FAIRNESS IN ALLOCATION OF SOCIAL RENTED HOUSING

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Synopsis: Current thinking and problems associated with the allocation of Social Rented Housing (SRH) to tenants are examined. A novel proposal is made to overcome these problems: that it could effectively be carried out by a form of lottery. This would be administratively more convenient, eliminate many problems of graft, and be much fairer to the clients — the tenants of SRH.

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PART A: Current thinking on allocation of Social Rented Housing (SRH)

1. An economist's definition of SRH

The phrase 'social rented housing' is used to describe housing which costs just as much to produce as other housing but is provided at below market price to the applicants. This inevitably means a subsidy of some sort, and equally inevitably that demand will exceed supply. The subsidy can arrive in the form of a grant (a gift) to providers of SRH, or it may take the form of cash benefit to help with the rent. The subsidy may be implicit; as when a provider uses historic cost pooling to keep rents down while still balancing the books, or the provider-landlord is subject to laws restricting rents.

This is not the way in which SRH is usually described; generally issues of decency, affordability or need are uppermost, with the entitlement basis of housing taken for granted. An embodiment of these sentiments can be found in the Universal Declaration of Human Rights (1948) in Article 25 states

"Everyone has the right to a standard of living adequate for the health and well being of himself and his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of... lack of livelihood in circumstances beyond his control" .

Nowhere in this Declaration does it say who has the duty to provide such basics as housing.

2. Note on the curiosity yet inevitability of SRH

Provision of the basic needs outlined in the Declaration is either by cash from the State or by a State-run agency: thus money is provided for clothes and food, which are purchased by normal market operations; agencies, state-run or controlled provide education and health. Housing as a social service is hybrid, with neither a standard cash subsidy which would enable people to choose their own type of housing purchase, nor by providing housing free at point of use. That neither is used on its own indicates that there is something special about SRH, that it has characteristics unlike all other social services. This is what I would describe as the curiosity of SRH.

2.1 Why not straightforward market provision?

The overwhelming reason for SRH is affordability: the poorest 20% or maybe 40% of the population cannot afford a basic 'decent' house. The market may have provided good cheap food and clothing, but housing continues to be a problem on cost. The cost of providing a dwelling unit has continued to be on an upward path in real terms, with housing costs consuming a larger portion of the household budget (described in Boyle. 1992). Galbraith, the doyen of Keynesian economists repeatedly reminds us that the universal failure of free market to produce housing of reasonable quality at a price that most can afford is the single greatest default of capitalism.

The conventional free-market answer to this is that the provision of goods and services is best left to the market; that interfering in the market through subsidy or rationing creates distortions, and makes the supply of goods less efficient. Housing, it is argued is subject to a plethora of controls - rent control, building regulations, multi-occupancy codes, planning laws - which make it less profitable to be a landlord, reduce the supply of land, and impede the sort of product development that would reduce prices, improve quality and increase production.

Milton Friedman the high-priest of right-wing market economics talked of liberalising the housing market in some of his earliest publications - for example 'Roofs not ceilings' pamphlet in 1946. Arthur Seldon makes the same point: "the only fundamental solution to the housing problem is to let people pay for their homes by prices, by allowing rents to rise to the amounts agreed between suppliers of homes to let and people who want them" . (Seldon, 1977)

Underlying the idea of SRH is the failure of the housebuilding industry to deliver houses which are cheaper and better. But could the housebuilding industry freed of the shackles that so inflame the passions of right-wing economists, ever provide sufficient quantity of cheap housing of good quality? It would seem not. Ball (1988) talks of the Construction Industry having an incurable affliction which prevents it from making the progress which so characterises most other industries.

Nothing is ever permanent, so perhaps we should hedge our bets, and say that good low cost housing is 'unlikely' in the foreseeable future. This is why it is likely, that in order to house the less affluent 20% or 40% of the population, 'social housing' will still be necessary, indeed that SRH could be described as the mark of a truly civilised and compassionate Society. This in turn means that some means of rationing the scarce and valuable resources provided by social housing agencies will remain.

3. Methods of allocation

Four methods are described in Clapham and Kintrea (1991):
   1. Merit (personal knowledge of the applicant)
   2. Date order (first in first served)
   3. Groups and subgroups identified and quotas for each set
   4. Points schemes.
They also identify two levels on which the process works
   - Primary rationing (who is allowed to go on the waiting list)
   - Secondary rationing (who, from the list, gets a house)
I will assume that readers are familiar with at least the general idea of how these methods work.

3.1 Bureaucratic discretion

The excess demand is dealt with by the providing agencies through some selection device. Who gets what how?' is the allocation question in a nutshell (the so-called Lasswell's aphorism, quoted in Lineberry, 1977). At the lowest level, bureaucrats decide using a mixture of discretion and rule-following. In the U.K. prior to the 1970's (according to Clapham and Kintrea, 1991) the process of allocation was simple local bureaucratic discretion. Not only was this seen as unfair; it also provided a major management task. Even where formal, if rudimentary points systems were in operation in the 1970's, allocations were affected by subjective judgments of the character and reliability of the applicant (Niner, 1975).

3.2 Allocation by 'need' or merit

As a result of the perceived shortcomings of the allocations system, a consensus emerged that allocation should be based on 'need', a policy simple to state, but difficult to define. This doctrine is enshrined in the 1988 Housing Act related to Housing Associations which requires them to disregard age, income, marital status, previous tenure, and place of residence in selecting tenants.

The example of a 'model' allocation scheme quoted by Clapham and Kintrea relates to the Glasgow Council housing department. Applicants acquire 'points' based on their personal circumstances, place of residence and length of time on the waiting list. Applicants choose one of nine categories of properties; in effect there are nine separate queues. The system is supported by a centralised computer. Despite having been carefully designed to reflect need, the system has had to be repeatedly modified. This arises in part from complaints by tenants. "A pure needs based system may be impractical comment the authors. The Glasgow system has high administrative costs, is difficult to understand, is

complex, *and is seen as unfair"* (My italics). This remember, is an example of one of the best needs-based systems for allocating SRH.

All the quotations so far have related to the U.K., which is peculiar in having just a few large Housing Authorities, run by local councils with a duty to house everyone within their district (although this situation is changing). Elsewhere in Europe, the providers are different, such as the HLMs in France or the German Trade Union organisation (Neue Heimat), which do not have a general duty to house all of the population they serve. It is not clear what methods are in use outside the U.K., but bureaucratic discretion exercised in favour of the indigenous population or special interest group seems to be the rule.

PART B: Future needs and solutions

4. Problems with present methods

Taking a well-constructed and managed points system as benchmark, we can ask: In what way could the system be improved?

- *Lack of market signals:-* it is not very good at deducing demand. Applicants can refuse offers of housing, administrators can conduct opinion polls of those on the waiting list, but these are poor substitutes for the sort of revealed preference which emerges from normal market operations. Because of the lack of crucial market signals, providers of SRH make less efficient use of their money in order to satisfy housing needs. It can lead to a situation where newly-built housing estates will be of a uniform 'one-fits-all' type because it is more administratively convenient.

- *Arbitrary, victimising:-* the points system must be fairly arbitrary, leading to rough justice for some applicants. Classifications are usually of an either/or in order to qualify for the points. Peoples' circumstances vary widely, and the same description which may describe oppressive need for one may be trivial discomfort for another. Because points are generally to do with misfortune, it encourages passivity, negative self-image and envy.

- *Graft:-* points systems work by having thresholds with cutoff at a numerical level. This means tiny differences in circumstance may lead to success or failure in getting housed. This in turn leads to bribing, cheating and unwarranted power in the hands of bureaucrats.

- *Un-coordinated:-* where several social housing agencies co-exist in the same area, should they all use the same criteria? Or should they each run their own waiting lists and points scheme? This situation is made more complex by the development of social housing agencies for special groups.

- Residualisation, ghettoisation:- as politicians world-wide feel the need to adopt tax cutting to get elected, funds for social housing diminish. This may mean that only applicants with special needs will get housed, and that the ordinary general applicant in conventional circumstances has no hope. It also reinforces the tendency for newly built estates to be populated by 'problem' families.

- Discrimination:- however objective the points system might be, there will always remain an element of administrative discretion. The result is that the prejudices, conscious or subconscious will prevail. Discrimination on grounds of sex or race is outlawed, and social housing agencies make efforts to raise the awareness of their officers on these matters. Despite this there evidence that allocation remains discriminatory in outcome (Waddington, 1984). There are many other dimensions of discrimination which are not covered by legislation or awareness training - ageism, lookism, sizeism, sexuality preference, religion, accent, disability; to mention but a few. In all of these cases there is evidence of disadvantage, which would doubtless be found in the allocation of social housing as well.

- Hoarding, stranding:- Having acquired a property which is worth more than you pay for it, the best strategy is to hold onto it if you can. This results in tenants who are over-housed, yet have no incentive to move. The logjam means that fewer properties are available for those wishing to transfer, leading to some tenants being stuck in properties they wish to leave, but lacking alternatives.

As against these objections, it must be recognised that the waiting list-points system is convenient, that it gives politicians something to manipulate, and it is fairly widely understood. There is no great clamour for change, and it might be said that 'if it ain't broke, don't fix it'. What follows is a tentative exploration of a radically different method of allocation of social housing, put forward as a working hypothesis, rather than a fully worked out idea.

5. First proposal: a simple lottery for allocations

OPTION 1: Allocation by a simple lottery

Based on the ideas of Burnheim (1985), who challenges the notion that electoral politics is the last word on democracy. He suggests that we should choose the administrators in a way that reflects the community being served. In this case the bureaucrats doing the allocation would be selected by a lottery, in a fashion similar to a jury. Since the 'community' being served is represented by the tenants and those on the waiting list, this would represent the 'population' from which the selectors would be drawn. The theoretical basis for this departure from normal electoral politics derives from the notion of 'fairness' explicit in statistical random sampling. In Statistics the only way of drawing a fair, that is representative sample from a population is by giving each member of the

population an equal chance of being selected. Any other process is liable to be biased, which is another way of saying that it is non-representative. The usual method of ensuring 'equal chance' is by means of a lottery or a random number generator. Burnheim does not mention allocation in SRH specifically, but it is clear that allocation by a randomly selected jury is what he would prescribe.

The proposal I am making in this paper is also based on the merits of statistical random sampling, but instead of selecting the *selectors* by a lottery, I propose that the *process* of selection be conducted by a lottery. Here's how:

Once a month (or whatever interval is appropriate) the housing units available for allocation are listed. All those on the waiting list are given a ticket for a draw. The first prize-winner has first choice off the allocations list, the second the second, and so on. Anyone dissatisfied with the properties on offer can go back into the draw in subsequent months. Names will continue to be drawn until all houses are allocated.

6. Second Proposal: a modified, weighted lottery

OPTION 2: A weighted lottery with revealed preference and price signals
The points system could continue to operate, but instead of a cutoff value, each point would translate into a lottery ticket. The applicants could then bid for one or more of the available properties, by putting all their tickets on their favoured house, or spreading their chances around several. This could be done in a way which encouraged applicants to select less popular properties - if the tickets were placed in a perspex box in an open office, it would be clear which properties were popular, and which not. When applicants have placed their vote, a draw can then take place.

This system could be elaborated to produce market-type signals. If the tickets cast for each type of property are taken as an expression of applicant preference, then popular properties could have their rents increased. This could apply to existing tenants, as well as those applying. As this would increase the revenue going into different estates, there would be an incentive for managers to make their properties more attractive - to act more like genuine sellers.

As the higher rents impact on existing tenants, they will have a direct incentive to reconsider whether they might be better off transferring to less expensive property. In this way the redistribution according to need can be partly fulfilled, but without any bureaucratic re-calculation of the rents to be charged. In effect what is happening is that a surrogate market is established, which can give the missing market signals. Markets only work if the players respond to the signals, so it is essential that bureaucrats do not over-restrict the reaction, by preventing significant changes up and down in rents charged.

The way in which this interacts with the social security system could be significant. It is to be hoped that clients will still have some incentive to choose what they need, not

what would be paid for. The prospect of higher rents is not an easy one to sell, which would give the estate managers a further incentive to make their properties attractive, in order to retain the tenants at the higher rent.

7. Objections to a 'lottery'

If not dismissed as humorous, this idea is normally seen as monstrously wicked. The possible and likely consequence of a lottery could be that a bachelor could acquire a big house whilst a single mother with several children is left out in the cold. This clearly violates every principle that social housing stands for, and has no prospect of ever being accepted. Some other objections to allocation by lottery would include:-

- *moral outrage:* the providers of SRH, and those with a social conscience would share the (in my view) mistaken belief that a lottery is 'unfair' - 'no better than a lottery' is a phrase which in popular parlance is synonymous with UNfairnes. This is usually because true randomness is confused with haphazardness or capriciousness. Taking the statistical (technical) definition of a lottery establishes the opposite -that a lottery is the ONLY reliable method of achieving complete fairness in the long run.

- *legal pitfalls:* the law has a peculiar expectation that people can act with perfect foresight, have perfect knowledge, and act in a completely consistent way. Since a lottery would not be fair in the short run it would probably be condemned as arbitrary and unjust. Statisticians who advise lawyers have discovered that they have great difficulty comprehending situations which involve an understanding of probability and chance, (from a talk 'Memoirs of an expert statistical witness' by Tony Greenfield, 1994)

As to the unfairness of the bachelor/single mother misallocation: it is true that in a *single* allocation such a result can occur, but a continuous *series* of allocations will produce a truly representative outcome. This is a well-established statistical result.

8. Benefits of a lottery.

A lottery to allocate housing has great benefits:

- *Hopefulness:* it gives everybody a chance of getting housed. Instead of being told that unless you acquire some children or some illness, you have to wait many years to be housed, you have a chance soon. The enthusiasm with which people gamble shows that having hope is an important aspiration.

- *Fairness:* although in the short run the allocation may be perverse, in the long run the tenant mix will be a very close approximation to the make-up of the waiting list in all its aspects. This is a statistical argument: If you wish to draw a representative sample from a population then the only valid (fair) way to do so is by random selection. This is exactly the process encountered in a lottery. Statistical theory states that if any other method of

selecting the sample is used, the result will be biased. A single sample may turn in a wayward result, but repeated sampling will produce a result which reflects the population in every aspect.

- *Convenience:* the administrators need only keep a list of those applying; no other details need be kept (except for the more complex 'weighted' lottery; but even here far less detail would be needed). This avoids the need for probing personal questions, and the need to check the truthfulness of the answers, or the changing circumstances.

- *Historicity:* Selection 'by lot' was the essential feature of Athenian democracy. Juries are a random selection of the population. Selection of young men for military service in the US was by lottery. 'Decimation' the punishment by executing a random one-tenth of a Roman Legion is another example of the widespread use an acceptance of random selection, or selection by lottery. We discard the acquired experience of the past at our peril. A lottery should be proof against tampering through bribery or graft - one reason why the medieval Italians chose by lot.

At the moment the idea to allocate SRH by lottery is no more than a working hypothesis. Some may detect in the proposal to allocate by lottery something of the age old dream of the Anarchists - not to be ruled by politicians or bureaucrats, but as in this case to be ruled by chance, by luck, by lot. In the best traditions of scientific investigation, perhaps the process of testing the hypothesis whether allocation of SRH by lottery is better than existing methods will throw up fresh insights about the allocation process generally.

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