

Features

A shelter plan that's seductive yet hits tenants and taxpayers

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AS GOVERNMENTS across the country struggle with the problem of reduced revenues and rising deficits, social assistance programs of all types are being closely scrutinized in a search for more efficient methods of spending tax dollars. A case in point is subsidized housing.

An alternative to the existing non-profit and co-operative housing program, shelter allowances, is being advocated by the Economic Council of Canada and, not surprisingly, by many in the housing industry.

At first glance the idea of shelter allowances is seductive. The subsidy can be targeted to a specific group - low-income renters - to cover the gap between rising rents and the ability to pay. Renters would receive a direct cash subsidy calculated on the basis of income levels and rent levels. A monthly cheque would then be sent to tenants who qualify.

Like other simple prescriptions for complex problems, the shelter allowance has more than its share of limitations. It is clear to anyone who goes beyond the initial infatuation with the shelter allowance that such an approach would not be economically efficient, socially effective or politically acceptable.

How shelter allowances would actually work and who would benefit has been vastly oversimplified by its proponents. The housing market is a complex web of transactions. It is the market which really determines the extent to which low-income households benefit from a shelter allowance payment. Will low-income households, in the end, be better off? What about tenants not covered by the program? Will they not be worse off?

Current and foreseeable economic and housing market conditions are the opposite of those required for the successful implementation of a national shelter allowance program. Canadians are likely to have continuing problems with low vacancy rates in the affordable housing stock, low levels of rental housing starts where the need is greatest, low rates of income growth, and high unemployment.

For a large-scale national shelter allowance program to work, much higher vacancy rates in the affordable housing stock are necessary. Shelter allowances stimulate demand for housing in the sub-market where there are now few vacancies - the stock of housing for those who would receive the housing allowance payment.

Even in the short term, the supply of units must be greater than the demand if rent inflation is to be avoided. Incomes of eligible households must keep pace with rent increases - or government spending on the program will explode. It is not likely that any government could accept a shelter allowance program indexed to housing market inflation.

Without increasing the supply in the low-cost rental market, the demand generated by a major shelter allowance program would force rent levels to inflate, probably leaving most other tenants in a worse position. Households on a shelter allowance would be protected to some degree, but at great public cost.

As rents rise, the taxpayer would have to make up the difference and the program would increasingly become a massive income transfer to owners of rental properties.

A more desirable and direct method of assisting low-income households would be to use existing income transfer programs. A new administrative bureaucracy and a new means test would not have to be established. Low-income households have trouble buying more than just accommodation. Is it not realistic for incomes policies to focus on the income issue and housing supply programs on the housing supply issue? Why tie an incomes program to a housing program?

The search for an answer to these questions brings us to the politics of the shelter allowance debate. After all, if shelter allowances are so problematic, why is so much attention being paid to the idea by so many in the housing industry? There must be more to it than meets the eye. There is.

The housing debate is a surface manifestation of a much deeper clash, best characterized as the "market-welfare" and "social-welfare" housing options. The fundamental political issue is whether public funds should be used to restore the low-cost private rental construction market, assuming it is even possible, or whether government should improve and expand its non-profit and co-operative housing programs.

The Economic Council of Canada's 1982 Annual Review is a good, clear example of the market-welfare argument. Shelter allowances are advocated as a means of justifying the elimination of rent controls so rents can rise to economic levels. The theory is that this would permit a return to the profitability of private rental construction.

As the Economic Council puts it, "there is no way to avoid the fundamental reality that substantial rent increases will be required to bring rental supply into balance with rental demand". Higher rents across the board would encourage private builders to increase the supply of rental housing, while a shelter-allowance program would cushion the impact on low-income renters by giving them extra cash to pass on to landlords.

The fact that a wide gap exists between market rents and operating and financing costs of new rental units (economic rents) is precisely what has given rise to the housing industry lobby's interest in shelter allowances. As long as this gap remains, it is not profitable to build rental units in the larger cities. Instead of admitting this is the reality which will not easily go away, a politically naive scenario is being promoted, based on forcing up market rents in general.

As they must, the Economic Council and the housing industry lobby their shelter allowance scenario to the abolition of rent controls. Yet no matter what one thinks of rent controls, the fundamental political reality is that few governments are likely to abolish them. Even the B.C. Government has been forced to partially withdraw from its decision to end rent review. Ontario, Nova Scotia and Saskatchewan, all with Conservative governments, have recently announced measures strengthening and expanding rent review programs.

One must, therefore, have a lively imagination and a great deal of faith to believe this scenario will come to pass. It is not politically realistic. It is the product of ideological orthodoxy of academic economists and of self-interest of some of the housing industry. Shelter allowances are part of an unrealistic market-welfare scenario, not part of a concern for people achieving decent, affordable housing.

The shelter-allowance option is clearly detrimental to tenants at all income levels and to the Canadian taxpayers who would pay dearly for such a foolish experiment. If a shelter-allowance program were put in place under current and foreseeable economic conditions, it could only become a major income

redistribution program in reverse - from the taxpayers to the builders and owners of rental accommodation.

The shelter allowance option, therefore, is simply a proposal to use more public funds on the market-welfare approach. It must be dismissed and replaced by an effort to improve the social welfare system for the poor and the social housing supply programs for low- and moderate-income tenants.