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Recommended Citation

Robert G. Schwemm, Book Review, 41 Geo. Wash. L. Rev. 667 (1973) (reviewing Henry J. Aaron, *Shelter and Subsidies: Who Benefits from Federal Housing Policies?* (1972)).

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Notes/Citation Information

The George Washington Law Review, Vol. 41, No. 3 (March 1973), pp. 667-674

Book Reviews

SHELTER AND SUBSIDIES: WHO BENEFITS FROM FEDERAL HOUSING POLICIES? by Henry J. Aaron. Washington, D.C.: The Brookings Institution, 1972. 238 pp. \$7.95.

That the housing industry is among the most regulated in the United States reflects the basic importance of shelter and the ways in which it is provided. Government involvement and interference in the markets for the preparation, production, distribution, and servicing of housing are manifested in an almost endless variety of laws, regulations, controls, programs, taxes, and subsidies. In order to analyze the underlying, if rarely explicit, rationale for this intervention, Professor Aaron has focused his attention on six major groups of federal housing programs—taxes, mortgage insurance and guarantees, credit institutions, public housing, other housing assistance programs, and rural home loans—and on the extent of the economic subsidies received by direct beneficiaries of these programs. While useful as an analytical technique, this narrow focus on federal programs and on only direct beneficiaries is not always possible to maintain and, more importantly, leaves most of the interesting questions suggested by these programs unanswered or, worse, not raised at all.

Housing, like education, transportation, health, and a number of other vital services, has become the subject of a maze of federal and local regulations, whose interaction may be as significant as the substance of the individual programs. The incentives of home ownership provided by the Internal Revenue Code, for example, amount to the most important housing program currently administered by the federal government, according to Professor Aaron, but one of the key incentives—the allowance of a deduction for property taxes—can hardly be analyzed, nor its rationale fully considered, apart from its effect on the financing of local government. The second most important federal program studied—low-rent public housing—has become so

thoroughly enmeshed in the political, social, racial, and class conflicts of local communities that its effectiveness in achieving its goals, and perhaps even its continued existence, depend to a significant extent on the housing policies pursued by these communities. Housing codes, zoning ordinances, regional plans, and other regulations all inject local government decisions into the processes by which federal programs affect the housing market, and make the quantitative analysis of such programs attempted by the author both complex and of limited interest.

The temptation to try to deal with these difficulties has, for the most part, been resisted. Similarly, in attempting to determine who benefits from federal housing policies and to what extent, Professor Aaron generally deals only with the direct beneficiaries of the programs examined. In the chapter on low-rent public housing, for example, he notes that the program redistributes real incomes of families in two ways: The tenants, or direct beneficiaries, are favored in that they may buy housing services at less than market prices, and the overall market for housing services is affected, thereby changing the real incomes of owners and tenants of other housing units through a more subtle and complex process. Referring to this second effect, Professor Aaron concludes: "Untangling these rather complex interrelationships would be hard enough even if such obstacles to the smooth operation of the housing market as racial discrimination and zoning restrictions did not exist. Because they do, only benefits to public housing tenants are measured."¹

A parallel approach is adopted with respect to the impact on mortgage markets of the FHA mortgage insurance program, most of whose benefits and effects on income redistribution "are probably due to improvements in the mortgage market, the consequences of which cannot be calculated."² Needless to say, the "indirect" financial benefits of FHA and other federal programs to builders, construction unions, realtors, politicians, urban planners, and others are even more difficult to quantify and are therefore not examined, although it would be difficult to argue, for example, that the politically-influential builder of public housing high-rises has not benefited far more than the families who must live in his creations. The result of this approach is a book which purports to examine the recipients of federal housing subsidies but which simply ignores some of the most obvious and important beneficiaries, because their benefits are not "direct" or capable of exact quantification.

Shelter and Subsidies contains three introductory chapters dealing, respectively, with the possible economic rationales for a national housing policy, the type and quality of statistics available on housing in the United States, and the economic theory that forms the basis for the subsequent studies of individual programs. The third chapter,

1. AARON, *SHELTER AND SUBSIDIES: WHO BENEFITS FROM FEDERAL HOUSING POLICIES?* 121 (1972) [hereinafter cited by page number only].
2. P. 84.

"Housing Policies and Income Distribution"—along with Appendix C, in which the methodology for calculating the income effects of individual programs is detailed—is the theoretical heart of the book and most directly reflects its economic nature. It is replete with the economist's favorite exercises and concepts: Model-building (wherein the real world is assumed away); supply and demand analysis;³ the notion of the "economic man," who always acts "rationally" to maximize his financial well-being;⁴ and the assumption that "better" is an appropriate synonym for "more economically efficient."⁵

Shelter and Subsidies is the ninth in a series of "social economics" studies published by the Brookings Institution, which presents it as a "competent treatment of a subject worthy of public consideration."⁶ It is certainly that. The subject, however, is narrowly drawn. A professor of economics at the University of Maryland and a senior fellow in the Economic Studies Program at Brookings, Henry J. Aaron has written an economist's book. If he has the information to quantify accurately the effects of a program, he does so; if not, he moves on to something else. He deals almost exclusively with the types and classes of people directly benefiting from the major federal housing programs and, for the most part, explicitly avoids examining the services these programs provide, how efficiently they are administered, and what additional programs and services are needed.

The book's appeal to lawyers, planners, developers, administrators, legislators, and other non-"social economists" interested in housing problems lies primarily in its value as a collection of housing facts and figures. There is, indeed, a wealth of information here, much of it contained in 53 tables and 10 graphs scattered helpfully throughout the text and appendices. The four appendices are well-constructed and constitute excellent references, by no means the graveyard of facts, figures, and methodology that is often found at the end of such a study. Appendix A, for example, identifies the enabling law, purpose, coverage, maximum terms, type of subsidy, number of units assisted, and other data, in chart form, for some 90 different federal housing programs, the very existence of which bears vivid witness to

3. At times this analysis seems to be somewhat confused. The author's view that tax benefits and subsidies "may be represented either as a shift in seller perceived demand, the supply curve S fixed, or as a shift in buyer perceived supply, the demand curve D fixed," p. 65, appears to conflict with his earlier analysis. See pp. 46-49.

4. According to the author, this explains why public housing tenants are better off than if they lived in units with market-determined rents, since otherwise "they would not have chosen [public housing], or if they had blundered in, [they] would have moved out." P. 123.

5. The author qualifies this assumption, however, by noting that "costs of housing subsidies overstate benefits to direct recipients. Housing subsidies must produce significant social benefits if they are to be judged better than cash transfers as devices for improving consumer welfare." P. 47.

6. P. vi.

the scope of the subject and the need for further studies concerning the administration and effectiveness of these programs.

Despite the inadequacies in the available housing data, Professor Aaron is surely correct in stating that “[p]ublic and private perceptions of the housing problem, of whether it is growing more or less serious, and of what the future holds all depend in large part on what the numbers tell.”⁷ And, surprisingly, the numbers (as incomplete, inaccurate, and confusing as they may be) often tell a story in stark contrast to the myths that have evolved about American housing. Examples are legion. The overall quality of housing in the United States, for instance, has dramatically improved in recent years.⁸ Dilapidated or deteriorating housing is disproportionately concentrated outside metropolitan areas.⁹ Most households with low incomes and little or no net worth live in sound housing.¹⁰ Expenditures on housing as a proportion of total family expenditures are only modestly higher for households with annual incomes below \$1,000 than for those with incomes of \$15,000 or more per year.¹¹ Most of the direct benefits of federal housing subsidies accrue to households with annual incomes of more than \$10,000.¹² Just under half of the new tenants in low-rent public housing projects are white, and a similar proportion (48 percent) of all non-elderly public housing residents receive neither welfare benefits nor any other kind of public assistance.¹³ Most public housing is located in small and medium-sized communities, rather than in cities of 500,000 or more people.¹⁴ There are, of course, examples of myths that are borne out by the facts. The proportion of poor white households occupying bad housing is less, for instance, than that of poor nonwhites,¹⁵ and blacks pay more than whites for housing of any given quality.¹⁶

The six groups of federal housing programs examined by Professor Aaron are (1) the implicit subsidies to homeowners contained in the Internal Revenue Code; (2) FHA mortgage insurance and VA loan guarantees; (3) federal credit institutions, such as the Federal National Mortgage Association and the Federal Home Loan Bank system; (4) low-rent public housing; (5) other subsidy programs for low- and middle-income renters and homeowners; and (6) loans to rural homeowners through the Farmers Home Administration. A separate chapter is devoted to each.

The most important of these programs, in terms of its total dollar impact on the housing market and its effect on the overall United States housing strategy, is that embodied in the federal tax code.

7. P. 23.

8. Pp. 27-30.

9. P. 30.

10. *Id.*

11. P. 37.

12. Pp. 56-57, 162, 223.

13. Pp. 116-18.

14. P. 120.

15. Pp. 31-32.

16. P. 34.

Professor Aaron notes that the tax bills of homeowners are smaller than those of renters who invest in other assets, because deductions are allowed for mortgage interest and local property taxes and the owner is not taxed on the "imputed net rent" he enjoys on his investment. Taxpayers are therefore encouraged by the tax system to buy rather than to rent housing.

This conclusion should come as no surprise. What is noteworthy is Professor Aaron's determination of the size of this encouragement. He estimates that homeowners paid \$7 billion less in taxes in 1966 than they would have paid if they had been governed by the tax rules applicable to investors in assets other than housing,¹⁷ a figure exceeding the combined total of the subsidies provided by all of the other federal programs studied. Most of this huge housing subsidy provided by the tax code is distributed to families with annual incomes of over \$10,000. Less than two percent of the tax savings, for example, goes to those over 65 with yearly incomes of \$5,000 or less.¹⁸ Taxpayers with annual incomes of more than \$50,000 saved \$487 million in 1966, almost as much as the total amount of low-rent public housing subsidies.¹⁹

The housing subsidy policy of the United States is, then, clearly intended to benefit families in the middle- and upper-income brackets, and this fact leads Professor Aaron to his ultimate conclusion—that the United States has for the most part pursued a "filtering" housing strategy, in which new units are occupied by the affluent while the poor inhabit older units that have "filtered" down from higher-income households, rather than a "low-income" strategy, in which public housing subsidies would be directly allocated to low-income households. Theoretically, more families can be helped with a given sum of money under a filtering strategy of subsidies than under a low-income strategy. The theory assumes, however, that racial discrimination, the social cost of poor housing, and other types of market imperfections are not disproportionately associated with housing occupied by the poor. Moreover, the American filtering strategy has been adopted in a piecemeal fashion, with all too little analysis of its underlying assumptions or of its actual beneficiaries. Professor Aaron's book is a serious attempt to help remedy this situation.

17. This and other estimates of the size of housing subsidies contained in the tax code were computed from a sample of 90,000 federal tax returns for 1966 on file at the Brookings Institution. P. 55. In view of the importance of these figures to the study, the sampling techniques and other methodology underlying these estimates should have been more thoroughly explained. Perhaps an even more intriguing question is why Brookings happens to have 90,000 individual tax returns in its files, and what steps, if any, have been taken to ensure some minimum degree of protection and confidentiality for the taxpayers concerned.

18. P. 57.

19. Pp. 162-63.

Of the \$7 billion federal subsidy provided to American homeowners in 1966, Professor Aaron argues that well over half should be included as imputed net rent in the taxable income of homeowners. Indeed, he claims, not only is imputed net rent the largest factor in reducing the homeowner's tax bill, but it could also be included in his taxable income with less institutional and administrative disruption than would accompany the elimination of the deductions for mortgage interest and local property taxes. The average homeowner, already feeling financially burdened by spiraling property taxes, may be somewhat shocked to learn that he is being subsidized because he pays no taxes on the amount he "receives" by not paying rent on his own house. Professor Aaron acknowledges that a plan that would include a homeowner's imputed net rent in his taxable income, though administratively workable, may be "politically unthinkable."

Indeed, one of the most interesting themes suggested by *Shelter and Subsidies* is that the size of the subsidy provided by a particular federal housing program seems to bear little relation to its public visibility or political popularity. Certainly, everyone who has considered the benefits of owning a home is aware that his mortgage interest and property tax payments would be deductible; yet how many have considered these benefits, much less the notion of a homeowner's imputed net rent, as subsidies that should be subject to the same scrutiny as those embodied in the low-rent public housing program? How many are aware that the Farmers Home Administration runs one of the federal government's largest housing programs, one that provided more than \$5 billion in loans and grants for the purchase, rehabilitation, and construction of housing between 1967 and 1972? On the other hand, why are the subsidy programs for low- and lower middle-income families so politically visible, and why do they alone leap to mind whenever housing subsidies are mentioned, even though they account for a relatively small portion of the total amount of housing subsidies provided in the United States today?

These questions and the very real problems concerning the goals and impact of federal housing programs are, for the most part, beyond the scope of Professor Aaron's study, and nowhere is this limited focus more frustrating than in his chapter on public housing. Even the author seems anxious to confront the social and legal, as well as the economic issues that surround the public housing program. He asks:

Which poor people should get housing assistance when there isn't enough to go around? . . . Should public housing be used to clear 'slums' or to augment the supply of 'low cost' housing? Should tenants be provided housing alone or housing plus social services? Should racial segregation be eliminated, accepted, or reinforced by public housing?²⁰

These are important questions, but the subsequent text either ignores them or deals with them inadequately. The issue of where public

20. Pp. 109-11.

housing projects should be located, for example, is as heated and emotionally-charged as any facing our great metropolitan areas today. It includes, for example, the gut reaction of millions of Americans who wonder: "Will *they* move into *our* neighborhood, and what shall we do then?" (For others, the question may be: "Shall *we* move into *their* neighborhood, and what will they do then?")

The author's "analysis" of this issue of site selection is sadly narrow. "Housing authorities in large cities," he asserts, "have concentrated housing in densely populated projects because land is costly and large parcels are difficult to amass."²¹ These purely economic reasons simply are not adequate to explain public housing location policies, and to believe that they are is almost incredibly naive in view of such cases as *Gatreaux v. Chicago Housing Authority*,²² in which the site selection policy of the Chicago Housing Authority (CHA) was held to have been based deliberately on the racial composition of the tenants and neighborhoods selected, resulting in an intensification of the racial divisions in Chicago. Nor is mention made of evidence of governmental participation in housing discrimination on the federal level, although it has been judicially recognized in such cases as *Gatreaux v. Romney*,²³ holding the Department of Housing and Urban Development, as well as the CHA, responsible for the deliberate perpetuation of racial discrimination in public housing in Chicago, and *Hicks v. Weaver*²⁴ and *Shannon v. HUD*,²⁵ which held that HUD was actively and illegally involved in racial discrimination in the administration of its subsidized housing programs. Further, the United States Commission on Civil Rights has found that the Federal Housing Administration has been "a major factor in the development of the segregated housing patterns that exist today."²⁶ Certain aspects of federal housing programs—their goals, their actual administration, and their real effects—simply do not lend themselves to pure economic analysis.

The summary to the chapter on public housing, even more than those of other chapters, contains statements that are nowhere supported in the text and seem to be little more than the author's random thoughts. He acknowledges that race will remain a "touchy issue" in public housing matters, but states that it is of "probably greater significance . . . that the poverty population increasingly con-

21. P. 121.

22. 296 F. Supp. 907 (Mem. opinion), 304 F. Supp. 736 (N.D. Ill. 1969) (Order issued), *aff'd as to program of relief*, 436 F.2d 306 (7th Cir. 1970), *cert. denied*, 402 U.S. 922 (1971). No cases are cited in the text.

23. 448 F.2d 731 (7th Cir. 1971).

24. 302 F. Supp. 619 (E.D. La. 1969).

25. 436 F.2d 809 (3d Cir. 1970).

26. U.S. COMM'N ON CIVIL RIGHTS, REPORT ON THE FEDERAL CIVIL RIGHTS ENFORCEMENT EFFORT 152 (1971).

sists of female-headed families and households with persistent problems."²⁷ What are "households with persistent problems"? What is the authority for concluding that female-headed families constitute an increasingly greater percentage of the poor? Why is this of "probably greater significance" than issues of race in public housing? Professor Aaron may know, but he hasn't told his readers.

One measure of a book is the number of interesting and important questions it raises. *Shelter and Subsidies* scores well against this standard, although many of the questions remain unanswered. The book provides a solid economic and statistical foundation for anyone concerned with federal housing policies. That it does not accomplish more is perhaps more a testimony to the complexity and enormity of the subject matter than to any serious failings of the author.

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27. P. 125.

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