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SOME REFLECTIONS ON THE POLICIES DIRECTED TOWARDS SQUATTING AND SLUMS

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This paper attempts to explain the lack of success of housing programs. In brief, this is clearly a case of the inconsistency between what policy makers perceive as a need and what are actually needed. The least costly and most effective scheme would be to provide low-rent high-storey tenements rather than subscribe to rent and home financing subsidy schemes and earmarked income transfers. But its effectiveness depends on the ability of the local authorities to monitor the target beneficiaries, which is a very costly course of action. There will always be an incentive to convert such housing strategies into outright income transfers and thus render them ineffective.

MOST GOVERNMENTS often have a say regarding the provision of housing, especially for the underprivileged members of society. There are several reasons for such concerns. First, one cannot but pity the sad state of the urban slum-dwellers. Makeshift shanties which may seem to collapse on their inhabitants during their sleep; overcrowding; the lack of water, sanitation, and garbage disposal systems which breed diseases, both physiological and social, and the unsightliness to the surrounding neighborhood--all contribute to the concern to rescue these people from their plight. Secondly, the presence of slums decreases land value in the surrounding areas, forcing more affluent neighbors and establishments to relocate to nearby towns and suburbs. This will cause a strain on the local authorities' revenue collection. While the poor do not pay taxes, they would also spend for general services, and they lower property tax bases when their presence lowers property values.

Whenever there are positive externalities generated by an activity, it is likely that agents engaging in such activity underconsume since they will consider only private, not social, returns. To reap higher social returns the underconsuming agents must be induced to engage more in such activities up to an efficient level. Incentives may be in the form of subsidies or provision in kind of such

activities financed by the tax-paying public. Currently, slums and squatter communities are considered eyesores to the more affluent residential, commercial, and industrial sites in the surrounding area as a result of what seems to be an "underconsumption" in housing from among poor households. More expenditures by these people in housing and housing improvements to a minimum acceptable level will generate positive externalities. But much of the "underconsumption" stems from the inability of these households to pay for such basic need. More so, we have to consider that their circumstances pose a problem regarding their legal status in society. They are violating property rights, and thus, they are no different from common criminals. But one can hardly judge poverty as a criminal offense. As Hollnsteiner (1977) pointed out: "Clearly some serious rethinking is needed. For when a large sector of society finds itself automatically characterized by law-breakers, then one would wonder whether something is wrong not with the people designated as law violators, but rather with the law itself." After all, it cannot be said that they are of less use for the community or the city since they provide cheap labor for industry.

The immediate response of policy is to provide incentives to induce the poor to attain a minimum

required level which can be regarded as habitable. Most recently, we observed the rise of multi-storey tenements, highly subsidized home financing schemes, human settlement areas, sites, and services, and most recently, self-help programs all intended to answer the housing needs of the poor. But while the extent of expenditures amounted to huge costs for years, the returns in terms of welfare and environmental improvements seemed not forthcoming. At best, these programs benefitted the middle class while the squatter colonies burgeoned with the constant surge of rural migrants seeking better living conditions.

This essay intends to build a model regarding the implications of existing alternatives to solve the housing problem. My main assumption is that poor people are self-interested individuals who would like to maximize their welfare, and that we have a society which values equitable distribution of services as a public good. I will attempt to draw policy implications on housing from the model of revealed preference which I had taken from the public finance literature and extend it by taking into account the inability of the local authorities to monitor the activities of the poor since doing so is very costly.

A representative poor household strives to maximize its utility, arguments of which are two goods, q_1 and q_2 , subject to a budget constraint:

$$\begin{aligned} &\max U(q_1, q_2) \\ &\text{s.t. } p_1q_1 + p_2q_2 = Y \\ &\quad \text{where } q_1 \text{ and } q_2 \text{ are two traded goods} \\ &\quad \quad q_1 \text{ and } p_2 \text{ are the respective prices} \\ &\quad \quad Y \text{ is the household income} \end{aligned}$$

One may think of q_1 as housing consumption expenditures and p_2 as a composite of goods (including leisure). The consumer maximum is attained at the combination of q_1 and q_2 , such that the marginal rate of substitution is equal to the price ratio. Figure 1 on the next page shows the initial optimum consumption levels of Ox_2 units of q_1 and Oy_2 units of q_2 given indifference curve I_1 on budget line L_1 . Now, society feels that this household is underconsuming on housing at its present level. The minimum habitable level should be Ox_6 (equal to y_1B). Thus, the local authorities will institute policies which will increase housing consumption by an additional AB unit. This may come in several forms. Let us analyze four measures that may be undertaken by the local planners: (1) provide AB units in kind, (2) a rent subsidy (or financing subsidy via low interest and amortization rates), (3) an earmarked lump-sum subsidy, and (4) an outright income transfer.

Consider the first case. A "dole-out" of AB units of q_1 for the representative household makes it possible for the household to move up to a higher level of utility, from I_1 to I_{III} , and consume the same amount of q_2 while

increasing the desired amount of q_1 . An example of this is the high-rise housing tenements (BLISS housing) constructed for the poor.

A rent subsidy, on the other hand, changes the relative price ratio of the two goods, making q_1 cheaper than its market rate. To make it comparable with the previous policy, we allow for a subsidy rate of AB/Y_1B (i.e., if the consumer endeavors to consume at Oy_1 of q_2 , then availing of the subsidy will make him consume AB more of q_1). Notice that the consumer may move to a new optimum allocation at a higher indifference curve (I_{III}) and consume Oy_2 units of q_2 and Ox_4 units of q_1 . Clearly, the consumer is better off than in the earlier "dole-out" case. In this case, the additions to housing expenditures fall short of the targetted AB units. The government may be required to provide a higher subsidy rate to induce the household to consume the required additional AB units. The reason for this is that the price effect of a subsidy has two components, income and substitution effects. The cheaper q_1 has an income effect which allows the household to consume more of goods q_1 and q_2 if both goods are normal. A specific example would be a rent subsidy to allow households to allocate more of their income to housing and improvements. Another example would be a home financing scheme whereby recipients pay highly subsidized amortization payments which lower the implicit rental cost of housing relative to the market price.

The third and fourth policies are superior to the second and the first. An earmarked lump-sum transfer will provide an increase in the quantity of q_1 available for the household as shown in budget line L_3 . Notice the link in the budget line at point E . This is so because, given the household budget constraint, the maximum consumption of q_2 is still Oy_4 units. What makes it different from an outright transfer is that the household is constrained to use this income transfer only for the purchase of AB units of q_2 . This can be done by issuing money coupons. In the earmarked income subsidy scheme, the household may decide to consume Ox_5 of q_2 out of its own income and reimburse the AB units from the local authorities. A possible consumption point is point E whereby the individual decides to allocate no q_1 out of his income but to consume Ox_3 (equal to AB) and reimburse the amount. In an outright income transfer, the household is given the discretion as to the disposal of the added income. This will induce a similar effect in housing consumption as the earmarked income transfer.

From here, we may observe that outright income transfer is the best form of charity. But if the concern is to meet the objective of increasing housing expenditures by AB units, the "dole-out" case may be regarded as the most effective and the least costly. There is every reason for planners to eliminate the fourth from among the alternatives. Here, the household is allowed to freely use

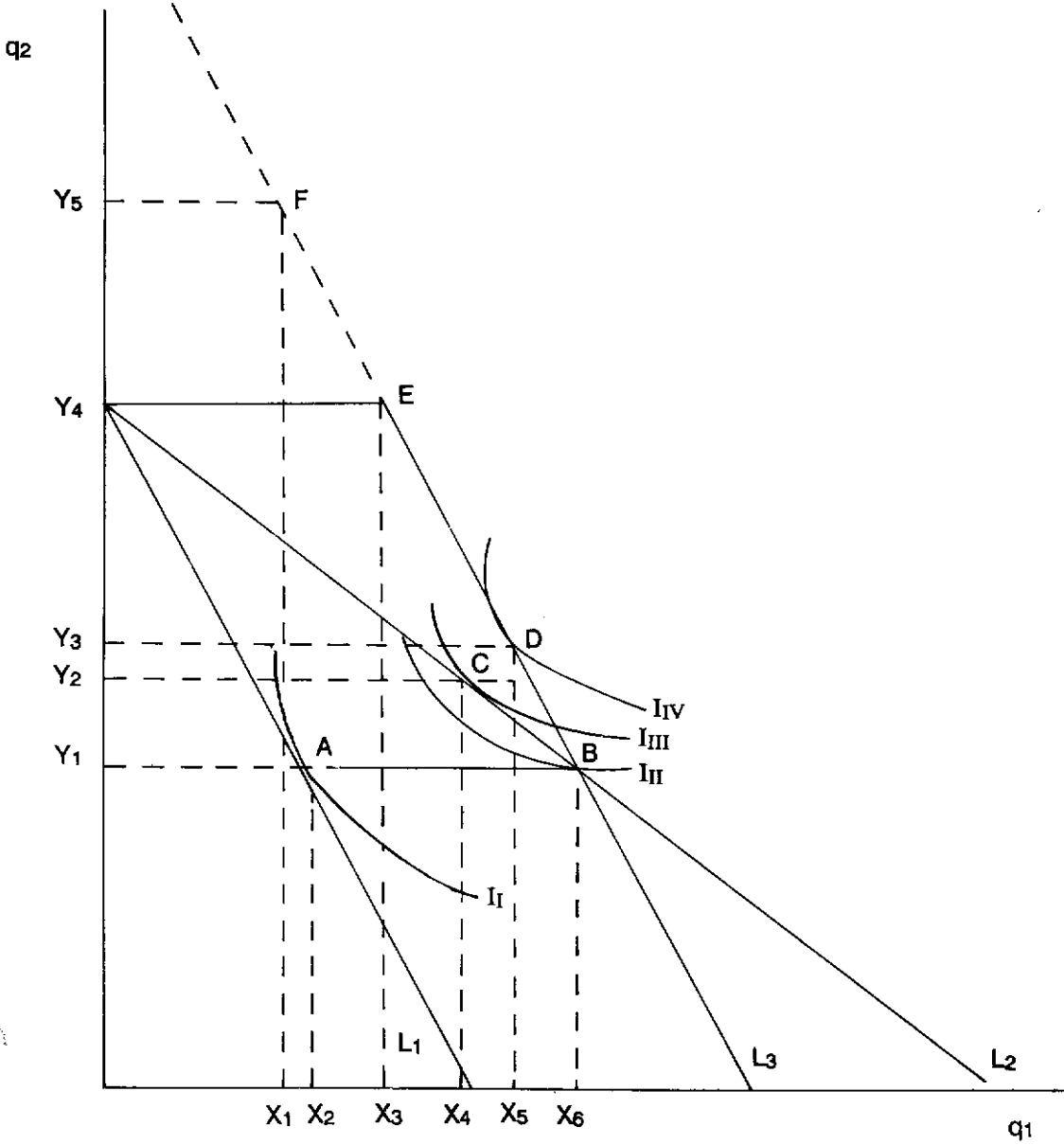


Figure 1

the income transfer in any form of consumption. They cite this as "pampering" and "prone to abuse and misuse." However, it must be understood that poor households are also made up of welfare-maximizing, self-interested individuals just like everybody else. If they are at liberty to do what they want with the income transfer, they will choose an expenditure allocation according to their preferences, and housing may not be among their list of priorities and concerns (likely second to food, clothing, and some created needs). It may be that their *barong-barongs* may suit their immediate need for shelter for the moment until they are able to accumulate enough savings to buy better accommodations. This policy may even be anti-developmental in nature, because this may induce poor households to provide less labor for industry if leisure is a normal good. Here is a case of the divergence between what planners perceive as a need and what people actually want.

I would like to show that the predicted effects of observations above may not be that conclusive. Since housing services are tradeable, the prospect that an income transfer will provide a higher utility level is enough incentive for the household to convert all the other policies in this form, i.e., to "bend the rules a bit." There is no reason to believe that any rational individual will not do so, considering that the local authorities cannot police all their actions. The authorities may do so, but it would entail very high costs.

Several studies pointing to the apparently ineffective policy measures confirm the practice of converting these to income transfers. Hollnsteiner (1977) mentioned four strategies to discourage and prevent the further expansion of slums and squatter communities. One was to campaign for "return to the province," by distributing for free, one-way tickets back to the home province, which was certainly an unsuccessful solution. The tickets were somehow availed of, but this strategy did not realize the campaign's purpose. Either the squatters returned later on or the tickets were sold to other non-beneficiaries.

Second is the building of multi-storey low rent urban housing. It was observed that "units were rented out at subsidized rates of P5.00-P15.00 a month. Not long after they moved in, a number of residents surreptitiously began selling the rights to their apartments for sums reportedly ranging from a few hundred pesos to, more recently, two to three thousand pesos." It is less surprising, therefore, to find relatively more affluent families, particularly the middle class, benefitting from these structures, while the supposed beneficiaries have returned to their old shanties. Another observation is the tendency to overcrowd in some units. Apparently, another form of the conversion to income transfer is to partition and rent out sections of the small units to other families. The other reason for avoiding apartment dwellings is the

attached high cost of living in tenements, since despite the subsidy, there are large financial outlays such as furniture and "modern" cooking equipment. Poor maintenance of units have led to their fast deterioration and danger to the lives of inhabitants. This result is no different from the observation in other countries. For instance, blighted areas in the United States (ghettos) subjected to urban renewal programs eventually became blights once more primarily because of the lack of maintenance and overcrowding in the units.

The third strategy is resettlement, which was unsuccessful because of the high cost of commuting to work from the chosen relocation sites. Thus, any welfare improvements due to the sites and services provided may be outweighed by the prohibitive transport costs. It is possible, however, to make welfare gains by renting out one's allotment to more willing settlers and to move back to the shanties near the places of employment.

One observation regarding squatters is that many of them are actually affluent. This contradicts Hollnsteiner's assertion that squatting tends to be a temporary recluse till the rise in income status is realized. Solon (1987) believes that this is caused by the not-so-well defined system of enforcing property rights, particularly that on land. Prospective squatters weigh their options regarding the cost of the probability of being evicted and having to join the formal sector and pay rent. The perceived probability of eviction diminishes with the length of stay and the number of families. Some would find that there are more gains in remaining as squatters despite reaching a higher income level and status.

Studies have estimated the price and income elasticities of demand for housing. Models estimated in the United States (de Leeuw 1971; Follain *et al.*, 1980) showed that demand for housing is income inelastic. The most recent estimate made by Angeles (1985) showed income elasticity significant at 0.0222 using 1344 observations. The implications of a low income elasticity indicates that it is less likely that households will use an added earning such as an income transfer for housing investment.

Is there hope for the newest trends in housing policies such as self-help and accommodationist policies aimed at encouraging households to improve on their dwellings? Consider an accommodationist policy of providing public services (water, electricity, constructing walks and pavements, etc.) to shanty towns. This may surely raise the value of housing in that particular area. Certainly, the households in such a community would be better off, and this condition will raise the implicit rent on the land and the housing value of the community. This may again induce the prospect for the household to convert the gain to an income transfer. It may explain another observation that shanties in relatively well-off settlement areas in terms of services are actually rented

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off by lower income households who are squatting in other areas. Encouraging self-help by organizing communities to gather resources and provide their own services may be somewhat difficult on the part of the strategists since housing is income inelastic. The lack of provisions for maintenance in the housing programs somehow indicates the reluctance of households regarding this aspect. Housing may not simply be the topmost priority among the poorest.

The most radical among housing policies has been urban land reform, which gives the households the option to buy the piece of land. The rationale is to incorporate the squatters into the legal structure of society. Urban land reform will provide temporary accommodation for the rural migrants. While the existing squatters achieve wealth and status gains, they may sell their small lots to the next batch of migrants. But this certainly hinges on the assumption that there will be enough land for the growing number of migrants. One may argue that while urban land reform may provide legal status to the squatters, it may not solve the perceived externalities problem.

It has been argued that such urban land was idle and unproductive before the squatters settled on them. Moreover, the private owner may not have had the capital to make it productive and may not have even paid property taxes. If the squatter lands were formerly idle lands, the local authorities can put such land into productive use, that is, into that which will yield the highest rent. For private lands, the government may exercise its power of eminent domain, hire land developers to work on the piece of land and erect the appropriate structures, and then auction the pieces of property off to private individuals. This move will prove itself profitable to the local authorities, to business, and to labor through the creation of employment. Certainly, one has to exercise prudent judgment in determining the most productive use of such piece of land. In this case, one has to weigh the costs and the benefits which eviction may entail. And, even if this solution is the most efficient, society may decide otherwise, depending on the values it espouses.

Conclusion

After all, the problem is not of an underinvestment of individuals in housing but of poverty. Rising social

status will eventually make people decide to consume more housing. One should consider also that the persistence of local authorities and planners in providing housing can at times be political. The housing problem can be solved by long-term economic development and a just distribution of wealth. The causes of the observed urban decline is related to the long-term policies of the government affecting the population distribution. The overinvestment through industrialization programs in urban centers where labor absorption is slow while rural incomes stagnate has caused members of rural households to migrate.

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