

## Housing support and poverty traps: lessons from abroad

Reductions in subsidies for social housing have caused rents to rise, and required a growing proportion of British tenants - at present 60 per cent - to rely on means-tested housing benefits. A JRF international policy seminar examined how other European countries manage to avoid such high dependency levels. A report based on the seminar found that:

- f** A shift from 'bricks and mortar' subsidies to rent support to individuals has occurred in several European countries, caused by the desire for better targeting.
- f** However, in other countries reliance on means-tested benefits is confined to a small minority of households, whereas in Britain 20 per cent of households and 60 per cent of tenants receive housing benefit.
- f** Means-tested housing benefits are less important in other countries partly because other benefits (eg contributory benefits) make a more significant contribution to rent.
- f** Poverty traps caused by sharp reductions in benefits when an unemployed person finds a low-paid job can be reduced by less sharp targeting. Some countries make it easier for people to work casually by assessing benefits over longer periods and by allowing people on low earnings to retain some income support.
- f** Britain is unusual in paying benefits that vary directly with rent, and thus remove the incentive for claimants to contain their housing costs. Other countries make tenants with higher rents foot part of the bill themselves. But if Britain were to do so while retaining low basic benefits and highly variable rents, there would be severe hardship.

## Background: questions from Britain

Over the past five years there has been a dramatic change in the style of public support for people in Britain whose incomes are too low to afford decent housing at market prices. After a century of subsidies being paid to charitable and public housing providers so that they can rent at affordable levels to those on modest incomes, support has been shifted more toward subsidies for individuals to help them pay the rent. Smaller subsidies to housing providers has meant higher rents and a growth in reliance on means-tested housing benefits, which has the effect of targeting housing support to the most needy, but also has drastically increased dependence. Three-fifths of all tenants now claim housing benefit (and half a million home-owners receive mortgage interest assistance as part of income support).

Are there ways to avoid these dependency levels, and associated work disincentives, without creating severe hardship? Looking at differently-organised housing and social security systems in other countries, it is worth asking:

- Are there effective and acceptable ways of subsidising housing directly, rather than through means-tested income subsidies?
- Is it possible to support the income of those who cannot afford adequate housing, in ways that avoid excessive means-testing and the associated risk of poverty traps and work disincentives, as well as the costs of a system based on the regular assessment of the means of millions of households?
- Is it really necessary to vary housing benefit levels directly with rents, removing incentives to tenants to keep rent levels down?

The practices of other European countries, explored in a recent Joseph Rowntree Foundation initiative, throw fresh light on recent policy debates in Britain. The countries involved in this exercise were: France, Germany, the Netherlands, Norway and Sweden.

## Trends in subsidised housing

Most European governments provide substantial subsidies to housing. They do so in a wide variety of ways. 'Bricks and mortar' subsidies are in some countries targeted on housing for the poor, but in others are more generally available in an attempt to reduce housing costs, to standardise costs or to enhance supply.

Table 1 gives a simplified picture of how this balance is struck in five European countries. In Scandinavia, the emphasis is on enhancing supply and standardising cost across sectors; in France and the Netherlands - as in Britain - subsidies concentrate on 'social' provision. Germany has a significant social sector, but also stresses support for investment by private landlords, which helps keep private renting relatively cheap and plentiful.

While subsidy systems are highly individualised to the particular institutions, history and housing market conditions of each country, the following observations were made in the international context:

- *Where social housing exists on a large scale, it has proved difficult to find the right balance between targeting and social mixing.* On the one hand there is a danger of creating problematic ghettos, on the other the risk of subsidising an unacceptable number of better-off households.
- *There has been some success, albeit limited, to ensure that the needs of the tenant and the size and other characteristics of the home, are better-matched.*
- *Where subsidies are more widely spread among tenures, the risk of segregation is lower, but still exists.*

## Income support and poverty traps

Housing allowances of some kind exist in most European countries, alongside benefits for the general relief of poverty and contributory benefits. They are not on the whole as integrated with poverty relief as in Britain, and hence not always subjected to such precise means tests.

In other European countries as in Britain, there is a growing pressure to target assistance to those most in need, as growing social dislocation puts pressure on limited public budgets. However, it is also worth noting a number of ways in which the British situation is unusual in relation to other countries:

- *Dependence on housing-related benefits is exceptionally high in Britain by international standards.* Although it is not possible to make exact comparisons between different benefit systems, Table 2 illustrates how many more British tenants are directly dependent on assistance with housing costs than their counterparts in some other countries. It also shows how the proportion in Britain has been increasing over the past few years.

**Table 1 Housing sectors and housing subsidies**

Country	Tenure balance: owner-occupied/and social rented/private rented	Types of social housing	Main 'bricks and mortar' subsidies to housing
UK	66%/24%/10%	Local government (council); housing associations	Revenue subsidies from central govt to council housing; capital grants to housing associations
France	54%/17%/21%	'HLM' -social landlords	Central govt capital grants to HLMs; improvement grant redistributes tax on private landlords
Germany	38%/15%/43%	Any landlord/home-owner who applies for subsidy; > 2/3 owned by housing associations	Soft loans and current allowances for housing occupied by lower income groups (social housing); tax breaks for investors in other rented housing
Netherlands	46%/41%/12%	Housing associations (80%); local government	Government loans and subsidies for social housing; being phased out for municipal stock.
Norway	79%*/4%/18% *(19% is owner-occupied in co-ops, with a social character).	Local govt housing plays small role. Co-ops formerly price-controlled.	Loans with interest subsidy for all investment by owner-occupiers, extra loans and grants for poorer ones.
Sweden	59%*/20%/20% *(17% is 'tenant-owned' through non-profit associations.)	Municipal housing corporations	General interest subsidies aiming to reduce differences in capital cost between old and new housing

**Table 2 Proportion of tenants receiving housing benefits/allowances**

Great Britain - receiving housing benefit:						
1993:	council tenants	66%				
	housing association tenants	51%				
	private tenants	49%				
			Previous years, all tenants:			
			1989	1990	1991	1992
1993	ALL TENANTS	60%	52%	53%	53%	57%
Receiving housing allowances in other countries - all categories of tenant:						
	Germany (1990)	10%				
	France (1990)	16%				
	Netherlands (1991)	30%				

- *Britain combines housing support more closely than other countries with general income support.* This makes it potentially more effective as a means of relieving poverty, but potentially less effective as an aid to access to better housing.
- *The housing benefit taper is steep in Britain by international standards.* In Britain, rising income leads to reduction in housing benefit at a rate of 65%. In Germany, housing allowances are reduced by 15-30% of rising income, in Sweden by 35-40% and in Norway by 14-21%.
- *Britain is unusual in paying benefits to home-owners only to cover the mortgage interest of those without work.* The resulting 100% withdrawal of benefit to those entering employment is avoided in other countries, where allowances for home-owners are not so closely linked to their employment status.
- *Other countries avoid some work disincentives by making eligibility rules less rigid - in particular by making it easier to work casually or irregularly without immediately losing all benefit.*
- It creates severe problems in the Netherlands' flawed housing market, since rent levels are often seriously out of line with quality, and cheaper-than-average tenancies rarely come onto the market to offer the poorer tenant an alternative. Comparable flaws exist in Britain, which has wider variations in rent levels than most other European countries.
- The poorest British claimants have virtually no spare resources to put into rents. In continental countries insurance benefits pegged to the former worker's wages still play a greater role, and safety-net benefits are generally higher in absolute terms. Table 3 illustrates this point, taking unemployed people as an example. In Britain, even insurance benefits maintain unemployed people on only a minimum subsistence level, rather than reflecting former earnings as in other countries. But in addition, it should be noted that in France and Germany, longer maximum entitlement periods mean that a majority of unemployed people retain some entitlement to insurance benefits despite the growth of long-term unemployment, whereas in Britain fewer than one-third receive insurance benefits. This creates high reliance on income support, which is repeated in the case of other categories of British claimant such as pensioners. Some 16% of the British population are beneficiaries of income support, about twice the proportion relying on comparable means-tested benefits in France and Germany.

### Housing allowances and rent levels

In most countries with housing allowances, claimants are expected to contribute to higher housing costs. Britain is unusual in reimbursing 100% of rent at the margin, up to imprecisely-defined 'appropriate' levels. A clearly contrasting system is that of the Netherlands, where there is a 'quality reduction' in disposable income as rent rises. That is to say, the extra rent is less than fully reimbursed on the principle that the household is buying extra housing quality, and it should contribute to its cost. Once an initial ceiling is reached, there is no further subsidy and the household must pay for all its extra 'quality'. Where a second ceiling is reached, *all* the allowance is withdrawn, on the basis that a household that chooses that much quality must pay the whole cost.

The idea of providing better links between rent levels, housing quality and actual net cost to the tenant is an appealing one. But the seminar identified two main reasons for caution before translating a system like the Dutch one into Britain:

Table 3 Benefits for unemployed people

	UK.	France	Germany	N'lands
Insurance benefit:				
- duration of entitlement	12 months*	4 to 60 months	6 to 32 months	6 to 54 months
- % entitled**	29%	77%	65%	38%
- % of former earnings†	23%	80%	63%	74%
Safety net benefit:				
- Basic allowance (ecu per month), 1993				
- single person	248 (=£190)	314	260	560
- couple, 2 children	656 (=£502)	659	805	964
- Number of beneficiaries, all categories	5,087,000	420,000	4,230,000	220,000
- Beneficiaries as % of population aged 15+	11%	1%	6%	2%

\* It is proposed to reduce this to six months

\*\* Number of unemployed people receiving insurance benefits as percentage of total receiving insurance and means-tested benefits, but excluding those whose redundancy/bankruptcy compensation disqualifies them from benefit.

† Example of initial rate for 40-year-old industrial worker who had been working since age 20, and was on average earnings before becoming unemployed.

### Conclusion

These findings indicate that moves in Britain towards market rents have created a form of dependency on a scale not found in neighbouring European countries. The results are reduced incentives to work and to find suitably-priced accommodation. But simply cutting or narrowing benefit entitlements in order to restore incentives would cause severe hardship, given the relative weakness of other income sources for poor people in Britain and the likely absence of alternative, affordable housing.

### About the study

A group of 22 experts involved with housing and social security issues in Britain, France, Germany, the Netherlands, Norway and Sweden met in York in May 1994 to discuss the issues outlined above from a cross-national perspective. The exercise was supported by a set of country briefings drawn up by participants. The objective of this and other Joseph Rowntree Foundation International Policy Seminars is to heighten awareness of the experiences of other countries among those formulating policy strategies in Britain.

### Further information

The papers from the seminar will be available from the Joseph Rowntree Foundation in December, price £3.25.

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### Related *Findings*

The following *Findings* look at related issues:

- 68** The effect of housing costs on young people's lifestyles (Oct 92)
- 70** Unreasonable rents and housing benefit (Nov 92)
- 78** Affordability and social housing: lessons from Australia (Mar 93)
- 87** New approaches to 'affordability' (Apr 93)
- 93** Higher rents and work disincentives (Jun 93)
- 103** Planning controls and affordable housing: the US experience (Dec 93)
- 109** The impact of higher rents (Mar 94)
- 129** Housing policy in a European perspective (Oct 94)

The following *Housing Summary* is also relevant:

- 3** A competitive UK economy: the challenges for housing policy (Jun 94)

For further details on these and other *Findings* contact Sally Corrie on 0904 654328 (direct line for publication queries only).



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