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Housing Subsidies in the United States and England

By DANIEL R. MANDELKER
Indianapolis: Bobbs-Merrill Co., Inc.,
1973, 226 pp., \$9.50

“More and not less centralization of housing subsidy and related programs, and more and not less government intervention in the housing market”¹ is the conclusion Daniel Mandelker draws after a recent examination of housing subsidy programs in the United States and England. Noting the paradox of greater public attention being given to housing issues as housing conditions improve, Professor Mandelker cautions against approaches to housing subsidy programs which the legal and administrative systems are not capable of delivering, and he argues for less dramatic changes to current programs.

Housing Subsidies is not a review of all federally sponsored housing programs but rather is a study of financial and related policy problems generated by governmental intervention in the housing market, with the emphasis placed on subsidized housing that is both publicly owned and rented and which serves the lowest income groups of the population. In the United States, this means the public housing program that originated with the Housing Act of 1937;² in England, the council housing program begun in 1919 and changed several times, the latest in 1972.³ Mandelker notes that in both countries a shift in public concern has developed because over the past half century a substantial improvement in the housing supply has occurred and many of the worst slums have disappeared.⁴ The housing issue now is defined not so much in terms of housing shortage as it is in terms of housing cost and housing quality.⁵ Recognizing this shift in emphasis, Mandelker sets out to examine the “increasingly important economic aspects of housing policy” and finds a “history of confusion” in both countries “over the role that housing

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1. D. Mandelker, *Housing Subsidies in the United States and England* 226 (1973) [hereinafter cited as Mandelker].

2. 42 U.S.C. §§ 1401 et seq. (1970).

3. Mandelker, at 120-124.

4. The 1970 census indicates that substandard housing dropped from slightly less than half (49 percent) of all occupied units in 1940 to less than one-tenth (7 percent) in 1970. F. Kristof, *The 1970 Census of Housing 1-4* (1971), reprinted in Mandelker & Montgomery, *Housing in America* 89-91 (1973).

5. The President's Committee on Urban Housing commented in its 1968 report that “. . . the housing industry has shown remarkable ability to provide housing for those whose incomes are sufficient to afford it.” President's Committee on Urban Housing, *A Decent Home* 121 (1968).

policies should play in a strategy for solving housing problems."⁶ Mandelker selects programs that provide rental units for low income persons, because low income persons usually rent and because meeting the needs of low income families "has the highest priority and presents the greatest challenge to public policy."⁷

Mandelker notes that American public housing has traditionally served the narrowly defined lowest income group in the population with a generous national subsidy (two-thirds of housing costs in public housing), whereas English council housing is not limited to the poor but has met only 25% of the cost of such housing through a national subsidy. Recent changes in housing policy in both countries, along with growing pressures for a more general social strategy to alleviate poverty, suggest to Mandelker reasons for comparing the two countries' programs.

Will narrowing the English subsidy lead to the kind of social and economic stratification that has been experienced in the American public housing program? An examination of the American public housing subsidy experience may provide some answers to this question. Would broadening the American subsidy lead to the problems of selection and distribution that the English have experienced? Again, an examination of the English housing subsidy may provide some insight on this problem.⁸

The book is divided into three basic parts. Chapters I and II involve and discussion of the basic issues that enter into the policies of a housing subsidy program. What is the appropriate level of housing expenditure? What type of rent/income ratio (rent paid expressed as a percentage of income) should be adopted? How should subsidies be applied—as direct supplements to the tenant's rental expenditure, as shares of housing costs? What role does the welfare system play? Should housing subsidies be channeled through the welfare system or should the two exist side by side? Who should be responsible for housing subsidy programs—the national government, local government, some combination of the two? Mandelker does not attempt to answer these questions but merely points out that "decisions made at any point in the subsidy system have an impact on other components within the program."⁹

The remainder of the book, with the exception of a concluding chapter, consists of a detailed analysis of the American public housing program and the English council housing system. Chapters III and

6. Mandelker, at 4.

7. *Id.* at 5.

8. *Id.* at 8.

9. *Id.* at 41.

IV describe the American program. Particular attention is given to the subsidy formulas and rent policies of public housing and to the federal-local structure of the program. The federal subsidy formula originally placed the full burden of public housing operating costs and local tax payments on the local housing agencies. Funds to meet these costs were derived from rents. Rents were set by most local public housing agencies on a portion of income and dwelling units were assigned to tenants on the basis of need. But during the 1960's the structure of local rent charges was severely strained by rising operating costs and an increase in the number of fixed-income tenants who simply could not afford higher rents. Congress responded with the so-called Brooke Amendment¹⁰ which authorized federal subsidies for payment of operating costs and imposed a 25 percent rent/income ratio as a maximum rent in the public housing program.

Mandelker provides fascinating detail about the behind-the-scenes struggle over the Brooke Amendment and the subsequent HUD regulations implementing it. What emerges is a picture of conflicting viewpoints: the highest levels of HUD clash with tenant representatives and congressional power centers so strongly as to produce a virtual impasse over the revision of federal public housing legislation. Mandelker notes that Senator Brooke's amendment has had consequences not foreseen by the senator and his supporters.

Public housing project revenues have been diminished even further by the rent ceiling, while Congress has proved reluctant to meet in full the subsidy burden that the application of the new rent ceiling has imposed. What was intended as a marginal change to provide financial relief to tenants and local authorities eventually opened up for review the conceptual basis on which the entire program is founded. Conflicts over legislative language and administrative regulation reflect these pressures. The absence of full legislative and administrative consensus on the character and future role of public housing has led to an impasse in which Congress has authorized but refused to financially support the new operating subsidy to the extent that it is required.¹¹

Mandelker concludes his discussion of the public housing program with the pessimistic observation that the stalemate is likely to continue for some time and that the federal government may withdraw further from what he considers its full financial responsibility for housing need.

10. Named after its chief sponsor, Senator Edward Brooke of Massachusetts. Act of Dec. 24, 1969, Pub. L. No. 91-152, § § 212(a), 213, 83 Stat. 379, 388-9.

11. Mandelker, at 111.

Chapters V-VII discuss the English housing program which is centered on publicly owned rental housing called council housing (because it is built and managed by the councils of local government authorities). One major difference between the English and American housing situation is that in England most rental housing is publicly owned and all rental housing is subject to rent control. Another difference is that practically all privately owned rental dwellings in England were built before 1919 while no national subsidies for council housing were available. This has produced a situation in which rents for council housing average about 25 percent higher than rents in private accommodation.¹²

Prior to 1967 the English subsidy was never related to the capital cost of the housing. It usually provided for fixed annual payments for each dwelling, payments which were far from sufficient to cover principal and interest on the debt incurred in building the projects. In 1967 a debt service subsidy was provided for the first time,¹³ but this was repealed by the comprehensive legislation of 1972. The 1972 Act established a new rent standard for council housing units, required rent rebates for those who need them, and provided for a subsidy to help meet the cost of these rebates.¹⁴

No income limits are placed on admission and most income categories in the English population are represented in council housing projects. Major changes brought about by the 1972 Act include the establishment of a national rent standard (the "fair rent standard") for English council housing and a nationally-determined rent rebate system for tenants who cannot afford the predetermined rent.¹⁵ Mandelker discusses the fair rent standard and the rent rebate system in detail. The effect of these programs, in Mandelker's view, is to shift a larger share of housing costs to tenants in local authority housing. The "fair rents" will lead to comparatively higher rents for the more desirable housing, which may cause local authorities to shift more affluent tenants to those units to avoid high subsidy costs. The rent rebate system will concentrate more on those who need it (similar to the U.S. program), and higher rents will be charged to those for whom the subsidy is unnecessary. This represents an attempt to defuse the growing pressures on the English system brought about by rising operating costs and higher standards.

Mandelker closes by offering some suggestions for housing policy-makers. He feels that less rigidity in the programs is necessary to

12. *Id.* at 120.

13. Housing Subsidies Act of 1967, c. 29, § 2(2).

14. Mandelker, at 126-127.

15. *Id.* at 136-137.

achieve greater freedom of housing choice for individuals and suggests two alternatives: 1) adjust quality standards in new construction by relaxing durability standards or by insisting on less space and amenity in the dwelling (a step he quite accurately recognizes as highly controversial), or 2) make greater use of the existing supply. This raises the quality problem, for which Mandelker suggest a compromise along the lines of the English approach where housing of any quality is accepted for subsidy so long as an appropriate adjustment is made in the fair rent.¹⁶

Mandelker expressed concern that the proposed direct housing allowance may not be able to achieve its stated goals of increasing freedom of choice unless it can come to grips with the problems of inflated rent, home ownership demands, and amount of subsidy to be made available. (Will, for example, tenants be permitted to choose units where rents are comparatively high?) Mandelker sees the Section 23 leasing program as offering the potential for serving as the "housing broker," which he suggests is necessary to provide a

bridge between the subsidized and unsubsidized housing markets which will facilitate the ability of housing subsidy recipients to move from one market to the other, and which will help remove some of the disparity in rents which presently exists between the two sectors.¹⁷

Most of the issues and suggestions discussed by Professor Mandelker have been raised before.¹⁸ What sets this book apart is the comparative approach, the emphasis on the implications of various policy alternatives, and the incisiveness of the analysis by one who is a recognized expert in the field. Although the style is tedious in spots (constant reminders of "what we have seen" or "what we have learned") and although all may not agree with Professor Mandelker's emphasis on governmental intervention, the book is a major contribution to what is becoming an increasingly complex and crucial national debate.

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16. Mandelker, at 210. A push in this direction appears to have been taken in a recent case in Missouri, where the Missouri Supreme Court struck down provisions of the St. Louis minimum housing standards ordinance as arbitrarily applied to two dwellings because the court found it would be economically impossible to raise rents the required amount (estimated at \$60.00 per month) to re-coup the expenses of code compliance and, in the court's opinion, the specific code violations (lack of tub or shower bath) did not constitute health or safety hazards, *City of St. Louis v. Brune*, Nos. 57428, 57429 (Mo. May 13, 1974).

17. Mandelker, at 220.

18. For a recent listing of major studies on housing subsidies, see Hoffman, *Current Issues Explored*, 4 J. Housing 160 (1974).