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REFORMING FRENCH HOUSING BENEFITS: WHY NOT MERGING BENEFITS?

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Summary

Involving 18 billion euros in public expenditure, individual housing benefits represent almost half of the budget for housing policies in France. The effectiveness of this aid has, however, been called into question by a series of empirical studies showing that the greater part of it is appropriated by landlords in the form of higher rents. In addition, this aid strongly penalises the return to work in modest households because it is badly coordinated with other social benefits. To respond to these criticisms, the Institute for Public Policy studied several reform scenarios aimed at restoring the effectiveness of this social policy. The most promising option consists of combining individual housing benefit with other measures of household benefit, in particular the Revenu de solidarité active (RSA – low-income benefit) and the Prime pour l’emploi (PPE – employment bonus). Such a reform would considerably simplify the complex architecture of social benefits, reduce the gains made from the public aid by landlords and preserve the gains made by a return to paid work. ■

- Individual housing benefits, which rose to 18 billion euros in 2013, represents 43% of the French housing policy budget.
- Several studies have shown that this benefit feeds increases in rents and is thus largely captured by landlords.
- The current system of individual housing benefit is complex and penalises a return to work among modest households.
- The merging of housing benefit with other social policies, notably the Revenu de solidarité active and the Prime pour l’emploi would simplify the socio-fiscal system, reduce the gains being made by landlords and preserve the gains to be made from a return to paid employment.



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Housing policy is a central component of French social policy. Each year, the central state dedicates nearly 41 billion euros to it, equal to 1.9 per cent of GDP. This policy takes several forms, but the 18 billion euros for individual housing benefit represents almost half of the total budget. Assistance for the construction of housing on social and private estates amounts to six billion and to that must be added fiscal measures whose goal is to promote housing construction and renovation, totalling around 15 billion euros.

Among these policies, **individual housing benefit**, aimed at providing direct subsidies to the most modest households, is **currently the preferred housing benefit scheme** (1).

Questions about the effectiveness of some aid

Two major criticisms have been made of the system of housing benefit measures as they function at present in France: the first is that they have the perverse effect of increasing rental prices, resulting in landlords appropriating a significant proportion of the monies distributed; the second is that their poor coordination with other social policies contributes to an effect of penalising a return to paid work among households with the lowest incomes.

Aid taken by landlords

Using different methodologies, data and periods, several studies have shown that a significant proportion of benefit for housing (between 70 and 100 per cent) is **captured by landlords in the form of higher rents** (2). In France, this inflationary effect is explained first of all by the housing benefits scale, which was conceived as a subsidy proportional to rent price, within the limits of a rental ceiling (see Figure 1) : below a certain "ceiling", the landlord could increase the rent without

1. There are three kinds of individual housing benefit in France: the family housing allowance (ALF - l'allocation de logement familiale), which is financed by the Fonds national des prestations familiales de la Sécurité sociale; the social housing allowance (ALS - l'allocation de logement sociale) and the individual housing allowance (APL - l'allocation personnalisée au logement), both of which are financed through the Fonds national d'aide au logement.
 2. On the inflationary impact of housing benefit policies in France, see Gabrielle Fack (2006), "Are Housing Benefits an Effective Way to Redistribute Income? Evidence from a Natural Experiment in France", *Labour Economics*, 13(6); Céline Grislain-Letrémy and Corentin Trevien (2014), "The Impact of Housing Subsidies on the Rental Sector: the French Example", Document de travail Insee, G 2014/08; Anne Laferrère and David Le Blanc (2002), "Comment les aides au logement affectent-elles les loyers?", *Économie et statistique*, 351.
 On the inflationary effects of housing benefit in other countries, see Mike Brewer, Carl Emmerson, Andrew Hood and Robert Joyce (2014), "Econometric Analysis of the Impacts of Local Housing Allowance Reforms on Existing Claimants", UK Department for Work and Pensions, Research Report

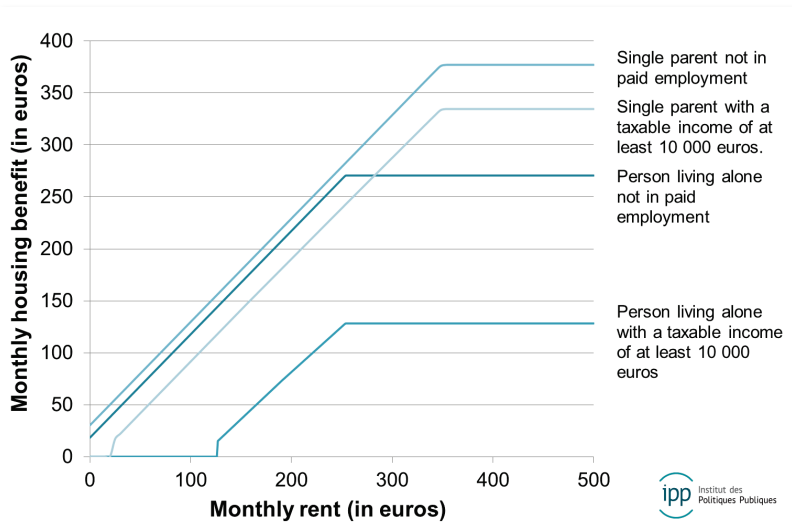
extra cost to his renters, since one euro in increased rent meant one euro extra in subsidy. Such a benefit scale feeds rental inflation, particularly when – as in the case in France – housing supply is too weak to absorb the increasing demand for it (3).

The strongly inflationary nature of housing aid in France is not, however, entirely explained by the mechanical link between the amount of aid and the amount of rent in determining the total aid received. Indeed, the proportion of households that pay rents below the rental ceiling is now too low for it alone to account for the extent of phenomenon (4). For the households whose rent is higher than the ceiling, housing benefit resembles a social benefit like any other in the sense that its total depends on the resources and composition of the household, and on the residential zone (see Figure 1): the aid is independent of effective rent price and can be used to purchase other goods and services without reducing the total received benefit.

In this context, several recent studies suggest that beyond the simple link between the amount of aid and the amount of rent, other mechanisms also favour the appropriation of the benefit by landlords (5) including rental market segregation, which facilitates landlord identification of certain categories of beneficiaries of housing benefit (students, for example), the existence of a housing benefit labelling effect (6) which encourages households to consume more housing than if they received the same amount in the form of a cash benefit; the billing and payment system which allows landlords to receive directly the housing benefits attributed to their renters and thus gives them all the information necessary for adjusting the rental price in relation to the amount of aid received. These mechanisms suggest that the most effective way to reduce the appropriation of housing allowances by landlords would be to change them into benefits that are neither flagged nor assigned to that particular consumption.

n°871; Stephen Gibbons and Alan Manning (2006), "The Incidence of UK Housing Benefit: Evidence from the 1990s Reforms", *Journal of Public Economics*, 90 (4-5); Aki Kangasharju (2010), "Housing Allowance and the Rent of Low-Income Households", *Scandinavian Journal of Economics*, 112 (3).
 3. The responsiveness of the housing supply in France is among the weakest in the OECD. See the study by Caldera Sánchez, A. and Å. Johansson (2011), "The Price Responsiveness of Housing Supply in OECD Countries", OECD Economics Department Working Papers n° 837.
 4. In 2013, only 13% of households met the criterion of paying rent below the rental ceiling.
 5. Gabrielle Fack (2007), *Formation des inégalités, politique du logement et ségrégation résidentielle*, doctoral thesis at the EHESS. Alain Trannoy and Etienne Wasmer (2013), "La politique du logement locatif", Les notes du Conseil d'Analyse Économique, n° 10.
 6. Johannes Abeler and Felix Marklein (2013), "Fungibility, Labels, and Consumption", IZA Discussion Papers n° 3500. Timothy Beatty, Laura Blow Thomas Crossley and Cormac O'Dea (2014) "Cash by Any Other Name? Evidence on Labelling from the UK Winter Fuel Payment", *Journal of Public Economics*, 188.

Figure 1: Monthly amount of housing benefit as a function of the rent for different household categories in 2013



Note: The different curves indicate total monthly housing benefit as a function of rent, for different categories of household in zone II. The amounts shown are for the year 2013.

Source: TAXIPP 0.4.

Poor coordination with other social benefits penalises the return to work

Aside from having an inflationary effect on rents, housing benefits suffer from being poorly articulated with other means-tested benefits, in particular the Low Income Benefit (RSA) and the Employment Bonus (PPE). One of the most worrying consequences of this situation is that it strongly discourages the return to paid work among households with the lowest incomes. Indeed, the complexity of **the current system results in a double penalty for taking up paid**: at present, someone whose income from paid work increases receives not only less RSA, but also less housing benefit (7).

While the initial objective of the RSA was to encourage a return to paid employment by allowing households to keep the basic RSA while adding a significant share of their earned income (precisely 62 per cent) housing benefit largely counters the incentive effect for low-income households (see Figure 2).

Reforming housing benefit

The reform to housing benefit that we are proposing consists of merging it with the RSA and the PPE. The twin aims of this merging are to reduce the amount of aid appropriated by landlords by making explicit that these are not in-kind benefits, and at the same time, to integrate it better with other measures to help modest households.

An outline of the reform

Combining the existing housing allowance with the RSA and PPE implies making choices about the features of the new benefit. The scope of beneficiaries of the new benefit would be similar to that of the RSA, which aims **to support individuals during their working life**. Those excluded, therefore, would be students and people over 64 years of age. However, housing benefit would not be abolished for those groups, but rather reused to fund student housing and the basic old age pension. In addition, people under 25 years of age who are not students would become eligible for the new benefit while at present they cannot claim RSA.

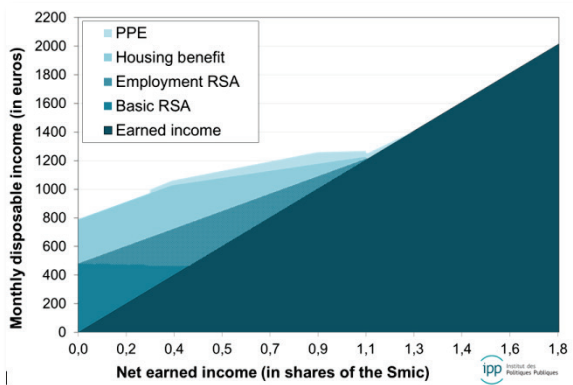
The entity being considered would be identical to the RSA, that is, the main beneficiary, his or her spouse and depen-

-dants under 25 years of age if their income is less than the surplus RSA created by their belonging to the household. In order to ensure the responsiveness of the new benefit to changes in the actual situation of the beneficiaries, we would retain the frequency of the RSA based on a quarterly assessment of resources in the current year. The resources considered for the benefit would be the same as for the RSA but would also include imputed rents for owner households (8) in such a way as to integrate them into the new benefit taking into account differences in living standards related to the occupancy. The family situation of beneficiaries would be taken into account through the system of a RSA premium, based on the OECD equivalence scale. Finally, the current housing benefit zoning would be maintained through increasing the benefit accorded to households in zones I and II.

Two parameters of the new benefit could then be fixed: the parameter indicating how the benefit slowly phases-out as earned-income rises on the one hand, and a minimum guaranteed amount to people with no employment income on the other hand. With the same budget, the scale proposed allows us to limit not only the vertical redistributive effects of the reform (between households of different income) but also the horizontal redistributive effects (between households of different family composition and locality). The base amount of the new benefit guarantees a minimum for people living alone, with no employment income, and resident in zone III, of **624 euros per month** (cf. Figure 3). To this basic minimum would be added a premium by zone of an amount equivalent to current increases, as well as increases that take into account the family composition of the household (9). Such a scale would enable beneficiaries to add a significant share of earned income to the new benefit. To put it another way, for an increase of 100 euros in employment income, the amount of the benefit would decrease by about 32 euros, which means that total net resources would grow by 68 euros. **This new amalgamated benefit would thereby end the double penalty of the current system and guarantee that exiting the minimum social benefits would preserve the gains that come with re-entering employment.**

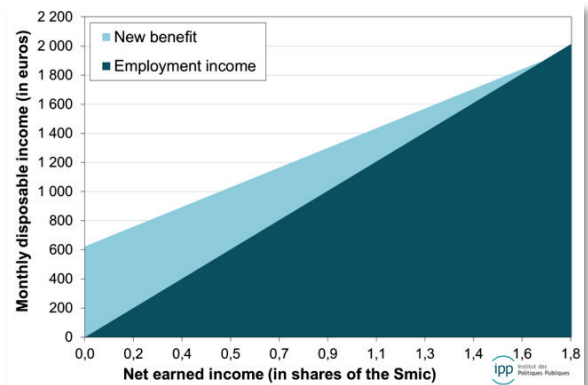
7. Clément Bourgeois and Chloé Tavan (2010), "Le Revenu de solidarité active: principes de construction et effets attendus", Economie et Prévision, no 192.
 8. The notion of an "imputed rent", which is sometimes indicated by the term "fictive rent", covers the rental service that owner-occupiers rent themselves; that is, rents that the proprietors would pay if they were renting the place in which they live.
 9. The amount of housing benefit is currently higher in zone I than in zone II in order to address the spatial variations in the cost of living. The zone premium is 53 euros per month for zone I and 16 euros per month for zone II.

Figure 2 – Contribution of housing benefits, RSA and PPE to net disposable income, as a function of earned income (single person in zone II)



Note: This standard case represents the amount of RSA, PPE and housing benefits (AL) received according to net employment income, expressed as a share of the Smic (minimum wage). Single person living in zone II Source: TAXIPP 0.4.

Figure 3 – Amount of the new unified benefit, as a function of earned income (single person in zone II)



Note: This standard case represents the amount of the new benefit received in accordance with earned income, expressed as a share of the Smic for a person living alone in zone II. Source: TAXIPP 0.4.

Limited redistributive effects

The scale of the new benefit was chosen in a way that would **limit the redistributive effects of the reform**. The net effect on disposable income would be relatively small in absolute value and less than six per cent for everyone (see Figure 4). The first four deciles of living standard would “win” slightly, particularly the poorest ten per cent of households, whose disposable income would increase by an average of 5.8 per cent. The size of this effect is explained by the relatively low average disposable income of the households in the first decile (around 12,000 euros per annum) and hides the more obvious changes among households: in the first decile, the main winners would be the households that are currently excluded from either the RSA (young people) or housing benefit (poor owners), while those who currently receive all the forms of allowance would see their level of benefit fall. For the deciles that would “lose” from this reform (deciles 5 to 10), the average loss suffered would be less than one per cent of disposable income.

Because we assume a constant budget, the fact that some households gain from the reform implies that others will lose from it, combined gains and losses equalling at the level of the whole population. “Losing” households are spread among all income deciles and the average loss is less than the average gain.

Conclusion

The aim of the reform described in this Note is **to restore the effectiveness of housing benefit in relation to its objective of fighting poverty and reducing poor housing**. The measure proposed consists of defining a new benefit not specifically targeted at the consumption of housing, but rather a “combined allowance” to replace the individual housing benefit allowance, the RSA and the PPE. This combination, which is a logical continuation of the future Prime d'activite (Employment bonus) that is destined to replace the RSA and the PPE, simplifying support payments to low-income people, reducing the appropriation of housing benefit by landlords and restoring the gains to be made from a return to paid work.

The combining of these social benefits described here, limited to three measures, constitutes a first step, ambitious but not utopian, towards a better integration of our socio-fiscal system. **Ultimately, this combined benefit would aim to integrate all social benefits** (unemployment insurance, family allowances, allowances for disabled adults, etc.) into one, coherent scheme.

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Figure 4: The impact on disposable income of the new unified benefit, combining housing benefit, the RSA and the PPE by standard of living decile.



Note: For bottom-decile households, gains from the reform represent an average of around 6 per cent of current disposable income.

This graph shows the average gains and losses in household disposable income by standard of living decile

Sources : Enquête ERF5 FPR 2011, Échantillon national des allocataires CNAF 2012, enquête Logement 2006 and TAXIPP 0.4.