

Lecture 9: Housing policies

Antoine Bozio

Paris School of Economics (PSE)
École des hautes études en sciences sociales (EHESS)

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Origin of the housing policy issue

- **Slums used to be common**

- Slums : housing lacking access to improved water, to improved sanitation, sufficient living area, housing durability, and security of tenure
- Other names : *bidonville*, *favela*, *barrio*, shanty town
- Common in the 19th and 20th c. in the US and Europe
 - e.g., London East End in the 19th c.
 - e.g., New York Five Point
 - e.g., Nanterre bidonville in the 1950s

- **Squalor, one of the five giants**

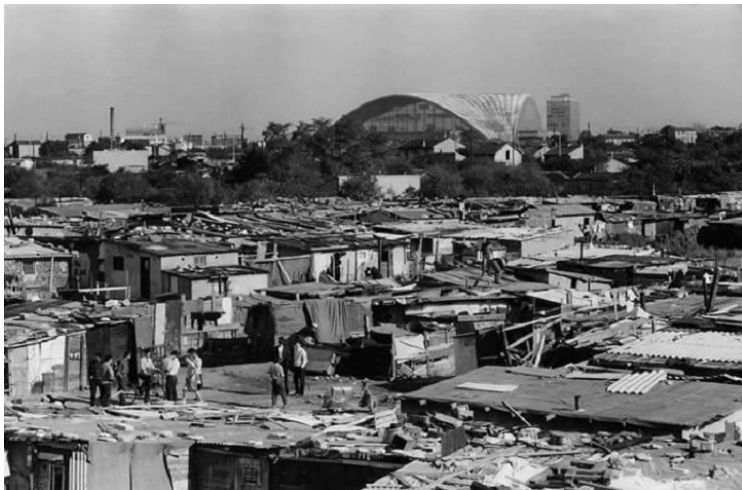
- Social reforms of the 19th c. saw poor housing as the cause of social problems
- Slums cause diseases and social pathologies that can spread to the larger population
- Poor housing as having negative externalities

Figure 1 – Jacob Riis *How the Other Half Lives* (1890)



SOURCE : Jacob Riis, *Yard in Jersey Street (now gone) Where Italians Live in the Worst Slums, before 1898*. Modern gelatin silver printing out paper. Museum of the City of New York. Gift of Roger William Riis.

Figure 2 – Slum in Nanterre (close to Paris) in the 1960s



SOURCE : Archives départementales des Hauts-de-Seine.

Housing issues

- **Decent housing for the poor**
 - Housing construction part of early objective of welfare state
 - Housing as merit good
 - Homelessness as the most visible sign of acute poverty
- **Affordable housing**
 - Larger policy question for many households (including middle class)
 - Large increase in property prices, faster than income
- **Two sides of housing in economics**
 - Capital stock, an asset which can be owned/sold
 - Accommodation as consumption service which can be rented or owner-occupied

Housing policies

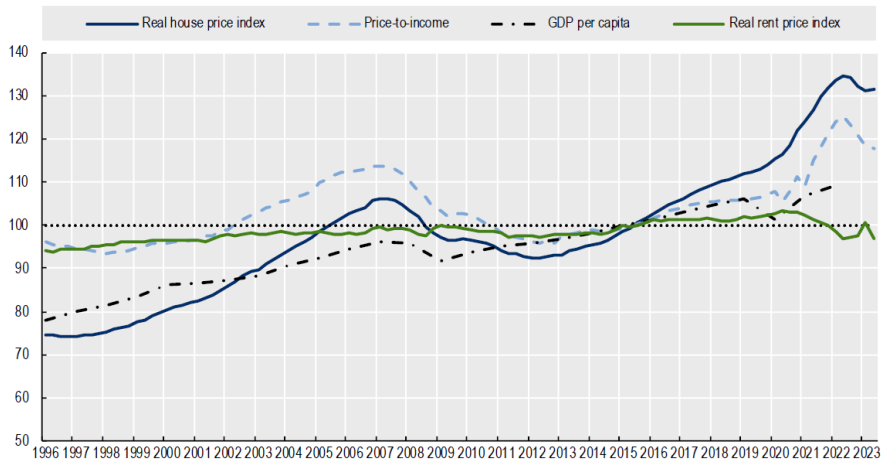
- **Economics of housing policies**

- Today large questions about the efficiency of various housing policies
- General scepticism of economists vs very popular policies
- More emphasis about neighborhood effects

- **Key policy questions**

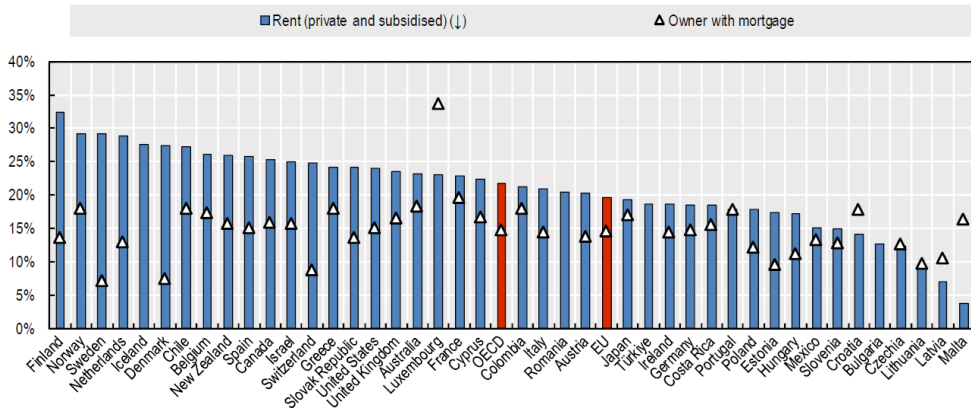
- Should we offer cash (housing benefits) or inkind (social housing) support ?
- Should we use regulations vs tax/transfers ?
- Should we favour home ownership or rental markets ?

Figure 3 – Real house price index, rent price index, price-to-income ratio and GDP per capita indexed to 2015



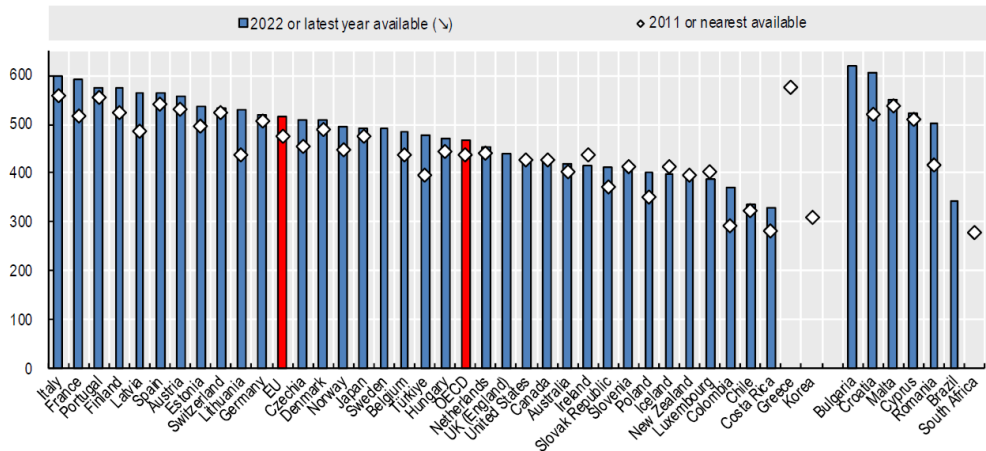
SOURCE : OECD Affordable Housing Database.

Figure 4 – Median mortgage burden or rent burden as a share of disposable income (2022)



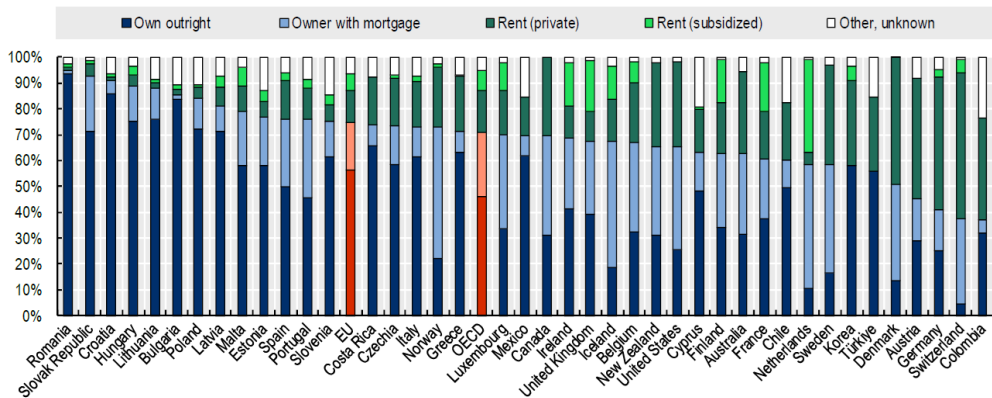
SOURCE : OECD Affordable Housing Database.

Figure 5 – Total number of dwellings per thousand inhabitants (2022)



SOURCE : OECD Affordable Housing Database.

Figure 6 – Share of households in different tenure types (2022)



SOURCE : OECD Affordable Housing Database.

Outline of the lecture

I. Overview of housing policies

- ① Public housing
- ② Housing allowances
- ③ Regulations : Rent controls, eviction rules

II. Impact of housing policies towards tenants

- ① Basic economics of in-kind transfers
- ② Impact of public housing
- ③ Impact of housing vouchers
- ④ Impact of rent control
- ⑤ Homelessness : 'housing first' programmes

I. Overview of housing policies

- ① Public housing
- ② Housing allowances
- ③ Regulations : Rent controls, eviction rules

Public housing

- **Housing projects**

- State subsidy for housing construction (usually for financing costs)
- Housing authority covers operating cost with rental income
- Income conditions to benefit from public housing

- **Public housing in France**

- Siegfried law in 1894 “*habitations bon marché*” (HBM)
- 1950 housing projects become “*habitations à loyers modérés*” (HLM)
- Tax-free saving account livret A to fund public housing
- Large expansion in the 1950s, and 1960s
- 2000 SRU law : mandate local authority for 20% minimum public housing

Public housing

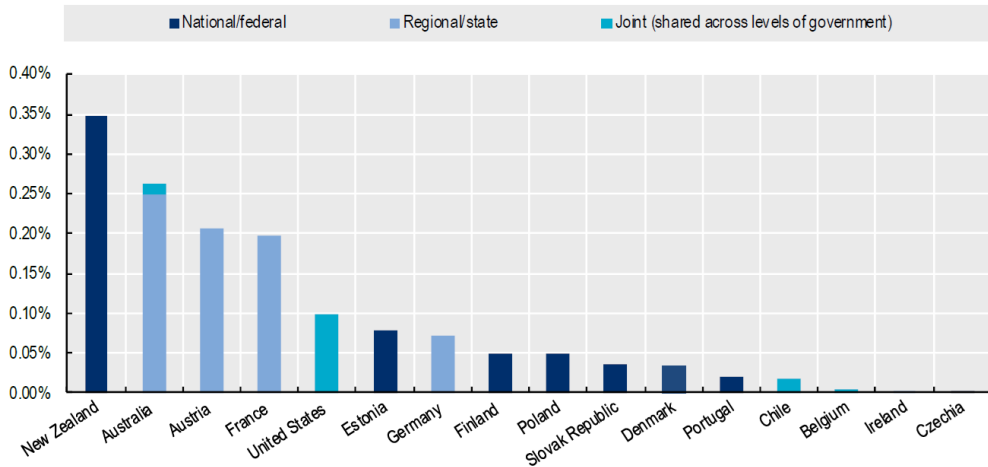
- **U.S. Public housing**

- Housing Act of 1937 : a way to support employment and slum clearance
- Critics in the 1950s of the design of those blocks of public housing
- Projects concentrating poor poverty and racial segregation
- Policy changed back and forth between more targeting towards the poorer households and expanding access to middle income families
- Program peaked in the 1990s with 1.4 million units
- Program of demolition to remove part of these housing developments (Program HOPE)

- **U.K. Council housing**

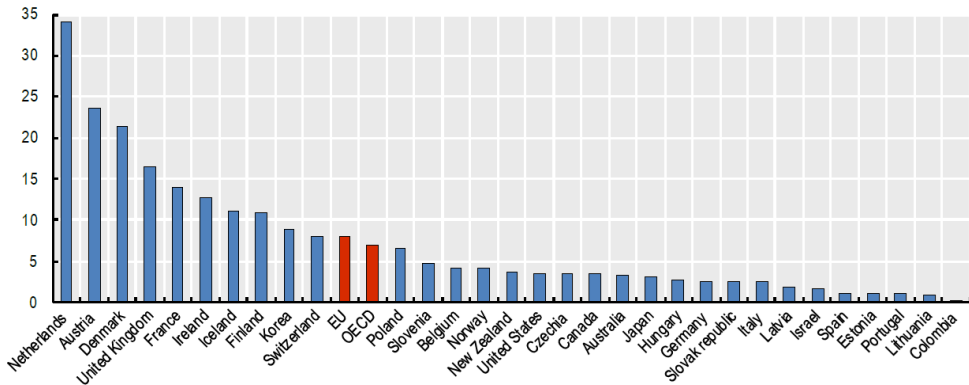
- 1950s labor gov. (Aneurin Bevan) building of high quality council housing
- 1960s lower quality building in larger quantities
- Margaret Thatcher introduced Right to Buy in 1979 : selling public housing to tenants at discount price

Figure 7 – Public spending on public housing (% GDP, 2022)



SOURCE : OECD Affordable Housing Database.

Figure 8 – Number of social rental dwellings as a share of the total number of dwellings (2022)



SOURCE : OECD Affordable Housing Database.

Housing allowances

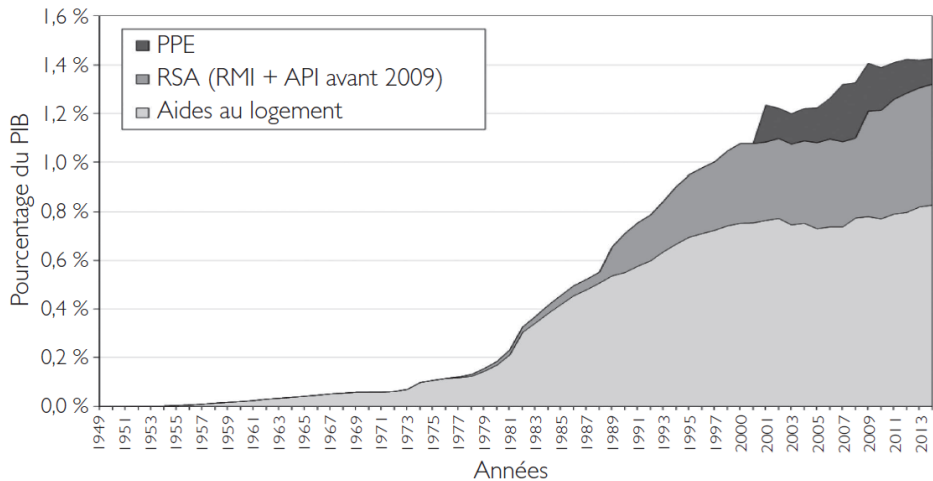
- **Housing allowances**

- Called also “housing benefits” (UK), “housing vouchers” (US), “rent assistance” (Australia), “allocations logement” (France)
- Means-tested income transfers to households directed at supporting households in meeting their housing costs
- Generally restricted to low income renters

- **France’s “allocations logement” (APL)**

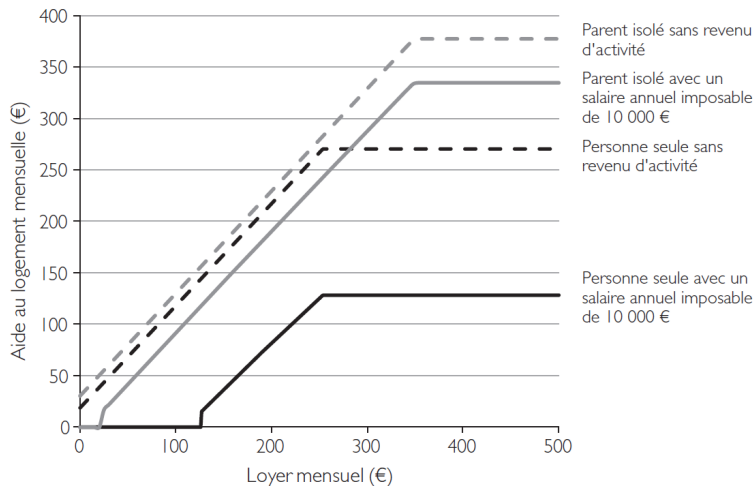
- In the 1970s, housing projects began to attract criticism for their poor quality and for not targeting the poor
- 1977, reform shifting policy towards housing benefits
- Condition of decent housing, of minimum space for tenants
- Benefit proportional to rent up to a maximum level

Figure 9 – Housing allowances spending in France (% GDP)



SOURCE : Bozio et al. (2015).

Figure 10 – Schedule of housing benefit in France

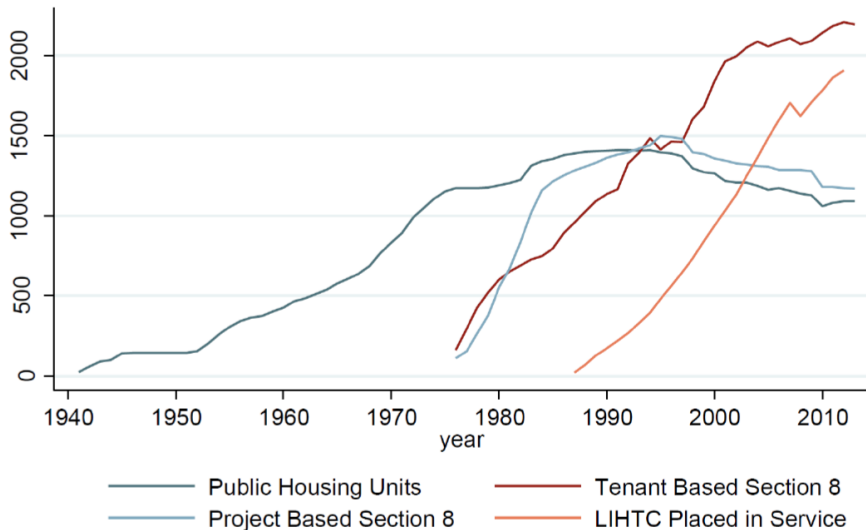


SOURCE : Bozio et al. (2015).

Housing allowances

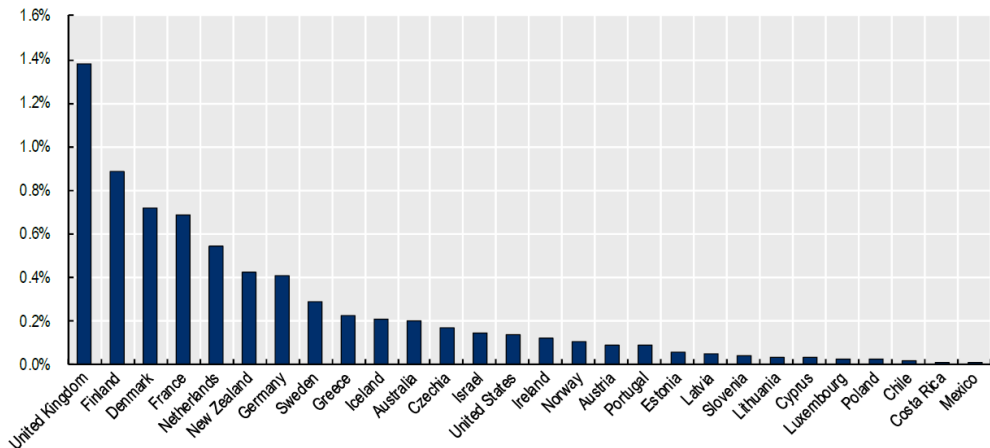
- **U.S. section 8 Housing Choice Vouchers**
 - Created in 1974
 - Vouchers to low-income households : federal government pays the difference between the rent and 30% of the household income up to a maximum
 - Family income may not exceed 50% of median income in county (preference given to those below 30
 - No right to voucher : must apply and allocated based on preferential lottery

Figure 11 – Assisted housing units and households in the United States 1940–2012



SOURCE : Collison, Ellen and Ludwig (2016), Fig. 2.1, p. 75.

Figure 12 – Public spending on housing allowances (% GDP, 2022)



SOURCE : OECD Affordable Housing Database.

Regulations

- **Rent control**

- Common regulations in many countries
- Often 'rent stabilization' : controlled rent increase
- Many cities in the US (San Francisco, Boston, New York)
- 2020 Berlin freeze
- France since 2019

- **Eviction rules**

- Regulations aiming to put constraints on possibilities for landlord to evict tenants

- **Adequate maintenance**

- Obligations on the landlord or tenant regarding adequate maintenance of the property

Impact of housing policies towards tenants

- ① Basic economics of in-kind transfers
- ② Impact of public housing
- ③ Impact of housing vouchers
- ④ Impact of rent control
- ⑤ Homelessness : 'housing first' programmes

Economics of in-kind transfers

- **Basic Economics says cash dominates in-kind**
 - Cash superior in terms of recipient utility, since in-kind constrains recipient behavior
 - Transfer in-kind have higher administrative costs (e.g., public housing vs cash)
- **In-kind transfer to shift consumption**
 - In-kind transfer allow to increase the consumption of the provided good (whereas cash would be used for other goods)
 - Housing policies can be understood as shifting consumption in favour of housing
- **Housing affordability**
 - If the issue is housing affordability, it means that households are paying too much for housing, and lack income for other goods
 - ⇒ Not obvious why transfer in-kind is preferred

Potential rationales for in-kind transfers

① Paternalism

- Taxpayers derive utility in seeing recipients consume housing (rather than other goods)
- e.g., 39% of Americans support in 2003 cash payment to the poor, against 89% housing assistance

② Merit goods (Musgrave 1959)

- Want to encourage consumption of certain types of goods : Society cares about certain consumption goods for poor over and above effect on poor's utility
- "All residents deserve a decent home", rights to a decent shelter as basic human needs

③ In-Kind and Targeting efficiency (Nichols and Zeckhauser 1982)

- If demand for specific goods is correlated with unobserved characteristic, can transfer more efficiently
- Reduction of risk of fraud

Potential rationales for in-kind transfers

④ Housing externalities

- Housing quality could influence health (e.g., lead paints, asbestos, toxins)
- Overcrowding could impact health, children's education
- Housing is key element for the effect of neighborhoods

⑤ Price / pecuniary effects (Coate et al 1994)

- cash transfers increase demand for normal goods → increase price
- In kind transfers (some) similarly increase demand but also increase supply which lowers prices
- Because of supply effect, can be more effective potentially than cash transfer for a given government expenditure

Impact of public housing

- **Public housing improved housing conditions**

- Clear evidence of impact in terms of housing quality using data from the 1960s and 1970s

e.g., people in public housing increased housing consumption by 20 to 80% (Olsen, 2003)

- Estimates from hedonic regressions (Olsen and Barton, JPubE 1983) : families in public housing consume 10 to 70% more housing
- Cost of \$1.14 of providing \$1 in housing consumption

- **Currie and Yelowitz (JPuBE, 2000)**

- Number of rooms from public housing depends on the gender mix of children
- Using gender mix as IV for access to public housing (i.e., families eligible for larger apartments are 24% more likely to live in public housing)
- They find that participation in public housing reduces by 16 ppt the likelihood that a family is overcrowded

Impact of public housing

- **Public housing reinforced residential segregation**

- In the U.S. public housing have been associated with high-rise projects synonymous of terrible living conditions, high crimes and racial segregation
- Public housing are generally concentrated in extreme-poverty area
- Poor households moving into public housing tend to move to neighborhoods with higher poverty rate, and low-performing schools

- **Impact of public housing demolition (Chyn, AER 2018)**

- Examines long-run effects of Chicago demolitions using selective demolitions matched to good admin data
- Move to 21% lower poverty areas 3 years later
- Children who are displaced have 4 pp higher empl, 16% higher earnings, 14% fewer arrests in young adulthood

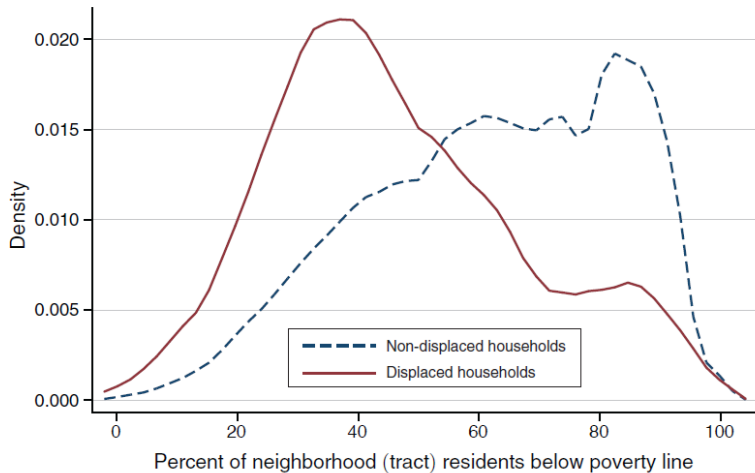
Figure 13 – Impact of demolition on neighborhood characteristics

	3 years after demolition		8 years after demolition	
	Control mean (1)	Difference: treated–control, within estimate (2)	Control mean (3)	Difference: treated–control, within estimate (4)
HH has address (= 1)	0.777	0.014 (0.021)	0.656	0.011 (0.020)
<i>Only HHs with address</i>				
Tract characteristics:				
Black (percent)	94.897	–2.801 (1.125)	90.042	–1.055 (1.257)
Below poverty (percent)	64.208	–14.264 (2.729)	40.858	–2.771 (2.353)
Violent crime rate	68.855	–29.522 (5.807)	30.801	–2.371 (4.714)
Observations (HHs)		2,767		2,767
Observations (HHs with address)		2,162		1,824

Notes: The control mean statistics in columns 1 and 3 refer to averages for non-displaced households. The mean difference between displaced and non-displaced households are reported in columns 2 and 4 as computed from a regression specified in equation (1). This analysis follows households regardless of whether a child is still present. Robust standard errors are clustered at the public housing building level. See Section III for further description of data sources.

SOURCE : Chyn (2018), Tab. 2, p. 3040.

Figure 14 – Impact of demolition on neighborhood poverty

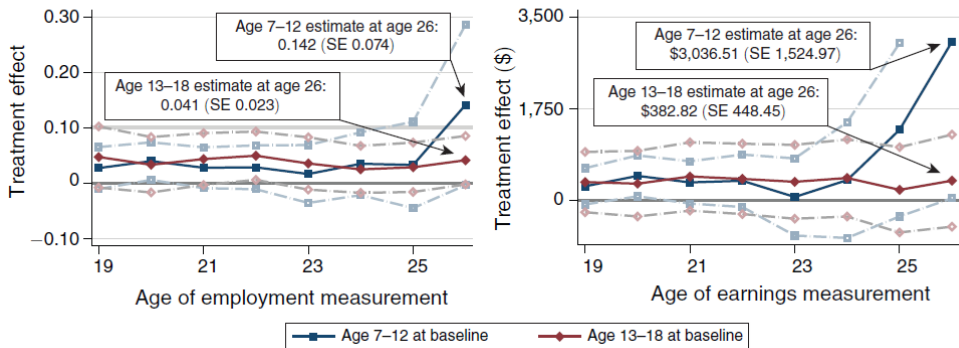


SOURCE : Chyn (2018), Fig. 1, p. 3041.

Figure 15 – Impact on employment and earnings, by age of children

Panel A. Dependent variable: employed (= 1)

Panel B. Dependent variable: annual earnings (\$)

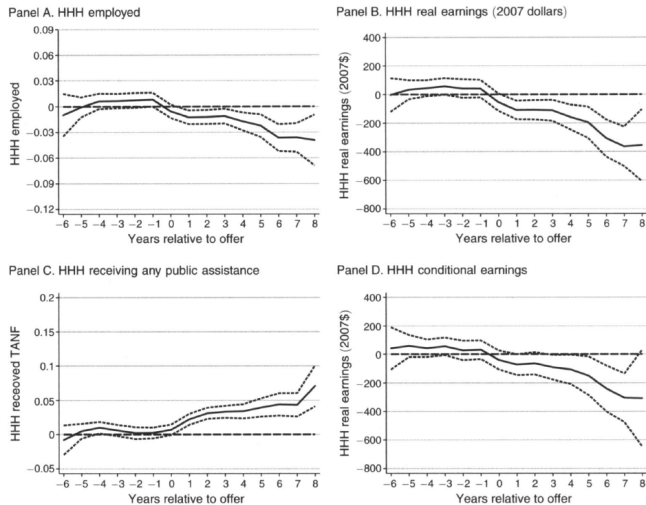


SOURCE : Chyn (2018), Fig. 2, p. 3044.

Impact of housing allowances

- **Housing allowances improved housing conditions**
 - More housing consumption
 - Housing benefits directly increase affordability
 - Impact on quality and size (Mills et al. 2006)
- **Jacob and Ludwig (AER, 2012)**
 - Lottery for housing vouchers in Chicago
 - Reduction of labor force participation by around 4 ppt (6 percent) and earnings by 10%
 - Increased use of welfare by around 2 ppt (15%)

Figure 16 – Impact of vouchers on employment, earnings and welfare



SOURCE : Jacob and Ludwig (2012), Fig. 2, p. 294.

Impact of housing allowances

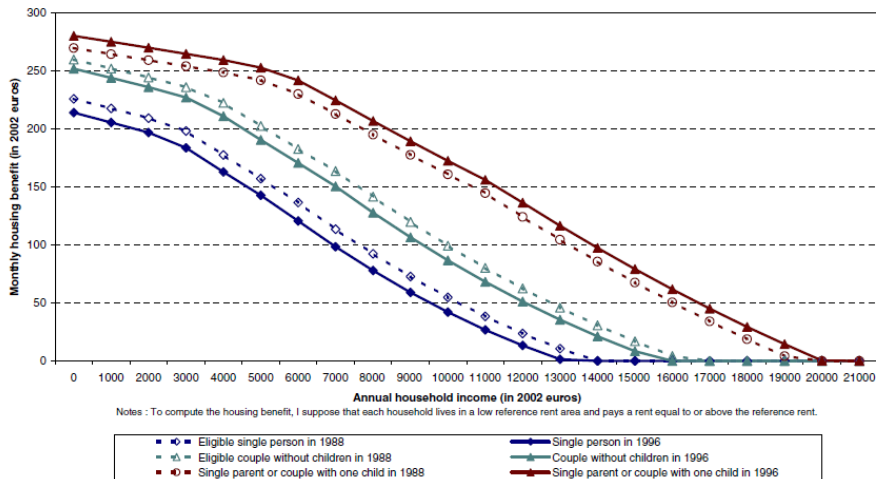
- **Fack (LE, 2006)**

- French housing benefit reform in the 1990s
- The reform suppressed all the specific criteria that targeted benefit to particular groups of people (families with children, retired people, long term unemployed), keeping only income eligibility.
- The reform extended the housing benefit program to some groups of people that were not previously in receipt of the benefit, without affecting other households
- Survey data *enquête Logement* from Insee

- **Incidence of housing benefits**

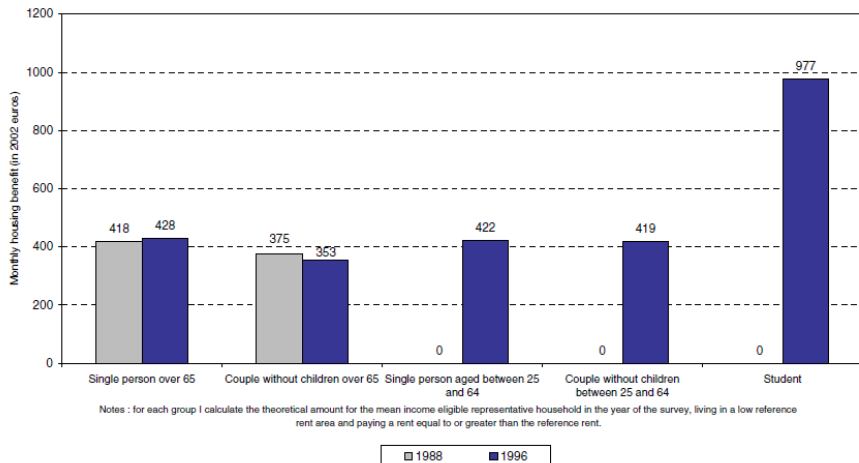
- one euro of housing subsidies led to an increase of 50 to 80 cents in rents for these subsidized households
- Consequently, they did not increase their housing consumption a great deal

Figure 17 – Theoretical housing benefit payments as a function of household income before and after the reform for representative family structures.



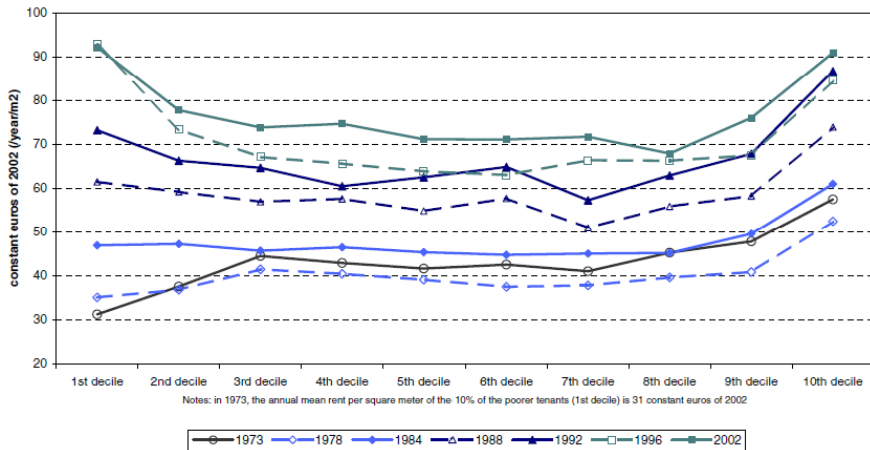
SOURCE : Fack (2006), Fig 1, p. 751.

Figure 18 – Theoretical housing benefit payments for specific groups before and after the reform



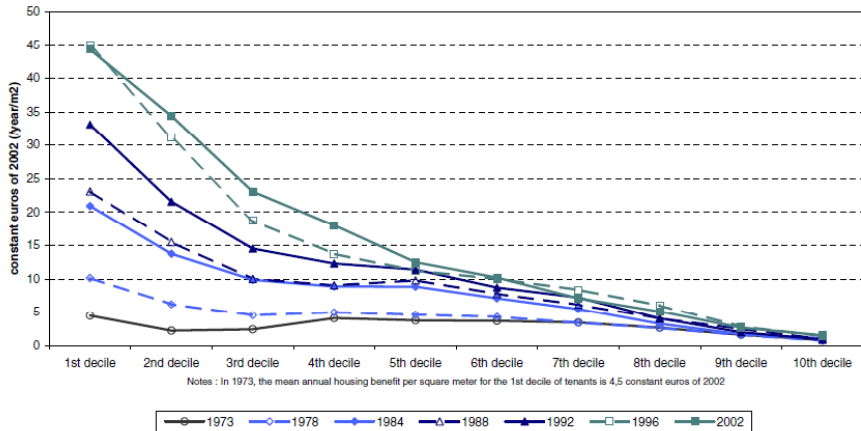
SOURCE : Fack (2006), Fig2, p. 753.

Figure 19 – Annual rent per square meter by decile of income, 1973–2002



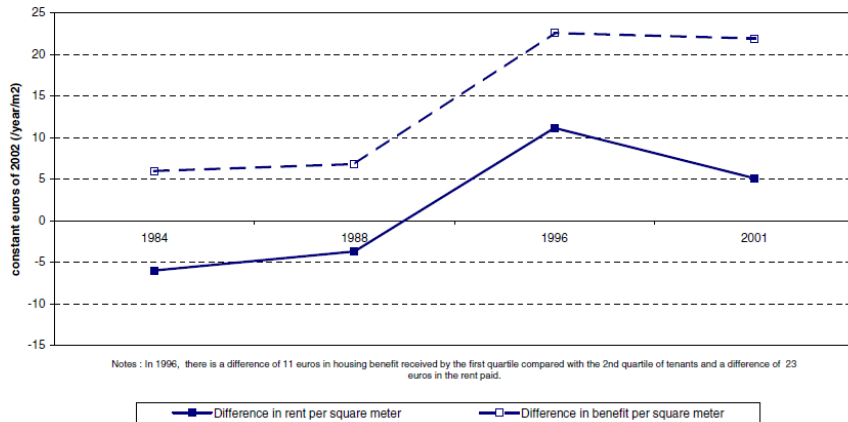
SOURCE : Fack (2006), Fig 3, p. 758.

Figure 20 – Annual housing benefit per square meter by decile of income, 1973–2002



SOURCE : Fack (2006), Fig 4, p. 759.

Figure 21 – DiD in mean housing benefit and rents per square meter



SOURCE : Fack (2006), Fig 9, p. 767.

Impact of rent control

- **General very negative views from economists**

- Survey in 1990 with AEA economists : 93.5% agree that “A ceiling on rents reduces the quantity and quality of housing available.” (Alston et al. AER 1992)
- Assar Lindbeck : “In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing”
- J. Stiglitz : “Rent control : a case study in government failure”

- **More recent debate**

- Strict rent control (freeze) still perceived as very negative
- Different views on rent stabilization, or limits to large rent increases
- But overall still mostly negative views

Impact of rent control

- **Diamond, McQuade and Qian (AER 2019)**
 - Using a 1994 law change, quasi-experimental variation in the assignment of rent control in San Francisco
 - Rent control limits renters' mobility by 20 percent and lowers displacement from San Francisco
 - Landlords treated by rent control reduce rental housing supplies by 15 percent by selling to owner-occupants and redeveloping buildings
 - While rent control prevents displacement of incumbent renters in the short run, the lost rental housing supply likely drove up market rents in the long run

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