

SHELTER ALLOWANCES AND CANADIAN  
HOUSING POLICY:  
A REVIEW AND EVALUATION

John David Hulchanski \*

Research Paper No. 147

Centre for  
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Community  
Studies

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\*School of Community and Regional Planning  
University of British Columbia

Centre for Urban and Community Studies  
University of Toronto

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## INTRODUCTION

Shelter allowances have become the focus of a great deal of policy debate. In recent years, the Canada Mortgage and Housing Corporation (CMHC) has examined shelter allowances in connection with its efforts to "rationalize existing housing subsidy mechanisms and to clarify the federal role [in housing]." 1/ In March 1981, the federal minister responsible for CMHC, Paul Cosgrove, noted that the time had come to "seriously consider the idea of a housing allowance, a form of aid to people based on need, regardless of the dwelling they are in." 2/

In his speech to the 1982 annual meeting of the Housing and Urban Development Association of Canada (HUDAC), Mr. Cosgrove further reiterated his support for a shelter allowance program: "As a personal priority, I continue to take a great interest in the idea of shelter allowances, as an effective, economical and equitable way of helping people to resolve their housing problems." 3/ At that annual meeting HUDAC's membership also adopted a resolution urging the implementation of a national shelter allowance program, to be financed in part by the abolition of the current non-profit social housing programs:

WHEREAS the Minister Responsible for Canada Mortgage and Housing Corporation has on many occasions himself advocated the introduction of shelter allowances as the most effective measure to deal with the problems of needy tenants;

THEREFORE BE IT RESOLVED THAT the current Federal non-profit and co-operative housing programs be discontinued and replaced with a more cost efficient program targeted directly at needy tenants. 4/

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1. Paul Cosgrove, quoted in: "Cosgrove Hints at Housing Allowance Program," Housing Ontario, 25(2), March/April, 1981, p. 27.

2. Ibid.

3. Speaking Notes for the Honourable Paul Cosgrove Minister Responsible for Canada Mortgage and Housing Corporation to the National Conference of the Housing and Urban Development Association of Canada, Winnipeg, Manitoba, February 14, 1982.

4. HUDAC (1982) 1982 Statement of Policy and Annual Meeting Resolutions, Resolution No. 7.

In its 1982 Annual Review, the Economic Council of Canada became the most recent major institution to recommend the adoption of a shelter allowance program. 5/

Fiscal constraints appear to be the major factor which has, thus far, prevented the implementation of shelter allowances. Though a strong supporter of the concept, Mr. Cosgrove, while Minister responsible for housing, noted on a number of occasions that funding was "not available at the moment and won't be for a year and a half." 6/ Similarly, the Minister of Finance indicated that "there would be no major new social expenditures in the next few years." 7/ The Economic Council has also noted that "a major drawback [in implementing shelter allowances] in the current period of fiscal restraint is its cost." 8/ Yet, because of the problems of the private rental housing market, and because housing affordability remains a major problem in many parts of the country, shelter allowances remain a central policy option and a focus of continuing analysis and debate. 9/

This paper is a further contribution to the ongoing shelter allowance debate. A national shelter allowance program would represent a major change and reorganization of federal housing assistance programs. It is a change with far reaching ramifications as well as a very high price tag and should not, therefore, be implemented in haste. Caution and careful deliberation have indeed been the approach to the concept thus far.

Since a full-scale shelter allowance program would become the central component of Canadian housing policy, it is important to identify and understand the strengths and weaknesses of the shelter allowance concept. To what degree can it be concluded that a Canadian shelter allowance program would in fact be "an effective, economical and equitable way of helping people to resolve their housing problems," as the former housing minister has stated? Would a national shelter allowance scheme be as economically and socially beneficial in practice as it appears to be in theory?

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5. Economic Council of Canada (1982) Policies and Constraints: Nineteenth Annual Review," Ottawa: Supply and Services Canada, p. 49.

6. Housing Ontario (1981) Ibid.

7. Toronto Star, June 13, 1981.

8. Economic Council of Canada (1982) p. 49.

9. The most recent national conference on shelter allowances was held in Winnipeg in October 1982. The "Symposium on the Rental Housing Market and Housing Allowances," was sponsored by the Canadian Council of Social Development and the Manitoba Government. See: J. McClain (1983) And Where Do We Go From Here? Proceedings from a Symposium on the Rental Housing Market and Housing Allowances, Ottawa: Canadian Council on Social Development.

Chapter 1 outlines what shelter allowances are and how the program might operate. The second chapter reviews the experience of other government jurisdictions with similar programs. These include the recently completed U.S. 10-year experiment, the British program and the four small Canadian provincial programs, which mainly apply to the elderly.

Chapter 3 identifies the potential strengths and weaknesses of a national shelter allowance program in Canada, drawing upon the findings of recent impact studies commissioned by CMHC. In addition, a number of issues and questions which have not yet been resolved are identified. The final section presents the conclusions of this study.



## 1. WHAT ARE SHELTER ALLOWANCES?

A shelter allowance is an income support measure tied to the cost of shelter. A 1978 symposium of the Canadian Council on Social Development defined shelter (or housing) allowances as:

a direct cash transfer made regularly to families or individuals to enable them to afford adequate housing of their own choice from existing stock; the amount of the allowance is based on income and housing costs, and is used solely for meeting these costs in their present housing unit, or in another unit if they move. 10/

A shelter allowance program is not a housing supply program. It does not directly assist in the construction of new housing units. Shelter allowances distribute financial assistance to households using the existing housing stock, based on a formula related to income and housing cost. As a result shelter allowances have two salient characteristics:

- \* Demand-side subsidies. Shelter allowances are direct payments to individual households. In contrast to this, supply-side programs either: a) provide subsidized units to the household; or b) provide subsidies to developers for the construction of private rental housing with the hope that some of the subsidy will result in lower rents.
- \* Portable subsidies. The subsidy remains with the family or individual when the household decides to move. The household is subsidized, not the housing unit.

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10. Canadian Council on Social Development (1979) Are Housing Allowances the Answer? Proceedings from a Symposium, Montreal, November, 1978, Ottawa: CCSD, p. 2. By adopting this definition the symposium participants distinguished between housing and shelter allowances, applying their definition to "housing allowances" and using the term "shelter allowances" to refer to the shelter component of provincial social assistance programs. For the purposes of this paper, such a distinction is not necessary. The two terms are used as equivalents.

## 1.1 THE SHELTER ALLOWANCE PROGRAM: INCOME MAINTENANCE OR HOUSING?

Proposals for a Canadian shelter allowance program have come from two directions during the past decade: 1) as part of general income maintenance programs; and 2) as part of housing affordability measures. A shelter allowance program would have elements of both; it is an income support measure tied to the consumption of housing. Yet the current focus of the debate seems to be almost entirely on the housing policy aspect of shelter allowances, stressing their potential as a means of dealing with the problems of the private rental market. This emphasis is a departure from previous attempts to implement shelter allowances, and, as we shall see in the review of recent experience with shelter allowances, very unfortunate. A number of social equity difficulties arise when shelter allowances are approached as a housing policy mechanism tied to assisting the private development sector, instead of as part of a broader income maintenance policy.

Serious consideration of a shelter allowance program dates back to 1969-1970 and the Health and Welfare Canada "Family Income Security Plan". It proposed making a federal-provincial housing allowance scheme available to 25 percent of Canadian households as part of a general income maintenance policy. The response to this early proposal was not favourable. Serious issues involving federal-provincial relations were raised and the proposal was opposed by the Central Mortgage and Housing Corporation. CMHC's opposition was based on the ground that the housing policy aspect of shelter allowances would have a detrimental impact on the housing market: it would tend to be inflationary, driving up rent levels and, in general, having little real impact on shelter cost burdens. 11/

Though the shelter allowance proposal was dropped from the Federal Income Security Plan, it resurfaced in the report of CMHC's 1972 Low Income Housing Task Force, Programs in Search of a Policy. This study recommended a shelter allowance program combined with a housing supply program based on socially mixed non-profit housing. This recommendation shifted the shelter allowance debate from the incomes policy context to the housing policy context. As a housing policy, however, shelter allowances were only seen as a temporary measure:

A shelter allowance would serve as an interim, less expensive measure [than a guaranteed annual income], to be meshed in the future with a general income maintenance program. It would consist of a federal contribution toward shelter costs, aimed at reducing shelter-to-income ratios for all households to 20 per cent....

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11. P. Streich (1982) "The Evolution of Housing Allowances in Canada: A Case of Conflicting Federal and Provincial Agendas," Paper presented at the Symposium on the Rental Housing Market and Housing Allowances, Winnipeg, October, 1982.

It would attempt to bridge the gap between ability to pay and housing costs. 12/

The last important examination of shelter allowances as incomes policy came in the mid-1970's. In a comprehensive policy review, the Ministry of State for Urban Affairs (MSUA) focused on the relationship of housing policies to income and taxation policies. The work of the review group was shelved with the dismantling of the MSUA, leaving shelter allowances largely within the confines of housing policy considerations - where it is today.

Shelter allowances have emerged as a major option in current housing policy reassessment because of the potential they might have for: 1) making existing market housing more affordable to low income households; 2) stimulating the private rental construction sector; and 3) providing housing assistance which is cheaper and better targetted than supply-side programs. Whether or not they do this in the Canadian context is the subject of much research and policy debate. The major point here is that they are not being approached as part of incomes policy and as part of a broader concern over income distribution in general. The concern is the state of the private housing market in Canada, primarily the rental market.

When this concern for the rental market is combined with the broader political context of the times, that of "privatization" and reliance on market rather than government solutions, the appeal of shelter allowances is all the more understandable. Shelter allowances appeal to the philosophically conservative because they are a "market like" solution. Shelter allowances allow low income households to function like consumers in the private rental marketplace. To the extent that this increases demand, the private market will respond with increased supply. If shelter allowances perform as theory would predict, the need for direct government involvement in supplying housing, especially non-market housing, will no longer be necessary.

## 1.2 TYPES OF SHELTER ALLOWANCE PROGRAMS

There are two elements to be considered in the design of a shelter allowance program: 1) type of plan, and 2) type of targetting mechanism.

Type of Plan. Three basic types of shelter allowance plans are generally discussed in connection with the Canadian situation. These are the income gap plan, the percent of rent plan and the income transfer

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12. M. Dennis and S. Fish (1972) Programs in Search of a Policy: Low Income Housing in Canada, Toronto: Hakkert, p. 354.

approach. The distinguishing characteristic of each of these is the way the subsidy to the household is calculated.

Under the income gap plan, subsidies are calculated according to the recipient's income and the actual rent. A 75/30 income gap plan, for example, would calculate housing allowances at a level equal to 75% of the difference between the household's rent and 30% of their income. Since subsidies are calculated according to both rent and income, this approach has two important effects:

- \* Benefits are calculated in a progressive fashion. For a given level of rent, the higher the income the lower the subsidy paid out.
- \* Recipients have an incentive to increase their housing expenditure. For a given level of income, the higher the rent paid the higher the shelter allowance. Under a 75/30 plan, for example, the household with an income of \$666 per month and a rent of \$200 per month could move to another unit costing \$300 per month at an additional out-of-pocket expense of only \$25.

The four Canadian Provinces with shelter allowance programs (see Chapter 2 for a review of these programs) tend to use a modified version of the income gap plan because of these two features.

The second type of shelter allowance, the percent of rent plan, has played a central role in the U.S. Experimental Housing Assistance Program. This approach calculates the allowance according to rent only, although household eligibility is usually linked to maximum income criteria. The measure of household rent used may be either actual rent or an estimated value of the cost of obtaining adequate accommodation. Under this approach, subsidies are calculated simply on the basis of a pre-determined proportion of an eligible household's rent. For example, under a 30 percent plan the government would provide households with a subsidy equal to 30% of actual or of an administratively defined "adequate" rent.

Since this approach allocates subsidies according to rents, there is an incentive for the recipient household to increase its housing expenditure. This is similar to the income gap plan. The percent of rent plan differs from the income gap approach because the level of assistance is not tied to household income, which means that benefits are not distributed in a fully progressive fashion.

The income transfer approach, unlike both other plans, allocates benefits according to income criteria. Actual household rent is not a factor. Under this approach subsidies are paid according to the extent to which a specified proportion of a recipient's income is less than a given amount. This amount may be any value, though it is often based on an estimate of the market rent required to obtain "adequate" housing.

Since it is based on income, the income transfer approach does not provide an incentive for the recipient household to increase its housing expenditure. But, like the income gap plan, it does tend to distri-

bute benefits in a progressive fashion. The level of assistance decreases as income increases.

Relative Effects of Alternative Shelter Allowance Plans. The extent to which each of the three shelter allowances plans results in rent inflation, one of the major concerns about the shelter allowance approach in general, was estimated for CMHC by Clayton Research Associates in 1981. <sup>13/</sup> Based on a simulation of market impacts in six Canadian cities, the study found that the percent of rent plan generated the highest levels of rent inflation, with the income transfer and income gap plans ranking second and third respectively.

The difference is due to the extent to which each approach increases housing demand. The percent of rent plan is highest in this regard and, therefore, tends to be the most inflationary. The income transfer approach, however, tends to rank second highest in terms of rent inflation as a result of its progressive distributional effects. This is because the income transfer approach delivers large benefits to a small group of lower income households, forcing recipients to compete for a narrow segment of the housing stock which forces prices upward. Table 1 summarizes the three plans' distributional, housing expenditure and rent inflation effects.

Since the income gap plan is based on both income and actual rent, it tends to be a "middle of the road" approach, fairly good at concentrating benefits on those most in need and very good at stimulating housing expenditure. <sup>14/</sup> This appears to be why the income gap plan is the approach most often discussed for the Canadian situation. <sup>15/</sup>

Types of Targetting Mechanisms. Three types of constraint are generally used in conjunction with the shelter allowance plans described above. These are the imposition of: a) maximum income constraints; b) maximum subsidies; and/or c) maximum rents.

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13. For a more detailed comparison of the three shelter allowance approaches, see: Clayton Research Associates (1981) The Impacts of Shelter Allowances: A Report Prepared for Canada Mortgage and Housing Corporation, Ottawa: CMHC.

14. It should be noted that this assessment of the relative effects of the three types of programs is based on one theoretical study, not on actual experience or on several different studies. Chapter 2 reviews relevant foreign and Canadian experience and Chapter 3 reviews this study and two related ones.

15. See for example: Clayton Research Associates (1981) loc. cit., p. 28; K. Falk (1982) "Housing Allowances in Theory and Practice," Habitat, 25(4), p. 12.

**TABLE 1**  
**Ranking of Relative Effects of Alternative Shelter Allowance Plans**

<u>Plan</u>	<u>Maximize Progressivity of Benefits</u>	<u>Maximize Impact on Housing Expenditure Rank*</u>	<u>Minimize Inflation for Participants</u>
Income Gap	2	1	3
Per cent of Rent	3	2	1
Income Transfer	1	3	2

\* 1 indicates a strong impact

Source: modified after Clayton (1981) The Impacts of Shelter Allowances, Ottawa: CMHC, p. 27.

**TABLE 2**  
**Ranking of Relative Effects of Alternative Targetting Mechanisms**

<u>Targetting Mechanism</u>	<u>Maximize Progressivity of Benefits</u>	<u>Maximize Impact on Housing Expenditure</u>	<u>Minimize Participants' Rent Inflation</u>	<u>Reduce Program Costs</u>	<u>Maintain Work Incentives</u>
Maximum income	1	1	3	high	low
Maximum subsidy	3	3	1	high	medium
Maximum rent	2	2	2	high	medium

Source: Modified after Clayton (1981) The Impacts of Shelter Allowances, Ottawa: CMHC, p. vi.

As Table 2 indicates, each targetting mechanism has strengths and weaknesses. The maximum income constraint tends to concentrate benefits on those most in need and tends to increase recipient expenditures on housing. As with the other targetting mechanisms, it also results in lower government costs than would be incurred under a universal program.

The problem with imposition of a maximum income constraint is that it will result in "inequities at the edges." A household earning \$1 more than the maximum eligible income would be excluded from the program. At the same time, a household earning \$1 less would have no incentive to increase earning power, since this could result in a loss of net income (if the increased income is less than the amount of subsidy lost). In addition, the maximum income constraint tends to lead to the highest levels of rent inflation since it concentrates the subsidy among a few low income participants.

Setting a maximum subsidy constraint results in lower levels of rent inflation but the benefits are not concentrated on those most in need. In addition, the incentive to increase housing expenditure is minimal.

Setting a maximum rent threshold tends to concentrate benefits on those most in need but also tends to generate high levels of rent inflation, since the households receiving the subsidy must compete for a narrow segment of the eligible housing stock (those units renting for less than the established maximum). In addition, this type of targetting mechanism provides little incentive to increase housing expenditure.

Overview: The Significance of Shelter Allowance Program Design.

The impact of a shelter allowance scheme depends in part on the type of plan and targetting mechanism adopted. These policy choices make certain outcomes more or less likely. The ultimate impact of any set of options is further, if not primarily, affected by the broader national and regional economic and political context in which a program is implemented. All economic and simulation models start with numerous assumptions which may not totally reflect the complex interrelationships of the real world, making the ultimate costs and benefits of the implementation of a national program extremely difficult to assess.

Shelter allowance plans which are calculated solely on the basis of income (i.e., the income transfer approach), tend to concentrate benefits on low and moderate income earners but, unfortunately, do not provide an incentive to increase housing expenditure. Conversely, plans which calculate benefits solely on the basis of rent (i.e., the percent of rent plan) tend to provide strong incentives to increase housing expenditure but concentrate benefits on upper income participants.

Plans which are well-targetted and concentrate benefits on those most in need, ironically also lead to the highest levels of rent inflation since a small number of recipients receive the subsidy and all compete for the same segment of the housing stock. If shelter allowances are to be adopted in the hope of reducing costs and increasing targetting efficiency, the inevitable rent inflation which accompanies plans directed only toward

low income earners must be considered. To some extent, therefore, increasing targetting efficiency and minimizing rent inflation are conflicting goals.

Targetting mechanisms also reveal this irony; those which tend to be most effective in terms of concentrating benefits on those most in need (i.e., the maximum income constraint) also tend to generate the highest levels of rent inflation among participants. Rent inflation, it should be remembered, results in increased costs for government, for non-recipient households, and for the economy as a whole, as general price inflation is fueled.

No formal proposal for a shelter allowance program has been made by the federal government. Recent reports on related housing policy issues, however, indicate that 75/30 Income Gap Plan is the approach most often discussed in terms of the Canadian situation. The Income Gap Plan is the option outlined in detail in CMHC's social housing policy review paper presented at the 1981 All Sector Housing Conference and it is the one analyzed in detail in a shelter allowance impact study commissioned by CMHC (also in 1981). 16/

### 1.3 THE "MARKET WELFARE" VERSUS THE SOCIAL WELFARE CONTEXT OF THE SHELTER ALLOWANCE DEBATE

A review of the different types of shelter allowance makes quickly apparent the thorough mix of both incomes policy and housing policy in any of the conceivable program options. The fundamental social problem being addressed is that many households are simply unable to pay for adequate and appropriate shelter within the private housing market. Furthermore, these low income households are likely to have problems affording other basic goods and services. The shelter allowance concept must, therefore, be situated in the broader context of general social welfare and not simply in the field of housing policy.

The question of benefit to those for whom it is intended must be of central concern when considering the introduction of any major new social program, especially in view of previous results of both income maintenance and housing programs. Table 3, which contains recent data (1980) on the distribution of total family income, clearly indicates that there has been no improvement in income distribution for the lowest two quintiles over the past 30 years. Given that we are

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16. See: CMHC (1981) Background Document on Social Housing, Ottawa, especially pp. 17-20; and Clayton Research Associates Ltd. (1981) Ibid.



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TABLE 3

Shares of Total Family Income, by Income Quintile,  
1951 and 1980

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	<u>1951</u>	<u>1980</u>
Lowest Quintile	6.1 %	5.9 %
Second Quintile	12.9	12.9
Middle Quintile	17.4	18.5
Fourth Quintile	22.4	24.3
Highest Quintile	41.1	38.5
Total	100.0	100.0

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Source: National Council of Welfare (1982) Poverty in Canada: 1980 Preliminary Statistics, Ottawa.

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several decades into the development of the "welfare state" and the expenditure of billions of dollars in direct and indirect post-war housing subsidies, this is simply another indication of how seriously deficient our post-war approach to both incomes and housing policy has been. As Lars Osberg points out in his recent book, Economic Inequality in Canada, this situation is quite surprising in view of all the social and economic changes which have occurred since WW II.

This constancy of income shares since World War II should be something of a surprise, since a great deal has happened in the Canadian economy in the last 30 years. Real per capita personal income has considerably more than doubled, the labour-force participation of married women has more than tripled, the number of families composed of only one person has increased by roughly 40 per cent and, recently, inflation has played havoc with money wage rates and the returns from different assets. All these factors could be expected to affect income shares. 17/

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17. L. Osberg (1981) Economic Inequality in Canada, Toronto: Butterworths, p. 11. See also: J.R. Podoluk (1980) Poverty and Income Adequacy: Reflections on Canadian Incomes, Ottawa: Economic Council of Canada; D.W. Henderson and J.C.R. Rowley (1978) Structural Changes and the

The fact that these significant events have not affected income shares requires that any new federal policy be carefully evaluated, especially one as expensive and extensive as a shelter allowance program. Would the proposed shelter allowance actually improve the quality of housing for low income households in Canada? Who would benefit in the end and how? What other groups are likely to be affected? What are the objectives of such a program? It is in the context of such questions that the consideration of shelter allowances as incomes policy or housing policy becomes significant.

The debate over shelter allowances as housing or incomes policy is further complicated by the inseparable practical problems relating to intergovernmental relations. In the recent shelter allowance debate, Streich has identified three of these areas:

- Inter-departmental issues dominated the agenda through much of the debate. The potential conflict between CMHC and Health and Welfare programs has never been resolved.
- Inter-governmental issues in both housing and incomes policies have left the question of adequate support levels in a no-man's land both between and within governments.
- International precedents have been set (in the U.S. and European countries) that implied the federal government was the appropriate level for action. However, the rationale for federal action has never been clearly articulated despite precedents in other countries. 18/

These serious intergovernmental issues must first be viewed within the broader socio-political context: what should the proper role of government be? The explicit consideration of this aspect of the debate is rare in housing policy analysis. Should government social welfare institutions be subordinate adjuncts of the market or should they be major redistributive institutions on their own, providing services outside the market on the basis of social need? 19/ As noted above, earlier proposals for shelter allowances came essentially from the redistributive position, whereas the most recent proposals come from concerns about the private rental market -- an advocacy of shelter allowances as part of a package

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Distribution of Canadian Family Incomes, 1965-75, Ottawa: Economic Council of Canada, Discussion Paper No. 118, July; and A. Moscovitch and G. Drover (1981) Inequality: Essays on the Political Economy of Social Welfare, Toronto: University of Toronto Press.

18. P. Streich (1982) op. cit., p. 4.

19. A good introduction to the different approaches can be found in Chapter 1, "Inequality and Social Welfare," A. Moscovitch and G. Drover, eds. (1981) Inequality: Essays on the Political Economy of Social Welfare, Toronto: University of Toronto Press.

which could help justify the phasing out of provincial rent controls in order to create market conditions more conducive to restoring the "normal" private rental supply market.

It appears that the major reason why shelter allowances have been receiving a great deal of serious attention in recent years is precisely because of the widening gap between economic rents and market rents. This means that cost of new rental units is higher than the rents tenants are either able or willing to pay. This is a unique situation in the history of Canadian housing. In many urban areas it has become impossible for the private development sector to engage in the construction of affordable rental housing as a profitable investment. Shelter allowances are being proposed in some quarters as a means of helping to reverse this market situation by permitting lower income Canadians to afford higher rents so that the private rental market can be restored to a position in which private rental construction takes place again. For example, in a study prepared for HUDAC, Clayton Research Associates recommends:

To stimulate new private rental construction, either market rents must rise substantially or government subsidies for rental investment must be greatly increased - the removal of rent controls is a prerequisite to a speedy increase in market rents.

The most appropriate longer-term solution to the problems of the rental market consists of (a) allowing market rents to rise to the level necessary to encourage private rental investment; and (b) implementing a program of shelter allowances to ensure that low and modest-income families have access to adequate rental accommodation at rents they can afford. 20/

This position, which can be called a "market welfare" position, defines the role of government as one of assisting the operation of the private sector. Programs and policies are judged in terms of whether they assist or hinder the operation of the private sector.

The recently published Economic Council of Canada position on shelter allowances is another example of the "market welfare" approach. The Council sees the need for major rent increases in order to reverse the current situation with respect to economic rents and market rents.

Rent increases would help to resolve the availability problem for apartments, but low- and moderate-income

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20. Clayton Research Associates (1981) Prospects for the Rental Housing Market in Canada, 1981-1986, Toronto: Toronto Home Builders' Association, December, p. i. For other recent examples of this position, see: HUDAC (1982); Canadian Institute of Public Real Estate Companies (1982) Shortage of Rental Housing: Overview and Recommendations, Toronto, April.

renters would be hit hard, making it more difficult for them to afford adequate housing. One way out of such a dilemma would be to cushion the impact of rent increases with a shelter allowance equal to some proportion, say 50 to 75 per cent, of the excess of monthly rent over 30 per cent of income. 21/

From this perspective, shelter allowances are viewed as an essential part of a strategy which attempts to restore an active private rental housing supply sector. A shelter allowance program would be used to help justify the elimination or softening of rent controls, allowing market rents to increase. Shelter allowances are advocated as a means of protecting lower income households by providing a cash subsidy allowing them to afford the higher rents.

An example of the other side of the debate, the social welfare position, is the approach represented by the Social Planning Council of Metropolitan Toronto. It is a position almost directly opposite to that quoted above: it suggests that instead of relying on shelter allowances, rent control and landlord/tenant legislation must be strengthened and non-market social housing programs expanded. This could then be combined with some carefully targetted forms of shelter allowances and an expanded form of the existing rent supplement program. Strengthened rent controls would include central rent registers, penalties for filing false statements, limitations on passing refinancing costs onto tenants, and finally, a continuation of supply-side assisted housing programs.

The point must be made that rent review alone cannot provide adequate safeguards to ensure security of tenure and protection against economic eviction for low-income renting households. A renewed commitment on the part of senior governments to substantially increase the supply of low-cost rental units to house this segment of the market forms an essential part of this task. 22/

The City of Toronto's Planning and Development Department has expressed similar reservations, especially in connection with the impacts a shelter allowance might have when combined with the abolition of rent controls.

The shelter allowance concept does not, unfortunately, address some of the most critical problems facing lower-income tenants housed in the City's private

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21. Economic Council of Canada (1982) Policies and Constraints: Nineteenth Annual Review, Ottawa: Supply and Services Canada, p. 49.

22. Social Planning Council of Metropolitan Toronto (1983) Brief to the [Ontario] Commission of Inquiry into Residential Tenancies, Toronto: February, pp. 12-13.

rental market. These problems emerge when certain buildings are either refinanced ... or removed from the rent review process entirely, by means of the luxury renovation process.... Shelter allowance programs are invariably based on affordability of average moderate rental units: rents which precipitously move above such average levels are unlikely to remain affordable to low and moderate income households even with a shelter allowance. 23/

The Association of Municipalities of Ontario has also recommended that if shelter allowances are adopted they "be viewed as only one component of a package of assistance programs and not as a replacement for existing housing assistance programs." 24/ Among the reasons for this position, AMO points out the following disadvantages of shelter allowances.

- \* HOUSING QUALITY: A shelter allowance does not necessarily ensure that a household has access to housing of adequate quality.
- \* APPROPRIATE HOUSING: A shelter allowance does not ensure that certain forms and sizes of housing units are available in a particular area.
- \* RENT INFLATION: In a market situation of very low vacancy rates, a shelter allowance program would tend to be inflationary.
- \* ADEQUACY OF SUBSIDY CEILINGS: Most existing shelter allowance programs are financially inadequate for the recipient, because of the subsidy ceilings.
- \* SOCIAL OBJECTIVES: A shelter allowance does not provide the mechanism for a municipality to meet certain social objectives, such as the accommodation of target need groups or the reintroduction of family-oriented housing in the inner city, as has been done on LeBreton Flats in Ottawa or St. Lawrence in Toronto. 25/

The most recent national conference on shelter allowances also came to a similar conclusion. The October 1982 "Symposium on the Rental Housing Market and Housing Allowances," sponsored by the Canadian Council on Social Development, reached generally negative conclusions about the desirability of a national shelter allowance program.

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23. Toronto, City Planning and Development Department (1982) Confronting the Crisis: A Review of City Housing Policy, 1976 - 1981, Policy Section, January, p.22.

24. Association of Municipalities of Ontario (1980) Shelter Allowances, AMO Reports #26, April, p.15.

25. Ibid., pp. 8-11.

In summary, the discussion and deliberations of the Symposium reached the conclusion that housing allowances will not provide the single solution needed to assist renters whether they are seniors, singles or families. At best, housing allowances are interim measures that fill the gaps when particular social policies and programs do not provide adequate assistance to meet the going prices in the private sector or in the community-sponsored non-profit sectors. 26/

There is much more, therefore, to the current debate over shelter allowances than at first appears. In theory, shelter allowances are rather neat and clean: the poor are assisted in obtaining adequate housing by direct cash transfers. Yet beyond this over-simplified notion lies a complex web of rental market transactions and socio-economic dynamics which greatly clouds the issue of whether, or to what extent, lower income households would actually benefit. Similarly, what happens to tenants not covered by shelter allowances? For example, will shelter allowances actually help stimulate private rental construction? Will these allowances actually be spent on housing? There are a myriad of questions and issues which need further investigation. Answers to some of these can be found in the experience of other jurisdictions; CMHC has also sponsored a number of studies which attempt to answer these questions.

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26. J. McClain, ed. (1983) And Where Do We Go From Here? Proceedings from a symposium on the Rental Housing Market and Housing Allowances, Ottawa: Canadian Council on Social Development, p. 5.

## 2. REVIEW OF EXISTING SHELTER ALLOWANCE PROGRAMS

A number of different jurisdictions, including both Canadian provincial and foreign governments, have implemented shelter allowance programs. It would be ideal to be able to analyze in depth the experience of these jurisdictions in order to gain a clear understanding of the likely costs and impacts of a Canadian shelter allowance program. Unfortunately, this is not possible.

Key societal institutions, such as tax systems, social welfare systems, housing markets, local housing conditions, differ slightly or even dramatically between political jurisdictions, making specific comparative analyses difficult if not impossible. In addition there are often dramatic variations in the objectives and nature of each program. It is useful, in spite of this, to review the general approach to shelter allowances adopted in other jurisdictions.

### 2.1 A REVIEW OF FOREIGN EXPERIENCE

Shelter allowance programs are not recent inventions. In the United States shelter allowances were called "rent certificates" in the 1930's and 1940's and were considered for inclusion in the 1937 and 1949 housing acts. In 1953 the President's Advisory Committee on Government Housing Policies and Programs seriously considered but rejected replacing the public housing program with a system of rent certificates. Then, as now, the housing subsidy issue was split between those favouring direct government action in the supply of social housing and those favouring cash transfers allowing the poor access to private market housing. The 1953 Committee rejected rent certificates on the grounds that they would not add to the housing supply, would be too complex to administer, and would allow no reasonable way to limit application of the plan. <sup>18/</sup> These concerns

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18. J.P. Zais (1976) "Housing Allowances: Ongoing Experiments and Policy Options," in R.E. Mendelson and M.A. Quinn, eds., The Politics of Housing in Older Urban Areas, N.Y.: Praeger Publishers, p. 229. See also: M. Bendick, Jr. and R.J. Struyk (1981) "Origins of an Experimental Approach [to shelter allowances]," in R.J. Struyk and M. Bendick, Jr., eds. Housing Vouchers for the Poor: Lessons from a National Experiment, Washington, D.C.: The Urban Institute. And: President's Advisory Committee on Government Housing Policies and Programs (1953) Recommendations on Government Housing Policies and Programs, Washington, D.C.: Government Printing Office, December.

prevented any serious further consideration of implementing a permanent shelter allowance program in the U.S. In the early 1970's, however, an experimental program was launched in an attempt to discover what the actual impacts, costs and benefits would be. 19/

Shelter allowance programs have been implemented by governments with widely divergent political ideologies. This is largely due to their wide range of possible objectives. Governments controlled by parties with social views as diverse as French Gaullists and Swedish Social Democrats have given shelter allowances a central role in their housing subsidy programs since the second World War. In addition, shelter allowances have been implemented in private real estate market contexts as in the United States (as a pilot project in a few cities) and in the social and public housing oriented contexts of many Western European countries. 20/

The United Kingdom has had an even longer history of rent regulation and housing subsidies. The 1972 Housing Finance Act established a full-scale national Rent Allowance Program in England, Wales and Scotland for private rental tenants and a national Rent Rebate Program for public rental tenants. The Rent Allowance Program only applies to the 17% of the British housing stock which is private rental market. The remainder of the housing stock is composed of either private owner-occupants (52%) or public rental (31%). 21/

In Western Europe shelter allowance programs were implemented but they tended to be minor appendages to housing supply programs and were usually restricted to special hardship categories such as large families, the elderly and the handicapped.

At present, shelter allowance programs exist in one form or another in Sweden, France, Germany, Denmark, the Netherlands, Norway, Great Britain and the United States. The wide variety of formulae for calculating subsidies and the lack of any extensive program evaluations prohibits a detailed discussion of each program. A useful summary of the major characteristics of the European shelter allowance programs is provided in Table 4. With the exception of the Swedish program, these are all

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19. See: R.J. Struyk and M. Bendick, Jr., eds. (1981) Ibid. Also: J. Friedman and D.H. Weinberg, eds. (1983) The Great Housing Experiment, Beverly Hills: Sage Publications; and United States, Department of Housing and Urban Development (1976) Housing Allowances: The 1976 Report to Congress, Washington, D.C.: U.S. Government Printing Office.

20. See: R. White (1981) The Political Theory of the Shelter Allowance Concept, Ottawa: CMHC. Also: K.F. Watson, F. Ermuth and W. Hamilton (1978) A Comparative Analysis of Housing Allowance Programs, Ottawa: Abt Associates Research of Canada, for CMHC.

21. J. Trutko, O.J. Hetzel and A.D. Yates (1978) A Comparison of the Experimental Housing Allowance Program and Great Britain's Rent Allowance Program, Washington, D.C.: The Urban Institute, p. 1.



TABLE 4

## CHARACTERISTICS OF SHELTER ALLOWANCE PROGRAMS IN SEVEN EUROPEAN COUNTRIES

<i>Characteristic</i>	<i>Sweden</i>	<i>France</i>	<i>Germany</i>	<i>Denmark</i>	<i>Netherlands</i>	<i>Norway</i>	<i>Great Britain</i>
Year of Adoption	1913	1948	1965	1966	1970	1972	1975
Eligible of population	All households, subject to an income limit	Elderly, families receiving family allowances, both subject to an income limit	Elderly, families with children, both subject to an income limit	Elderly, families with children, both subject to an income limit	All households, subject to an income limit	Elderly, disabled, families with children, subject to an income limit	All households, subject to an income limit
Tenure eligibility	Renters and homeowners	Renters and homeowners	Renters and homeowners	Renters only	Renters only	Renters and homeowners	Renters only
Recipients as a percentage of all households	42%	6%	7%	10%	8%	10%	1%
Housing quality standards	None	Unit must meet physical quality standards	None, but condition of unit affects amount of subsidy	Unit must meet physical quality standards	Unit must be less than 10 years old	Units must be less than 20 years old	None
Form of subsidy	Percentage of rent	Housing gap	Housing gap	Percentage of rent or housing gap, whichever leads to higher payments	Housing gap	Housing gap	Percentage of rent
Administrative cost (as a percentage of total program costs)	5%	12-15%	10%	3%	13%	N.A.	17%

SOURCE: Struyk, R.J. and M. Bendick, Jr., eds. (1981) Housing Vouchers for the Poor: Lessons from a National Experiment, Washington, D.C.: The Urban Institute Press, pp. 372-373.

relatively new, limited generally to elderly renters, and apply to a very small percentage (an average of 7 percent) of the nation's households.

The program which is most often cited as having some direct relevance to Canada is the now completed U.S. experimental program. In 1970 the U.S. Congress and the Department of Housing and Urban Development initiated an elaborate 11-year social experiment, the Experimental Housing Allowance Program (EHAP), to test the feasibility of providing cash subsidies to low-income households tied to the cost of adequate housing. The EHAP was essentially three separate experiments designed to examine key issues raised by the use of housing allowances: the Administrative Agency Experiment, evaluating the effectiveness of the methods used by a number of different agencies in implementing shelter allowances; the Demand Experiment, testing how different forms of a housing allowance would be used by household participants; and the Supply Experiment, testing the housing market effects of a full-scale housing allowance program. These are summarized in Table 5.

The British Rent Allowance Program supplements households whose income is insufficient for the rent they pay in relation to family size. The program has had several objectives since its 1972 initiation, depending on whether the Conservative or Labour Party has been in power. A recent Urban Institute study compares the U.S. and British programs, identifying the program options selected in the two countries. Features common to both programs include:

- \* Payment is dependent upon an assessment of family income, need, and housing expenditures.
- \* Households select their own units within the private market.
- \* Payment is made directly to the recipient.
- \* There is no agency contract with landlords.
- \* Local public agencies are involved in the day-to-day operation of the program.
- \* Processing of applications involves direct contact between the administering agency and the applicant. 22/

The U.S. and British programs differ in the following important ways:

- \* The British program is a permanent one; the U.S. an experimental effort, testing the concept in several cities over two to five years each.
- \* The British program is based on the percent of rent formula; the U.S. on the housing gap formula.

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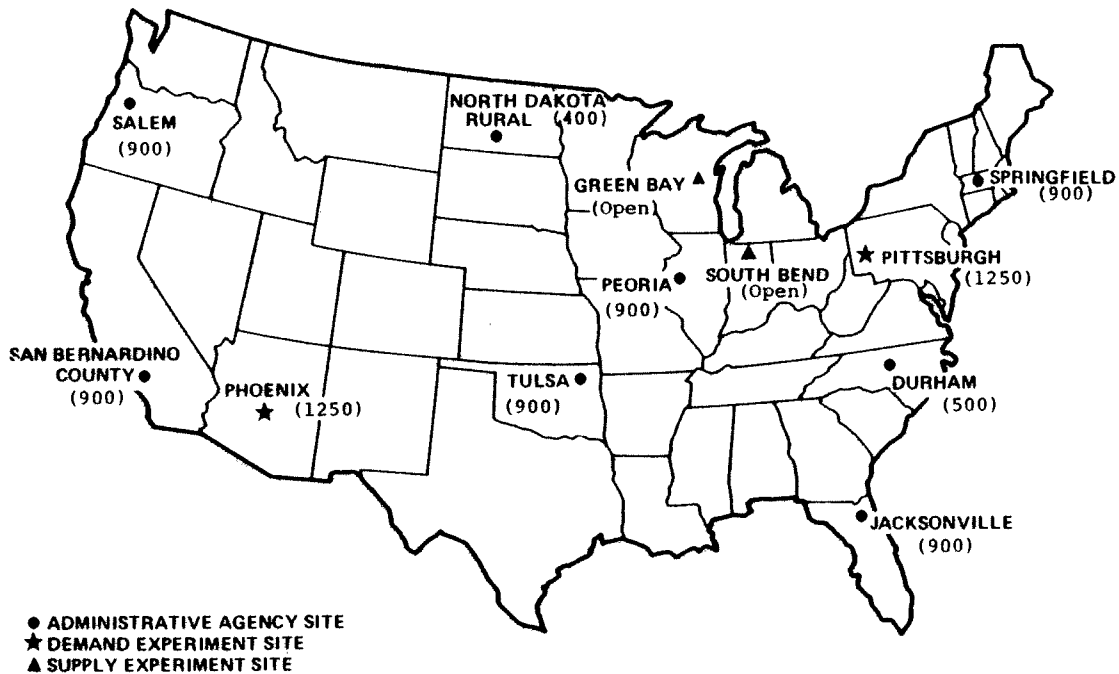
22. J. Trutko et al. (1978) p. viii.

**TABLE 5**  
**THE U.S. EXPERIMENTAL HOUSING ALLOWANCE PROGRAM**

Experiment	Number of Sites	Locations	Administering Mechanism	Number of Participating Households	Major Variations within Experiment
Administrative Agency Experiment	8	Salem, Ore. Tulsa, Okla. Jacksonville, Fla. San Bernardino, Calif. Springfield, Mass. Peoria, Ill. Bismarck, N. D. Durham, N. C.	Eight agencies, 2 each of 4 types; local housing authorities, state agencies, welfare agencies, county metropolitan governments	500-900 per site	Agency types
Demand Experiment	2	Pittsburgh, Pa. Phoenix, Ariz.	Research contractor	ca. 1,000 at each site	Payment formula and levels
Supply Experiment	2	Green Bay, Wisc. South Bend, Ind.	Housing Allowance Office established initially by research contractor	ca. 6,000 at each site	Market characteristics

Source: The Urban Institute.

**EXPERIMENTAL SITES - EXPERIMENTAL HOUSING ALLOWANCE PROGRAM**



Note: The numbers under each site show planned number of recipient households.

- \* The British program does not supervise housing quality standards; the U.S. program requires most households to occupy units that meet specific housing quality standards.
- \* The British program does not apply to homeowners; the U.S. program contains a homeownership component. 23/

Evaluations of these two programs are only now beginning to be published. Due to their limited scope, however, it is only in a few areas that fairly clear assessments can be made of relative program success and of program impacts. The major disappointment for the analysis of a potential Canadian shelter allowance program is that neither the U.S. or British experience is helpful on the most crucial set of questions, that of the housing market impacts of a national program.

Impact on Local Housing Markets. The greatest concern about the introduction of a full-scale national shelter allowance program is its possible inflationary impact on housing prices. If the poor have more money with which to pay for better housing, would landlords simply charge the poor more for the same units? If the supply of available units is not increased in tight markets, would a shelter allowance program, which directly stimulates demand not supply, lead to general inflation in all housing prices, as more households have the funds to chase after a fixed number of units? If the allowance does fuel housing price inflation, would landlords and real estate speculators be the major beneficiaries of the program's benefits? The overall concern about market impacts of a shelter allowance program, is that the participants would not obtain better housing and that the proportion of their incomes spent on housing would be reduced only slightly, if at all.

One part of the U.S. EHAP, the Housing Assistance Supply Experiment (HASE), was specifically designed to examine market impacts. Two sites were chosen: Brown County, Wisconsin, whose major city is Green Bay, and St. Joseph County, Indiana, whose major city is South Bend. The results of this experiment have all been positive: that is, there has been little, if any, negative impact on the housing market. 24/ One needs, however, to be very cautious in applying the results of this limited experiment to the likely results of a full-scale national shelter allowance program.

Unfortunately, some of the evaluations of the U.S. supply experiment automatically conclude that the success of the experiment demonstrates that a national program will also be successful (i.e., have minimum nega-

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23. Ibid.

24. See: W.D. Perry (1980) How Housing Allowances Affect Housing Markets: Supply Experiment Interim Findings, Santa Monica, Ca.: The Rand Corporation, August.

tive impact on the housing market). This conclusion is often supported by reference to the British program, which has also had a minimum impact in terms of rent inflation. Neither program seems to have had a detrimental impact on their local housing markets. They did not tend to cause rent inflation or other forms of market distortions. The following are two examples of evaluations of the U.S. experiment in which the authors, in one passing sentence, simply extend the experience of the experiment to a potential national program.

Contrary to predictions, our evidence reveals no significant price increases attributable to the allowance program. If the long run effects of allowances on market prices are no greater than those observed, the issues to be addressed by policy makers are much simplified: Housing allowances can be judged in terms of who participates, how much they benefit, and the costs of the program relative to alternatives. Those not in the program would be unaffected by it. 25/

The chapter in the final report on the U.S. EHAP jumps to the same conclusion on the basis of the same limited evidence:

Early results from the Supply Experiment find that introduction of the program had no major immediate effect on market-wide rent inflation and little if any immediate effect on recipients' rent inflation. Furthermore, we know from all three experiments that the allowance programs contributed only marginally to existing demands for housing. Thus it is extremely unlikely that demand pressures in any sort of housing allowance program would ever be sufficient to heighten market rent inflation substantially. 26/

Neither of these conclusions is in any way supported by the evidence.

A review of the British program has found that: "Rent allowances in Great Britain have had little impact on the price or quality of housing in communities or the nation as a whole." 27/ Even though the British Rent Allowance Program is not an experiment and applies to all of Great Britain's low income tenants in private rental units, it is still not possible to conclude that this is evidence relevant to the Canadian situation.

These findings are not, in fact, very surprising and certainly not very significant. As of 1977, the U.S. program only assisted 21,500

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25. C.L. Barnett (1979) "Expected and Actual Effects of Housing Allowances on Housing Prices," AREUEA Journal, Vol. 7, p. 295.

26. R.J. Struyk and M. Bendick, Jr., eds. (1981) p. 208.

27. J. Trutko et al. (1978) pp. 29-30.

households across the 12 EHAP communities, many of which had high vacancy rates. In Britain, only 200,000 households were participating in the Rent Allowance Program across the entire nation. 28/ It appears that the U.S. experimental shelter allowance program will have assisted a total of 30,000 households, and not all at the same time, during its decade of existence. 29/ This is a large number for an experiment but it is insignificant in terms of measuring housing market impacts. The British program only applies to 1% of Britain's households. The program is so small because Britain's private rental stock is such a minor part (17 percent) of the housing market. It would indeed be very surprising if these programs had any impact on their respective housing markets.

It is unfortunate that the market impact experience of these programs are not helpful to the consideration of a national program in Canada, where the greatest need is in the larger metropolitan areas with some of the lowest vacancy rates among the moderate priced rentals and with a severe supply problem. A study of the potential impacts of shelter allowances on Canadian rental housing markets, commissioned by CMHC, points to the limited relevance of the U.S. experience, explaining that:

One of the main reasons behind this observation is that the two markets covered by HASE were not representative of the generally tight rental markets which prevail in many Canadian centres. The two markets, Brown County and St. Joseph County, had vacancy rates of 5.1 percent and 10.6 percent respectively. This compares with the high of 5.3 percent (London), low of 0.1 percent (Vancouver and Victoria) and average vacancy rate in Canadian metropolitan areas of 2.5 percent. It should be natural to expect market impacts to be significantly lower in soft markets than in tight markets. At best, the HASE experience appears to be relevant only to soft markets in Canada. 30/

Participation Rates. The allowance programs in both the U.S. and Britain are designed to appeal to a large number of eligible households. Participation rates have been very disappointing, falling far below initial expectations. In the U.S. program:

Originally, participation rates were predicted to be similar to those of current income-transfer programs. The Aid to Families with Dependent Children (AFDC)

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28. Ibid., pp. 10, 30.

29. R.J. Struyk and M. Bendick, Jr. (1981) pp. 7-8.

30. Clayton Research Associates Ltd. (1980) The Potential Impact of A Housing Allowance Program on Rental Housing Markets, Ottawa: CMHC, August, p. 13.

program, for example, has a participation rate in excess of 80 percent; in EHAP, however, participation was only 42 percent for renters and 33 percent for homeowners in the open enrollment Supply Experiment, and 27 percent in the Demand Experiment, despite extraordinary outreach efforts. 31/

The British program has had similar results: participation rates have been estimated at between 40 and 50 percent of eligible households; among private renters in furnished units the rate has been less than 10 percent. 32/

Within the social services an extensive literature details how target groups, particularly those with low incomes, are not reached through conventional social services. Part of the explanation offered is a cyclical one: unfamiliarity with the program is related to insufficient knowledge of the program's applicability; households do not seek information if the program is not considered applicable. This problem is not necessarily resolved by extensive advertising since the eligibility criteria is often highly complicated and it is easy for many households to conclude, wrongly, that the program does not apply to them. There is little evidence that the problem is one of public disinterest or a lack of public awareness. Related explanations include: a stigma associated with targetted welfare-type programs, a fear of creating problems with the landlord, a resistance to having family circumstances investigated, a concern about loss of confidentiality, administrative complexities, and changing program scope and eligibility standards. 33/

In any event, these low participation rates raise serious questions about the desirability of a national shelter allowance program. One of the objectives is to achieve better horizontal equity. Horizontal equity assumes in the first instance a completely universal housing allowance. Whether or not such a universal approach would emerge in the context of restraint and large public sector budgetary deficits is one question. The related issue is that of participation rates. Current housing supply programs are criticized for only reaching some of the households in need. Will a shelter allowance program achieve substantially better results? The foreign experience and, as we shall see below, the Canadian provincial experience, provides reasons to be concerned.

Impact on Housing Expenditure. It appears that participants in the two programs have generally used their allowance payments as income supplements. An evaluation of the U.S. program finds that "most of the

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31. R.J. Struyk and M. Bendick, Jr. (1980) "Housing Vouchers for the Poor," The Urban Institute: Policy and Research Report, 10(4), Winter, p. 3.

32. J. Trutko et al. (1978) pp. 22-23.

33. Ibid., pp. 26-27.

allowance was typically spent on nonhousing items." <sup>34/</sup> In the case of the British program, the findings have been similar: "The predominant effect of the payments has been to relieve excessive housing costs relative to income, rather than to stimulate improvements in housing quality." <sup>35/</sup>

Summary of Foreign Experience. These are just three of the important factors which must be assessed in considering the feasibility and desirability of a national shelter allowance approach to housing subsidies. The relevant foreign experience can be summarized as follows:

- \* Most plans are small scale. There are no large scale foreign programs from which conclusions about impacts directly relevant to the Canadian situation can be drawn.
- \* No conclusive evidence about rent inflation. Because the majority of the plans apply to such a small percentage of the population and housing stock, it is not possible to draw conclusions about the impact a large scale program might have on rent inflation. The fact that no rent inflation has been observed in these small scale foreign programs is not surprising.
- \* Participation rates are disappointingly low. There is no precise explanation for low participation and there seems to be little prospect for resolving the problem.
- \* The impact on housing expenditure is low. Foreign experience indicates that it is difficult to ensure that households allocate the subsidy to housing.

The experience of these foreign programs does point once again to the mix of incomes and housing policies which is associated with housing allowance schemes. Foreign experience does little to alleviate serious concerns as to whether it is very effective and efficient to distribute cash subsidies tied to housing. In fact, one of the overall conclusions in the final report on EHAP is that: "Analysis showed that from the household's viewpoint, straight cash transfers to low-income households are even more beneficial and effective than are housing allowances which are loaded with government restrictions." <sup>36/</sup>

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34. R.J. Struyk and M. Bendick, Jr. (1980) p. 4.

35. J. Trutko et al. (1978) p. 28.

36. R.J. Struyk and M. Bendick, Jr. (1981) p.xviii.



## 2.2 A REVIEW OF CANADIAN EXPERIENCE

Although there has been a great deal of discussion through the years, a true shelter allowance program has never been implemented at the federal level in Canada. The closest any federal program has come to shelter allowances is the jointly sponsored federal/provincial Rent Supplement Program (Sections 44.1a and 44.1b of the National Housing Act). In addition, one of the non-profit housing programs, the Co-operative Housing Program (Section 56.1 of the National Housing Act), includes a provision for a percentage of the subsidy package to be applied as a rent supplement to individual households on an income tested basis. Both of these forms of rent supplement subsidies, though applied to individual households, are tied to specific housing units or projects and are not, therefore, "portable" as a true shelter allowance would be.

In addition to the four existing provincial shelter allowance programs, it should be pointed out that a variety of "mutations" of the shelter allowance concept are in operation in some provinces and municipalities. They are examples of how related mechanisms can be used to help target housing subsidies. These include:

- \* Shelter components under the Canada Assistance Plan (CAP). While these payments are more income redistribution oriented than part of the housing sector, they still contain a shelter maximum implicit in the payment. Payments are reduced if rental costs are less than the maximum. This is intended to encourage a minimum level of housing consumption.
- \* Municipal shelter supplement provisions under the Special Assistance provisions of CAP. These programs are in operation in specific Ontario municipalities. The subsidies are used as supplements to social assistance payments.
- \* Ontario Property Tax Credit. While this provincial tax credit is not a shelter allowance, it is based, to some extent, on income and on housing costs. Like shelter allowances, it is household, rather than unit specific, although its benefits are not necessarily applied to housing.

The four very limited shelter allowance programs which have been established at the provincial level tend to be modified versions of the "Income Gap Plan," and are targetted mainly at senior citizens. In 1976 British Columbia implemented the first such program, Shelter Aid for Elderly Renters (SAFER), which has since been extended to all disabled residents of the province. After B.C., the provinces of New Brunswick, Manitoba and Quebec have followed suit with somewhat similar programs. The New Brunswick Rental Assistance To the Elderly (RATE) program, for example, provides a subsidy for those paying over 30% of their incomes on rent. A recently published summary of these four provincial programs is reproduced in Table 6.

TABLE 6

## SUMMARY OF CANADIAN PROVINCIAL SHELTER ALLOWANCE PROGRAMS

Program	British Columbia			Manitoba			Quebec			New Brunswick				
	Shelter Allowance for Elderly Renters (SAFER) <sup>1</sup>			Shelter Allowance for Elderly Renters (SAFER) <sup>2</sup>			Shelter Allowance for Family Renters (SAFFR) <sup>2</sup>			Shelter-Aid for Seniors (Logirente) <sup>3</sup>		Rental Aid to the Elderly <sup>4</sup>		
Year Introduced	1977			1980			1981			1980		1978		
Eligibility	low-income elderly renters: 65 years of age and older			low-income elderly renters; pensioners age 55 and older			low-income families with children			low-income elderly renters: 65 years of age and older		low-income elderly renters: age 65 and older		
Formula	75% × (eligible rent – 30% of income)			60% (higher income) to 90% (lower income) × (eligible rent – 25% of income)			60% (higher income) to 90% (lower income) × (eligible rent – 25% of income)			75% × (eligible dwelling cost – 30% of income)		50 to 75% × (rent in eligible unit – 30% of income)		
	Singles	Couples	Sharers	Singles	Couples	Sharers	Two Person	Three Person	Four Person	Singles	Couples	Sharers	Singles	Couples
Maximum allowance	\$134	\$65.35	\$23.08	\$140	\$140	\$140	\$150	\$150	\$150	\$86.77	\$54.15	\$53.40	\$98	\$109
Maximum eligible rent	\$330	\$365	\$365	\$270	\$300	\$300	\$300	\$325	\$350	\$215	\$230	\$145	\$205	\$230
Average client's rent	\$259	\$312	\$194	\$227	\$269	\$156	\$259 One Parent	\$254 Two Parent	\$257 All Families	n.a. <sup>*</sup>	n.a.	n.a.	\$222	\$222
Average payment	\$62.83	\$25.22	\$6.81	\$64.45	\$37	\$35	\$79.32 One Parent	\$76 Two Parent	\$78 All Families	n.a.	n.a.	n.a.	\$39	\$39
Average annual income	\$6169	\$10 527	\$5921	\$6228	\$8892	\$5280	\$7608 One Parent	\$8316 Two Parent	\$7860 All Families	n.a.	n.a.	n.a.	\$5688	\$5688
Number of clients	10 047	969	246	2984	276	100	748	429	1177	18 405 incl. 960 owners	792	n.a.	n.a.	n.a.

Source: Canadian Council on Social Development

<sup>1</sup> Statistics compiled as of June 1982.<sup>2</sup> Statistics compiled as of June 1982: low-income range \$6000 for singles, \$10 500 for couples and sharers (SAFER) and \$8500-\$10 500 (SAFFR); high-income range \$11 000-\$13 000 (SAFER) and \$13 000-\$15 000 (SAFFR).<sup>3</sup> Statistics compiled as of August 1982; maximum allowances and rent levels as of October 1982.<sup>4</sup> Statistics compiled as of June 1982.<sup>\*</sup> n.a.: not available

Impact on Housing Markets. The relevance of these programs to an assessment of the potential costs and impact of a national program is limited for reasons similar to that of the U.S. and British programs: their small size and scope. In her recent paper on the provincial shelter allowance programs, Patricia Streich reports that as of mid-1982,

some 35,000 households in these four provinces were receiving benefits. All but 1,100 of these are seniors. The vast majority (about 90%) are single seniors, and all recipients are income poor. 37/

These four provincial programs, therefore, are very small. As such they have had and can only have a very limited impact on their respective housing markets and target groups. It is not possible to draw many useful conclusions relevant to assessing the market impact of a national program from the experience of these provincial programs. Using the Manitoba program as an example, the following types of factors limit the relevance of these programs. Manitoba's "Shelter Allowance for Elderly Renters" (SAFER) program:

- only applies to seniors;
- only 3,000 to 4,000 seniors receive benefits;
- 80% of these are in Winnipeg where the housing market, unlike much of the country, is very soft;
- less than 5% of Winnipeg's rental stock is affected by the program;
- only 30% of Manitoba's eligible elderly households participate;
- it is not known whether the occupants of Winnipeg's substandard housing units (10% of the stock) are receiving any benefits. 38/

When the Manitoba program was introduced in January, 1980 vacancy rates were high, peaking at over 4% in the spring of 1981. Winnipeg's vacancy rate since 1978 has been the highest of any major metropolitan area in Canada. 39/

Although the limited size of the current provincial programs makes it impossible to draw any conclusions about the impact a major shelter allowance program may have on housing markets, some evidence is in on two important characteristics of the operation of these provincial programs. These relate to: 1) the participation rates among the eligible groups; and 2) the housing consumption response.

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37. P. Streich (1982) p. 5. Emphasis in the original.

38. K. Falk (1982) "Housing Allowances in Theory and Practice," Habitat, 25(4), p. 15.

39. J. McClain, ed. (1983) p. 65.

Participation Rates. As with the U.S. programs, participation by eligible households has been very low in the provincial programs. Less than 30 percent of Manitoba's eligible elderly households participated in Manitoba's SAFER program as of 1981. 40/ In British Columbia the participation rate is only 65 percent when the most restricted definition of eligibility is used. Marion Steele notes that this level of participation is good when compared to participation in other transfer programs "but it is still far too low for anyone concerned about a progressive fiscal system." 41/

Impact on Housing Expenditure. In her recent assessment of the housing expenditure response of three of the provincial shelter allowance programs, Manitoba, British Columbia and New Brunswick, Steele finds that the "response has been zero or close to it." 42/ Part of the explanation rests on the fact that low income households tend to devote so little of any increase in income to housing. Steele suggests that the reason why this has now become the case is that low income households "are already paying more than they would freely choose to spend in an unregulated market." She states that for this and related reasons it can be concluded that "a housing allowance has virtually no role to play in improving the housing conditions of low income people." 43/

Summary of Canadian Experience. The experience of the Canadian provincial shelter allowance programs, like the American and British ones, demonstrates that very focused or very small scale programs have virtually no negative impact on the housing market. We do not know from existing experience what the impact would be of a program which delivers large subsidies to a large segment of the housing market. We do know that the participation rates in existing programs tends to be low and there are few good explanations for this and even fewer possible solutions. Part of the explanation, however, can be attributed to complex eligibility criteria. It is difficult to foresee development of clear and simple criteria given the need to control costs and minimize program abuse. This casts doubts on the ability of shelter allowances to live up to the objective of improving horizontal equity.

In view of the fact that the Canadian provincial and the foreign experience provides little insight on the crucial question of the market impacts of a full-scale national program, CMHC has sponsored several major research studies. These have used econometric and market simulation models in an attempt to assess, at least at the theoretical level, the likely market impacts of a national shelter allowance program in Canada. The next chapter reviews the findings of three of these recent studies.

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40. K. Falk (1982) p. 15.

41. M. Steele (1982) p. 12.

42. Ibid., p. 3.

43. Ibid., pp. 10-12.

### 3. THE POTENTIAL IMPACTS OF A NATIONAL SHELTER ALLOWANCE PROGRAM IN CANADA

Little is known about the possible economic impacts and general social ramifications of a national shelter allowance program. The limited experience of other countries is such that few reliable conclusions can be drawn. Even if the foreign experience was extensive enough to generate some significant findings, these would have to be assessed in light of the very different urban housing market conditions which exist in Canada.

#### 3.1 THREE RECENT ECONOMIC IMPACT STUDIES

In order to test the potential impact of a full-scale Canadian shelter allowance program, CMHC has commissioned several studies in recent years. Three of these are particularly relevant to the question of the market impacts of a shelter allowance program.

1. Clayton Research Associates (1980) The Potential Impact of a Housing Allowance Program on Rental Housing Markets, August.
2. Clayton Research Associates (1981) The Impacts of Shelter Allowances: A Report Prepared for Canada Mortgage and Housing Corporation, April.
3. F.T. Denton, A.L. Robb and B.G. Spencer (1982) The Economics of Shelter Allowances, September.

This chapter presents a brief review of the findings of these three studies, and is drawn from a more detailed analysis written as a companion report to this one. 44/

Research Models Used. A different theoretical model was used in each of the three studies. In Study #1 (Clayton Research Associates, 1980) an analytical model was developed to test different variations of a shelter

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44. See: J.D. Hulchanski and G.I. Ozornoy (1983) The Potential Economic Impact of a National Shelter Allowance Program: A Review of Recent Canadian Research, forthcoming.

allowance program. The model was run for four major urban housing markets: Montreal, Toronto, Winnipeg and Vancouver. Use of the detailed CMHC 1974 Survey of Housing Units (SHU) data base allowed for a fairly high level of disaggregation. The object was to examine the likely effects on and responses of the private rental market to the introduction of an income gap shelter allowance plan. The model was designed to estimate the likely impacts on vacancy rates and rents, using the four urban market areas as case studies developed to supplement the report's brief review of the impacts of the U.S. and provincial experiences with shelter allowances.

Study #2 (Clayton Research Associates, 1981) examines the potential long-run impacts of the three basic types of shelter allowance programs, though it concentrates mainly on the income gap plan. The simulation model used was CMHC's version of the Urban Institute's model, a long-run comparative static model which is market specific (i.e., self contained for each urban area). Its strength is that it permits a comparison of the results among urban areas which exhibit different characteristics as well as a fairly detailed characterization of real conditions within each market. The model relies almost exclusively on 1961 and 1971 census data and is calibrated for six cities: Quebec City, Kitchener, Winnipeg, Saskatoon, Calgary and Vancouver.

Study #3 was produced for CMHC by McMaster University economists F.T. Denton, A.L. Robb and B.G. Spencer, using a framework based on conventional theories of consumer and market behaviour. They designed a sophisticated model within this framework to examine the likely range of market impacts of alternative shelter allowance formulae. The unit of time in the model is a month, five categories of households are used, individual and housing demand functions are incorporated and, in order to assess long run and short run affects of a shelter allowance program, the model incorporates a "response mechanism" which accommodates varying vacancy rates, program participation rates and price elasticities of supply. The results of the model's simulations are presented for: the initial state in which shelter allowance program does not exist; for the first month the program is effective; and for each of the program's first, second, fifth and tenth year of operation.

These brief descriptions of the three models do not begin to do justice to their content. The point is that three different analytical and simulation models have been developed in an attempt to assess related aspects of the market impact of a national shelter allowance program. To some extent they build upon one another, each one is more sophisticated in some respects than the previous. These studies are not the only analyses of shelter allowances undertaken by CMHC but they are the most significant attempts to answer questions relating to economic impacts. 45/

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45. One of CMHC's earlier shelter allowance studies is: R.J. Hobart and K.J. Johnston (1979) The Market Effects of a Shelter Allowance -- Preliminary Tests Using a Simulation Model, Ottawa: CMHC, Program Evaluation Division, December.

In addition to providing some findings about potential shelter allowance program impacts, these three studies also reveal a great deal about the difficulties and limitations of conventional simulation models and of available data bases, especially in the absence of up-to-date, highly disaggregated data. Any model, by the very nature of model building, must abstract away from reality in order to reduce the task to manageable proportions. The preferred methodological approach must often be modified in order to accommodate the many compromises forced by inadequate data and unquantifiable factors.

**Key Findings of the Three Studies.** The first of the three studies is the least sophisticated, and the authors admit at the start that only "crude simulations" of the various program possibilities were conducted. <sup>46/</sup> Their conclusions, therefore, can only be extremely general. They are not able to draw any specific quantitative conclusions about the economic impacts of shelter allowances.

The case studies of the four urban markets comes to the conclusion that, as we know, the Toronto and Vancouver markets are very tight, that the Montreal market is not tight, and that the Winnipeg housing market is in between. Since shelter allowances will have the greatest impact on tight markets, it is not difficult to predict the outcome. Among the findings from the case study simulation models are the following:

- \* Vancouver and Toronto are the two markets studied which would appear likely to experience shortages and rent rises as a result of a housing allowance program covering all types of households.
- \* Montreal appears likely to be able to handle a housing allowance program without any significant rental market impacts because of a good supply of vacant dwellings and relatively fewer eligible participants because of its low rent structure.
- \* Winnipeg appears to be on the borderline and might experience some rental market impacts depending on the scale of the program; however, any response would not be in the same order of magnitude as Vancouver or Toronto. <sup>47/</sup>

As general as these findings may be, they point to the need to consider each major urban market separately and to consider more than just vacancy rates as market indicators. Other important factors are the rent structure and household income ranges within each market. Nonetheless, the vacancy rate remains a crucial consideration.

Among the study's conclusions is the statement that: "One might expect relatively few if any impacts from the proposed Canadian program in

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46. Clayton Research Associates (1980) p. 18.

47. Ibid., p. 35.

markets with 5 percent or more overall vacancy rates." 48/ This appears to be a reasonable expectation as long as there is an annual supply of new affordable rental units sufficient enough to maintain a healthy vacancy rate. This, however, raises two important questions. First, if in fact vacancy and rental supply rates were able to remain at relatively high levels, would there be a need for a full-scale national shelter allowance program? And second, how likely are we to have a fairly steady 5% vacancy rate together with a steady stream of new rental construction? The crucial aspect in the analysis of the potential economic and distributional impacts of a national shelter allowance program is indeed the current and likely future condition of the major urban housing markets.

Though the methodological approach of this first study does not permit drawing many specific conclusions about likely impacts, the second study (Clayton Research Associates, 1981) does produce a number of interesting results. Its major limitation is that it had to rely on 1961 and 1971 census data, since the 1981 data were not then available. Therefore, the entire study simulates market impacts based on the conditions of the 1960's. In interpreting the report's results, it should be understood that even though the theoretical assumptions about the general nature of the rental market, on which the model is predicated, may still remain valid in the 1980's as they were in the 1960's, the model's data reflect the income distribution, the demographic structure and housing market conditions of selected urban areas in the 1961-1971 period. Therefore, the report's results regarding distributional, housing consumption, housing price inflation, and government cost impacts of various forms of shelter allowances, are valid for the year 1971 on the basis that the program was launched in 1961.

This means that the simulation exercise has some academic interest and relevance, but by no means can the results be used as an indication of the likely impacts of a shelter allowance program in the Canada of the 1980's. The model lacks any significant predictive power because it uses data for only the initial and final year. It is not possible to extrapolate projections or predictions from two sets of data beyond the period covered by the data.

The shelter allowance program option analysis in the report is highly informative because the model tests the relative impacts of the different program options and estimates the potential cost of each. This, however, is not the central issue. Prior to asking the important question of which shelter allowance option is preferable and what it might cost, the question of whether they will work must be answered. It is this question which the methodology selected for the second study is not capable of addressing.

In view of the limitations imposed by data availability, the third of the major studies commissioned by CMHC (F.T. Denton A.L. Robb and B.G. Spencer, 1982) took a purely theoretical approach. The model they

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48. Ibid., p. 36.



designed in not an econometric one. That is, "it is not estimated from real data and does not purport to represent in realistic detail the Canadian housing market or the particular market for housing within any area of Canada." 49/

However, because this third model does attempt to include the broad features of a housing market, it is a useful tool of analysis allowing the testing of the complex impacts of different shelter allowance options and different assumptions about household and market response patterns. The authors summarize some of the complexities as follows:

Depending on the formula used, a shelter allowance program may alter the relative price of housing for the program target group, the group's level of income, or both. It will thereby induce directly a change in the demand for housing and, concomitantly, a change in the demand for non-housing goods. It will also induce a response on the supply side of the housing market, through the normal interplay of demand, supply, and price adjustments. However, this response will not be instantaneous; in the long run, the supply of housing may be quite inflexible, with consequent short-run implications for rents. If rental prices rise, some of the increase will show up as "excess profit" components of landlords' incomes." 50/

In addition to these considerations, the extent of the impacts of a shelter allowance program depends upon the size of the benefits available to, and on the size of, the target group. The U.S. experimental shelter allowance program and the existing provincial programs (reviewed in Chapter 2 above) demonstrate that a low level of benefits payable to a highly restricted group of households, even in tight rental markets, will have only minor market effects. It is the case of a high level of benefits payable to a large fraction of households which will have correspondingly large effects.

To make at least a theoretical estimate of what the impacts may be under different assumptions, the research team used their model to carry out a series of 68 experiments with

alternative formula parameters, elasticities of housing market demand and supply, long-run vacancy rates, market rates of adjustment, program participation rates, tax parameters, and sizes of eligible population. 51/

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49. F.T. Denton et al. (1980) p. 1.

50. Ibid., pp. 1-2.

51. Ibid., p. 51.

The major advantage of this approach is that it allows us to trace the secondary effects of a shelter allowance program over time, to take into account the tax and expenditure sides of a shelter allowance program, and to test the sensitivity of the impact of a shelter allowance program with respect to the range of the possible or potential magnitudes of different behavioural responses. Unlike the 1981 Clayton Research Associates model, this one allows us to observe the monthly or annual path which housing prices might follow from the start of a shelter allowance program to the final, or steady, state. Its weaknesses relate to some of the essential characteristics of the metropolitan housing market which have not been incorporated into the model, such as: an inadequate treatment of market segmentation; the assumption that there will be no income growth; exclusion of other government housing programs and regulations; an aggregate approach to household characteristics; treatment of the housing stock as a single homogeneous commodity; and exclusion of the secondary effects of shelter allowance subsidies. Some of these limitations have been noted by the researchers themselves in the report. 52/

Among the conclusions drawn by Denton, Robb and Spencer, the following are most relevant to our purposes.

1. High Level of Uncertainty. Most of the findings are qualified by noting the high level of uncertainty which remains due to the large number and great variety of interrelationships involved in the initiation and operation of a shelter allowance program. Two summary implications which can be drawn for the study's findings are: 1) the real impacts of a full-scale shelter allowance program will be very significant; and 2) these significant impacts cannot be predicted with the satisfactory levels of certainty which would be necessary for policy decisions. In their discussion of the effects of an income gap formula on the price elasticity of demand, for example, the researchers note the following:

Given the uncertainty that exists in the econometric literature about the "true" price elasticity, this implies a high degree of uncertainty about the actual response to a gap formula program. The uncertainty is unfortunate, but it is a fact; no amount of research is likely to do away with it to the degree necessary to make an accurate prediction of demand response possible prior to the introduction of a gap formula program, and that should simply be recognized. 53/

In terms of policy decisions relating to a full-scale shelter allowance program, the study concludes with a list of other important issues which require detailed study. These include:

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52. For further details, see: J.D. Hulchanski and G.I. Ozornoy (1983).

53. Ibid., p. 53.

- the need to utilize a simple yet equitable definition of income in calculating subsidies;
- the need for coordinating allowances with the income tax system;
- the question of how allowances would be treated in determining eligibility under provincial and municipal welfare programs;
- the importance of taking into account differences in household composition;
- the possibility of high turnover rates in a shelter allowance program because of cyclical, seasonal and other forms of income variability; and
- the effects of a program on work incentives. 54/

**2. Negative Impacts of the Income Gap Plan.** The approach to shelter allowance favoured by CMHC is the one with the greatest impacts on both the eligible households and on households in general. The exact nature of the impacts is not fully predictable, but many tend to be negative in one way or another.

One area is that of the effects on individual household behaviour and on the housing market as a whole. The percent of rent and income transfer approaches were found to have very little impact on non-participating households and on the housing market as a whole. Programs based on the income gap formula, however, produced the greatest effects.

Individual and market responses are highly sensitive to the use of this type of formula and to the particular values of its parameters, especially the fraction of the rent-income gap that is paid under the formula. 55/

Perhaps even more serious is the related impact of the income gap formula on rents. The researchers conclude that:

For a given initial allowance level, a gap formula is likely to produce the greatest demand rise, and hence the largest price increase. Our experiments suggest that price effects may be quite small with the other two formula types, and indeed negligible with the cash transfer type. 56/

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54. Ibid., p. 97.

55. Ibid., p. 51.

56. Ibid., p. 54.

Another area is the behavioural response of participating households. The nature of this important factor remains largely unknown, preventing reliable estimation of program costs. The income gap formula "runs the risk of being far more expensive than would be anticipated" suggesting that "cost predictions based on pre-program rent and income data have to be interpreted with great care when a gap formula is contemplated." 57/ This factor, combined with the high degree of uncertainty caused by the income gap formula's extreme sensitivity to the price elasticity of demand (as noted above), raises the problem of total program cost.

3. Unknown Program Costs. It is difficult to estimate the annual cost of a full-scale shelter allowance program due to the many program design options and the host of unknown market and household responses. This cost factor lead the authors to emphasize "the importance of giving careful attention to a ceiling on the allowance payable." 58/ The 1981 Clayton Research Associates study comes to the same conclusion. They find that "clearly some method to control costs is required." 59/

Any subsidy ceiling, however, would be set at an arbitrary level, based on budgetary and political considerations rather than social need, and would tend to defeat the purpose of selecting the income gap formula in the first place. As pointed out in Chapter 1, the income gap formula is the most universal and progressive approach and has the greatest potential for having a positive impact on housing consumption. Chapter 4 of the 1981 Clayton Research Associates study contains an analysis of the relative advantages and disadvantages of alternative methods of reducing the cost of the income gap approach. None are found to be clearly superior in controlling the cost of the program over time. In view of this, they simply conclude without making a recommendation, noting that "the type of [cost] constraint which should be imposed depends upon the relative desirability of the competing objectives of social housing policy." 60/

Exactly what might a full-scale, national shelter allowance program cost? As with the other important questions, we do not have a very clear answer for this one. One of CMHC's original estimates was that the cost of a 75/30 income gap shelter allowance program would have been \$412 million in 1980. However, the 1981 Clayton Research study estimates that the actual annual costs "could be as high as 10 times the cost level

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57. Ibid., p.52.

58. Ibid., p. 53.

59. Clayton Research Associates (1981) p. 48.

60. Ibid., p. vii.

estimated using the CMHC methodology." 61/ This leaves us with quite a range, from about \$400 million to \$4 billion dollars.

CMHC's original estimate is, however, the one still being used by at least some of those advocating a national shelter allowance program. The recently published annual report of the Economic Council of Canada notes that a "drawback in the current period of fiscal restraint" of implementing a national shelter allowance program is its cost, "which was estimated at \$333-415 million." 62/ The footnote for the cost estimate provided by the Council is to a March 1981 newspaper clipping, and not to any new or at least original source. 63/ In addition to this, an article in one of the most recent issues of CMHC's periodical, Habitat, advocates shelter allowances, citing \$412 million as the 1980 cost of a national program. 64/ Given the uncertainty of total program costs, and especially in view of such a dramatic new estimate by Clayton Research, CMHC's original estimate should no longer be used.

### 3.2 DISCUSSION OF THE FINDINGS

The clearest conclusion to be drawn from a review of this recent CMHC sponsored research is that, in fact, very little is known about the potential impacts -- the economic costs, benefits, and market implications -- of a national shelter allowance program. Introduction of a full-scale program has so many potential ramifications that the studies can tell us very little with any reasonable degree of certainty. The task of analyzing the range of impacts of such a major national program in the midst of urban housing markets which are highly segmented and regionally differentiated, is extremely complex. In addition, the housing markets are in constant flux due to highly unstable macro-economic conditions, especially interest rates, recession, inflation, and unemployment.

One major long term factor which economists have yet even to begin addressing is the impact current macro-economic and technological shifts are likely to have on metropolitan housing markets. The now clearly perceived shift to a service economy, especially in major metropolitan areas, is resulting in lower real and nominal wages compared to the manufacturing sector. The persistent decrease in manufacturing employment

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61. Ibid., p. v.

62. Economic Council of Canada (1982) Policies and Constraints: Nineteenth Annual Review, Ottawa: Supply and Services Canada, p. 49.

63. "Time for Program Has Come, Cosgrove Says -- Ottawa Plans to Ease Rent Burden," Globe and Mail, March 7, 1981, p. 11.

64. K. Falk (1982) p. 13.

opportunities will force many skilled workers to take lower paying jobs in the service sector with concomitant shifts in their expenditure patterns. This is also necessarily accompanied by risks of increasing employment insecurity and prolonged under-employment. These factors will likely increase the housing affordability problem for a growing number of Canadian households. Housing research in general, and CMHC's shelter allowance research in particular, has not yet taken into account this dramatic shift in Canada's social and economic structure.

The studies do provide some very useful insights into the relative merits of the three program options. What we find from this analysis, however, is that the option being advocated in many quarters, the income gap formula, is highly problematic. It appears to have the most significant negative impacts on the housing market and is best suited to situations with high vacancy rates and healthy rental supply rates. If it were to be implemented, cost control measures would diminish the universal and progressive nature of this option. It is indeed difficult to understand, given the findings and lack of findings of these studies, why so much confidence is being placed in the concept of a full-scale national shelter allowance program.

Part of the answer certainly lies with the underlying politics of the entire shelter allowance debate. As noted in Chapter 1, the huge gap between market rents and economic rents means that something dramatic has to give. There is no question about the need for increased housing subsidies for low and moderate income Canadians. The two basic options for directing public subsidies for housing are through a market welfare approach and a social welfare approach. The real estate and development industry lobby, together with other advocates of a primarily market approach to housing, see shelter allowances as a means of permitting most Canadians to continue obtaining their rental housing from the private sector. This approach decreases the direct role of government in the provision of housing.

The market welfare approach is the underlying assumption in the shelter allowance research commissioned by CMHC thus far. Evidence of this, and an example of how this starting assumption limits the objectivity of portions of the analysis, lies in the treatment of rent controls by these analysts.

The studies by Clayton Research Associates, for example, continually assert that rent controls pose a serious problem for a shelter allowance program. This line of argument represents a general misunderstanding of the role of rent controls typical of conventional economic analysis. As such, it is an example of an extreme abstraction away from political realities leading to very unconvincing results. Analytical and simulation models are abstract enough without starting with an unrealistic framework.

Rent controls have been a response to the very unsatisfactory performance of the private rental sector in a highly inflationary economic environment. It is erroneous to view rent controls as the result of government intervention for the sake of intervention. Rent controls have

been instituted in response to very real circumstances in the private rental market. These circumstances have not improved and, if anything, have become worse. It is not, therefore, surprising to find that several provinces have either reinstated or strengthened their systems of rent controls in recent months in response to the worsening of rental market conditions -- conditions which much of the public sees as unacceptably bad. Whether one supports rent controls or not, it is highly unrealistic to assume that controls are somehow going to go away.

If it is true that rent controls combined with shelter allowances lead to rent inflation and other equally serious negative impacts, this should lead to the conclusion that the advocacy of a major shelter allowance program at the present time should be moderated or dropped altogether. On this issue, therefore, Clayton Research Associates, together with others who use this unrealistic line of argument with respect to rent controls, are allowing their private market inclination to get in the way of an objective analysis of current societal realities within Canada's housing sector.

A conclusion which all shelter allowance analysts agree on is that, to be successful, the implementation of a full-scale shelter allowance program depends upon: 1) a reasonably high vacancy rate, especially in the moderate priced rental stock; and 2) an adequate, on going, supply of new units throughout the entire rental sector. Neither of these conditions exist in Canada's key urban housing markets. This must be taken into account by those advocating, and especially those analyzing, the economic consequences of a national shelter allowance program.

In fact, almost all key conditions in the real (as opposed to the theoretical) housing market in Canada would appear to doom any national shelter allowance program initiated in the next several years. Among the prevailing market conditions which are currently the opposite to those desirable for the implementation of a full-scale shelter allowance program are:

- low vacancy rates, especially in the affordable sub-markets;
- low levels of modest cost rental housing starts;
- unstable financing costs;
- high inflation rates in the housing sector;
- low rates of income growth;
- high unemployment expectations in the medium run; and
- gloomy medium run forecasts of general economic conditions.

In addition to the conceptual limitations imposed by initial unrealistic assumptions about rent controls, the definition of the research question itself is problematic. The clearest example can be found in the 1980 study by Clayton Research Associates, though this applies to all three studies commissioned by CMHC. In the final set of conclusions the study makes what seems to be a number of sweeping, unqualified generalizations. For example, the following statement appears to be a fairly obvious truism:

The impact on the rental market would depend very much on the housing allowance program itself: the payment formula, setting of maximum rents, encouragement of participation and subsequent mobility of recipients are all important factors. 65/

In fact, the opposite is true in the first instance. The setting of maximum rents in the shelter allowance formula, for example, must be based on the rent structure prevailing in a given market area. Furthermore, the payment formula for each household must be inherently related to income levels of eligible households, which in turn reflect prevailing macro-economic conditions. Only then, in the second instance, will the design of a shelter allowance program impact on a rental market. It is, in sum, the prevailing rental market, the "real" world conditions, which will shape the nature of a shelter allowance program. This is an important causal relationship which has not been properly considered in the research.

The conclusions of these studies taken at face value imply that the designers of a shelter allowance program can abstract themselves away from prevailing conditions. This, of course, is not true. The options available are severely restricted by prevailing economic, social and political conditions. Conventional economic analysis rarely considers the social and political realities affecting the policy making environment. The reality of the public policy formulation process, therefore, is distorted by reversing the research question. It is the sad state of the affordable urban housing sub-markets which needs to be analyzed and remedied, rather than the impact of an idealized program on an idealized market via an illusory free choice to be exercised by low and moderate income households.

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65. Clayton Research Associates (1980) p. 38.



## CONCLUSION

The implementation of a full-scale national shelter allowance program in Canada has been the subject of serious consideration for the past several years. Is such a program feasible? If so, is it desirable? This final section presents a summary and concluding comments under three headings: 1) shelter allowances in theory; 2) shelter allowances in practice; and 3) the prospects for a national shelter allowance program in Canada.

### 1. SHELTER ALLOWANCES IN THEORY

Easy to Target. Shelter allowances are a system of direct cash transfers to families and individuals made according to a formula based on income and housing costs. The target group under consideration are low income renter households who currently spend more than 25 to 30 percent of their income on rent. Government housing subsidies are, therefore, easy to target once eligibility criteria is determined. Only those households in the need categories identified receive housing assistance.

Maximize Choice by Subsidizing People not Buildings. Shelter allowances, unlike housing supply programs, subsidize individual households, not housing units. Rather than assisting in the supply of new units, they help make the existing private rental stock more affordable for eligible households. Because it is the household, not the housing unit, which is subsidized, shelter allowances have the characteristic of being portable. The subsidy remains with the family or individual when the household moves and permits greater choice of location and housing type.

Achieve Greater Horizontal Equity. From a social policy perspective, the appeal of shelter allowances is their ability to assist all eligible low income households experiencing affordability problems. The subsidies can be carefully targetted and can immediately begin assisting eligible households on an equal basis. In contrast, housing supply programs take time and, at current unit allocation levels, cannot possibly assist all who are in need in any reasonable time frame.

A "Marketlike" Approach. From a real estate market perspective, the appeal of shelter allowances is that they are "marketlike" -- they allow low income households to function like consumers in the marketplace. This approach appeals to the philosophically conservative because private market institutions are used in addressing housing problems rather than public and non-market institutions. As a demand-side subsidy, shelter allowances have the further potential of stimulating increased private sector supply of rental housing. Government would not, therefore, have to play a direct role in housing supply.

The "Real" Housing Problem Is Addressed: Inadequate Incomes. A further appeal of the shelter allowance approach is that it addresses what some see as the actual or "real" housing problem, the inadequate incomes of the poor. In this view, housing is primarily an incomes problem rather than a problem inherent to the very nature and operation of the housing market. Direct cash subsidies tied to housing is seen as the most efficient and effective solution permitting the housing-deprived to consume what the market has to offer. By focusing on inadequate incomes among the poor rather than devising further forms of intervention in the housing market, the hope is that the gap between market rents and economic rents can be closed, allowing the private market to meet the housing needs of low and moderate income households.

In summary, this is the theory behind the shelter allowance concept. As the material reviewed in this study has indicated, there are serious problems with this ideal once it confronts the reality of Canada's metropolitan housing markets.

## 2. SHELTER ALLOWANCES IN PRACTICE

Housing Markets. Housing markets are not at all like the markets described in economics textbooks. Housing is a land-contingent good which cannot be produced or consumed in the same manner as most commodities. Because of the importance of location, access to land, and neighbouring services and amenities, a producer can build a house -- the physical structure -- but cannot independently produce the complete bundle of goods we call "housing." Production of housing, unlike shoes or refrigerators, is a complex societal activity. Many actors and institutions are involved.

We have a long history which indicates that increased demand does not always lead to increased supply when and where it is needed, especially in the moderate priced stock. Housing is expensive, it takes a long time to produce and the resource constraints (land, financing, municipal approvals, etc.) are difficult to overcome. There are few private builders of moderate rental apartments willing and able to respond to increased demand in the same way that producers always pop up to respond to shifts in demand for less expensive, less durable, non-land contingent consumer goods.

Conventional economic theory, however, views housing as a commodity similar to other commodities. The laws of supply and demand and competition among producers and consumers in the housing market all result, at least in the long run, in meeting housing needs. Much of the logic behind replacing housing supply subsidies with a demand subsidy like shelter allowances rests on a faith in this textbook view of housing markets, in spite of the historical record. It further assumes that the natural dynamics of the housing and land market have not been a major cause of the problem in the first place. The Canadian and American shelter allowance feasibility research has thus far been almost totally dominated by this conventional view of housing markets.

Rent Inflation. The most serious concern about a full-scale shelter allowance program is rent inflation. If housing markets functioned as the textbooks say they ought to, rent inflation would not be a problem. Supply will catch up with demand. Shelter allowances, because they directly and immediately stimulate demand rather than supply, permit more of the population to compete for the existing rental units. Unless there is a healthy vacancy rate and a supply of new affordable rental units coming on stream, normal market dynamics will lead to increased rent levels in general, i.e., for all tenants. The shelter allowance subsidy, in this case, could simply pass through the tenant to the landlord. If there were no subsidy ceiling, the subsidized tenants would be protected but at great expense to the taxpayer and to the detriment of all unsubsidized tenants, who would be paying higher rents across the board. The main beneficiaries would be the owners of rental accommodation.

It is precisely because of this potential for rent inflation that shelter allowances should only be introduced on a very limited scale, targetted to special categories of need, such as the elderly and the disabled. All current experience with shelter allowance programs has been with limited scale programs. Four provinces currently have limited shelter allowance programs with few, if any, negative market impacts. Great Britain introduced a national program ten years ago but it only applies to the 17 percent of Britain's housing stock which is in the private rental sector. The program, consequently, has no negative market impact because it applies to only one percent of all households.

One of the ironies of a comprehensive, well-targetted shelter allowance program is that the very fact that it is well-targetted means that the potential for rent inflation is increased. The targetted group comprises a fairly specific sub-market within the housing stock. When large numbers of consumers within this sub-market start receiving their subsidies, the demand pressures created would likely produce rent inflation because all of the increased demand is concentrated in the one sub-market. The potential for rent inflation is further increased because it is precisely this type of demand -- demand within the low-cost rental market -- which the private sector cannot respond to. Even the expensive subsidies for private sector rental supply programs, such as ARP, MURBS and CRSP, do not produce low-cost rental units or even units which remain in the rental market very long (due to condominium conversions). Where will the in-

creased supply in this sub-market come from if we have a demand-side approach to housing subsidies? This is one reason why it is difficult to reduce the "housing problem" to an incomes problem. The problem of supplying the complex good we call housing must still be overcome. Producers of shoes and refrigerators, for example, are more than willing and able to produce cheap models as well as expensive ones and to respond fairly immediately to increased demand in any sub-market. This has not been true for housing.

Horizontal Inequity. Shelter allowances might make sense if they were indeed the beginning of far reaching reforms of current social welfare policies and programs. If shelter allowances were being considered as part of a universal housing entitlement program much like health care has become, then shelter allowances would help achieve greater horizontal as well as vertical equity. However, we have a long history of far reaching housing promises and very poor delivery on these promises. No direct housing assistance program the government has ever mounted is an entitlement program largely because housing is too expensive a good to guarantee for everyone in society.

Furthermore, it is difficult to believe that in the context of public sector restraint and serious budget deficits that adequate funding would be provided. It is also very easy to redefine who is actually eligible for the allowances. Finally, shelter allowance programs are very easy to turn off altogether.

Shelter allowances are not the guarantor of horizontal equity that they are often assumed to be. In addition to the practical and political compromises which would have to be made due to funding constraints, there are two other problems: a) low participation rates; and b) the unequal level of subsidies provided to eligible households of similar income.

a) **Low Participation Rates:** The U.S. Experimental Housing Allowance Program had participation rates in the 30 to 40 percent range, the British program has participation rates in the 40 to 50 percent range, and the Canadian provincial programs appear to have similarly low participation rates. There are a number of reasons for this, such as fear of a welfare stigma, a resistance to having family circumstances investigated, and simply a lack of knowledge about the program. For cost control reasons, eligibility criteria will be highly complicated and it is easy for households to wrongly conclude that the program does not apply to them. A program intended to be universal for the identified target group which has very low participation rates does not contribute to horizontal equity.

b) **Unequal Level of Subsidies:** Shelter allowances are by nature a poor approach to the delivery of an income support program. Horizontal equity requires that the same income assistance be delivered to households with the same income and family

size. Under most shelter allowance formulae this does not happen. Households of the same size and income receive different subsidies depending upon their rent. There is then the added issue of housing quality and size.

Considerations such as these raise questions about the wisdom of tying income support measures to shelter. The established social assistance and tax systems can be used much more efficiently to increase overall equity in society. Again, this is in part why it is argued here that there is a problem which is indeed a housing problem, which is not just part of the overall income distribution problem. The problem is that of supply, the continual inability of the private market dynamic to meet specific categories of housing needs.

The Nature of the Housing Problem. Shelter allowances make sense to the extent that the country's housing problem is really an incomes problem. If enough money was targetted to the poor they could presumably afford better housing. All of this assumes the textbook definition of a relatively efficient and responsive rental housing market. Housing allowances -- demand-side housing subsidies in general -- do not do the same thing that traditional government housing supply programs for low and moderate income Canadians do: produce housing for them. The housing which is produced is, furthermore, geared towards targetted needs, such as family, disabled, etc., and is located where the need is greatest. Housing is undeniably traced to the ultimate problem of inadequate income, which can be traced further to the relatively unchanging distribution of income in Canada. It is not unreasonable to project that even a major housing shelter allowance program would still have to be coupled with a housing supply program.

Program Costs. The cost of a national program is in fact unknown because it depends on the exact funding formula and the prevailing market conditions. The cost estimates developed thus far range from \$400 million to \$4 billion annually. Once the shelter allowance program formula is established, the actual expenditure levels will still not be known until after the fact because the amount of the individual subsidy is based on household income and rent levels. Funding shelter allowances is like funding unemployment insurance. It is not possible to always remain within budget because expenditures are determined by external factors. If either income decreases or rents increase, and especially if both occur simultaneously, shelter allowance program costs increase.

Household Expenditure on Housing. Crucial to the logic of a demand-side subsidy is that demand, in fact, be increased, resulting in increased supply. Why institute an expensive demand-side housing subsidy if the recipients do not spend the money on improving the quality and quantity of their housing?

This is a further example of why housing problems cannot be reduced to simply a lack of income. Decent, moderately priced housing is

in very short supply. There is often no direct way for tenants, even if they chose to, to translate a housing allowance into better housing. Even with a housing subsidy, low income people resist moving up to more expensive housing because housing is not an easily adjustable expenditure. One cannot decide to reduce housing expenses suddenly by consuming one less room or not residing in an apartment for a day or two a month, in the way that one can immediately and significantly reduce food expenses by eating less or eating cheaper food. Canadian and American shelter allowance experience indicates that many recipients simply decide to stay put and not spend the additional money they now have on additional housing. If demand for housing is not significantly increased the supply is not going to increase and a major objective of shelter allowances is defeated.

### 3. THE PROSPECTS FOR A NATIONAL SHELTER ALLOWANCE PROGRAM IN CANADA

A full scale shelter allowance program does not seem very likely for both practical and social policy considerations. The practical reasons relate to negative economic conditions and prohibitive program costs. The social policy reasons relate to the lack of convincing evidence that the housing situation of lower income households would in fact be improved. Current and foreseeable Canadian economic and housing market conditions are precisely the opposite those required for the successful implementation of a national shelter allowance program. Among the more serious of these conditions are:

- low vacancy rates in the affordable housing stock;
- low levels of rental housing starts where the need is greatest;
- highly unstable financing costs;
- high inflation rates in the housing sector;
- low rates of income growth;
- high unemployment expectations in the medium run; and
- gloomy medium run forecasts of general economic conditions.

This set of conditions would seem to almost guarantee rent inflation and prohibitively high program costs. It is difficult to imagine how supply would be stimulated and why a significant proportion of the subsidy would not filter through to landlords. Under this set of circumstances, shelter allowances could become a major income redistribution program in reverse -- from the taxpayers to the owners of rental accommodation.

If shelter allowances are so problematic, why is so much attention being paid to the idea by so many knowledgeable actors in the housing field? Much of the answer can be found by examining the political context of the shelter allowance debate. The shelter allowance proposal is largely the surface manifestation of a much more basic housing policy debate, identified in Chapter 1 of this report as the "market welfare" and "social welfare" options. The fundamental political issue is whether public funds should be used to try to restore the private rental market, based on the

assumption that this is indeed possible, or whether government should expand its direct non-market forms of social housing intervention, increasingly replacing the private market where it is not working. The "market welfare" approach sees the use of shelter allowances as a means of justifying the elimination of rent controls in order to allow rents to rise to economic levels, permitting rental housing construction in the larger metropolitan areas once again to be profitable.

Under the best of economic circumstances, even with the abolition of rent controls and the implementation of some form of shelter allowance, it is very unlikely that the gap between market and economic rents can be reversed. In fact, it is much more logical and historically consistent to see the current rental market situation as the culmination of long term trends in Canada's rental housing market. After World War II, only a small percentage of the population could not afford to obtain housing in the private market. The introduction of public housing was a response to that situation. As the years passed, the number of people unable to obtain housing in the private market has grown. Government has, therefore, increased the number and types of programs to assist these people. The burst of inflation in the 1970's simply pushed the private market out of reach of a greater percentage of the population.

Previous federal housing programs have been based primarily on market welfare criteria. The intention was to keep the direct role of government in the supply of housing to a minimum and to provide subsidies permitting the private sector to supply housing to Canadians. This is the logic behind the history of the private rental subsidy programs, such as Limited Dividend, the Assisted Rental Program, MURBs and the Canada Rental Supply Program. These programs have done little, if anything, to increase the long term affordability of Canada's rental housing stock. Rather than asking fundamental questions about why more and more people cannot afford market housing, these ad hoc programs were created in the hope that the problem was only temporary and that it would soon go away.

The dominance of the logic of housing as a commodity combined with the effectiveness of the private development sector lobby, has continually forced onto the public agenda the wrong set of questions about housing policy and housing options. The current shelter allowance debate is only the most recent example. Because shelter allowances are the only "solution" the advocates of the market welfare approach can foresee, and because they are at the same time a highly impractical and improbable solution in the current Canadian economic situation, an opportunity has been created in which a social welfare approach to national housing policy must finally be taken seriously by the country's housing officials. This will only begin to happen, however, once the unrealistic shelter allowance option and its basic premise of using yet more public funds for the "market welfare" approach, has been officially dismissed. There is a housing supply problem for low and moderate income households in many parts of the country which the private market is not capable of addressing. Only direct government supply programs will address this housing problem, and it is only the non-market approach to subsidized housing supply which will keep this housing affordable long into the future.

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