

## Subsidized Housing and Work among Welfare Recipients

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### *Abstract*

Some studies suggest an inverse relationship between housing assistance and employment. That is, when housing assistance increases, employment decreases. A popular view holds that subsidized housing generates an economic disincentive to work. This article examines the relationship between subsidized housing and the number of hours female recipients of public assistance work. A California survey reveals that residents in Section 8 housing work considerably more than do those renting in the private market or residing in public housing. This finding holds after controlling for observable personal characteristics and accounting for income effects. Additional analysis comparing the two housing programs shows a consistent, robust difference, with those in Section 8 working more.

One explanation is that the finding is a statistical artifact caused by programmatic creaming or self-selection among applicants. The second, more plausible explanation is that Section 8 housing offers residential choice and mobility that improve opportunities for employment.

**Keywords:** Labor market; Rental housing; Welfare

### **Introduction**

The Personal Responsibility and Work Opportunities Reconciliation Act of 1996 transformed the 60-year-old U.S. welfare system from an entitlement program for needy families with children to a transition-to-work program for adults in these households. Aid to Families with Dependent Children (AFDC) has given way to Temporary Assistance for Needy Families (TANF). With this fundamental restructuring, hundreds of thousands of recipients are expected to enter the labor market over the next few years. For a state to receive federal support, 25 percent of its welfare caseload must be employed in 1997 and 50 percent in 2002. If states abide by this schedule, an estimated 832,000 welfare recipients will enter the U.S. labor market between 1997 and 2002.

To meet this challenge, state agencies must identify the avenues for and barriers to the transition from welfare to work. One potentially important factor is subsidized rents. It is too early to tell how housing assistance facilitates or hinders employment opportunities un-

der TANF, but we can uncover some insights by analyzing the experience under AFDC. Although the AFDC findings may not be completely transferable to the new welfare regime, some of the underlying influences of rent subsidies probably continue to affect employment opportunities of today's welfare recipients. Moreover, analyzing the AFDC period provides valuable baseline knowledge for future studies of subsidized housing under TANF.

On the basis of the economic literature, we would expect housing assistance to generate disincentives to work because nonwage income tends to diminish the desirability of paid work (Ashenfelter 1983). Theoretically, this effect would apply to both transfer income and noncash benefits (Moffitt 1992). Empirical studies confirm that welfare payments correlate with a reduction in hours worked, but the impacts are moderate. In-kind benefits can also affect welfare-and-work dynamics. For example, receiving a higher-than-expected value from Medicaid (which varies according to anticipated need for health care services) increases the likelihood of being on AFDC and decreases the likelihood of working (Moffitt and Wolfe 1992).

Not all evidence, however, is consistent with the hypothesis. Temporal changes in grant levels or benefit-reduction rates have mixed effects on work and do not account for changes in spell duration (Hoynes and MaCurdy 1994; Moffitt 1992). In the 1960s, benefits and enrollment rose simultaneously, giving credence to the work-disincentive argument. Since the 1970s, however, real benefits have declined in value while total enrollment in means-tested programs has continued to rise. A rent subsidy can have this deleterious effect on earned income because participation in a housing program provides in-kind benefits and increases disposable income. Whereas the underlying theory predicts that subsidized housing generates an economic disincentive to work, the results from the cited empirical studies indicate that the validity of this hypothesis is an empirical question.

The effects of rent subsidy are difficult to discern because they are complicated by the fact that housing assistance is provided through more than one program. The nature of each program can either offset or reinforce its economic influences. Two major federally supported housing programs are relevant to this article: public housing and Section 8 vouchers and certificates.<sup>1</sup> For both programs, the U.S. Department of Housing and Urban Development (HUD) determines an income limit for applicants, basing it on a percentage of the median family income in the city or region. A participant typi-

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<sup>1</sup> There are two other programs under Section 8: subsidized rehabilitation of existing housing units and subsidized new constructions.

cally pays no more than 30 percent of net income for housing.<sup>2</sup> Despite some similarities, these two programs are substantially different. In public housing, local agencies supply units directly to applicants, with the federal government covering most of the construction and operating costs. Under Section 8, local public housing agencies under contract to HUD provide vouchers or certificates to low-income households. These vouchers and certificates are then used in the private rental market. Public housing units have fixed locations. Section 8 housing can be located anywhere in the local agency's service area, constrained only by how much a household is willing to spend. These two approaches to federal housing can produce different impacts on employment outcomes.

The ability to choose the location of one's residence allows households to move to neighborhoods offering greater employment opportunities and thus improve employment outcomes. Where one lives can have a tremendous impact on employment (Hughes 1995). A major problem many welfare recipients face is residing in low-income, minority communities that lack easy access to jobs because of a spatial and skills mismatch (Kain 1975; Kasarda 1980). These residents have become economically isolated as more firms move to the suburbs and the jobs that remain in the central business districts require high skills. Difficulties finding work are further aggravated if employers outside the inner city avoid these neighborhoods when recruiting and hiring workers (Kirschenman and Neckerman 1991). Osterman (1991) finds that in low-income neighborhoods with high employment ratios (which he interprets as a proxy for job availability) relatively fewer households receive welfare when compared with households in neighborhoods where jobs are scarce. In a similar study, Blumenberg and Ong (1998) find that welfare assistance drops in job-rich neighborhoods, as measured by a direct count of jobs in low-wage firms. Rosenbaum and Popkin (1991) also find that location matters in their analysis of Chicago's Gautreaux program, which moved low-income black families into suburban housing. Compared with people who remained in the inner city, those in the Gautreaux program were more likely to be employed, an outcome attributed to the greater number of jobs in the suburbs. Section 8 may provide some of the same benefits because it offers recipients autonomy. Recipients' purchasing power is enhanced, allowing them to find better housing and neighborhoods without any geographic limitation other than affordability.

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<sup>2</sup> A participant in the certificate program pays either 10 percent of gross income or 30 percent of net income, and the program pays the difference between that amount and the "fair market rent" (Kennedy and Finkel 1994). Tenants using a voucher pay the difference between their total rent and a fixed amount known as the "payment standard." Leger and Kennedy's study (1990) finds that the average rents of recipients using vouchers are 6 percent higher than the average rents of those using certificates.

Whereas Section 8 increases residential mobility, public housing can have a negative impact on employment outcomes by tying its tenants to what is described as the “underclass” in sociological literature on urban blacks. Public housing units are concentrated in larger cities, where a highly politicized process of site selection forced massive projects into low-income, minority neighborhoods (Bauman 1987; Bratt 1989; and Keating 1994). According to Massey and Denton, these public housing projects are “black reservations, highly segregated from the rest of society and characterized by extreme social isolation” (1993, 57). The inherent problems of public housing residents are compounded by the emergence of an underclass social structure and cultural norms. Housing projects are sites closely associated with the underclass and characterized by social disorganization. Of further concern is “the unprecedented increase in the number of teenage and young adult minorities in these neighborhoods, many of whom are jobless, not enrolled in school, and a source of delinquency, crime, and unrest” (Wilson 1987, 38). Even while the underclass thesis has received wide attention, some remain skeptical about its importance (Ellen and Turner 1997).

It is possible to test the competing hypotheses because rent subsidy is not an entitlement. Although all AFDC recipients were eligible for housing subsidies given their low incomes, only a fraction receive assistance, owing to severely limited supplies (Peiser, Baer, and Fairman 1993; Stegman 1995). By some estimates, one-third of eligible households received housing assistance in the 1980s (Blanks and Ruggles 1993; Moffitt 1992).<sup>3</sup> We can use this information to analyze the relationship between receipt of rent subsidies and employment rates.

The rest of this article is organized into three parts. The first part discusses the California data set used in this study and shows that subsidized housing lowers rents by roughly \$200 a month, a considerable sum for those on public assistance. The second part estimates the independent impacts of subsidized housing on employment rates (as measured in hours worked). The major findings are that, after controlling for other factors, (1) Section 8 residents work more hours than do those renting in the private market and (2) public housing residents work about the same number of hours as those renting in the private housing market. The third part presents an additional analysis comparing only participants in the two housing programs. The results consistently show that those in Section 8 housing work a higher estimated number of hours than do those in public housing. There are two plausible explanations for

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<sup>3</sup> The estimated incidence of multiprogram participation can vary with the wording of the questions, how a sample is drawn, and the period in which the information is gathered.

the observed outcome. The first suggests that the finding is a statistical artifact caused by programmatic creaming or self-selection among applicants. The second and more plausible explanation is that Section 8 housing offers recipients residential choice and mobility, improving opportunities for employment.

### **Data set**

This study's data derive from a survey sponsored by California's Department of Social Services. The Survey Research Center, University of California, Berkeley, conducted the survey in English and Spanish (Schink and Snow 1994; Survey Research Center 1994). Conducted between October 20, 1993, and September 30, 1994, the survey contains more than 500 items, including questions on housing, rent payment, and employment. The sample was drawn from people receiving welfare in December 1992, based on a stratified sampling of recipients from four counties, with an oversampling of two-parent [Aid to Families with Dependent Children—Unemployed Parent, AFDC-UP] cases. Alameda (which contains the city of Oakland) and Los Angeles are highly urbanized counties. San Bernardino County is an urbanizing area east of Los Angeles, and San Joaquin County is an agriculturally based metropolitan area whose largest city is Stockton. The questionnaire was administered over the telephone, and a total of 2,214 interviews were completed.

This article addresses a subsample of the interviews, which was drawn on the basis of the following criteria: The recipient was an active Aid to Families with Dependent Children—Family Group (AFDC-FG) case, a single parent and a female head of a household between the ages of 18 and 54, who was a renter at the time of the interview. A total of 1,111 observations met these criteria, representing the population that is at the heart of the current debate over welfare reform. The key variable of interest pertained to rent subsidy. Interviewees were asked two questions:

1. Is your place in a public housing project, is it owned by the local housing authority, or some other public agency?
2. So far as you know, is any of the rent covered by Section 8 certificate or another government program that pays part of your rent?

The survey treated the two categories (Section 8 and public housing) as mutually exclusive—that is, a respondent could not respond affirmatively to both questions. The question on public housing was asked first; an affirmative response meant that the second question was not asked. According to the responses, the weighted distribu-

tion of the sample shows 10 percent in Section 8 housing, 13 percent in public housing, and 77 percent in private-market housing. These percentages are considerably higher than those reported for the total AFDC population (California Department of Social Services 1997), but this discrepancy may be due to the specific nature of the subsample used for this study. The subsample does not include homeowners and those with zero rents, who by definition do not receive rent subsidies. Moreover, the subsample does not include those who left welfare between the time the sample was originally drawn and the time the survey was conducted. This exiting group is likely to include a disproportionate number of those who relied on welfare for a short, temporary spell, who were also less likely to rely on rent subsidies. Finally, the subsample does not include those who did not speak English or Spanish. Recent Asian, Russian, and Armenian refugees, many of whom had not been in this country long enough to have moved up very far on the long waiting list for rent subsidies, were excluded. Given these exclusions, it is not surprising that the percentage of the included subsample with rent subsidies is higher than that for the entire AFDC population.

It is important to note that housing information in the survey is based on self-reporting; consequently, reporting errors can occur. Unfortunately, there is no way to independently verify the validity of the responses. It is possible that respondents residing in apartment complexes operated by for-profit or nonprofit organizations might answer "yes" when asked if they live in public housing. Although it is impossible to determine the extent of this type of misreporting, it is unlikely that many would make such a mistake, given the notoriety of public housing. Individuals are likely to know if they live in a public housing project. Even with valid responses, potential problems arise regarding the question on Section 8 housing. Section 8 covers three different programs: the voucher and certificate program, a building rehabilitation program, and a new construction program. An analysis of HUD data indicates that relatively few recipients reside in Section 8 rehabilitated and new construction housing. Only 13 percent of all California welfare recipients covered by Section 8 programs in 1996 resided in rehabilitated or new construction housing; the remaining 87 percent received vouchers or certificates (U.S. HUD 1997). These percentages indicate that the vast majority of respondents giving affirmative responses to the Section 8 question were covered by vouchers or certificates.

The figures in table 1 show substantial differences in the rents paid by three groups: (1) renters in the private rental market, (2) Section 8 renters, and (3) public housing residents. The respondents were asked, "How much do you personally pay per month [for rent]?" This question asks about out-of-pocket expenses, exclusive of any

subsidies. Not surprisingly, those in assisted housing paid less than those receiving subsidies. Those with Section 8 subsidies paid 47 percent less per month for rent than did those receiving no subsidies. Those in public housing paid 42 percent less than those with no subsidies.<sup>4</sup>

These observed differences in rent payments are biased measures because housing units are not comparable. Individuals with subsidies lived in slightly larger units, a consequence of the higher purchasing power of those with Section 8 assistance or the minimum standards set by public housing regulations. The larger units for those in subsidized housing are not related to larger household sizes—in fact, the largest average size households are those in the private rental market. Table 2 gives a more accurate picture of the real costs. The first column of figures shows the unadjusted differences in mean rents for those in subsidized housing and those in the private rental market.<sup>5</sup> The difference in average rents

*Table 1. Reported Rents*

	Private Market	Section 8	Public Housing
Mean monthly rent	\$426	\$227	\$246
Distribution by rent level			
\$0 to 200	10%	56%	62%
\$201 to 400	40%	28%	19%
\$401 or more	51%	16%	19%
Mean bedrooms	2.0	2.5	2.4
Mean persons	4.4	3.7	4.0

*Table 2. Differences in Average Rents*

	Unadjusted	Adjusted for Unit Characteristics	Adjusted for Unit and Personal Characteristics
Private market and Section 8	-\$199	-\$219	-\$242
Private market and public housing	-\$180	-\$201	-\$211

<sup>4</sup> The average rent paid by those receiving rent subsidy is statistically different at the 0.05 probability level than the average paid by those without a subsidy, but the average for those in Section 8 is not statistically different than the average for those in public housing.

<sup>5</sup> Regression results are available from the author.

increases by about 10 percent after controlling for unit-related characteristics (number of bedrooms, utility costs, years in unit, and county), and by 20 percent after controlling for both unit and personal characteristics (race, age, presence of an infant, and household size).

This analysis indicates that reported rents understate the size of the subsidy, but the bias is moderate. The measurement problem, however, is not due solely to variations in housing characteristics. Ideally, the subsidy effect is measured by the difference between the rent paid and the unobserved value to a renter. The latter is affected by both the characteristics of the unit and characteristics of the neighborhood. Unfortunately, there is no information on the latter.

### Quantitative impact on labor supply

Table 3 provides an overview of employment levels during the month prior to the survey. One striking difference is the substantially higher employment rate of those in Section 8 housing, which is more than 10 percentage points above the rates for those in public housing or the private rental market. There are also substantial variations in the average number of hours worked. The mean for those in the private market is only 63 percent of the mean for those in Section 8, and the comparable percentage for those in public housing is even lower at 35 percent. This pattern is consistent with the hypothesized positive effect of Section 8 and the negative effect of public housing. The ranking of averages based only on those who had worked is not the same, with the mean for those in the private rental market being larger than that for those in Section 8. These conditional means, however, do not imply that the supply of labor from welfare recipients in the private rental market is greater. Instead, the change in ranking is a statistical artifact generated by selecting only those who had worked.

The means are not an accurate tool for measuring the impact of subsidized housing on labor supply because the populations are not comparable. For example, considerable disparities emerge in the av-

*Table 3. Employment Outcomes*

	Private Market	Section 8	Public Housing
Percent who worked last month	16	29	18
Average hours (including zeros)	12.3	19.3	6.5
Average hours (excluding zeros)	75.2	66.0	36.0

average number of years individuals in these groups receive welfare: eight years for those in Section 8, seven years for those in public housing, and five years for those in the private rental market. These differences are not surprising given the long waiting lists for subsidized housing, which suggests a correlation between time on welfare and time before being accepted into a housing program.<sup>6</sup> A multinomial logit analysis of the determinants of participation in housing programs indicates that the likelihood of participating increases with the number of years on welfare, age, education, minority status, and residence in certain counties.<sup>7</sup> All these factors can affect the number of hours worked, and their effects should be separated from the effects of subsidized housing.

Ordinary least squares (OLS) regression is commonly used to control for other independent factors, but this approach can produce biased or inefficient estimators. Estimates derived from the entire sample are plagued by a specification error associated with the presence of the large number of zero observations, and a conditional regression model using only the nonzero observations suffers from potential sample-selection bias. To overcome these problems, a Tobit model is used, which is defined as

$$\begin{aligned} \text{Hr}_i &= \mathbf{B} \cdot \mathbf{X}_i + e_i, \text{ if RHS} > 0, \\ \text{Hr}_i &= 0 \text{ otherwise,} \end{aligned} \quad (1)$$

where RHS stands for right-hand side, Hr is the hours worked during the reporting month,  $\mathbf{X}$  is the vector of independent variables, and  $\mathbf{B}$  is the vector of estimated coefficients (Maddala 1983, 150). The model is estimated using maximum likelihood, and the procedure accounts for left-censoring the dependent variable. On the basis of the literature, this study uses the following independent variables: (1) number of years of schooling, (2) age, (3) the presence of an infant (ages 0 to 2), (4) number of years on welfare, (5) the presence of a health problem that "limits the kind or amount of work," (6) county of residence, and (7) racial classification. The number of years on welfare is calculated for the most recent spell, and longer spells should be negatively related to work. The presence of an infant or a health problem would be expected to hinder a recipient from undertaking job searches and accepting offers. On the other hand, a greater amount of human capital (measured by years of

<sup>6</sup> The correlation is not perfect since the timing of entry into AFDC did not necessarily coincide with applying for subsidized housing. An individual could apply for a housing program before being on AFDC-FG, or a recipient could delay applying for a housing program until well after entering welfare.

<sup>7</sup> Results are available from the author.

schooling and age) would presumably lead to higher wage offers, which in turn increase the likelihood of employment.<sup>8</sup> County dummies are included to capture variations across local economies, and race dummies are included to capture racial variations in employment opportunities.

The effects of subsidized housing are included as two variables. The first variable is the monthly rent. As stated earlier, lower rent levels increase disposable income and can have a negative impact on work effort.<sup>9</sup> Variations in rent levels, however, are not controlled only by housing subsidies.<sup>10</sup> Factors that contribute to the considerable variation may include higher costs of living in metropolitan areas, the relative affordability of neighborhoods within a metropolitan area, and length of a resident's tenure. Because AFDC benefit levels were set uniformly for a whole state, differences in disposable income are associated with prevailing rent levels in the private housing market. Dummy variables for participation in Section 8 and public housing are used to capture programmatic effects beyond the income effect. As noted earlier, the two programs function differently, with public housing supplied by local agencies at fixed locations and Section 8 housing supplied by the private sector.

Table 4 reports the results for the OLS and Tobit models estimated with the entire sample. The parameters for the two models differ because the OLS coefficients are estimated over the entire sample and Tobit coefficients are estimated over the sample with nonzero hours. The Tobit coefficients can be related to the OLS coefficients by adjusting the former by the probability of having worked, which

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<sup>8</sup> Given the lack of continuous employment for this population (Harris 1993), this study does not use a variable based on the calculated potential years of labor market experience, which is included in most labor-market models.

<sup>9</sup> One problem with reported rent is that the size of the subsidy is tied to total income. Higher earnings, net of the reduction in benefits, would reduce subsidy and raise out-of-pocket rent. This, however, is not a significant problem for working recipients. In California, welfare benefits are reduced by 90 cents for each dollar of earnings for most recipients (Keane and Moffitt 1994); consequently, total income would not change dramatically with work. The impact on rent is further moderated by the fact that a net increase of a dollar in income translates to a 30 cent decrease in rent subsidy. In an alternative specification, an estimated rent is used for those in Section 8 and public housing based on taking 30 percent of their maximum welfare benefits. This would approximate the rent they would pay without any earned income. The OLS regression using this instrumental variable yields results consistent with those reported in the text and does not qualitatively change the findings.

<sup>10</sup> Differences in housing costs across regions also affect nonrecipients of AFDC. For example, one empirical study shows that intermetropolitan variation in rents affects household formation (Haurin, Hendershott, and Kim 1993).

Table 4. Results of Regression Models of Hours Worked

Variable	Estimated Coefficients		
	OLS Entire Sample	Tobit Entire Sample	Tobit Long-term Sample <sup>a</sup>
Constant	-18.45**	-249.4***	-317.9***
Years of schooling	0.93**	4.8**	8.2***
Years on welfare	-0.71***	-4.0***	-5.0***
Age	0.53***	2.6***	3.7***
Health problem	-10.74***	-38.4**	-43.2**
With infant	-1.96	-21.1*	-25.9*
Asian	6.01	17.5	26.5
Black	2.13	-4.0	20.1
Latino	5.90*	22.4	33.6*
Section 8	11.30***	59.8***	62.2***
Public housing	-1.24	15.0	25.6
Alameda	-5.72	-11.9	-32.0
San Bernardino	-2.24	-17.1	-8.6
San Joaquin	3.21	19.3	32.4
Monthly rent ( $\cdot 100$ )	1.79***	5.7*	3.5
Sample size	1,111	1,111	760
Log likelihood	NA	-1,417.7	-940.7
Adjusted R-square	0.03	NA	NA

Note: NA = not applicable.

<sup>a</sup> Long-term sample includes those on welfare for three or more years.

\* $p < 0.10$ . \*\* $p < 0.05$ . \*\*\* $p < 0.01$ .

is approximately one-fifth.<sup>11</sup> With this adjustment, the key coefficients in both models are roughly the same, indicating that the results are not sensitive to the underlying mathematical specification. The third model is a Tobit model estimated for long-term AFDC-FG recipients—that is, those who had received welfare assistance for at least three years. As indicated earlier, those with housing assistance are more likely to be long-term recipients, and this model restricts the analysis to more closely matched samples. Although there are differences between the estimated coefficients for this model and the Tobit using the full sample, most of the statistically significant variables are comparable.

<sup>11</sup> For an OLS model, the estimated coefficient can be used to calculate the impact of a change in  $X$  on  $Hr_i$  for the entire sample. A Tobit function is composed of two segments, one defined as  $Hr_i = 0$  and the other defined as  $Hr_i = \mathbf{B} \cdot \mathbf{X}_i$ ; therefore, the estimated impact of a change in  $X$  for the entire sample is the weighted sum of the impact of the observations in each of the two segments. The coefficient for the first segment is by definition equal to zero, and the coefficient for the second segment is the estimated  $\mathbf{B}$ . Based on the observed distribution of  $Hr_i$ , the weight for the first segment is approximately four-fifths, and the weight for the second segment is approximately one-fifth.

The following discussion focuses on the Tobit model using the full sample. Education and age correlate to an increase in the number of hours worked. The number of years on welfare, the presence of a health problem, and the presence of an infant correlate to a decrease in the number of hours worked. The parameters indicate variation by race and county of residents, but the coefficients are not statistically different.<sup>12</sup> The effects of subsidized housing operate through the rent variable (the income effect) and the two program variables (other program-specific effects). The rent variable is positive and statistically significant at the 0.10 level ( $t$ -value = 1.73). The small value of the coefficient and its marginal statistical significance are not surprising given the high rate at which benefits are reduced by additional earnings, which substantially lowers the economic attractiveness of working.<sup>13</sup> A decrease of \$200 in rent, which is slightly more than the unadjusted difference between the average rent paid by those in the private market and those in subsidized housing, would decrease the effective labor supply by about 11 hours per month. The Section 8 variable is positive, sizable, and highly statistically significant, indicating that those in this housing program worked 60 hours more than those in the private rental market, *ceteris paribus*. The public housing variable is positive but not statistically significant ( $t$ -value = 0.82).

Alternative specifications of the Tobit model generate roughly the same results for the rent and housing program variables. Table 5 uses the estimated parameters to calculate the net impact on hours worked. The rent differentials are taken from the numbers reported in table 2, and the higher differences are derived from adjustments for both unit and personal characteristics. For all practical purposes, the estimated net impact of public housing on hours worked is not different from zero. The estimated net impact of Section 8 is sizable and positive for all specifications, with the smallest estimate coming from the model that includes car ownership. Among welfare recipients, car ownership is instrumental in finding and holding a job; however, this variable may be endogenous to employment outcomes (Ong 1996).

<sup>12</sup> The statistical test is based on whether the hours worked by an included group are different from the hours worked by the excluded group (whites and residents of Los Angeles County). Other pair-wise comparisons indicate statistically significant differences, for example, in the comparison of residents of Alameda County and San Joaquin County. A joint test of the three county variables based on the change in the log likelihood indicates that this set of variables together is not statistically significant. A parallel test of the three race variables accepts the joint hypothesis at the 0.10 statistically significant level.

<sup>13</sup> The effect of rent levels is not driven just by subsidies. A separate OLS regression of only those in the private rental market produced a statistically significant and slightly higher coefficient for the rent variable.

## Programmatic comparison

The above results show disparate outcomes by housing program. Although the comparison could be confounded by including those in the private rental market, additional analysis of only those in subsidized housing shows similar results. Given the small sample size (255 total for both housing programs), OLS models with limited numbers of independent variables are used. The results are reported in table 6. Because those in Section 8 housing tend to be better educated (by half a year) and older (by four years) than public housing residents, separate estimates are made for those with no more than a high school education and for those no more than 30 years old.<sup>14</sup> The “no controls” row reports the differences in the ob-

Table 5. Tobit Estimates of Impact on Hours Worked

	Net Impact Section 8	Net Impact Public Housing
Model II estimates in table 4		
Observed rent differences	48	5
Adjusted rent differences	45	3
Alternative specifications*		
With age squared	47	4
With welfare-years squared	46	3
With car ownership	38	3

Note: The base comparison group is composed of those in the private rental market.

\*Estimates for alternative specifications use the higher adjusted rent differences.

Table 6. OLS Estimates of Additional Hours Worked by Section 8 Residents Relative to Public Housing Residents

	Total Sample	Less Educated Sample	Younger Sample
No controls	12.8***	13.8***	24.4***
Standard human capital variables	12.3***	14.1***	22.9***
Stepwise regression	12.8***	13.4***	21.8***
Sample size	255	182	120

\*  $p < 0.10$ . \*\*  $p < 0.05$ . \*\*\*  $p < 0.01$ .

<sup>14</sup> There are other differences, such as the presence of an infant, but these factors are correlated with age and schooling. Results from logit regressions indicate that only age and schooling are statistically significant in differentiating those in public housing and Section 8. Using the subsample minimizes the schooling and age differences so that the difference in means is not statistically significant.

served means. The standard human capital models include schooling, age, and age squared. The stepwise regressions include as potential independent factors all the variables listed in table 4 (excluding the public housing variable). The results indicate a consistent pattern, with Section 8 residents working more than public housing residents. The difference is greater for those with less human capital.

The favorable outcome for Section 8 residents is consistent with the assertion that choice in residential location enables households to move to neighborhoods that offer greater employment opportunities. This is not to deny that some participants limit their search because of their desire to remain in a familiar environment or because they encounter discriminatory practices by landlords and limits on the size of the subsidy. Nonetheless, interviews in the four California counties indicate that Section 8 housing units are widely dispersed.<sup>15</sup> For example, the housing authorities in San Joaquin County and the city of Stockton state that there is little difference between the geographic distribution of Section 8 housing and all nonsubsidized rental housing. Moreover, local agencies encourage dispersion. San Bernardino County prohibits recipients from renting in “bad areas,” and the Oakland Public Housing Authority encourages participants to look in “nontraditional” areas, such as suburban neighborhoods.

The favorable outcome for Section 8 residents could also be due to a bias in program participation—that is, there may be a common underlying personal factor that correlates both to participating in Section 8 housing and to working more hours. If that holds true, the reported empirical results are capturing the effect of a personal characteristic rather than an independent effect of Section 8 housing.<sup>16</sup> If the personal characteristic is observed, then its effect can be empirically separated. As reported earlier, there are statistical differences in age and schooling between those in the two housing programs. If participation in Section 8 relative to public housing is causally influenced by these two factors, we can address this influence by using a recursive system that allows age and schooling to operate directly on hours worked and indirectly through Section 8. At best, this approach explains only one-eighth of the reported re-

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<sup>15</sup> Information was collected through telephone interviews with directors and key staff persons of housing authorities: Steve Renehan of Los Angeles City Housing Authority (March 30, 1995), Susan Benner of San Bernardino County (April 3, 1995), Judy Dustin and Louise Spitzer of San Joaquin County (April 3, 1995), and Karin Euspon of Oakland City (April 4, 1995).

<sup>16</sup> Technically, there is an omitted variable that is correlated with the Section 8 variable; consequently, the estimated coefficient for the included variable is capturing the effects of the unobserved personal characteristic.

sults for the Section 8 variables, leaving the bulk of the effect unexplained by observed characteristics.<sup>17</sup>

While observed differences in personal characteristics do not explain much of the Section 8 effect, there may be unobserved differences. The question, then, is whether there is any evidence of systematic bias in participation in one program versus another.

Administrative procedures are a possible source of bias because clearly they have importance beyond establishing eligibility. The literature indicates that the allocation of scarce housing assistance is governed more by administrative rules and time on the waiting list than by economic choice on the part of individuals (Keane and Moffitt 1994). It is well known that rules and procedures frequently operate to cream the “best” applicants into social service and training programs. There is, however, little evidence that administrators channel applicants who are more likely to work into one housing program over another. In many localities (including those in California) a single agency manages both programs. Such an administrative structure creates in practice a single housing program that allocates the first available slot to the applicant at the top of a long waiting list. This process, then, is more random than systematic in assigning applicants to the two housing programs.

The administrative process, however, does not eliminate possible systematic differences that arise when applicants reject offers, thus introducing self-selection. The rejection rate for public housing may be higher than that for Section 8 housing—the literature suggests a difference in the relative value of the two housing programs.<sup>18</sup> Although the cost to those in public housing is roughly the same as to those in Section 8 housing, AFDC tenants prefer the latter because the units are safer and better maintained (Edin and Jencks 1993). Rejecting an offer of housing assistance, however, can carry a high cost in some situations. An applicant can be dropped to the bottom

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<sup>17</sup> Participation is modeled using logit with age and schooling as the independent variables. An alternate specification with additional variables (presence of an infant and number of years on welfare) produced very similar coefficients for age and schooling. The indirect effects of age and schooling on the hours-worked equation are estimated first by calculating the impact on the probability of being in Section 8 for four additional years of age and a half-year of schooling around the mean probability. The four years of age and half-year of schooling are the observed difference between those in Section 8 and those in public housing. The result is an increase of 0.13, which is about one-eighth of the total impact of Section 8 on hours worked.

<sup>18</sup> There is evidence that among the poor, differences in the “taste” for subsidized housing can affect participation. Crews’ (1995) study indicates those with a weak preference for housing (that is, those with a lower propensity to spend on housing) have a higher probability of being in subsidized housing. Unfortunately, the Crews study does not differentiate between those in public housing and Section 8 housing.

of the waiting list for not accepting an offer. The interviews found evidence of this policy, but it is not known if this practice is common to all local agencies or if it is rigorously enforced.

Assuming a systematic bias in program participation, the question remains regarding the nature of the unobserved underlying personal behavior. Literally, the hypothetical assertion paints a welfare recipient who maximizes total benefits by seeking both Section 8 housing assistance and employment. This depiction would undercut the simple assertion that multiple-program participation creates welfare dependency. Another way to describe the phenomenon is to argue that the motivation and ability to seek and to find housing in a private market is tied to the motivation and ability to find employment. Again, the implication is that multiprogram participation and higher total benefits are not simply and causally linked to welfare dependency. While it is impossible to reject these hypothesized portraits of some unobserved individual characteristic, it is also plausible that Section 8 has an independent, instrumental effect in increasing employment opportunities through greater residential choice.

## Conclusion

The results of the above analysis indicate that the impact of subsidized housing on AFDC recipients is not limited to the predicted economic response. While the analysis does find a small and negative income effect on employment outcomes (i.e., an increase in discretionary income generated by a subsidy or a low-cost housing market is correlated with less employment), the other findings are interesting and unexpected. Residents in public housing worked fewer hours than did those without any housing assistance. However, this is because public housing residents are more likely to have personal characteristics that adversely affect employment, such as long-term use of welfare and a membership in a minority group. In other words, residing in public housing in itself does not have an independent effect. The phenomenon is not due to place *per se*, but to the mix of people. Consequently, there is no support for the belief that public housing projects are a breeding ground for dysfunctional work-related behavior. Therefore, we cannot eliminate social and economic problems by simply eliminating public housing projects.<sup>19</sup>

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<sup>19</sup> There may be other reasons to eliminate the large-scale housing projects. For example, they tend to attract nonresident criminals and other undesirable activities. Moreover, even if public housing does not have an independent effect on work, the funds may be more effectively used elsewhere.

There is one caveat: The results of this study may not be applicable to metropolitan areas outside California. Even though most public housing projects in California cities are in poor neighborhoods, the level in poverty of these communities does not approach that of their counterparts in older urbanized areas. There are far fewer neighborhoods with extremely high poverty rates (40 percent or higher) in California cities than in Eastern and Midwestern cities. This difference in neighborhood composition may translate into differences in the prevalence of the underclass discussed in the introduction to this article.

The results for Section 8 are more promising. While an additional 10 to 20 hours of work per month is not sufficient for economic independence, the findings are sufficiently robust to yield one practical conclusion: Policies cannot be based on simplistic views. Some policy makers believe that benefits from multiple transfer programs are so generous that they encourage welfare dependency. The findings for Section 8, however, reveal a much more complex picture. One interpretation is that a well-designed housing program can help welfare recipients form a greater attachment to the labor market. From a societal perspective, housing programs' mission should go beyond simply providing shelter to promoting other desirable outcomes when possible—including increasing employment opportunities for the poor. This goal is particularly important given the horizontal inequities among the poor created by providing subsidies for only a small (and declining) segment of the eligible population.

To make these programs more effective, we must recognize the precise underlying mechanisms that generate the reported outcomes. Additional research is needed to determine how many Section 8 residents are able to move to better neighborhoods that offer greater employment opportunities, and what facilitates their job search. Such research would require more information on individuals and their immediate environment than is available in the current data set. With the increasing availability of geographic information systems and greater access to administrative data to complement survey data, it should be possible to address these issues directly.

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