

HOUSING BENEFITS IN THE CHILD BENEFIT PACKAGE IN 22 COUNTRIES

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Introduction

Every welfare state has a package of tax benefits, cash benefits and services in kind that mitigate the costs to parents of raising children. We have recently completed a comparative study of this package in 22 countries, using the model family method (Bradshaw and Finch 2002). We knew from previous research that housing benefit systems are an important element in this package and one that varies considerably between countries (Bradshaw *et al.*, 1993; Kemp, 1997, Ditch *et al* 2001). Housing costs vary within and between countries according to many factors – the age and condition of the dwelling, the size of dwelling, location, tenure, the extent of bricks and mortar subsidies, rent control legislation and, for those with a mortgage, how long they have been in the market and the current interest rates. The costs of housing are an element which determines the value of the housing benefit payable. In comparative research using the model family method it is necessary to control for all this variation. Indeed housing costs are the most difficult of all elements to deal with in comparative research on tax and benefit systems

Nevertheless it is more important to attempt to take them into account than to ignore them completely. In this paper we describe how we attempted to take housing costs and housing benefits into account in this research . Then we present the results we obtained and show how important housing costs and housing benefits are to the overall comparison of tax benefit packages and *inter alia* comparisons of poverty rates between countries. Finally we discuss the implications of our findings for the child tax benefit package in the UK and the extent to which housing costs and housing benefits are reducing the effectiveness of the government's anti poverty strategy and the meeting of their target to reduce child poverty by a quarter by next year.

Methods

In previous work (Bradshaw et al 1993, Eardley et al 1996, Bradshaw et al 1996) using the model families method we have asked national informants to specify a gross rent level for a one, two and three bedroom dwelling, of the most common housing form, in the most common rental tenure, in a specific place in their country. In the UK this was a one-bedroom council flat and a two and three bedroom semi detached council house in York. In other countries it tended to be private rented flats. The rent varied with the size of the family but not with income. We obtained nominated rents that varied a good deal. The UK rents were thought to be low nationally and unrealistically low for the better off family.

The OECD in its work using the model family methods (OECD 2001a) takes a standard 20 per cent of gross average earnings as its housing assumption. Thus housing costs do not vary with family size or income. OECD does not justify their assumption of 20 per cent empirically but it is the kind of ballpark figures discussed in the housing affordability discourse. We decided to depart from our own previous practice and adopt the OECD method in this study. The reasons for this were:

1. It is (more) consistent across countries.
2. It is simpler for the national informants.
3. It is simpler for us to handle at the analysis stage.
4. It will make our results more comparable with OECD.
5. It will give a higher (arguably more realistic) rent figure for some countries including the UK.

The disadvantages are:

1. Families of different sizes are likely to occupy dwellings of different size and with the standard rent of 20 per cent of average earnings we lose variation by size.
2. In most countries a rent of 20 per cent of average earnings will be too high for some of the low-income families we are including in the analysis. Indeed in Japan and Denmark the national informant told us that a low-income family would not be entitled to housing benefit on that rent and be expected to move to lower cost housing. In other countries including the UK there is an eligible rent ceiling for housing benefit, which might have been exceeded by the 20 per cent assumption.
3. In some countries 20 per cent of average was considered far too low a rent. In the USA the area (Nassau County) where the families were located had rents that were considerably above that level and families on average earnings were commonly spending half their income in rent.

There is no right answer to these problems; the advantages and disadvantages are evenly balanced. In the end it is important to remember that the treatment of housing costs and housing benefits is flawed.

There is another rather different problem with comparisons of housing costs and benefits. The OECD counts housing benefit as income and then estimates net income after gross rent has been paid. We have used a rather different approach - collecting data on gross housing costs then deducting housing benefit and then deducting net housing costs to get at after housing costs income. Our after housing costs income is equivalent to the OECD income net of gross housing costs. However the before housing costs income concept is different. We prefer not to treat housing benefit as income on the grounds that in many countries housing benefit is not a cash sum paid to the tenant but a rent reduction and, where it is paid as a cash amount, it is not available for consumption other than for paying for housing.

Housing benefits

Housing subsidies may be supply side or 'bricks and mortar' subsidies that go to the dwelling and demand side subsidies or housing benefits that go to the household and results in the gross rent being reduced. In addition, there are also rent controls that reduce the rent below the market rent. In this case the landlord is subsidising the tenant.

Supply side 'bricks and mortar' subsidies may be directed at family housing. In this study, we made little effort to collect information on supply side subsidies. Instead we have concentrated on demand side subsidies - the impact of housing benefit, rent rebate, allowance or differential rent schemes that enable net rent to vary from gross rent for families of different types, sizes and/or different incomes.

Table 1 gives details (and there is more in the published report) of the supply and demand side subsidies in each country. We know that ten countries (Australia, Austria, Belgium, Denmark, France, Luxembourg, Portugal, Sweden, UK and the USA) in our study have supply side subsidies and 18 countries have a housing benefit scheme. Ireland (in Dublin) has a differential rent scheme with rent payable at 15 per cent of assessable earnings. Also, in

addition, low-income families may receive a rent or mortgage supplement under the Supplementary Welfare Allowance scheme.

For the housing benefit schemes, the majority of countries take income into account either directly or indirectly. Japan is the exception and is unique in the sense that allowances exist in the wage structure and are paid by employers (rather than the state). The Employers can also pay a proportion of the rent or mortgage for the employee or control the rent so that the employee's rent is below the market rent. Three other countries (Germany, Greece and Israel) base eligibility on work status. Norway, Denmark and Sweden are the only countries with a benefit aimed specifically at families with children, (also pensioners in Norway and young people in Sweden). The number of adults in the household is taken into account in ten countries and the number of children in thirteen. Italy, Luxembourg and Portugal take neither the number of adults nor the number of children into account. In fact, only young people under 30 are eligible for Portugal's benefit and therefore this has not been included in the calculations below. Family type is taken into account in eight countries. In Japan, whether family size and marital status is taken into account varies with the employer.

Table 1 Supply and demand side housing subsidies

Country	Supply side subs	Demand side subs	Varies with						Admin	Contr.	Taxed	Uprated
			Income	Work status ¹	No. of adults	No. of children	Age of children	Fam Type				
Australia	yes	yes	yes	no	no	yes	no	yes	nat.	no	no	commonwealth government decision
Austria	yes	yes	yes	no	yes	yes	no	no	loc	no	no	government decision
Belgium	yes	no	-	-	-	-	-	-	-	-	-	-
Canada	no	no	-	-	-	-	-	-	-	-	-	-
Denmark	yes	yes	yes	no	no	yes	no	no	loc	no	no	Annually in line other benefits
Finland	no	yes	yes	no	yes	yes	no	no	nat	no	no	Annually by parliamentary decisions. based on the general housing cost index.
France	yes	yes	yes	no	yes	yes	no	yes	nat	no	no	no rule
Germany	no	yes	yes	yes	yes	yes	no	yes	loc	no	no	not regularly (last uprated 2001)
Greece	no	yes	yes	yes	no	yes	no	yes	nat	yes	no	ministerial decision
Ireland	no	no ²	-	-	-	-	-	-	-	-	-	-
Israel	no	yes ³	yes	yes	no	yes	no	yes	nat	no	no	according to the index costs
Italy	no	yes ⁴	yes	no	no	no	no	no	nat	no	no	according to uprating of the INSP minimum pension level and of local income thresholds to access social housing
Japan	no	yes	no	yes	some	some	no	some	employer	-	yes	negotiation between employer and union.
Luxembourg	yes	yes	yes	no	no	no	no	no	both	yes	yes	consumer price index and inflation.
Netherlands	no	yes	yes	no	yes	no	no	yes	nat	no	no	Government decision
New Zealand	no	yes (2)	yes	no	yes	yes	no	no	nat	no	no	changes in market rents, benefit levels, wages.
Norway	no	yes	yes	no	yes	yes	no	no	both	no	no	annually by parliamentary decision
Portugal	yes	yes ⁵	yes	no	no	no	no	no	nat	no	no	governmental decision
Spain	no	no	-	-	-	-	-	-	-	-	-	-
Sweden	yes	yes	yes	no	yes	yes	no	yes	nat	no	no	governmental decision
UK	yes	yes	yes	no	yes	yes	no	no	loc	no	no	in line with income support scales
USA	yes	yes	yes	no	yes	yes	no	yes	Nat/st/loc	no	no	Since the policies are made by the state and local jurisdiction, national generalisations are impossible to make

¹ This is only marked with 'yes' if the benefit varies by work status for families with children - if pensioners are entitled to this benefit, for example, in Norway, this is not indicated in the table.

² Ireland has differential rents.

³ Israel's subsidy has only been applied to social assistance recipients in the matrix.

⁴ Italy's (Milan) subsidy has not been included in the matrix because households rarely apply for this benefit.

⁵ Only young people under 30 are eligible and therefore this has not been included.

Table 2 gives the gross rents that were employed in this study. They vary according to average earnings ranging from £151 in Portugal to £429 in the USA.

Table 2 Gross rents assumed (20% of average earnings) in £ ppps per month

	Gross rent in £ppp
Australia	366
Austria	309
Belgium	338
Canada	396
Denmark	361
Finland	261
France	297
Germany	364
Greece	189
Ireland	265
Israel	222
Italy	283
Japan	355
Luxembourg	389
Netherlands	362
New Zealand	266
Norway	280
Portugal	151
Spain	262
Sweden	300
UK	378
USA	429

Table 3 presents the impact of housing benefits on these rents by earnings. Belgium, Canada and Spain have no housing benefit scheme. Italy's (Milan) subsidy has not been included in the calculations because households rarely apply for this benefit, Israel's has only been applied to social assistance recipients in the calculations and Portugal's scheme only applies to young people and has therefore not been included. All the other countries' schemes reduce gross rent for the couple with two children on half male earnings. However the amount the rent is reduced by varies from country to country. The Austrian housing benefit system for those with access to public housing is very generous (at least in Upper Austria). Rent is reduced by over half in Denmark, Finland, France and the USA. In Greece, Japan, Norway and the UK housing benefit makes only a modest contribution to mitigating housing costs. Housing benefit is no longer payable in most countries for this family on average male earnings. The exceptions are Denmark, Ireland and Japan. This benefit in Japan is paid as an earnings supplement by employers and is a standard amount regardless of earnings.

Table 3 Net rent paid by earnings level: Couple plus two school age children

	Case 2		Case 4		Case 6	
	£ ppp	% gross rent paid	£ ppp	% gross rent paid	£ ppp	% gross rent paid
Australia	-257	70	-366	100	-366	100
Austria	-47	15	-309	100	-309	100
Belgium	-338	100	-338	100	-338	100
Canada	-396	100	-396	100	-396	100
Denmark	-163	45	-316	87	-361	100
Finland	-126	48	-261	100	-261	100
France	-122	41	-297	100	-297	100
Germany	-224	62	-364	100	-364	100
Greece	-158	84	-189	100	-189	100
Ireland	-140	53	-208	79	-265	100
Israel	-222	100	-222	100	-222	100
Italy	-283	100	-283	100	-283	100
Japan	-285	80	-285	80	-285	80
Luxembourg	-307	79	-389	100	-389	100
Netherlands	-224	62	-362	100	-362	100
N. Zealand	-173	65	-266	100	-266	100
Norway	-225	80	-280	100	-280	100
Portugal	-151	100	-151	100	-151	100
Spain	-262	100	-262	100	-262	100
Sweden	-238	79	-300	100	-300	100
UK	-310	82	-378	100	-378	100
USA	-163	38	-429	100	-429	100

Case 2: One earner half average male earnings

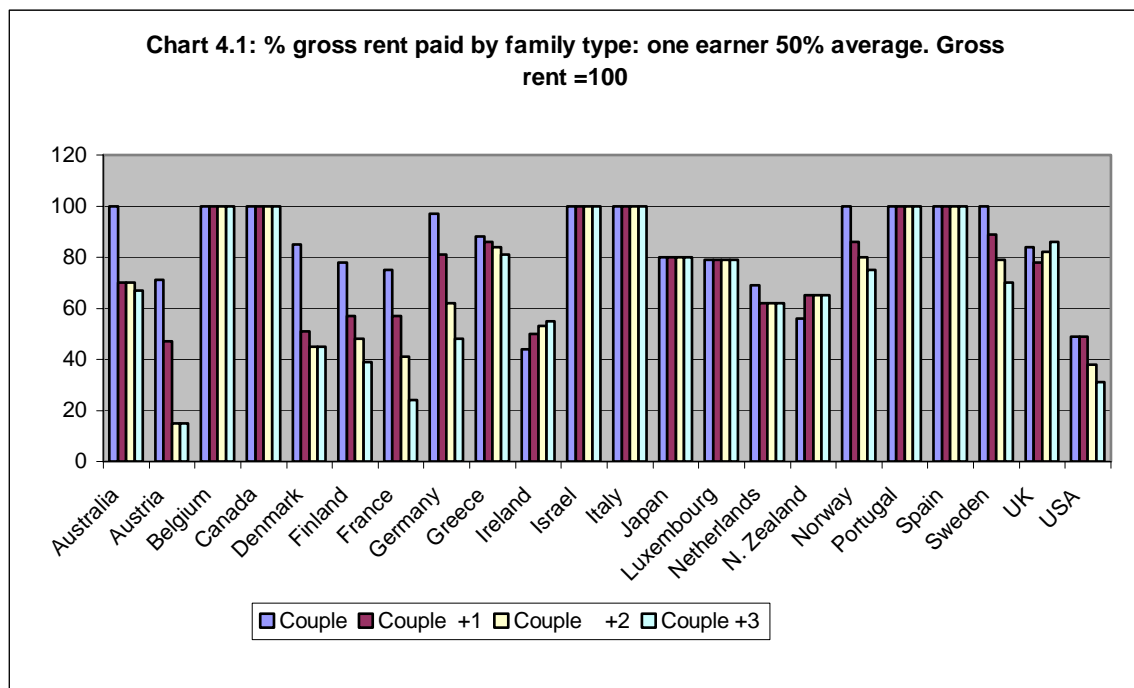
Case 4: One earner average male earnings

Case 6: Two earners average male and half average female

Table 4 shows how the rent varies by family type as a result of the impact of housing benefit payable to the families with one earner on half average male earnings (Case 2). In most countries where there is a housing benefit scheme it reduces rents more for families with children than the single and childless couples with the same earnings. This is not true in Japan where childless couples pay the same as families with children. The UK is one of three countries (also Ireland, Luxembourg for lone parents) where at least some families with children pay a higher proportion of their gross rent than childless couples. Austria appears to have the most horizontally redistributive housing benefit scheme. This is summarised in graph 4.1.

Table 4 Rent by family type and size. One earner half average male earnings (Case 2) Ratios Gross rent = 100

	Gross rent	Single person	Couple	Lone parent +1	Lone parent +2	Couple +1	Couple +2	Couple +3
Australia	100	100	100	70	70	70	70	67
Austria	100	100	71	71	47	47	15	15
Belgium	100	100	100	100	100	100	100	100
Canada	100	100	100	100	100	100	100	100
Denmark	100	85	85	51	45	51	45	45
Finland	100	100	78	72	57	57	48	39
France	100	91	75	57	41	57	41	24
Germany	100	100	97	97	81	81	62	48
Greece	100	88	88	86	84	86	84	81
Ireland	100	41	44	55	60	50	53	55
Israel	100	100	100	58	58	100	100	100
Italy	100	100	100	100	100	100	100	100
Japan	100	87	80	80	80	80	80	80
Luxembourg	100	100	79	100	100	79	79	79
Netherlands	100	100	69	66	62	62	62	62
N. Zealand	100	71	56	65	65	65	65	65
Norway	100	100	100	95	86	86	80	75
Portugal	100	100	100	100	100	100	100	100
Spain	100	100	100	100	100	100	100	100
Sweden	100	100	100	66	57	89	79	70
UK	100	100	84	90	93	78	82	86
USA	100	56	49	49	49	49	38	31



Conclusion

So housing benefits are an important component of the child benefit package which need to be taken into account in assessing its overall value – despite the difficulties inevitable in making assumptions about housing costs. In respect of the UK, families with children receive rather small reductions in rent, which are smaller the more children there are in the household. This the consequence of two important characteristics of the UK housing benefit scheme. First in-work benefits are fully taken into account in assessing income so that the housing benefit is cut off lower down the earnings distribution than in other countries. Second and connected to this there is a very modest implied equivalence scale in housing benefit – effectively large families with low earnings are paying more of their rent than small families on the same low earnings.

The impact that this has on the overall child benefit package is illustrated in Table 5. This gives the overall ranking of the level of the child benefit package¹ paid to a “representative” sample of 34 families. It can be seen that the UK comes third in the league table after tax benefits and cash benefit only, fourth after the costs of services (mainly childcare) is taken into account and drops to seventh (equal with Belgium) after housing costs. In short housing costs and housing benefit are undermining the relative merit of our tax benefit package.

¹ The difference in the net income of the families with children and a childless couple with the same earnings.

Table 5: Ranking of the value of the child support package. 'Representative' cases. £ ppps per month

	After tax benefits and cash benefits		After tax benefits, cash benefits and services		After housing costs
Luxembourg	277	Austria	234	Austria	266
Austria	252	Luxembourg	208	Luxembourg	199
UK	218	Finland	180	Finland	191
Ireland	201	UK	155	France	162
Belgium	191	Belgium	143	Sweden	153
USA	181	Germany	138	Germany	152
Germany	164	France	133	Belgium	142
France	154	Sweden	115	UK	142
Australia	138	Norway	109	Denmark	140
Norway	134	Ireland	106	Norway	136
Finland	119	Denmark	95	Australia	123
Canada	114	Australia	95	Ireland	91
Denmark	113	Israel	43	Israel	43
Sweden	100	Canada	40	Canada	40
Netherlands	97	USA	30	USA	35
Japan	88	Italy	27	Italy	28
Israel	82	New Zealand	3	New Zealand	-5
New Zealand	69	Portugal	-15	Portugal	-15
Italy	68	Spain	-15	Spain	-15
Portugal	50	Netherlands	-27	Japan	-26
Spain	30	Japan	-38	Netherlands	-34
Greece	20	Greece	-61	Greece	-59

The government's ambition is to reduce child poverty by a quarter within five years ie by 2004. It can be seen in Table 6 that, before housing costs, the latest indication is that they are well on the way to meeting that target. However after housing costs (the generally preferred indicator) the picture is not so rosy². A major criticism of the child poverty strategy is that 85 per cent of the gains in income from WFTC have been offset by losses in Housing Benefit and Council Tax Benefit. Only 220,000 WFTC recipients are now getting Housing Benefit. As we saw above the taper on Housing Benefit is very sharp and childless couples now receive more Housing Benefit than couples with children on the same earnings. Indeed without changes to housing benefit the government is most unlikely to meet its target.

² The results of modelling more recent policy changes (Piachaud and Sutherland 2002) give an even more depressing picture.

Table 6: Percentage of children living in households with equivalent income less than 60 per cent of the contemporary median

	Before housing costs % of children	After housing costs % of children
1996/7	26	34
1997/8	25	33
1998/9	24	33
1999/00	23	32
2000/01	21	31
% reduction (in numbers) 1996/7- 2000/01	18%	11%

Source: DWP (2002)

What could be done?

We propose that the government disregard some or all of the child element in Child Tax Credit when assessing housing benefit or (the same thing) increase the child element in the HB means test. For every £ disregarded this would reduce rent payable by 65p and council tax by 20p. There is a strong case for doing something like this – apart from its impact on the poverty targets. Disregarding CTC would reduce the amount of churning in the system. It would increase work incentives. It would benefit the 70 per cent of private tenants who are suffering from a rent restriction in their eligible rents. The disadvantages are that it would cost a lot and increase the HB caseload.

It would not do anything to help owner occupiers who are an increasing proportion of low income families with children (Burrows and Wilcox 2000 and Burrows 2003). The Tories reduced the Income Support mortgage interest payment by half for the first 16 weeks and then decided it would not be paid at all for the first nine months. What would be the impact on the child poverty numbers of paying it in full from the date of claim – just for families with children?

Something would have to be done for owner occupier families with children in employment to maintain incentives. Why not let them claim housing benefit, again disregarding the child element in Child Tax Credit? They could be paid the same flat-rate amount as private tenants in the proposed reform of Housing Benefit. There would have to be rules to ensure that this did not lead to a drift into owner occupation and further house price inflation.

Clearly these and other ideas need to be tested in a simulation model to assess their costs and benefits in terms of incentives, replacement rates, marginal tax rates and child poverty reduction.

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