Thinking about housing allowances

A discussion paper for the
Norwegian State Housing Bank

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1. Introduction

Housing allowances have become one of the most important policy instruments through which the advanced welfare states provide assistance with housing expenditure. Although in the early post-war period most welfare states relied more upon supply side interventions such as rent controls and bricks and mortar subsides to housing providers, in the last decade or two they have shifted towards greater use of income-related housing allowances in one form or another.

With the disappearance of widespread housing shortages and improvement in dwelling quality in many advanced welfare states, the problem to be addressed is increasingly seen as being an income one rather than a purely housing problem. This shift in perspective raises the question: what is the role of housing allowance schemes in advanced welfare states with mature housing markets? Given the improvements in housing supply and quality compared with several decades ago, is there still a case for housing allowances instead of cash supplements and other forms of income redistribution?

If there still is a case for housing allowance schemes, how should they be designed in the modern era? Are housing vouchers the way forward? Further, given the increased emphasis on activation and welfare to work policies in many of the advanced welfare states, what is the impact of housing allowances on work incentives? And what initiatives have been taken to minimise the work disincentives that income-related schemes such as housing allowances may have?

This discussion paper has been commissioned by the Norwegian State Housing Bank to examine these questions. It is not particularly focused on the Norwegian case, but rather examines these questions in relation to the advanced welfare states more generally.

Section 2 sets the scene by providing a brief overview of approaches that may be taken to make decent quality housing affordable, discusses the reasons for the shift towards housing allowances in recent years, outlines the main roles that
housing allowances perform, and considers the continued rationale for such schemes.

Section 3 discusses key aspects relating to the design of housing allowance schemes.

Section 4 reviews the evidence on the impact of housing allowances on incentives to work focusing especially on the poverty trap, the unemployment trap and welfare dependency. It also looks at what initiatives have been taken to address such problems.

Section 6 discusses the nature and potential of housing vouchers as an alternative design for the future of housing allowance schemes.

Section 5 presents some conclusions.
2. The rationale for housing allowances

Most of the advanced welfare states are committed to ensuring that housing is affordable to ordinary citizens. Shelter is not only a necessity, but for most households it is also the largest single item in their budget. For low-income households in particular, the ratio of housing expenditure to income can be high.

Perhaps for this reason, most of the advanced welfare states provide, in one form or another, assistance with housing expenditure. Although the aims and instruments employed vary from one country to another, a common concern is to ensure that ordinary people can afford to occupy decent quality and appropriately-sized housing at a price within their means. The policy instruments that governments employ to ensure this basic goal vary between countries and over time.

Governments can seek to provide assistance on the supply side, that is, to builders, landlords, and financiers. Typically, supply side assistance is geared towards lowering the price or rent which households have to pay for their housing. This may be achieved through the provision of direct subsidies to builders or landlords, such as low interest loans or capital grants, which are often referred to as 'bricks and mortar' subsidies (Oxley, 1987). It may also be achieved by indirect subsidies such as tax relief to private landlords. Whether by these direct or indirect means, supply side subsidies to providers make it possible for them to charge less than the market price or the economic cost of the dwelling. It may also take the form of price regulation, such as rent controls, which limit the amount that landlords or other suppliers of accommodation may charge to consumers.

Governments may also provide assistance to the demand side, that is, directly to the consumers (home buyers and renters), thereby helping to ensure that they can afford to pay the price or rent charged for their dwelling. Demand side assistance can take a number of forms, including both direct subsidies such as low interest loans for home buyers, and indirect assistance such as mortgage interest tax relief.
However, the most common form of demand side assistance is housing allowances. These are income-related subsidies tied to housing that are paid to consumers (or directly to landlords on their behalf).

**Shifting assistance**

Although the details vary from one country to another, most of the advanced welfare states first intervened on the supply rather than the demand side to tackle their housing problems. During the First World War, many countries involved in the hostilities introduced rent controls in the privately rented housing market. Housing subsidies also began to be introduced at around this time and, until the 1960s, they tended to mainly take the form of ‘bricks and mortar’ subsidies, often provided to non-profit landlords such as housing associations or local authorities. Such intervention was often the result of pressure ‘from below’ and tended to come from organised labour and the better paid working class rather than the poorest tenants (Harloe, 1995). This is important because what they demanded was not the introduction of housing allowances, but rent controls and subsidised, social rented housing. Housing allowances would have benefited the poorest tenants rather than the labour aristocracy and moderate income groups that tended to benefit from social housing.

One driver of the pressure for building new social housing was the absolute housing shortages that developed during and after both the First and Second World Wars. Producer subsidies seemed to be a more effective instrument than housing allowances for tackling those shortages (Howestine, 1986). It is also important to remember that social protection was not well developed in most countries before the Second World War. Insofar as social protection existed, it tended to focus on basic pensions schemes and poor relief. In that context, the introduction of housing allowances on a widespread scale would have been more or less unthinkable in many countries.

In recent decades, income-related housing allowance schemes have become a central feature of many advanced welfare states. In particular, governments have
sought to shift assistance with housing expenditure from the supply side to the demand side. Many nations have reduced or eliminated bricks and mortar subsidies, which enable social housing landlords to charge below market rents. Instead, they have placed more emphasis on income-related housing allowance schemes and market or near-market rents (Kemp, 1990). Income-related housing allowances have been used by governments as a way of cushioning (to some extent) the poorest households from the effects of reductions in bricks and mortar subsidies and the shift towards market rents (Harloe, 1985; Howenstine, 1986).

This shift from bricks and mortar subsidies to personal support through income-related housing allowance schemes reflects changing attitudes among governments in the advanced welfare states about how best to provide assistance with housing expenditure. A number of factors have been at work.

First, the trend towards increasing reliance on income-related housing allowances instead of bricks and mortar subsidies reflects a view that the problem to be tackled is increasingly an income rather than a housing one (Kemp, 1990). This change reflects the end to absolute housing shortages and the fact that housing standards have improved very considerably since the Second World War. Meanwhile, affordability has become a more important policy concern in recent decades (Grigsby and Bourassa, 2004). It follows that the more appropriate policy response is to give households an income supplement – which may or may not be tied to their housing expenditure – rather than to provide them with a low rent dwelling. We return to this point below.

Second, the shift towards housing allowance schemes also reflects a belief that assistance with housing expenditure can be better targeted if directed only to those households that ‘really need’ help. This of course mirrors the wider debate about universal versus selective approaches to welfare provision (Titmuss, 1968). Because housing allowance schemes are means-tested, the amount of assistance provided is more or less finely tuned to the financial circumstances of the recipients. In contrast, bricks and mortar subsidies are criticised for being ‘indiscriminate’; helping all households living in subsidised housing irrespective of their need for financial help.
Third, a related argument is that housing allowances are a more cost-effective way to enable low-income households to afford decent housing than providing help in the form of bricks and mortar subsidies to builders or landlords. This cost-efficiency argument has become more important in the light of the fiscal pressures facing many advanced welfare states.

Fourth, governments have placed increasing emphasis on market and quasi-market housing and less on public sector provision. In this respect, income-related housing allowances are a policy instrument that helps to make market or near-market based housing feasible for lower income households (Ball et al, 1988).

Fifth, a related factor is that housing allowances are perceived by neo-liberal and conservative governments as giving low-income households greater consumer choice than social rented housing (Mayo and Barnbrook, 1985). The emphasis on consumer choice reflects the renewed romance with markets and disenchantment with public provision – not just in housing, but in the welfare state more generally – that have influenced governments in the advanced economies to a greater or lesser degree since the mid-1970s (Piven, 1986). As well as offering more consumer choice, housing allowances are often seen as being a much less paternalistic way to help people than providing them with social housing.

In addition to these policy changes, housing allowance caseloads have risen in many advanced welfare states as a result of rising ‘needs’. These rising needs reflect some far-reaching socio-economic and demographic trends that have occurred over recent decades. These include:

- The growth in unemployment from the 1970s, which led to an increase in the number of households needing help with their rent or mortgage payments.

- The associated rise in long-term unemployment meant that some claimants had exhausted their entitlement to social insurance and had to rely on less
generous social assistance safety net benefits, which again increased the demands on housing allowance schemes.

- The increase in more precarious forms of employment in many advanced welfare states since the 1970s have also helped to increase the demand for housing allowances from people on the margins of the labour market.

- In addition, the growing numbers of economically inactive people of working age – including lone parent households, early retirees, and people receiving long-term sickness and disability benefits - has also helped to increase housing allowance expenses and caseloads.

- Finally, population ageing has resulted in an increasing number of people above official retirement age, including many low income pensioners that are entitled to housing allowances.

**The role of housing allowances**

Income-related housing allowances can have housing policy or social security (income support) objectives. In practice, however, schemes invariably have both functions, though one or the other is usually dominant (Kemp, 1997). From a *housing policy* perspective, the purpose of housing allowances is to allow low-income households to afford ‘adequate’ housing, that is, accommodation that meets minimum standards in terms of its condition and its size relative to household needs.

Seen from this perspective, the role of housing allowances is to enable recipients to raise their level of housing consumption above that which they would otherwise be able to afford (but not to so high a level that they can be regarded as ‘over-consuming’ accommodation). That is one reason why some housing allowance schemes have, or had in the past, a requirement that households must live in accommodation that meets a minimum standard. Less emphasis seems to be placed on minimum standards within housing allowance schemes these days,
perhaps because the quality of housing has improved considerably since the Second World War.

From an *income support* perspective, the role of housing allowances is not to enable low-income households to move to better quality or larger accommodation, but rather to enable them to reduce the share of their income devoted to housing expenditure.

In other words, the purpose of housing allowances, when looked at from a social security perspective, is to enable recipients to reduce their rent to income ratio to an ‘affordable’ level. By spending less of their income on housing, they can devote more of it to non-housing items in their budget.

Thus housing allowances are a hybrid policy instrument (Kemp, 1997). The money that is given to recipients can be spent on housing (thereby enabling them, for example, to move to better quality dwellings) or it can be used to reduce their rent-to-income ratio and consequently be spent on other budgetary items. These two roles – housing consumption and housing affordability – are not necessarily compatible and can generate conflicting objectives between different government departments. For example, the ministry responsible for housing may be more likely to view housing allowances as a housing policy instrument whereas the social security ministry may be more interested in the affordability role.

**Housing allowances v cash supplements**

With the improvement in housing conditions in many countries in recent decades, the emphasis within housing allowance schemes has shifted more towards the income support or affordability role (Grigsby and Bourassa, 2004). Housing affordability has also become important because, at least in the liberal welfare states such as Britain and the USA, recent decades have seen significant increase in earnings inequality and a growing incidence in low pay.
The heightened concern about housing affordability raises the question of whether there is still a case for housing allowances instead of cash supplements or other forms of income redistribution. For the purposes of this discussion paper, it is assumed that the cash supplement alternative to a housing allowance is an income-related one.

It is often claimed that the distinction between a cash supplement and a housing allowance is that the latter is tied to housing whereas a cash supplement is an unrestricted payment. But even if it is tied to housing, unless recipients use their allowance to improve their housing situation (either by moving to a better or larger dwelling or upgrading their existing one), the money is actually being used to reduce their non-housing expenditure. In other words, housing allowances that are tied to housing consumption may still be used for non-housing purposes.

It could be argued that the more important distinction between a housing allowance and a cash supplement is that the size of the former is related in some way to the price of housing (rents) whereas the latter is not. It follows that the continued justification for housing allowances in advanced welfare states where most people are well housed, depends upon whether it remains important to make transfer payments the amount of which is related to rents. If it is, then housing allowances continue to be a vital policy instrument for helping low-income households. If it is not, then it may be sufficient to give them with a cash supplement (or its equivalent) instead.

In order to answer this question, it is helpful to recall what Beveridge (1942) called ‘the problem of rent’ in his wartime report on *Social Insurance and Allied Social Services*. This problem reflected three important characteristics of rents:

1. Rent is a necessary item of expenditure and not one that can normally be deferred, even during a relatively short period of unemployment.

2. Rent typically constitutes the largest single item in the household budget.
3. The amount of rent that people pay varies significantly between (and often within) areas for reasons that are outside of their control.

It is worth noting that these three aspects of the problem are all concerned with the income consequences of rents rather than the housing aspects (such as dwelling size or quality). The evidence suggests that aspects (1) and (2) still generally apply, at least in relation to low-income households. It follows that the case for providing rent-related cash payments rests on whether condition (3) still applies. In other words, if it is still the case that the amount that people have to pay in rent varies significantly for reasons that are outside of their control, then there continues to be a rationale for housing allowances as opposed to cash supplements.

In most advanced economies, rent levels do vary significantly between cities and regions and hence there is a case for housing allowances that vary by locality. But do rents for similar types of accommodation vary within localities? If they do, and the amount of rent that people have to pay varies within localities for reasons that are beyond their control, there remains a case for paying housing allowances that are related to the recipient’s actual rent. If not, that could be an argument for paying a standard housing allowance – a voucher (see below) – within each locality. Even in the latter case, the housing allowance would still need to be income-related because of aspects (1) and (2) of the ‘problem of rent’. It would also still need to vary by household size and type, if overcrowding is to be avoided among larger households.

Depending upon the size of the ‘locality’, there may be significant spatial variations in rents (for dwellings of similar size and quality) within it. If there are such variations, then unless the localities are relatively small areas, there remains a case for housing allowances the size of which is related to the rent that different households pay.

In addition, it is worth noting that, in some advanced welfare states, there are often variations within localities in the amount of rent that different types of housing provider - social housing landlords, housing cooperatives, private
landlords – charge for their accommodation. Consequently, even within quite small localities, the rents that different households have to pay may also vary for reasons that are beyond their control. This would be a further argument for retaining housing allowances the amount of which is related to the actual rent that households pay (provided it is not ‘excessive’).
3. Designing housing allowances

Income-related housing allowances tend to be relatively complicated policy instruments, though the extent to which this is the case varies from one scheme to another. A major reason for this complexity is that the amount of help that such schemes provide is usually based on the individual circumstances of the recipients.

That complexity may make housing allowances appear to be highly technical policy instruments. However, it is important to remember that Governments that decide to introduce or reform housing allowance schemes have to make a number of important decisions about their design. Those decisions are not merely technical matters, but may crucially affect who is eligible to apply for housing allowances, how much money they are entitled to, and on what terms or conditions they may receive it.

Calculating entitlement

Entitlement to income-related housing allowance schemes is generally calculated according to formulae or tables that take into account three main variables:

1. financial resources;
2. household ‘needs’; and
3. eligible housing expenditure.

The financial resources that are taken into account are income and, usually but not always, assets such as savings. Income may be calculated either before or after income tax and social security contributions have been deducted. Housing allowance entitlement may be assessed on current income or income in a previous tax year. Entitlement may also vary by household size or composition (‘needs’). In some countries, eligible housing expenditure may be confined to rent payments, while in others homeownership expenses may be eligible as well. Eligible rent may be defined to include the expenditures on fuel and other services.
or may exclude them. Eligible homeownership expenses may be confined to mortgage interest payments or may include capital repayments and other outgoings such as insurance and maintenance (Doling, 1997; Kemp, 1997).

The three core variables – resources, household size or type, and housing expenditure – are combined into a formula to calculate entitlement levels. Most housing allowance formulae are variants of the so-called ‘housing gap’ approach (Howenstine, 1986). In such schemes, housing allowance entitlement is defined as a percentage of the difference – the gap – between recipients’ eligible housing expenditure and a minimum contribution (or ‘entry threshold’ as it is referred to in New Zealand). Very often, the minimum contribution is a function of income and household size.

In housing gap schemes, the general formula can be represented as follows:

\[ HA = a(H - bY) \]

where

- \( HA \) is housing allowance entitlement
- \( a \) is a fraction that is usually less than 1.0
- \( H \) is eligible housing expenditure
- \( b \) is the household contribution rate
- \( Y \) is assessed income

Expressed in words, this latter formula means that housing allowance entitlement is equal to a percentage of the difference between housing expenditure and a set percentage of income.

The proportion of the difference ‘\( a \)’ covered by the allowance varies between schemes, but is usually less than a hundred per cent. Even within schemes, it can vary according to client group or level of income. Likewise, the household contribution rate ‘\( b \)’ varies from one country to another. In some countries, the contribution rate varies within schemes depending, for example, on client group, income, or rent level. In some countries (such as the Netherlands) the minimum contribution is expressed as a monetary amount rather than a percentage of
income (though this sum may itself have been originally calculated in percentage terms, as in Germany).

There are several rationales for the presence of the minimum contribution rates or ‘entry thresholds’ in housing allowance schemes (Kemp, 1997).

- First, the most common reason is almost tautological in that it is felt that households should make a contribution from their own pockets to their housing expenditure.

- Second, the entry threshold also formally identifies which households are entitled to receive help. Because households only become entitled to assistance if their housing expenditure is in excess of the minimum contribution, it allows allowances to be targeted on households who have higher housing outgoings. In other words, households whose housing expenditure is below the entry threshold are not, by definition, ‘in need’ and therefore do not require financial assistance.

- Third, a further important reason for the minimum contribution built into housing allowance scheme design relates to concern about moral hazard (see below).

The precise way in which the housing allowance scheme variables are combined into a formula varies from one country to another. Very often these formulae are based on rough and ready assumptions rather than on detailed analysis of their impact on particular types of recipient.

Variations in the details of housing allowance design are not merely technical matters, however. Differences in the way that the three core variables are combined into a formula can make a significant difference to the amount of financial assistance that particular types of household receive. Hence the design details can have important distributional implications. Schemes may favour or disadvantage particular sizes or types of household or give relatively more or less help to people with high as opposed to low rents, and so on.
The distributional implications of housing allowance formulae often become apparent when major adjustments are made or proposed. Unless accompanied by an expanded budget, such changes invariably create groups of ‘winners’ and ‘losers’ (Kemp, 2000b).

**Housing consumption incentives**

Most income-related housing allowance schemes use *actual* rather than *notional* housing expenditure to calculate entitlement. They are ex post rather than ex ante schemes (Gibbs, 1995). As discussed in the previous section, this is because rents and mortgage payments vary widely and take up a large share of household expenditure. This is also an important reason why such schemes are needed in the first place.

However, the fact that income-related housing allowance schemes usually take into account claimants’ actual housing expenditure has important moral hazard implications. In a social security context, ‘moral hazard’ refers to the possibility that claimants may manipulate the system by changing their behaviour in ways that increase their benefit entitlement (Barr, 1999).¹

While all means-tested social security benefits are subject to moral hazard to some degree, housing allowance schemes based on actual rather than notional housing expenditure are particularly prone to this problem. This is because claimants living in private rental accommodation are able to exercise a degree of choice over which house or flat they occupy; and hence they have some say over the rent they pay. This choice may be very limited but it nonetheless does exist in most cases (Kemp, 2000a). For example:

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¹ The word ‘manipulate’ is used here to indicate that some claimants may act in ways that were not intended, and are seen as undesirable, by policy makers. It is of course important to note that policy makers often intend subsidies to influence the behaviour of claimants in ways that the former regard as desirable. For example, in order to increase the birth rate some countries have introduced payments that are designed to encourage couples to have children. In housing, subsidies are provided in some countries to encourage households to become homeowners.
• Faced with a number of possibilities, private tenants may opt to live in more or in less expensive accommodation.

• Some claimants might try to negotiate with the landlord over the rent level when taking up a tenancy, but others might not do so.

In general, in ex post schemes, the amount of housing allowance received increases as the rent increases. Hence, these marginal housing decisions can influence the amount of housing allowance paid and, therefore, the total cost of the scheme to the taxpayer. For this reason, housing allowance schemes invariably employ a range of methods to prevent recipients from ‘over-consuming’ housing.

This concern about housing consumption incentives is most acute in Great Britain because the current housing benefit scheme there currently covers 100 per cent of the marginal price of housing, albeit subject to a variety of regulations that seek to restrict assistance to ‘reasonable’ rents (Kemp, 2000a). The issue of housing consumption incentives is less extreme in ‘housing gap’ allowance schemes. This is because they (1) require recipients to make a minimum contribution to their rent; and (2) typically cover only a proportion of the difference between that minimum rent contribution and the eligible rent. This percentage (of the difference between the minimum rent and the eligible rent) defines the marginal rate of subsidy in the housing scheme, referred to here as the ‘subsidy rate’.

There is a trade-off in housing gap schemes between the subsidy rate and housing consumption incentives. This is because the greater subsidy rate, the lower the marginal price of housing. In other words, with a high subsidy rate, most of the burden of an increase in rent falls on the taxpayer rather than the recipient. Meanwhile, there is also a trade-off between affordability and programme costs. In other words, the higher the subsidy rate, the smaller is the share of the rent paid for out of the recipient’s own resources and hence the more affordable the rent is to the recipient; but the greater is the cost of the scheme. Both Australia and New Zealand have increased the subsidy rate in recent years in order to improve affordability for housing allowance recipients. But, other things being equal, an increased subsidy rate will result in an increase in programme expenditure and, at
least in theory, a reduced incentive for recipients to ‘shop around’ when looking for accommodation. Hence, as Turner and Elsinga (2005) have pointed out, the balance between affordability and the marginal price of housing is a key policy dilemma for income-related housing allowances.

The minimum contribution incorporated into housing gap schemes, previously discussed, is intended among other things to give recipients an incentive to ‘shop around’ for accommodation or to minimise the risk of collusion between the landlord and tenant in setting the rent. If housing allowances covered all of the rent for the poorest recipients, they would have little financial incentive to economise on their housing expenditure. They might agree to pay a higher rent for their accommodation than it is really worth in the market place; or they might move up market to unreasonably expensive, or unnecessarily large, accommodation. The latter has been referred to as ‘upmarketing’ (Hills, 1991). Minimum contributions ensure that some proportion of the marginal price of recipients’ housing decisions is paid for out of their own pocket.

The question of moral hazard raises another crucial question for the design of any housing allowance scheme and that is whether (and, if so, how) to define a maximum amount of housing expenditure that is eligible to be taken into account when calculating benefit entitlement. The rationale behind such limits is generally to prevent recipients from living in unduly expensive accommodation and to help restrain the overall cost of housing allowance schemes.

The household contribution rate discussed above is partly intended to inhibit ‘over-consumption’ of housing. In general, three further strategies tend to be employed by governments to prevent such ‘over-consumption’ resulting from the provision of housing allowances:

- housing expenditure ceilings;
- housing allowance maxima; and
- administrative rules.
First, the housing allowance schemes in most countries have rent ceilings, which may vary by household size or area. In some cases, such as the Netherlands, people living in accommodation that has a rent above the ceiling are disqualified from receiving an allowance. More commonly, however, the excess rent above the ceiling is ignored, as in Finland, Germany and Great Britain.

Second, several countries place limits on the amount of housing allowance that may be awarded to recipients. For example, the New Zealand Accommodation Supplement scheme incorporates caps of this sort, which vary between different parts of the country.

Third, the British Housing Benefit scheme has a number of administrative rules that aim to reduce the possibility of benefit being paid on unreasonably high rents or unreasonably large accommodation (Kemp, 2000a).

As well as seeking to prevent over-consumption, housing expenditure ceilings may be used to limit the possibility that housing allowances may be capitalised into higher rents (or house prices) within housing markets that are not subject to rent controls. This possibility exists because housing allowances increase the effective demand for accommodation, which in turn may allow landlords to charge higher rents than would otherwise be possible. Hence, if rents rise, housing allowances, in effect, may be ‘captured’ either in full or in part by landlords rather than by the claimants who formally receive them (technically, this distinction is known as the effective versus the formal incidence of a benefit or tax).

Whether or not housing allowances do result in higher rents in the private market depends upon a complex array of factors and is likely to vary depending upon the characteristics of individual housing markets. There is a relatively small body of evidence about the market impacts of housing allowances, most of it based on US research. In particular, a ten year social research experiment in the USA found that housing allowances had relatively little impact on rents and house prices. This was partly because only a small share of households in the experimental sites received the allowances. It was also because most recipients used the money to
reduce the share of their income spent on housing rather than to increase their housing consumption (see Bradbury and Downs, 1981). In other words, although the allowances were intended to be a form of housing subsidy, the recipients implicitly used them as an income supplement.

More recently, Susin (2002) used American Housing Survey data to examine the impact of housing vouchers on rent levels. His analysis indicated that low income households in areas where housing vouchers were more abundant experienced larger rent increases than those living in areas where vouchers were less plentiful. An analysis of the impact of a reform of housing allowances on rents at the dwelling level in France in the early 1990s found that they resulted in higher rents when an assisted tenant replaced a non-assisted one. This result “is consistent with the hypothesis that in the short run individual private landlords capture part of the subsidy” (Laferrière and Le Blanc, 2004, p 36). Fack (2006) also examined the impact of housing allowance on rent levels in France. She found that an additional Euro of housing allowance leads to an increase of 78 cents in rents paid by new claimants, a result that she attributed to low elasticity of rental housing supply.

However, it is much more difficult to assess the long run impact of housing allowance schemes. In theory, higher rents will induce additional investment in rental housing, thus increasing supply, which in turn will result in lower rent levels, other things remaining the same. However, if in practice rental housing supply is inelastic, higher rents may not lead to much increase in supply.
4. Work incentives

In addition to the moral hazard issues over housing consumption, policy makers have also been concerned about the possible work disincentive effects of housing allowances (Priemus and Kemp, 2004; Stephens, 2005). There are a number of aspects to this concern about work disincentives, all of which relate to the provision of means-tested benefits in general rather than specifically to housing allowances. They involve both structural and behavioural aspects (Hulse and Randolph, 2005).

First, much of this concern has focused on the ‘poverty trap’. This trap can affect people who are in employment and receive income-related, in-work benefits or tax credits. The concern is that they may be deterred from increasing their earnings because the extra tax and social security contributions that they have to pay, and the withdrawal of social security benefits and housing allowances, on that extra gross income mean they are little or no better off in net terms (Deacon and Bradshaw, 1983).

Second, there is also concern that housing allowances may contribute to the ‘unemployment trap’, that is, the situation where people are little or no better off in work than they would be out of work and living on benefits (Wilcox, 1993). This can arise, for example, in situations where housing allowances are payable to people living on social security benefits but not to people who are in paid employment.

Third, a related concern is that housing allowances might create ‘welfare dependency’ such that recipients become dependent on housing allowances and lose their motivation to find a job and move off benefit (Freeman, 2005; Nordvik and Åhrén, 2005). As a result, claimants may spend an excessive period of time in receipt of housing allowances.
Fourth, there is concern – at least in Great Britain – that difficulties surrounding the administration of housing allowances may make claimants reluctant to take the risk of moving into work.

Despite these frequently expressed concerns about work disincentives, there is relatively little evidence that housing allowances affect *earnings or labour market participation* in practice. Thus, a review of 18 US empirical studies by Schroder (2005), for instance, concluded that housing assistance had no significant impacts (either negative or positive) on employment.

For example, Ludwig et al’s (2005) study of a randomized housing voucher programme in Baltimore, USA, found that it had little effect on economic outcomes. Similarly, Ryzin et al (2003) study of New York concluded that housing subsidies had little effect on either employment or welfare (social assistance) participation. Using nationally representative panel data, Susin (2005) found that differences in earnings and hours of work between housing voucher recipients and a comparison group were statistically insignificant.

Ong’s (1998) study of female welfare recipients in California found that those who were in receipt of housing vouchers or rent certificates worked *more* hours than those in unsubsidised private rental or public rental housing. However, Bania et al’s (2003) study of welfare recipients in a county of Cleveland, Ohio, found that, when neighbourhood conditions were controlled for, receipt of a rent certificate or voucher had no impact on earnings.

Meanwhile, the research on the duration of housing allowance receipt has failed to detect evidence of *welfare dependency*. For example, Nordvik and Åhrén’s (2005) study of lone parents and couple parents in receipt of housing allowances in Norway found that, despite a relatively high marginal deduction rate, about 30 per cent of recipients exited the housing allowance programme each year. In addition, exit rates were independent of claim duration. Hence there was no evidence of a dependency culture among Norwegian housing allowance recipients. Similar results were found in a longitudinal study of housing allowance recipients in Sweden (Chen, 2006). Exit rates increased after the first year of benefit receipt
and remained high thereafter. In other words, the rate of leaving the housing allowance programme did not decline with the length of claim. Similarly, using nationally representative administrative data for the USA, Freeman’s (2005) longitudinal study found little evidence of welfare dependency.

Attitudinal studies also confirm the limited impact of housing allowances on work incentives in practice. For example, Hulse and Randolph (2005) studies the impact of rent allowances for private tenants on work incentives among non-employed job seekers. They found that most households understood, at least in general terms, how their rental assistance would change if they were to move into work. They estimated that recipients of rent allowances (for which only people living on income support benefits are eligible in Australia) faced effective marginal tax rates of between 65 and 85 per cent. Although rent allowances in Australia did not increase effective marginal tax rates, they did widen the income range over which these high rates applied. Nevertheless, their interview survey found that withdrawal of rent assistance in the event of finding a job was not a major concern for private renters in receipt of this benefit (Hulse and Randolph, 2005).

Anxiety about the potential work disincentive effects of housing allowances has been given new impetus with the shift towards a welfare reform agenda in many advanced welfare states in recent years. This new agenda reflects a variety of pressures including a perceived need to increase the labour supply in the face of population ageing and global economic competition. Hulse (2003, p 38) defines ‘welfare reform’ as being the “reconceptualisation of income support for most people of workforce age as transitional and temporary cash assistance while recipients prepare for or actively seek work.” Typically, welfare reform involves workfare programmes, work-focused interviews and help with job search, sometimes linked to increased benefit conditionality and sanctions for non-compliance (see Lodemel and Trickey, 2001).

Within this reform agenda, governments have sought to reduce the barriers to work facing people on benefits, including recipients of housing allowances. In Australia, for example, recipients risk losing their rent allowance if they fail to
comply with new requirements to participate in job search and training activities. In Britain, the government is concerned about the potential impact of housing allowances on the success of welfare to work policies. Delays in processing Housing Benefit claims, and other difficulties surrounding the administration of the scheme, are believed to present a barrier inhibiting some out of work benefit recipients from taking up paid employment. To combat this problem, a benefit ‘run-on’ has been introduced for certain non-working claimants, whereby they can receive their current level of Housing Benefit for the first four weeks of a job. However, there is very little awareness of this initiative among benefit claimants – as there is about many aspects of the Housing Benefit scheme, including the fact that it may be claimed while in work (Turley and Thomas, 2006) – and take up has consequently been quite low. In addition, a range of administrative reforms has been introduced to help improve the administration of the scheme and reduce the time it takes to process new claims and changes of circumstances that affect benefit entitlement. Finally, the Local Housing Allowance reform, which is currently being tested in 18 local authority areas in Britain, is also aimed at facilitating the movement of claimants from welfare into work (see below).

In the USA, the federal government introduced the Welfare to Work Voucher Program in 1999 for rental assistance to help low-income families make the transition from welfare to work. This experimental scheme (which was phased out in 2004) involved 8,731 families being randomly assigned to either a treatment or a control group in six localities. The long-term evaluation of this programme found that it had no impact on either earnings or employment. While the short-term evaluation found that, one to two years after random assignment, take up of a housing voucher had a small negative impact on work effort, this disappeared over time. The result was that, after 3.5 years, voucher receipt had no impact on earnings or employment (Mills et al, 2006).


5. Housing vouchers

In recent years, there has been growing interest in the idea of housing vouchers as an alternative to traditional housing allowance schemes. For instance, in the Netherlands, there has been a lively debate about this subject. In a discussion paper on housing policy published by the Dutch housing ministry in 1999, vouchers were presented as a possible 21st century replacement for housing allowances. This debate was inspired by the US housing voucher scheme (Elsinga and Conijn, 2004). Although the idea seems to have been dropped for the time being, it may yet return to the policy agenda in the Netherlands. The Local Housing Allowance scheme for private tenants that is currently being tested in Great Britain (discussed below) has also helped to raise interest in ‘housing vouchers’.

Before progressing further it is helpful to clarify what, if anything, distinguishes a housing allowance from a housing voucher. In Vouchers and the Provision of Public Services, Steuerle (2000, p 2) defines a voucher as “a subsidy that grants limited purchasing power to an individual to choose among a restricted set of goods and services”. Defined in this way, the essential characteristic of a voucher is that it is a payment to the individual which may be used to purchase a particular type of good or service (such as education, health care or housing to rent.). In Steuerle’s view, a voucher can take the form of a direct subsidy or tax expenditure; and it may be made either to the individual or, on their behalf, to the provider of the good or service. In other words, a voucher is simply a demand-side payment that may be made either directly or indirectly to an individual. It follows that, for Steuerle, housing allowances are vouchers.

Sandra Newman (2007) presents a different perspective on housing vouchers from Steuerle. Whereas Steuerle sees housing allowances as a particular form of voucher, Newman sees housing vouchers as a particular form of housing allowance. Newman argues that, whereas housing allowances are typically cash transfers, housing vouchers in the USA are not cash as such; instead, they are “a promissory note from the government”, albeit one with strings attached. In other
words, a voucher is a \textit{promise to pay} rather than the actual payment itself. Thus in the USA, housing voucher recipients do not cash the voucher at a bank, but instead hand it over to their landlord, who then redeems the payment from the public authority administering the scheme. Thus, housing vouchers are akin to luncheon vouchers that some employers provide to their employees. This is a narrower definition of vouchers than that provided by Steuerle (2000) and, arguably, a much more helpful one.

However, the feature of US housing vouchers that has particularly interested policy makers in other countries is not the form that the payment takes; instead, it is the fact that the amount to be paid is based on the ‘fair market rent’ for the local housing market rather than on the recipient’s actual (or eligible) rent. By contrast, in most other housing allowance schemes, the amount paid is calculated on (some proportion of) the rent paid by the recipient. In other words, in this third perspective, what distinguishes a housing voucher from a housing allowance is not how it is \textit{paid}, but how it is \textit{calculated}.

Thus, the term housing vouchers is being used in at least three different ways:

1. as a synonym for housing allowances,
2. as a particular form in which housing allowances are paid; and
3. as a certain way of calculating the payment.

All three definitions are valid uses of the term, there seems little to gain analytically from using the terms housing allowances and housing vouchers interchangeably.

Drawing on the example of luncheon vouchers, a cash payment is not a \textit{voucher}; it is \textit{cash} (or, increasingly, its electronic equivalent). As such, and unlike a promissory note (voucher), the recipient could use the cash to pay for non-housing goods or services, so long as it is paid to them and not to their landlord. Indeed, for some policy makers, an advantage of vouchers is precisely that they can only legally be used to pay for the designated commodity. That is an important reason why, in the USA, food stamps are paid instead of cash, to ensure that they are
spent on food. Hence analytically there is considerable value in using the term ‘vouchers’ to describe demand-side subsidies that are paid in the form of promissory notes, in line with Newman’s definition.

The third definition – that is, as a payment the amount of which is related to the average rent for the locality – seems to conflate this particular feature of the US housing allowance scheme with the name given to the programme (housing vouchers). Rather than necessarily being a feature that distinguishes housing vouchers from housing allowances, it reflects an important distinction between *ex ante* and *ex post* schemes (Gibb, 1995). In *ex post* schemes, the size of the housing allowance is related to the amount of rent that the recipient pays their landlord. By contrast, in *ex ante* schemes, the amount of the allowance is independent of the recipient’s rent; it may instead be based on an arbitrary figure or a more ‘objective’ amount such as the average rent for the locality.

Seen from this third perspective, housing vouchers are an *ex ante* form of housing allowance. In contrast, housing gap schemes are typically a form of *ex post* housing allowance. Likewise, although not a housing gap scheme, the current British Housing Benefit is an *ex post* housing allowance. Thus, it is more accurate to describe payments that fall within the third definition as ‘*ex ante* housing allowances’ rather than as ‘housing vouchers’. Nevertheless, this third use of the term is likely to stick in the debate about the future of housing allowances, and for that pragmatic reason it is the one used in the remainder of this discussion paper.

For some policy makers, housing vouchers defined in the third sense – that is, as *ex ante* housing allowances – appear to offer the tantalizing prospect of reconciling the trade-off between housing affordability for recipients and cost-containment for taxpayers. This is because vouchers potentially reduce the perceived problem inherent in *ex post* housing allowances, that the amount of the payment is more or less closely related to the housing choices made by recipients. If recipients wish to spend more than the value of the voucher on the price of their accommodation, that is their ‘choice’ and one that they pay for and not the taxpayer. By increasing the marginal price of housing compared with a typical housing allowance, voucher recipients have a greater financial incentive to shop
around for accommodation. Thus in theory, compared with housing allowances, vouchers reduce the scope for individual upmarketing or general rent inflation in the housing market. Whether the trade-off between housing affordability and cost containment can be so easily resolved, remains to be seen. The example of the British Local Housing Allowance – which is a voucher defined in the third sense above – suggests that vouchers may not quite match up with this aspiration.

Towards housing vouchers in Britain

The Local Housing Allowance

The Local Housing Allowance (LHA) that is due to replace the current Housing Benefit scheme for private tenants in Britain is an ex ante scheme (Kemp, 2006) – or, following the third definition outlined above, a housing voucher scheme. The LHA is part of a package of reforms that are designed to address the numerous structural and administrative deficiencies of the current housing benefit scheme (see Kemp, 1998, 2000b). This programme of reform has two main aspects (DWP, 2002).

First, the Government introduced a raft of relatively minor reforms that were designed to improve the administration of the scheme and remove obstacles that deter recipients from moving off welfare and into paid employment. These reforms appear to be having some impact and, among other things, the average number of days that it takes to process applications has begun to fall (DWP, 2006).

Second, in November 2002 the Labour Government announced that it would introduce a radical reform of Housing Benefit involving a new Local Housing Allowance for private tenants. At the time of writing, the new scheme for private tenants is being tested in 18 ‘pathfinder’ local authority areas prior to be implemented nationally in 2008. The local housing allowance (LHA) scheme removes the necessity for the complex rules in the current scheme that are designed to prevent benefit being paid on ‘unreasonable’ private sector rents. The
main feature of the LHA is that entitlement is no longer calculated on the claimant’s eligible rent. Instead, within each local market area, there is a standard allowance, which varies only by household size and composition.

However, it is important to note that the means-test still applies under the LHA. Thus, claimants whose income is at or below the social assistance benefit rates receive the full standard allowance, but for those with an income above that level the allowance tapers out at the same rate (that is, 65% of net income) as in the existing housing benefit scheme. Thus, although the determination of rent is greatly simplified, complexities concerning income assessment, household composition and most changes of circumstances, still apply in the LHA (Kemp, 2006).

In the pathfinder scheme, recipients living in accommodation with a rent that is less than the LHA can keep the difference; while those renting a home that is more expensive have to pay the excess out of their own income. The design of the LHA is therefore such that the marginal price of housing for recipients is 100%.³ To that extent, LHA recipients have a financial incentive to shop around when looking for accommodation. If the recipient moves to somewhere more expensive, they have to pay the full amount of the increase out of their own pocket.

However, one difference between the scheme that was tested in the pathfinder areas and the one that will be implemented nationally in 2008 is that, where the LHA is more than the rent, the maximum gain will be capped at £15 per week (DWP, 2006b). This proposed limit is partly intended to ensure that work incentives are not undermined for the minority of recipients of the LHA who make large gains and partly to contain the anticipated increase in the cost of the Housing Benefit programme when the new scheme goes nationwide in 2008.

³ It could be argued that, because the marginal price of housing under the LHA is 100%, there is no link to housing and therefore the scheme is an income support rather than a housing policy instrument. However, there is a link to housing in that the amount of LHA that is paid to recipients is based on the median rent in the locality in which they live. In both these respects, the LHA resembles the US housing voucher scheme (though it is different in other ways).
The LHA is normally paid to the tenant rather than the landlord. It is only paid directly to the landlord where the claimant is eight or more weeks in arrears with their rent or is deemed to be ‘vulnerable’ and unable to manage their financial affairs. Although the LHA represents a radical departure from previous Housing Benefit designs, most of the debate focused on the fact that it would be paid to claimants rather than directly to landlords.

In the present Housing Benefit scheme, the payment is made directly into the rent account of all claimants renting from local authorities. For claimants renting from other types of landlord, the payment can be made directly to the landlord if the tenant so requests or is at least 13 weeks in arrears with their rent. In practice, Housing Benefit is paid directly to the landlord of nine out of ten housing association claimants, and six out of ten private rented claimants. In practice, therefore, for almost all social housing recipients and many private tenant recipients of the current Housing Benefit scheme in Britain, the payment is close in form to a voucher in the second definition of that term.

The poverty lobby and organisations representing landlords and their mortgage lenders argued that, if the LHA is paid to the claimant rather than directly to the landlord, the money will be spent on other things; and that, consequently, rent arrears and evictions will increase and landlords’ income streams will be placed in jeopardy (Kemp, 2006).

The rationale for the LHA reform is to ‘build choice and responsibility’ into Housing Benefit. The Government hopes that the design of the LHA will encourage recipients to make trade-offs between quality and price when looking for accommodation in the rental housing market. The much simpler system will also be far more transparent than the old one. It is hoped that knowing how much allowance they will get in advance, and having it paid to them instead of their landlord, will empower recipients and encourage them to take responsibility for their budgeting and rent payment obligations (DWP, 2002). These objectives therefore seek in part to address the moral hazard problems of the existing Housing Benefit scheme. They also attempt to build on the ‘rights and responsibilities’ agenda that has informed many of New Labour’s other reforms of the welfare state (Dwyer, 1998). Tenants
on Housing Benefit are expected to become active and responsible consumers in the market place, armed with their local housing allowance rather than being passive recipients of Housing Benefit that is paid on their behalf directly to the landlord.

The Government hopes that the LHA will also help to improve administration. Because it will no longer be necessary to refer rents to the Rent Service to check that they are not unreasonable, it should be possible for the Local Housing Allowance to be processed and paid more quickly than is the case with the present scheme. But while improving administration is an important objective in its own right, it is mainly seen as a means to encourage more claimants to move from welfare to work. The Government hopes that recipients will be less worried that taking a job will result in lengthy disruption to the payment of their Housing Benefit (DWP, 2002). (The impact of the LHA pilot reform is discussed in the next sub-section.)

The Government initially hoped to extend the LHA to social housing in due course, but this proposal has now been dropped, at least for the time being (DWP, 2006). This change of plan was made because it proved difficult to design a flat-rate scheme that was compatible with the way tenancies are allocated and rents are set in that part of the housing market (see Kemp, 2006). Unlike the private rental market, where rents and access are determined by the interaction of supply and demand, in the social housing sector both prices and tenancies are administered by officials following rules. Tenancies are allocated on the basis of assessed need, not ability to pay. Consequently, Housing Benefit recipients in social housing are not currently in a position to shop around for accommodation. It will be difficult to introduce a housing allowance scheme that relies on the operation of a market when an administered system, rather than a market, is in place (Kemp, 2000b). Making social housing more market-like in order to facilitate the introduction of a LHA would raise fundamental questions about the nature of this tenure, including the extent to which it is primarily focused on helping those people who are in most need. However, the Labour Government still intends to move towards the payment of Housing Benefit to the claimant instead of the landlord in the social housing sector (DWP, 2006b).
Impact of the LHA

At the time of writing, the official evaluation of the LHA in the pathfinder areas is not complete and it may be too early to make a definitive assessment of its impact. However, the results published so far, together with other research evidence, make it possible to draw some provisional conclusions.

First, the proportion of recipients that were personally receiving their benefit (instead of it being paid directly to the landlord) has increased, from about half prior to the LHA pilot to about nine out of ten after its introduction (Roberts et al, 2006). However, this substantial increase in payment to the claimant has not resulted in a significant rise in rent arrears. Thus, the evaluation team concluded that “non-payment of rent does not appear, after 15 months of the LHA, to be a problem affecting a large number of claimants and their landlords” (Walker, 2005, p 4). Hence, despite the fears expressed by landlords, lenders and consumer groups, it seems that the great majority of LHA recipients were successfully paying their rent and not falling into (a higher level of) rent arrears. Meanwhile, although there were some initial teething problems (Citizens Advice, 2005), the nine local authorities where the LHA was being evaluated were managing to identify ‘vulnerable’ recipients that were not able to manage their affairs, for whom direct payment to the landlord remained appropriate.

Second, concerns that the loss of direct payments and increased rent arrears would encourage landlords to stop letting their accommodation to recipients do not appear to have materialised. Although some landlords had withdrawn, or said they would withdraw, from letting accommodation to recipients, in practice the decreases were not substantial (Rhodes and Rugg, 2006). Moreover, there was little evidence to suggest that homelessness had increased among recipients in the nine areas included in the official evaluation (Walker, 2006). Likewise, an assessment of the impact of the LHA in four of the pathfinder areas by the housing pressure group Shelter (2006) also found that homelessness had not increased. In fact, the official evaluation found that, because homeless people could still have their benefit paid directly to the landlord, the ability of organisations assisting them to find accommodation had been increased compared
with the situation before the LHA was introduced in the pathfinder areas. In other words, because most other claimants had their LHA paid to them, homeless people had become a more attractive client group to some private landlords (Walker, 2006).

Third, after 15 months, the evaluation found little evidence that the LHA had much influenced whether or not recipients had moved or were likely to move home. In addition, there was no evidence that significant numbers of recipients had moved into smaller accommodation in order to maximise the excess of the LHA over their contractual rent. However, more recipients than before were judged to be living in accommodation that was ‘appropriate’ in terms of size (Roberts et al, 2006).

Fourth, the experience of the LHA so far has revealed little evidence of significantly greater shopping around for accommodation among recipients in the nine areas where it is being evaluated (Roberts et al, 2006; Walker, 2006). This muted impact of the LHA may reflect the fact that recipients have other factors in mind and not just the amount of the subsidy, when looking for accommodation or deciding whether or not to move home. The transaction costs associated with moving house – search expenses, letting agency fees, credit check charges, bonds/deposits, payment of rent in advance, and removal bills, quite apart from the time involved – may inhibit recipients from moving house in order to get a better deal. Likewise, non-financial factors also tend to influence whether, and to where, people move (see Pawson and Sinclair, 2003). Hence, in the British context, the effects of housing allowances on moving decisions may be less important than many policy makers imagine (Kemp et al, 1994).

Fifth, most recipients were better off financially under the LHA than they had been under the previous Housing Benefit scheme. Over half of LHA recipients had an excess of benefit over their rent. The high proportion of recipients gaining in this way reflects the fact that, in the pathfinders, the LHA payment was set at the rent ceilings used for calculating Housing Benefit for private tenants under the previous scheme. For the same reason, under the LHA a smaller proportion of recipients than before had a ‘shortfall’ between their contractual rent and their
eligible rent for benefit calculation purposes. Further, among those recipients that continued to have one, the average amount of the shortfall was smaller under the LHA than the previous, Housing Benefit scheme (Roberts et al, 2006).

Sixth, although in the ‘pathfinder’ areas the average eligible rent had increased, contractual rents had not, when compared with the comparison areas in the evaluation (Roberts et al, 2006). This is important because there had been concern that the more generous level of the LHA compared with the previous scheme would encourage landlords to increase rents. An evaluation of the LHA conducted by Shelter also found that the LHA had not resulted in rent inflation within in the four pathfinder areas included in their study when compared with four comparison areas (Shelter, 2006).

Finally, there was no evidence that the introduction of the LHA had had a significant effect in practice upon work incentives (Roberts, 2006), even though this was a major motivation behind the Government’s decision to pilot the reform. However, compared with national trends there had been a modest reduction in the time taken to process benefit claims. In addition, the evaluation confirmed that the LHA represented an improvement in clarity and transparency for recipients and their landlords compared with the previous, Housing Benefit scheme in relation to the amount of benefit that private tenants receive (Walker, 2006).

In summary, the impact of the LHA has been relatively modest. The LHA has not had the disastrous impact that its critics argued it would have, for example, in relation to rent arrears and homelessness as a result of paying benefit to tenants instead of landlords. Equally, while it has had clear benefits for many recipients, particularly in relation to financial gains, these have been relatively modest overall. Meanwhile, some of the Government’s hoped-for outcomes, such as improved work incentives, have not yet materialised. However, the impact of many reforms is often neither quite as beneficial as the advocates hope, nor as deleterious as the opponents claim will be the case. This is hardly surprising as both proponents and critics are almost obliged to exaggerate the likely effects in order to mobilise support either for or against contentious reforms. Nevertheless, the evidence so far suggests that the LHA represents an important, but not
particularly marked, improvement on the previous, Housing Benefit scheme for private tenants.
6. Conclusions

This discussion paper has reviewed some important issues relating to the current role and future design of housing allowance schemes in the advanced welfare states. The discussion is not based on the findings of new research, but is rather a ‘think piece’ based on an in-depth knowledge of the existing literature and an understanding of the key issues affecting housing allowances in a comparative perspective.

So far as the rationale for housing allowances is concerned, the paper noted that such schemes are hybrid policy instruments that can and often do have both housing policy and social security goals. While the housing policy goal of housing allowances has lost some force, the social security (income support) goal is still an important one. That is because affordability is an important policy concern in many advanced welfare states. Very high rent to income ratios reduce the amount of money that low income households can afford to spend on other necessities in their budgets.

It was argued that there remains a case for housing allowance schemes because of the so-called ‘problem of rent’, which still presents a particular difficulty for low-income households. A simple cash supplement is unlikely to address this problem in a cost-efficient way.

In theory housing allowance schemes can have a negative impact on earnings from paid employment and on labour market participation. However, the research evidence to date suggests that such impacts are not significant in practice. Nor is there evidence that housing allowances create welfare dependency. Although officials often express concern about the work disincentive effects of housing allowances – particularly about high effective marginal tax rates – few countries appear to have introduced initiatives to tackle this issue. The main exceptions are the USA and Great Britain, though again the impact of these initiatives has generally been rather limited. This may be because decisions about hours of work...
and labour market participation are affected by a range of factors and not just entitlement to housing allowances.

Some of the potential work disincentive effects of housing allowance reflect the fact that such schemes are relatively complicated policy instruments, not the least because they are income-related. This paper has examined various design issues in relation to housing allowances and noted that many of them involve trade-offs, for example, between benefit adequacy and housing consumption incentives.

The paper also discussed the prospects of housing vouchers as a potential future design for housing allowance schemes. For some commentators, housing vouchers offer the prospect of reconciling the trade-off between housing affordability for recipients and cost containment for taxpayers. But the experience from Great Britain, where a voucher (in the form of an ex ante payment) is currently being tested, suggests that such hopes may not in practice be realised. The impact of this scheme to date has been relatively muted, reflecting the fact that housing decisions (like decisions about work) are often based on a range of factors, of which housing allowances are generally not the most significant. They are, though, an important part of the welfare state ‘income package’ and enable low-income households to afford to occupy decent quality and appropriately-sized accommodation. That role remains an important one today, even in advanced welfare states with mature housing markets.
7. References


