.

participation rates from the Demand and Supply Experiments as the report states on page 75.

We are unclear about the purpose and relevance of the GAO's general discussion of advantages and limitations of modeling techniques. The use of these two models in the Integrated Analysis has been motivated by the advantages discussed by the GAO. We have also tried to treat fully all important limitations of our modeling efforts in our reports on modeling work completed to date.¹ The GAO's discussion draws no specific implications for our modeling work. We do not know, therefore, whether our work satisfies the criteria suggested by the GAO.

One additional strength of the modeling work not apparent from the GAO's discussion is that the Integrated Analysis is able to draw extensively on program experience and behavioral evidence from the EHAP experiments--thus the choices of "scenarios, behavior patterns and economic projections" (p. 78) are less dependent on "unknowns and uncertainties" (p. 78) than is true with other modeling efforts. We are confident that the Integrated Analysis work to link experimental behavior and developed modeling techniques which have been used elsewhere to draw policy implications will lead to a highly useful information source for policy development.

IV. Data Limitations: Sites and Agencies

In its concluding section--although not in the chapter which discusses the Integrated Analysis--the GAO report states that "as the

¹These reports present applications of The Urban Institute Housing Model to South Bend, Indiana (216-26), and Green Bay, Wisconsin (216-27), and simulations of national housing allowances using the TRIM model (216-13, 216-19 and 216-33).

EHAP data will have serious limitations, the end product of the integrated analysis will also reflect these limitations" (p. 101). While the report does not state directly the basis for this conclusion, we infer that it is drawn from an earlier statement in the conclusions section: "In the final analysis, the number and type of sites and agencies selected for the experiment will determine whether HUD can reach reasonably valid conclusions for projecting how a national allowance program might affect such important issues as participation, inflation, residential mobility, housing quality, or program administration" (p. 100, underscoring added).

To provide an assessment of this statement as it bears on the conduct and validity of the Integrated Analysis, the five issues mentioned must be divided into three groups of behavioral response, as follows.

Household Behavior--Participation, Residential
Mobility, Housing Quality

Since preliminary EHAP research has shown that program participation appeared to be positively influenced by site housing quality and mobility rates, these two factors were specifically assessed in considering the EHAP sites as an information source on household behavior. An Integrated Analysis Working Paper (216-29) has extensively examined EHAP site characteristics, using available census data, to determine how the 12 sites compare to the nation's other urbanized areas.

Housing quality at the EHAP sites, taken together, appeared only slightly higher--based on comparisons of averages and medians--than that in other urbanized areas. The same was true of site mobility rates. Furthermore, the comparison showed that the range of values on these variables observed across the EHAP sites provides a general picture of

all but the extreme values one would observe in the nation's urbanized areas. Our present assessment, therefore, is that an integrated analysis of data from the 12 EHAP sites, in conjunction with national-sample data bases such as the Annual Housing Survey and the TRIM microsimulation model, will provide reasonably valid conclusions regarding these household responses to a national-level housing allowance.

Market Behavior--Inflation

In terms of the second of the five issues discussed by the CAO, inflation, only the two Supply Experiment sites can provide experimental evidence on market response. The major constraining factor here, in our view, was that cost and feasibility considerations precluded such an experiment anywhere except in two small SMSAs. We feel that the two Supply Experiment sites were selected through a careful and logical process and embody contrasts in their characteristics important to analysis of market behavior. On the basis of comparisons presented in Working Paper 216-29, it appears that increases in the price of housing services due to housing allowances, if any, may be low in Green Bay and about average in South Bend relative to what might be observed in other urbanized areas. While no program-induced inflation has been observed to date in either Supply Experiment site, our comparison of site characteristics highlights the importance of using analytical techniques in the Integrated Analysis--including the Housing Market Model--in generalizing any evidence concerning inflation which may yet emerge from Supply Experiment results.

Program Administration

From the standpoint of the Integrated Analysis or any mode of

drawing general conclusions about administrative behavior, we do not believe that a comparison of the types of agencies at the 12 EHAP sites to some population of agencies in an unknown universe is either feasible or fruitful. We consider the issue of agency characteristics to be of minimal importance as compared to the necessity of achieving and observing procedural variation in performing administrative functions. It is important, of course, that administrative behavior be observed over a range of geographic settings and for a program serving a group of households most likely to be covered by the ongoing program. In our judgment, EHAP provides a policy-relevant information source which meets these tests.

This viewpoint can be supported through assessment of the three ways in which the GAO report challenges the external validity of the Administrative Agency Experiment. The GAO report states that: (1) only agencies with very capable staffs were chosen; (2) the experiment is being conducted only in markets with favorable housing conditions; and (3) large urban areas that traditionally have difficult administrative problems are not included (p. 53).

The first statement (that only agencies with capable staffs were chosen) seems to assume that the primary purpose of the Administrative Agency Experiment was to determine which type of agency should administer a national housing allowance program. While this question was associated initially with agency selection, as EHAP evolved the emphasis shifted quickly to an analysis of procedural variation in the performance of administrative functions. This shift did not negate the notion of selecting a variety of agencies, however. Indeed, the analytic framework

depended on what was expected to be considerably different approaches by these agencies in carrying out the several administrative functions involved in managing a program. To establish a range of procedural choices and ensure that the agencies would follow through in implementing these procedures and in collecting and managing reliable data, agencies that were clearly incapable of conducting the experiment were excluded. No purpose would have been served by including agencies in the experiment that were unlikely to be able to control and document their own activities.

The Administrative Agency Experiment experience has provided procedures suitable for agencies that might administer such a program in the future. In addition, the Integrated Analysis is combining the Administrative Agency Experiment results with those of the other experiments to offer an even greater range of procedural choices for consideration.

We also disagree with the GAO's statement that the sites for the Administrative Agency Experiment represent particularly favorable housing market conditions. The only measure of market conditions mentioned by the GAO as specifically constraining site selection is high vacancy rates (p. 54). The examination of census data in Working Paper 216-29 offers no evidence that vacancy rates are "high" in all of the Administrative Agency Experiment sites. While we have also shown that none of the sites has a particularly "low" vacancy rate when compared to other urbanized areas in 1970--say, the lowest 25 percent of the distribution--the vacancy rates for five of the eight sites fall below the median for all urbanized areas.

Four of the Administrative Agency Experiment's sites (Tulsa,

Springfield, Jacksonville and San Bernardino) are in the upper quarter of the distribution of all urbanized areas ranked by population size. Consideration of program administration in the Demand Experiment sites in the Integrated Analysis also adds information on larger urban areas.

Summary Remarks

In conclusion, after considering what the GAO perceives to be the threats to the external validity of EHAP, we continue to believe that it is well designed to address the major policy questions surrounding housing allowances. By analyzing behavior at all 12 EHAP sites, the Integrated Analysis is focusing on the broadest possible range of experimental experience. Our work then combines this experience with non-experimental data analysis—including the use of simulation models—to strengthen the validity and policy relevance of the information. We recognize the limitations that are inherent in an overall design which, necessarily, sought answers to the major questions in three separate experiments and is also constrained by criteria of cost, timeliness and relevance demanded of policy research. We have considered it one of our central responsibilities to HUD and to the public interest to reduce experiment-specific limitations and to bring together the best information available to address these policy questions in a coherent, comprehensive way.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 8 1977

Mr. Victor L. Lowe
Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

Thank you for your letter of December 2, 1976 and the opportunity to comment on your draft report on the Department of Housing and Urban Development Experimental Housing Allowance Program. Our comments are limited to Chapter 6 of the report and the recommendation directed to this Office regarding access to information on participants in social programs. We trust that the Department of Housing and Urban Development is addressing the other aspects of the report.

We share the concerns which underlie the discussion of access to records; namely, that there is a need for the public to be able to assure itself that public funds are being lawfully and properly disbursed. Nevertheless, it is our view that the successful conduct of certain programs (especially some experimental programs) requires that, in limited instances, agencies have the ability to assure individual participants that their identities or other information about them will not be disclosed. To the extent that an agency has concluded that a particular program or research protocol is essential to accomplishing its lawful objectives and that the success of the program can only be assured by providing participants guarantees of confidentiality, it must have the authority to provide such guarantees. Nothing in the report, as we understand it, would seem to be at odds with this contention.

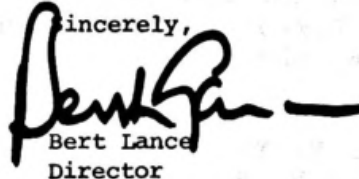
The question, then, becomes a matter of determining who should decide when guarantees of confidentiality are essential and consistent with making adequate provisions for audit.

Your report recommends that the Director of the Office of Management and Budget

"...ensure that Federal agencies are aware of the problems presented by the confidentiality of data obtained in social research experiments, and require that until GAO reaches a mutually acceptable arrangement with the research community for obtaining access to research data, Federal agencies consult with GAO in determining the extent to which a pledge of confidentiality will be extended to program participants."

We agree that restrictions on access to data in contracts should be kept to a minimum so that the Government can independently verify that public funds were properly disbursed and assess the effectiveness of Federal programs. Certainly, if it becomes evident that there is widespread abuse of agency discretion in this area, we will explore the development of more definitive criteria and policies for deciding when promises for confidentiality are appropriate. However, it is our view that, in the absence of evidence of such widespread abuse, agency heads are in the best position to decide when a limit on access to data is necessary to carry out their program responsibilities. Congressional oversight and audits such as the one which prompted this report are the best method of evaluating whether an agency is using its discretion to grant confidentiality properly and in a manner consistent with law. We presently see no need to interpose another authority into the process of reviewing and approving individual agency research procedures.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bert Lance", followed by a horizontal line.

Bert Lance
Director

PRINCIPAL HUD OFFICIALS RESPONSIBLE FOR
ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
Patricia R. Harris	Feb. 1977	Present
Carla A. Hills	Mar. 1975	Jan. 1977
James T. Lynn	Feb. 1973	Feb. 1975
George W. Romney	Jan. 1969	Feb. 1973
ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH: (formerly Research and Technology)		
Donna E. Shalala	Apr. 1977	Present
Jerry J. Fitts (acting)	Jan. 1977	Apr. 1977
Charles J. Orlebeke	Aug. 1975	Jan. 1977
Michael H. Moskow	Mar. 1973	July 1975
Theodore R. Britton, Jr. (acting)	Jan. 1973	Feb. 1973
Harold O. Finger	Apr. 1969	Dec. 1972
DIRECTOR, DIVISION OF HOUSING RESEARCH (formerly Division of Housing Assistance and Economic Research)		
Jerry J. Fitts	Apr. 1977	Present
Evelyn S. Glatt (acting)	Jan. 1977	Apr. 1977
Jerry J. Fitts	May 1974	Jan. 1977
Jerry J. Fitts (acting)	Nov. 1973	May 1974
John H. Betz	Apr. 1972	Nov. 1973

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