

Edmond H. Hoben

THE RENT CERTIFICATE PLAN

728.1
:336.18
N175fe
c.3

A Report by the Joint Committee on Housing and Welfare

on the

**Proposal to Substitute Public Assistance Rent
Relief Grants to Low-Income Families in Place of
Providing Low-Rent Housing by Public Agencies**

Federal Housing Administration
Library

**Publication No. N204
September . 1944
Fifteen Cents per Copy**

NATIONAL ASSOCIATION OF HOUSING OFFICIALS
1313 East 60th Street, Chicago 37, Illinois

DEC 20 1962

VF
728.1
336.18
N175pe

**JOINT COMMITTEE ON HOUSING AND
e.3 WELFARE**

CHAIRMAN: SYDNEY MASLEN, *Chairman, National Committee of Housing Associations*

VICE CHAIRMAN: JOSEPH P. ANDERSON, *Executive Secretary, American Association of Social Workers*

SECRETARY: EDMOND H. HOBEN, *Associate Director, National Association of Housing Officials*

HOUSING REPRESENTATIVES:

H. F. ALLARDT, *Executive Director, Housing Authority of the City of Fresno (California)*

CATHARINE F. LANSING, *Assistant Director, Bureau of Tenant Relations, Management Division, New York City Housing Authority*

HILDA SMITH, *Chief, Education-Recreation Section, Federal Public Housing Authority*

THE CHAIRMAN

THE SECRETARY

WELFARE REPRESENTATIVES:

MERRILL F. KRUGHOFF, *Associate in Health and Welfare Planning, Community Chests and Councils, Inc.*

HOWARD L. RUSSELL, *Director, American Public Welfare Association*

MORRIS ZELDITCH, *Director of War Services, Family Welfare Association of America*

THE VICE CHAIRMAN

#D
7793
A3
A24
~~12442~~

FOREWORD

The Joint Committee on Housing and Welfare was established late in 1943 to bring about a better understanding between welfare and housing agencies; first, on policies of common interest; and second, on administrative relationships.

The Committee membership includes representatives of both public and private agencies in the fields of housing and welfare.

Issuance of the following report represents the Committee's completion of the first item of its program under the heading of policy. This statement on rent relief has been issued in advance of the completion of the Committee's whole assignment because it deals with a subject on which there is an immediate need for analytical information.

The statement of the Committee presented herewith has been approved by the members of the Committee and by: the Executive Committee of the Family Welfare Association of America, the Executive Committee of the American Public Welfare Association, the Executive Committee of the American Association of Social Workers, the National Committee of Housing Associations, and the Board of Governors of the National Association of Housing Officials.

September 1944

SYDNEY MASLEN, Chairman
Joint Committee on
Housing and Welfare

THE RENT CERTIFICATE PLAN

An Analysis of the Proposal to Substitute Public Assistance Rent Relief Grants to Low-Income Families in Place of Providing Low-Rent Housing by Public Agencies

INTRODUCTION

In recent years the claim has been made that improved urban housing conditions for low-income families could be secured if these families were granted public assistance in the form of rent relief. Advocates of rent relief have recently put forward, as a substitute for the construction and operation of any public housing, a rent certificate plan. Specifically, local welfare boards or agencies would issue to low-income families a grant in the form of "a rent certificate", to bridge the gap between the rent a family can afford to pay, and the rent charged for decent, available accommodations in private ownership. Proponents of this scheme sometimes refer to it as "financial assistance to families needing low-rent housing."

There is no precedent, in terms of experience, by which to judge the plan, and its advocates have advanced no details as to costs, administration, and the maintenance of standards. An analysis, therefore, must consist largely of weighing the merits of the actual public housing program against the merits of a theoretical program to be carried out under "the rent certificate plan."

It seems logical, in evaluating a substitute for an existing public housing program, to analyze the objective and the achievement of public housing. If the objective is acceptable, and if achievement to date indicates progress towards the objective, a substitute activity such as the use of rent certificates can be measured against a clearly defined program.

OBJECTIVE AND ACHIEVEMENT OF PUBLIC HOUSING

Objective

In its broadest terms the objective of public housing is the provision of housing of acceptable modern standards for every family lacking sufficient income to obtain such housing through the normal operation of private

enterprise. Public housing has a responsibility for the families for whom private enterprise, at any time, is unable to provide decent housing at a rental they can afford to pay.

It is well known that one of the most important causes of slums and blighted areas has been the fact that private enterprise has been unable profitably to produce new housing of acceptable standards for low-income families — either on vacant land or by reclaiming blighted areas — or profitably to maintain existing housing at an adequate standard for such families. This is not primarily the fault of private builders. Rather, it is the fault of society in general, in failing to provide for all families an income sufficient to meet the minimum cost of living, to specify and enforce adequate housing standards, and in particular, failing to devise economic methods of providing low-rent housing that would meet these standards without loss to the builders.

Public housing is clearly a public responsibility that is necessary, pending the correction of fundamental maladjustments in: the distribution of national income, the cost of housing production, the enactment and enforcement of adequate housing codes, and the pattern of city building and rebuilding.

Standards

One of the most difficult initial problems faced in the development of a public housing program was the determination of standards. This included both standards for the degree of inadequacy of present housing that would render its tenants eligible for admission to public housing, and standards for the accommodations to be constructed by a public housing agency. In both cases it was discovered that officially adopted criteria were virtually non-existent or unenforced and non-enforceable in most American cities. The codes both for new construction and for existing dwellings appeared to overlook almost completely the essential elements of environment that can be assured only by planning on a neighborhood basis, and that are just as essential a part of the definition of adequate housing as are structural, space, and sanitary provisions.

Flexibility

Because public housing seeks to meet a need based on family income, a factor that is known to vary considerably from time to time, one of the primary objects of the public housing program has been flexibility. This

flexibility is sought first by varying the total amount of subsidy available to a given housing development, thereby permitting variations in the average rent over a period of time; and second, by varying the rent for different families according to income and space requirements at time of initial occupancy and according to changes in these requirements during occupancy.

These two variables permit public housing to operate at an economic level as determined by the local community, the fluctuations in the general economic cycle, and the willingness of the federal and local governments to pay the subsidies required. Within the general framework of subsidy determined by these three factors just mentioned, individual families are able to avail themselves of the advantages of good housing throughout a period starting with great economic distress, and ending at a point where their income permits them to secure adequate accommodations in the normal private market.

Achievement

The fact that the public housing program has met only a small portion of the housing needs of low-income families is no secret. Under the United States Housing Act, however, public housing *has* been built by 246 local housing authorities in 35 states. These authorities, operating under state and local authorization, have been engaged in the only large-scale slum redevelopment program this country has known.

As a result of the United States Housing Act, 105,532 new, safe and sanitary low-rent dwellings have been produced, in connection with which 88,916 substandard dwellings have been demolished. In addition, there have been produced 62,465 dwellings which are now being used for war workers, but which will revert to low-income use after the war. This achievement should be measured against the 1940 Census findings that in urban areas alone six million families, or 28.6% of all urban families, lived in houses which were a threat to their health and welfare.

At the end of 1941, before the war employment boom had had great effect on family income, the average subsidized monthly shelter rent—excluding utilities—paid by tenants in federally-aided locally-owned public housing was approximately \$13 per month per dwelling. The achievement of these low rents, and the adoption of policies permitting the acceptance of tenants receiving various forms of public assistance, have made it possible for families of really low income to be housed in public housing projects.

WHAT IS PROPOSED UNDER THE RENT CERTIFICATE PLAN?

The use of rent certificates by local welfare agencies would seem to embody the following major principles.

Funds for Needy Families Only. Only families who live in substandard housing, and who are unable to secure housing of satisfactory quality because of insufficient income, are to be given certificates and such aid is to be extended only in amounts necessary to secure adequate housing.

Funds Limited to Housing Use. The funds so granted to the needy families are to be given in the form of a certificate or otherwise restricted so that they may be used only for the rental of housing.

Funds Paid Only During Period of Need. The cost and availability of adequate housing and the amount of family income are to be checked with sufficient frequency to permit the withdrawal of relief rental payments when no longer needed.

Limitation on Profits. It is contemplated that a fair return on each property used is to be computed and rechecked as necessary to assure that the subsidies used do not contribute to unreasonable profits.

Public Assistance for Rental of Adequate Housing Only. Only housing that meets some acceptable minimum public standard is to be rented with the use of rent certificates. Initial and subsequent periodic inspections of the dwellings rented with certificates will presumably be made by the local welfare agency to assure the establishment and maintenance of proper standards of physical condition and occupancy.

Administration. Proposals for the administration of the plan range from assigning responsibility to existing public welfare agencies to establishing a new housing board or commission that presumably would operate separately from a municipal building, health, housing, or public welfare department. Occasionally it is suggested that existing housing authorities be used for this purpose.

ANALYSIS OF THE RENT CERTIFICATE PLAN

Experience with Public Assistance Rent Grants in the Past

The only activity in the United States, comparable to a rent certificate program, is the inclusion of rent as an item in family budgets under the public relief system.

The cost of rent has not always been included in family relief budgets, but when included, it was done under the general theory that government has a responsibility to provide sufficient aid to families for shelter, as well as food and clothing. Almost without exception, public welfare agencies making specific provisions for housing in relief budgets, do so primarily in the interest of meeting their obligation to provide shelter for individual families, and not for the purpose of improving community housing conditions. Even though public welfare officials are vitally interested in better housing, the improvement of housing conditions through the use of relief funds has seemed a remote possibility.

Experience during the past 10 years has demonstrated that the payment of public funds in the form of rent, either by families receiving public aid, or by the welfare agencies directly, has not generally resulted in the improvement of housing. These payments have maintained shelter over the heads of individual families, usually without regard to the physical condition of the dwelling, and frequently without regard to serious hazards such as overcrowding.

Relief grants for rent in most cases have not induced property owners to make even those improvements required to meet the minimum local legal requirements for existing housing.

It should be pointed out that obtaining direct public assistance for minimum family needs is considered a social stigma by many families, despite the fact that the widespread unemployment of the '30's and the national scope of a well-thought out public welfare program have established the right to governmental assistance to families for whom the economic system does not provide a minimum adequate income. Many families would endure great hardships, including residence in grossly inadequate housing, to avoid seeking financial aid from public welfare agencies.

The numerous surveys of housing conditions in American cities indicate that in relatively "normal" times, there are some millions of families whose incomes are adequate to supply them with a minimum of decent food and clothing, but who cannot secure housing of a minimum standard of decency. This is so largely because of the great flexibility in the expenditures for food

and clothing as compared to the lack of choice available to families of low income as regards adequate housing. The substitution of a rent certificate plan for the direct provision of public housing would force these otherwise financially independent families to apply for a public assistance grant, or if they refuse to accept such public aid, would doom them to continued residence in substandard housing, and thus defeat the purpose of the rent certificate plan.

Size of the Administrative Job

It is claimed that the rent certificate plan would be more equitable than public housing; that it would bring benefit to all low-income families instead of exclusively to those who are accepted as tenants in public housing. If all the families in urban areas, who live in substandard housing — 6,000,000 at a minimum, according to the 1940 census — took advantage of the rent certificate plan, the existing public welfare agencies would be faced with a gigantic administrative program of aid to millions of families for whom they would have no responsibility were it not for inadequate housing accommodations.

Not only would the administering welfare agency have to maintain the usual records for initial check and subsequent review of family income and fair return to the owner of the property rented, but it would either have to employ, or prevail upon municipal building and housing departments to employ, sufficient staff to engage in the initial and recurring inspection of housing rented with rent certificates. This inspection load would be superimposed on local governments which in city after city have completely failed to enforce present inadequate housing ordinances regulating the standards of existing housing.

Basis of Public Welfare Opposition. Public welfare officials oppose the rent certificate proposal because it runs counter to sound principles of welfare administration in three important respects.

First, it creates a special class of applicants whose need is judged on different standards from those generally applicable. If public welfare is to fulfill its basic responsibility of meeting residual need on an individual basis, it must move away from arbitrary standards applicable to any one group. The present tendency is away from categorization of need on any basis and toward a unified assistance concept.

Second, it proposes to supplement income for persons who are otherwise considered self-sufficient, thus utilizing public assistance as a wage subsidy.

This is an extremely undesirable role for welfare agencies and lends itself to unlimited possibilities for abuse and extension to other fields.

Third, it provides assistance to this group in kind. Public welfare has consistently moved away from the granting of assistance in kind because of its implications of personal inadequacy and because it tends to encourage extremely low relief standards. Any proposal to extend relief in kind to special groups necessarily threatens the sound basic principle of cash assistance.

Standards of Housing to be Utilized

Reference has already been made to the unlikelihood that rent certificate payments alone would result in the improvement of substandard housing — the only kind that is usually available to low-income families.

Presumably, if *public* funds are used for the direct payment of rental on housing, the requirements established for that housing must be *public* standards. This raises the question of the relationship of these standards to the requirements for existing housing now on the books — whether or not enforced — in our cities.

Any influence that would bring about the improvement of housing codes and their enforcement would be welcomed, but it seems unreasonable to believe that the institution of a plan of rent certificates could in itself accomplish this sweeping and long overdue reform.

It is said that city-wide improvement of housing by the enactment and enforcement of standards would of necessity be a part of a rent certificate plan. In the past, however, there has been little support for the adoption of good standards and the expenditure of considerable municipal funds — raised mainly for real property taxes — required for an adequate program of housing regulations.

Unless a community adopts and enforces certain minimum requirements for all existing housing, regardless of the amount or source of income of its occupants, there can be no sound “floor” on which to build any program for the raising of these standards above the lowest tolerable level — a level that is frankly recognized as being unsatisfactory in terms of the general welfare of the community.

In establishing minimum requirements for housing, the physical condition of the dwelling and its facilities is only one element. The degree of occupancy — that is, the number of persons per room — must also be controlled at time of initial occupancy and must be regulated thereafter by means of periodic inspection. Again, this is a long overdue general reform in municipi-

pal control of housing, and it would seem unrealistic to believe that it can be brought about merely by the adoption of a rent certificate plan.

It is well known that a vigorous program to prevent the use of unfit housing, unless preceded or accompanied by substantial additions to the supply of good housing available to low-income families, would create a condition of acute shortage. This would not only bring increased hardship to low-income families by forcing more doubling up, but in the absence of rent control, would bring about inordinate rent increases.

Determination and Cost of Rentals

If a large-scale program of rent certificates were put into operation, it is conceivable that the immediate demand for public assistance in the form of rent relief to secure better housing would be tremendous. The demand would far exceed the available supply of decent accommodations. Pressure would be brought by landlords and families upon welfare agencies to lower standards while the supply catches up with the demand. Thus, at the outset of the operation of a rent certificate plan, public money is likely to be used in a large measure to enable families to live in relatively substandard housing.

Assuming that a house for which all, or part, of the rental is paid with certificates meets the minimum standards for such use, some measurement of a fair rental for such property must be established. It is well known that the market rentals of privately-owned residential property vary so widely between times of boom and depression, times of high and low vacancies, or times between newness and obsolescence, that rents set at the market level might vary between amounts insufficient to pay taxes on property to amounts representing an exorbitant profit to the owner.

It appears that if justice is to be done both to the taxpayer and to the property owner, some attempt would have to be made to determine a fair return on the properties used in the rent certificate program. Yet the current *real* value of the slum or blighted housing available to low-income families is something extremely difficult to determine. It is true that tax assessors determine values, but anyone acquainted with problems of urban redevelopment knows what an impediment to reclamation these so-called tax values constitute.

The subsidies required to operate a rent certificate plan would be part of the budget of welfare agencies—largely the public agencies—and therefore in normal times, when the federal government makes no grants of funds for general local relief, would be raised for the most part by local

real estate taxes. The present public housing program utilizes federal subsidies to a greater extent than local subsidies and thus spreads the load on the taxpayers more evenly than would the rent certificate plan.

Cost of the Plan

It is pertinent to examine the difference in cost to the government — that is to say, to the tax-payer — between housing a low-income family in a slum clearance development built under the existing federally-aided public housing program, and housing the family in a private urban development of the same standard and construction cost.

Take for example :

- 1) the results of unsubsidized private enterprise — typical figures for large-scale rental developments constructed with the aid of Federal Housing Administration mortgage insurance and ;
- 2) typical 1941 figures for occupied projects in the program involving financial aid to local housing authorities by the United States Housing Authority — now the Federal Public Housing Authority

A typical average unsubsidized monthly shelter rent — utilities excluded — for prewar, large-scale rental developments with mortgage insurance by the Federal Housing Administration and comparable in development cost to similar public housing projects is \$43.00.

The unsubsidized, average monthly shelter rent in a public housing project of the same capital cost is \$28.00. With the aid of federal cash subsidies and partial local tax exemption,* the average monthly shelter rent paid by public housing tenants who pay rent in relation to their income, is reduced to \$13.

There is, thus, a difference between the *unsubsidized* average monthly shelter rent of private and public housing of \$15.00 per month — the difference between \$43 and \$28.

Comparing the *unsubsidized* average monthly shelter rental of \$43 for private housing with the *subsidized* average monthly shelter rental of \$13 paid by public housing tenants — \$13 being what the tenant can afford to pay in normal times — \$30.00 per month or \$360.00 per year, per family of public funds would be required to enable the family to live in housing privately produced. This \$30.00 per month should be weighed against the average monthly subsidy of \$15.00 per month per family which the taxpayers pay in terms of subsidy to enable low-income families to live in public housing projects.

*i.e., tax exemption less payments made in lieu of taxes.

These figures suggest a question that can be stated in simple form as follows: Public housing now costs the tax-payers in subsidy and tax exemption an average of \$15 per month per family to provide adequate housing for low-income families and to clear slum areas. Should the taxpayer be asked to provide a cash subsidy of \$30 per month per family to enable low-income families to live in housing of the same standards, produced by private enterprise and entailing no provision for the clearance of blighted neighborhoods?

The question of public policy involved in the subsidy inherent in the rent certificate plan is not whether public subsidy is desirable but rather the degree to which the objective—in this case better housing—would be accomplished by the plan.

The policy of granting public aid to private builders to produce housing for low-income families was tried both in this country and abroad, and abandoned.

Under a state law, New York City granted more than \$190,000,000 of tax exemption to private builders during the 10 years from 1922 to 1931, inclusive. While the purpose was to encourage construction of moderate-price housing, the result was the production of one and two family dwellings of decidedly inferior quality at rents that were considerably above the price that could be paid by families with modest incomes.*

The English Parliament in 1920 passed a special act granting a capital subsidy of \$1300 to anyone who would build a house of not over 1,500 superficial square feet within the walls. This act produced between the years 1920 and 1922 some 39,000 houses. However, these were not at rents within the means of the lower income groups and for this reason, the plan was abandoned by act of Parliament in 1922.*

In the last decade the policy of the American and British Governments in regard to subsidies for housing low-income families has been to grant aid to local housing authorities for public housing construction.

Volume of New Housing That Can Be Built by Private Enterprise for Low-Income Groups

It is evident from the rental figures stated above—namely: (1) an average, unsubsidized monthly shelter rent of \$43 for private rental properties; (2) an average unsubsidized monthly shelter rent of \$28 in public housing projects; (3) an average, subsidized monthly shelter rent of \$13,

*Report of State Board of Housing, Albany, N. Y., 1932—p. 33.

*British and American Housing, Richard L. Reiss—p. 62.

paid by low-income families living in public housing projects — that given a subsidy equivalent to that customarily afforded in public housing (an average subsidy of \$15 per family per month) private enterprise could not serve families unable to pay \$28 per month or less for shelter rent. Unless a rent certificate subsidy *greater* than \$15 per family per month is to be paid, it is hard to see how private enterprise will be able to produce any dwelling units in new housing for low-income groups.

It is difficult to avoid negative conclusions with regard to spending for rent relief the same subsidies which now enable families to live in public housing projects. The rent certificate plan would not result in the replacing of blighted areas with housing available to low-income families, nor in raising the standards of housing. It would inevitably increase the rents of both good and bad private housing occupied by low-income families.

The amounts paid to private owners of old housing by way of rent certificates would not add to the supply of adequate housing through the construction of new decent housing, for such amounts would not constitute either a secure or an adequate basis for financing the capital expenditures involved in new construction on vacant land or in the redevelopment of blighted areas.

In contrast to this, the subsidies paid in respect to public housing not only bring rents within the means of low-income families, but also result in the actual provision of new and decent housing for their use.

Under the rent certificate plan the inadequate housing now occupied by low-income families would continue to exist, and the vast public expenditures involved in this plan would have little effect other than to increase the incomes of the owners of substandard housing and to subsidize its perpetuation.

SUMMARY

Claims for the Plan

The proponents of the rent certificate plan have claimed that it would have the following advantages over a public housing program :

- 1) **Ownership and operation of all housing would be left in the hands of private enterprise.**
- 2) **Competitive building and operation in an otherwise unprofitable low-rent housing field would be encouraged through public subsidy; thereby resulting in improved housing conditions for families of low income.**

Objections to the Plan

Objections to the substitution of the rent certificate plan for public housing include the following :

1) A large number of individuals would be added to the rolls of relief agencies.

- a) Millions of persons, including many who are otherwise financially independent, would need improved housing and would be forced to accept rent relief through welfare agencies in order to pay rents sufficient to obtain housing which meets a minimum standard as defined by the respective municipalities.
- b) There would be many complex difficulties in establishing and maintaining the eligibility requirements governing assistance in the form of rent certificates.

2) Local administration of the plan would be costly and complicated.

- a) Recurrent inspection of dwellings scattered throughout the city, record-keeping, income checks, investigations for millions of families living in substandard housing would involve a vast expenditure of public funds.
- b) Local welfare agencies would be able to cope with the administrative problems of this plan only if provided with increased appropriations for additional staff and facilities.
- c) Local welfare agencies would be forced to engage in the granting of relief in kind, a practice that is now being given up as unsound welfare policy.

3) The rent certificate plan would be more costly to the taxpayers than the existing public housing program.

- a) The rentals of private housing meeting a minimum standard are about \$15 per month in excess of the unsubsidized rents of public housing. Therefore, the rent certificate plan of assistance would necessitate a very great increase in subsidy if the same standards are to be met.
- b) Public subsidy to low-income families to enable them to obtain adequate housing would continue. The burden of an increased subsidy, however, would fall on the tax-payers who support local

welfare agencies. There is question as to whether sufficient funds would be allocated to welfare agencies for such a program.

4) A needed new supply of low-rent housing would not be provided.

- a) The present program of rent allotments by welfare agencies often results in the housing of welfare clients in slum housing.
- b) The rent certificate plan would not provide the means for the construction of low-rent housing.
- c) Unless the supply of new low-rent housing is increased, progress cannot be made toward solving the problem of providing adequate housing for all families of low income.

5) Substandard housing would not be eliminated.

- a) Even with the increased rents paid under the rent certificate plan, the improvement of blighted neighborhoods would not be assured, and there is no positive provision for the redevelopment of the slums.
- b) Localities would need improved housing codes and methods of enforcement. The facts are that few localities have adequate housing codes and enforcement experience. It is unreasonable to expect that the housing regulation activities of cities can suddenly be vastly improved and expanded. Vigorous enforcement of adequate housing regulations would result almost immediately in a shortage of housing accommodations. In all areas where the percentage of vacancies of low-rental housing is low, excessive rents would prevail unless effective rent control were established; otherwise, public funds would be paid to the owners of substandard buildings, thus subsidizing and perpetuating poor housing and blighted areas.

CONCLUSION

In view of the foregoing, the Joint Committee on Housing and Welfare believes that the rent certificate plan would fail to meet the need of low-income groups for good housing.