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**The Effectiveness of Housing Allowance in Welfare States:
A Comparative Study in the United Kingdom,
the Netherlands, Sweden and South Korea**

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Submitted in fulfilment of the requirements for the Degree of PhD

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Abstract

The financial burden arising from expenditure on housing is associated with the income and housing problems of low-income households. This research examines the effectiveness of housing allowance in solving these problems and thus achieving social and housing policy objectives, i.e. improving income maintenance, enhancing housing affordability and providing work incentives. It also explains how the various institutional features of housing allowance systems make changes in achieving different policy objectives. Taking into account the fact that housing allowance programmes operate alongside other institutions of the welfare state that vary among countries, this research compares the effectiveness of housing allowances in the United Kingdom, the Netherlands, Sweden and South Korea using five indicators—Residual income after rent payment, Poverty rate, Rent to Income Ratio, Income Replacement Ratio and Effective Marginal Tax Rate.

The findings show that housing allowance is an effective policy instrument across countries in the following ways. First, it contributes to the improvement in residual income after housing costs and the decrease in poverty rates among low-income tenants. Second, the housing allowance reduces the financial burden arising from expenditure on rent. Third, in contrast to the positive effects of housing allowances in improving income and housing problems, their provision as part of in-work benefit relates to the increase in work disincentives indicating the higher possibility of working-poor tenants being trapped in unemployment and poverty. Fourth, despite variations in the features of the welfare and housing regime, the design of the benefit arrangement explains many of the differences in the effectiveness of housing allowance in the four countries. Fifth, subsidising a great share of housing costs is an important factor related to the improvement in income maintenance and housing affordability. Sixth, basing the provision of housing allowance on actual rent is also essential in solving the income and housing problems of low-income tenants.

Findings relating to the institutional feature of housing allowance are the basis for the recommendation that the Korean housing allowance system should be reformed to reflect a household's actual need.

Table of Contents

Abstract	2
Table of Contents	3
List of Tables.....	5
List of Figures	8
Acknowledgement.....	9
Declaration	10
Glossary of Abbreviations	11
Chapter 1. Introduction	12
1.1 The Interest of Research.....	12
1.2 Terminology of Housing Allowance	14
1.3 The Aim and Question of Research	14
1.4 The Structure of Thesis	16
Chapter 2. Housing and Welfare: Regime, Housing Allowance and Issues of Income and Housing in Welfare States.....	17
2.1 Housing, Welfare State and Regime Typology	17
2.2 Housing Allowance as Part of Housing or Welfare System	21
2.3 Issues of Income Poverty, Housing Affordability and Work Incentives.....	26
Chapter 3. Research Method and Framework.....	40
3.1 Comparative and Quantitative Approach	41
3.2 Research Indicators	47
3.3 Independent Variables: Household Characteristics.....	57
3.4 The Use of Data.....	59
Chapter 4. The Effectiveness of Housing Allowance for Tenants in the United Kingdom.....	62
4.1. The Development of National Support for Housing Costs in the UK.....	62
4.2 The Design of Housing Allowance for Tenants in the UK	70
4.3 The Analysis of Housing Allowance Effects on Tenants in the UK.....	74
4.4 Summary	93
Chapter 5. The Effectiveness of Housing Allowance for Tenants in the Netherlands	96
5.1. The Development of National Support for Housing Costs in the Netherlands	96
5.2 The Design of Housing Allowance for Tenants in the Netherlands.....	100
5.3 The Analysis of Housing Allowance Effects on Tenants in the Netherlands	103

5.4 Summary	125
Chapter 6. The Effectiveness of Housing Allowance for Tenants in Sweden	128
6.1. The Development of National Support for Housing Costs in Sweden.....	128
6.2 The Design of Housing Allowance for Tenants in Sweden	131
6.3 The Analysis of Housing Allowance Effects on Tenants in Sweden.....	136
6.4 Summary	155
Chapter 7. The Effectiveness of Housing Allowance for Tenants in South Korea.....	157
7.1. The Development of National Support for Housing Costs in S. Korea	157
7.2 The Design of Housing Allowance for Tenants in S. Korea.....	162
7.3 The Analysis of Housing Allowance Effects on Tenants in S. Korea.....	166
7.4 Summary	185
Chapter 8. Comparing the Effectiveness of Housing Allowance for Tenants	188
8.1 The Design of Housing Allowance for Tenants in the Four Countries.....	188
8.2 Improvement in Income Maintenance of Low-Income Tenants	197
8.3 Reduction in Housing Affordability Problem of Low-Income Tenants.....	203
8.4 Changes in Work Disincentives of Low-Income Tenants.....	206
8.5 Summary	211
Chapter 9. Conclusion.....	213
9.1 The Review of Research.....	213
9.2 Recommendations for the Korean Housing Allowance System	221
Appendices.....	227
Bibliography.....	233

List of Tables

Table 2.1 Housing Allowance Scheme in Welfare States.....	24
Table 2.2 Measurement of Residual Income after Housing Costs.....	31
Table 3.1 Social Protection and Rent Allowance Shares of GDP (%).....	46
Table 3.2 Dwelling Stocks and Population by Tenure Types in the Four Countries (%)....	47
Table 3.3 Research Indicators	48
Table 3.4 Measurement of Residual Income after Housing Cost	50
Table 3.5 Comparison of Different Poverty Thresholds for Couple with Two Children	51
Table 3.6 Measurement of Poverty Rate.....	51
Table 3.7 Measurement of Rent to Income Ratio	53
Table 3.8 Measurement of Income Replacement Ratio	54
Table 3.9 Measurement of Effective Marginal Tax Rate.....	56
Table 3.10 Income Tax, Social Security Contribution and Average Gross Earning of Single Adult (2011).....	56
Table 3.11 Independent Variables by Household Characteristics	57
Table 4.1 HB Recipients by Tenant Tenure and Means-tested Benefit Entitlement in the UK.....	68
Table 4.2 Average Weekly HB and Eligible Rents for HB in the UK (£).....	69
Table 4.3 Housing Cost Subsidies by Tenure Types in the UK	71
Table 4.4 Deduction for HB in the UK (2012-2013).....	72
Table 4.5 Applicable Amounts for HB in the UK (2012-2013)	73
Table 4.6 Indicators of Housing Allowance Effectiveness in Section 4.3.....	74
Table 4.7 Income, Rents, Housing Allowance of Tenant Recipients in the UK (£, 2006-07 price)	75
Table 4.8 Poverty Rate before and after Housing Cost Expenditures in the UK (%).....	76
Table 4.9 Financial Burdens for Housing Cost Expenditures in the UK (%).....	76
Table 4.10 Changes in Residual Income after Rents by Housing Allowance in the UK (£, 2006-07 price).....	77
Table 4.11 Changes in Poverty Rates by Housing Allowance in the UK (%).....	80
Table 4.12 Changes in Rent to Income Ratio by Housing Allowance in the UK (%).....	83
Table 4.13 Work Disincentives of Housing Allowance Recipients and Non-Recipients in the UK (%).....	87
Table 4.14 Changes in Income Replacement Ratio by Housing Allowance in the UK (%).....	88
Table 4.15 Changes in Effective Marginal Tax Rate by Housing Allowance in the UK (%)	91
Table 5.1 Standard Rent Table by Household Type and Income in the Netherlands (€, 2007)	101
Table 5.2 Standard Rent Formula Coefficients by Household Type in the Netherlands (2008).....	101
Table 5.3 Indicators of Housing Allowance Effectiveness in Section 5.3.....	104
Table 5.4 Income, Rents and Housing Allowance of Tenant Recipients in the Netherlands (€, 2006 price).....	105

Table 5.5 Poverty Rates before and after Housing Cost Expenditures in the Netherlands (%)	105
Table 5.6 Financial Burden for Housing Cost Expenditures in the Netherlands (%)	106
Table 5.7 Changes in Residual Income after Rents by Housing Allowance in the Netherlands (€, 2006 price)	107
Table 5.8 Changes in Poverty Rates by Housing Allowance in the Netherlands (%)	110
Table 5.9 Changes in Rent to Income Ratio by Housing Allowance in the Netherlands (%)	113
Table 5.10 Work Disincentives of Housing Allowance Recipients and Non-Recipients in the Netherlands (%)	117
Table 5.11 Changes in Income Replacement Ratio by Housing Allowance in the Netherlands (%)	118
Table 5.12 Changes in Effective Marginal Tax Rate by Housing Allowance in the Netherlands (%)	122
Table 6.1 Non-Pensioner Households Receiving Housing Allowance in Sweden	130
Table 6.2 Housing Allowance Arrangement for Non-Pensioner Household in Sweden	132
Table 6.3 Indicators of Housing Allowance Effectiveness in Section 6.3	136
Table 6.4 Income, Rents and Housing Allowance of Tenant Recipients in Sweden (SEK, 2006 price)	137
Table 6.5 Poverty Rates before and after Housing Cost Expenditures in Sweden (%)	138
Table 6.6 Financial Burden for Housing Cost Expenditures in Sweden (%)	138
Table 6.7 Changes in Residual Income after Rents by Housing Allowance in Sweden (SEK, 2006 price)	139
Table 6.8 Changes in Poverty Rates by Housing Allowance in Sweden (%)	142
Table 6.9 Changes in Rent to Income Ratio by Housing Allowance in Sweden (%)	145
Table 6.10 Work Disincentives of Housing Allowance Recipients and Non-Recipients in Sweden (%)	149
Table 6.11 Changes in Income Replacement Ratio by Housing Allowance in Sweden (%)	150
Table 6.12 Changes in Effective Marginal Tax Rate by Housing Allowance in Sweden (%)	153
Table 7.1 Public Rental Housing in S. Korea (2010)	161
Table 7.2 The Minimum Cost of Living and the NBLs Benefit Cap in 2012 (KRW)	163
Table 7.3 Monthly Deduction of Housing Benefit for Owner-Occupiers in 2012 (KRW)	163
Table 7.4 The Number of NBLs Recipients from 2001 to 2010	165
Table 7.5 Indicators of Housing Allowance Effectiveness in Section 7.3	166
Table 7.6 Incomes, Rents and Housing Allowance of Tenant Recipients in S. Korea (000 KRW, 2007 price)	167
Table 7.7 Poverty Rates before and after Housing Cost Expenditures in S. Korea (%)	168
Table 7.8 Financial Burdens for Housing Cost Expenditures in S. Korea (%)	168
Table 7.9 Changes in Residual Income after Rents by Housing Allowance in S. Korea (000 KRW, 2007 price)	169
Table 7.10 Changes in Poverty Rates by Housing Allowance in S. Korea (%)	172
Table 7.11 Changes in Rent to Income Ratio by Housing Allowance in S. Korea (%)	175

Table 7.12 Work Disincentives of Housing Allowance Recipients and Non-Recipients in S. Korea (%).....	179
Table 7.13 Changes in Income Replacement Ratio by Housing Allowance in S. Korea (%)	180
Table 7.14 The Effective Marginal Tax Rate of HA Recipients in S. Korea (%)	183
Table 8.1 Housing Allowance Recipient Share of Population in the Four Countries (%).....	189
Table 8.2 Design of Housing Allowances for Tenants in the Four Countries	195
Table 8.3 Income Distribution and Income Maintenance by Social Security System in the Four Countries.....	195
Table 8.4 Current Situation of Housing Allowances for Tenants in the Four Countries...	197
Table 8.5 Changes in the Residual Income after Rents and Poverty Rates by Housing Allowance in the Four Countries	198
Table 8.6 Changes in Rent to Income Ratio by Housing Allowance in the Four Countries	203
Table 8.7 Changes in Work Disincentives by Housing Allowance in the Four Countries	207
Table 8.8 Income Tax and Social Security Contribution of Single Adult in the Four Countries	209
Table A.1 Summary of Dataset	227
Table A.2 Housing Benefit Expenditures by Tenure in the UK (£ million, Real Terms, 2012/13 Prices)	228
Table A.3 Changes in Poverty Rates by Housing Allowance in the UK (%).....	229
Table A.4 Changes in Poverty Rates by Housing Allowance in the Netherlands (%)	230
Table A.5 Changes in Poverty Rates by Housing Allowance in Sweden (%).....	231
Table A.6 Changes in Poverty Rates by Housing Allowance in S. Korea (%)	232

List of Figures

Figure 3.1 Research Framework	40
Figure 3.2 Target of Analysis according to Indicators.....	58
Figure 4.1 Housing Benefit Expenditure, with and without Reforms (in cash terms).....	70
Figure 5.1 Housing Allowance Recipients in the Netherlands (2008)	100
Figure 5.2 Housing Cost Subsidisation Rates by Household Type in the Netherlands (2010)	102
Figure 6.1 Pensioners Receiving Housing Supplement as a % of Total Pensioners in Sweden (2008)	131
Figure 7.1 The NBLs Livelihood Benefit and Housing Benefit before and after 2008	164
Figure 7.2 Households Receiving the NBLs Benefit in S. Korea	165

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Finally, but certainly not least, a special thank to my almighty god who leads me and is always with me.

Declaration

I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

Signature

Printed name

Glossary of Abbreviations

DWP	Department for Work and Pensions in the United Kingdom
EMTR	Effective Marginal Tax Rate
ESL (IR)	Employment Support Allowance – Income-related in the United Kingdom
HB	Housing Benefit in the United Kingdom
IRR	Income Replacement Ratio
JSA (IB)	Job Seeker's Allowance Income-Based in the United Kingdom
LA	Local Authority in the United Kingdom
LHA	Local Housing Allowance in the United Kingdom
MCH	Housing Cost Share of Minimum Cost of Living in South Korea
MCL	Minimum Cost of Living in South Korea
MLTM	Ministry of Land, Transport and Maritime Affairs in South Korea
MOHW	Ministry of Health and Welfare in South Korea
NBLS	National Basic Livelihood Security system in South Korea
OECD	Organisation for Economic Co-operation and Development
PC	Pension Credit in the United Kingdom
RIR	Rent to Income Ratio
RSL	Registered Social Landlord in the United Kingdom
S. Korea	South Korea
SMI	Support for Mortgage Interest in the United Kingdom
UC	Universal Credit in the United Kingdom
UK	The United Kingdom
VROM	The Ministry of Housing, Spatial Planning and the Environment in the Netherlands

Chapter 1. Introduction

1.1 The Interest of Research

For decades, welfare states have been intervening directly or indirectly in the national housing system. In Western welfare states, the government's intervention in tackling housing problem is characterised as housing construction from the supply-side perspective and the form of rent subsidies from the demand-side perspective. In contrast, the South Korean government has primarily focused on the housing supply since the 1960s. For low-income households that cannot afford housing on the private market, the government offers public rental units below market rent. However, there were no rent subsidies until the social security system started to make allowances for housing costs in 2000.

As a demand-side housing subsidy, the housing allowance makes it possible for households to secure their current residency with financial support for housing costs. Moreover, these households could have additional opportunities for non-housing consumption with the growth in the residual income after rent payment. In this respect, the provision of housing allowance is "better targeted" to households needing housing cost support and it is "more flexible" because it is based on household income, need changes and differences in family features, than supply-side housing subsidies are (Council of Europe, 2008, p. 50).

Moreover, numerous policy aims could be achieved by the provision of housing allowance. Social policies are intended to help households maintain their income and the housing policies are designed to enable needy families to find affordable places to live. As part of the national social security system, the rent subsidy is available to low-income households participating in welfare-to-work programme. This research therefore focuses on the effectiveness of the national rent subsidy for achieving its three goals: improving income maintenance (social policy), enhancing housing affordability (housing policy) and providing work incentive (welfare-to-work transition) for low-income households. This study also examines the features of housing allowance system. This is because these features could affect the effectiveness of rent subsidy programme. Therefore, the research will address the design of housing allowance system and investigate the connection

between these features and changes in its beneficiaries' income and housing cost-related problems.

Each welfare state has its own benefit arrangements and operations. In addition, the implementation of housing allowances varies according to national systems. These allowances reflect particular national contexts, such as policy circumstances and the tradition of national intervention in the housing market. A comparative analysis can explain differences in the results and offer valuable insights. In this respect, the study will compare the effectiveness of the national rent subsidy programmes the United Kingdom (UK), the Netherlands, Sweden and South Korea (S. Korea). These four countries represent different welfare regimes, as defined by Esping-Andersen (1990, 1999) and housing regimes, as defined by Kemeny (1995). The features of regimes are related to the policy programme, policy system and national context. Therefore, it is useful to compare rent subsidy programmes in several regime countries to explain differences in the results.

The UK is liberal welfare regime with a dualist housing regime. The housing regimes in the Netherlands and Sweden are similar 'universal regimes'. However, Sweden has a social-democratic welfare regime and the Netherlands has a corporative welfare regime (or hybrid of the corporative and social-democratic welfare regimes). While S. Korea's welfare regime is categorised as a separate regime from these three European countries, its housing regime is defined as dualist one, like that of the UK. Among the four countries, the Dutch and the Swedish rent subsidy programmes adopt a similar 'gap' structure. Their housing allowances do not subsidise 100% of housing costs. These housing allowance systems require households to pay some portions of housing costs. At the same time, they subsidise part of the remainder at a high subsidisation rate for the low range of housing costs and a low rate for the high range up to the benefit cap, thus there is a gap between the sizes of housing costs and housing allowance provision.

In the UK, while one subsidisation rate of 100% for the eligible housing cost is applied, the system also imposes benefit caps in order to control benefit expenditure and discourage abuse of the benefit. Moreover, while the same benefit rule is applied to all tenants in the Netherlands and Sweden, different benefit rules are applied to the social housing and private housing tenants in the UK. This difference in benefit arrangements reflects varied situations of tenants in private and social rental housing systems of two housing regimes.

Although these three European countries have varied subsidisation structure, their benefit rules are similar in that the size of the receipt is calculated based on the actual housing costs. In contrast, the benefit calculation of the Korean rent subsidy programme is not. Before 2008, the same housing allowance was paid to the households of the same size. After 2008, a fixed portion (less than 20%) of the social assistance was allocated for housing costs. In addition, family features, such as household income, size and composition are related to the difference in the size of rent subsidy across countries, except S. Korea. Furthermore, the Korean rent subsidy offered by the national social security system is much newer, having been introduced only in 2000. Therefore, this research could make recommendations for improving the Korean housing allowance system.

1.2 Terminology of Housing Allowance

Although the UK, the Netherlands, Sweden and S. Korea have the national support scheme for housing costs within social security system or housing policy, the policy titles vary, for instance, Housing Benefit in the UK and Rent Allowance in the Netherlands. In order to make the comparison easier, this study adopts 'housing allowance(s)' as a term for the financial supports for housing costs paid to the low-income households, as a means-tested benefit which is offered within the national social security system or housing policy boundary. Concerning the national rent subsidy programme in each country, the housing allowance refers to Housing Benefit and Local Housing Allowance in the UK, Rent Allowance in the Netherlands and Housing Benefit of the National Basic Livelihood Security system in S. Korea. In Sweden, there are three housing costs support schemes within the social security system: the housing allowance for families with children, the housing allowance for young people without children and housing supplement for pensioners. The housing allowance comprises these three schemes for Sweden.

1.3 The Aim and Question of Research

This study aims to examine the effectiveness of housing allowance for low-income tenant households. It also seeks to explain how varied institutional features of housing allowance

systems make changes in income maintenance, housing affordability and work incentives in countries. Therefore, the comparative analysis focuses on the changes in income maintenance, housing affordability and work incentives by the provision of housing allowance and explains the difference amongst the UK, the Netherlands, Sweden and S. Korea. Lastly, this study makes recommendations for the improvement in S. Korea's housing allowance system.

This research will address the three main questions.

(1) How was the housing allowance designed?

As a basis for the understanding of the national context and the evaluation of the housing allowance scheme in each country, this study will focus on:

- The development of housing allowance under the housing and social policy
- The design and feature of the housing allowance scheme

(2) Is the provision of housing allowance effective in achieving social and housing policy objectives for improving the low-income household's living condition?

In order to evaluate the effectiveness of housing allowances, this study will examine changes in the achievement of following policy objectives by the housing allowance:

- Improving income maintenance (social policy)
- Reducing housing affordability problem (housing policy)
- Work incentive change (welfare-to-work transition)

(3) How does the feature of housing allowance system relate to the varied changes in income and housing problems of low-income households?

This study will identify the important features of housing allowance systems in relation to the differences in income maintenance, housing affordability and work incentive changes in the four countries and explain how they are associated with the results.

1.4 The Structure of Thesis

This thesis consists of nine chapters. Following the introduction, Chapter 2 will review previous housing and welfare policy studies in order to understand the issues of housing in the welfare states contexts and in the development of housing allowance system. This chapter will also discuss the main issues of income, poverty, housing cost and work incentives of housing allowance recipients to give the theoretical backgrounds for this study. Chapter 3 will present the analytical framework, methodology, indicators and variables of this research.

The next four chapters will carry on the comparative analysis of the housing allowance effectiveness in the UK, the Netherlands, Sweden and S. Korea. The first two sections of Chapters 4, 5, 6 and 7 explore the developmental process and the features of housing allowance system. The subsequent sections of those chapters will examine the effects of the housing allowance system in improving income maintenance, reducing housing affordability problems and providing work incentives. The datasets from each country will be used for the quantitative analysis of the effectiveness of housing allowance. Within a country, the results will be compared by different family features: household income, family composition, tenant tenure type and employment status.

The results will be compared by country and household type in Chapter 8. Throughout the comparative analysis, I will identify the connection between the effectiveness of the housing allowance and the design factors affecting the changes in income maintenance, housing affordability, and work incentives and explain the differences in results among the four countries.

Chapter 9 will summarise the research findings.

Chapter 2. Housing and Welfare: Regime, Housing Allowance and Issues of Income and Housing in Welfare States

Introduction

In welfare states, the provision of housing allowance is not related only to the social security system, but also to the housing system and the wider welfare system. Owing to this intertwined characteristic of the housing allowance, the theoretical background of this research comprises varied aspects of ‘housing’. Therefore, this chapter explores housing in the context of housing and social policy in the welfare state. I will explain housing as research subject in housing and welfare regime studies in Section 2.1. Subsequently I will address the feature of housing allowance as housing cost subsidy system in welfare states in Section 2.2. Last, I will deal with housing-related income problem, housing affordability, work incentive issues as the main concerns of the analysis of housing allowance effectiveness in Section 2.3.

2.1 Housing, Welfare State and Regime Typology

After World War II, one of the most prominent tasks of Western countries was tackling acute housing shortages and thus the housing system has developed with other welfare systems, i.e. social security, education and health care, which are regarded as pillars of the welfare state. However, unlike social security, education and health care, housing has been characterised as the “wobbly pillar” (Torgersen, 1987) of the welfare state. This is because housing has distinct features differentiating it from the other three welfare pillars; the ‘ambiguous place of housing in welfare state’ and ‘the wide variations in the kinds of housing provided’ and ‘the vulnerability of housing to public expenditure reduction’ (Kemeny, 2001, p. 55). The ‘ambiguous place of housing in welfare state’ means that housing is positioned in a ‘grey zone’ between the universal provision of welfare states and major consumer goods (Kemeny, 1995, p. 173). While the provision of social security benefits, health care, education and housing are universal, housing is also considered subject to market provision and individual purchase with higher financial contribution to cost than health care or education (Kemeny, 2001). Accordingly, it is sensible that welfare state researchers have investigated areas of welfare provision, such as social security and

health care and housing has not been placed within the mainstream of welfare state research (Kemeny, 2001, 1995; Dewilde & De Keulenaer, 2003). In Esping-Andersen's (1990) classic work, *The Three Worlds of Welfare Capitalism*, which is path-breaking literature on the welfare state typology, the author did not include housing as part of the welfare provision that characterises a welfare regime.

Adding to the duality attribute of housing, Kemeny (2001) emphasised that housing is 'embedded in social structure' to a significant extent (ibid, p. 56). Therefore, housing could be a key factor in understanding welfare systems and a shift in housing is more likely to have an effect on the social structure. This interrelated feature of housing and social structure or the wider welfare system has been the concern of welfare state researchers. While the recent housing literature has expressed interest in the relationship between the housing system and the welfare system or welfare regime, this feature of housing contributed alongside the duality of housing to its exclusion in early studies of comparative welfare states (Kemeny, 2001). For instance, Wilensky (1975) did not include housing in the modelling of residual and institutional welfare states because housing is a complex area and distorts the interpretation of other areas in welfare states (Wilensky, 1975).

Housing Research and Regime Typology

Esping-Andersen's welfare regime typology focused on the distinction of welfare provision modes by the state, market and family and emphasised differences in the degree of welfare states' decommodification and stratification which result from welfare regimes (Esping-Andersen, 1990). According to this typology, welfare states are categorised into three welfare regimes, i.e. liberal, conservative-corporatism and social-democratic. Following Esping-Andersen's classic work, the classification of welfare states has been the mainstream comparative social policy research (Abrahamson, 2011). Moreover, welfare regime typologies have been amended to achieve enhanced analysis results for housing studies.

Barlow and Duncan (1994) discussed certain features of welfare regimes in the context of European countries in regards to the provision of housing. A conservative-corporative regime has generalised but direct national support, although there is the restriction of public sector growth. On the other hand, in liberalised welfare states, there is a lower degree of state intervention. In countries that adopt a social-democratic regime, the state is directly involved in the supply of housing, particularly social housing that is accessible to

all. However, rudimentary states traditionally are not involved in housing production, although national variances exist in practice (Barlow & Duncan, 1994). In addition, Hoekstra (2003) provided a comprehensive review of the Belgian and Dutch housing systems by applying the concepts of stratification and decommodification to housing. Decommodification was defined as the extent to which households can provide their own housing independent of the income they acquire on the labour market, translated into housing subsidisation and price regulation. The stratification is linked with the process of housing allocation and state intervention (Hoekstra, 2003, p. 60).

The well-known classification for housing regimes is Kemeny's (1995) rental regime ('dual' and 'unitary') typology. In Kemeny's (1995) view, a housing shortage encourages the government to supply social rental housing ('cost rental' housing). However, with time, the lack of housing is solved and the real value of outstanding debt in relation to social housing stocks decreases due to inflation. The cost rental housing thus becomes more competitive because social housing rent is likely to decrease due to the decreased burden of debt payment, i.e. the 'maturation' of social housing occurs. If social housing's maturation progresses and subsequently attains a level showing the potential to lower rent costs, the government would then be required to choose policy strategy influencing this process. One course of policy approaches involves inducing competition between profit rental and cost rental housing or allowing a dominant position for cost rental housing, thus resulting in a more integrated rental market, i.e. the unitary rental system in Sweden and the Netherlands. Another course would be to control the cost of rental housing, promote homeownership and maintain separate rental markets for the cost rental and profit rental sectors, i.e. the dualist rental system in the UK (Kemeny, 1995).

However, according to comparative housing and welfare state studies, welfare regime and housing regime typologies have advantages and drawbacks. As Doling (1997) noted, one country cannot be seamlessly incorporated within a model. In addition, Stephens *et al.* (2010) highlighted that the association between welfare regime and housing regime has not been clearly established with these typologies. The welfare system and housing system could influence each other because they operate within one welfare state and the government's stance or ideology changes either one of them. Moreover, the sub-system of the entire welfare system or housing system could be operated differently even in the same regime. Nevertheless, the scope of housing studies has widened with the adaptation of welfare or housing regimes for comparative analysis of housing and welfare systems in

welfare states. For instance, increasing numbers of studies are looking at the relationship between housing system and income distribution (e.g. Heylen & Haffner, 2012; Stephens & Van Steen, 2011; Griggs & Kemp, 2012) and the homeownership and welfare state shift (e.g. Ronald & Doling, 2010).

Welfare regime typology is also applied in the Asian welfare state research. Compared to welfare regimes in Western countries, Asian countries are regarded as having their own cultural characteristics from the Confucianism tradition and distinct economic developmental routes. At the onset of welfare regime discussion in Asian countries, the Asian welfare regime carried different labels reflecting these characteristics (Abrahamson, 2011): 'Fourth World' or hybrid between conservative and liberal welfare state regime (Esping-Andersen, 1990, 1997) and Confucianism welfare regime (Jones, 1993). However, the concept of the Confucianism welfare regime has faded. As Walker and Wong (2005) pointed out, 'the explanatory power of Confucianism has been overemphasised with reference to both the past and the present of welfare regimes in East Asia' (Walker & Wong, 2005, p. 214).

Another stream of Asian welfare regime research is focused on the productivity dimension of East Asian countries (mainly Japan, Singapore, Hong Kong, S. Korea and Taiwan) (Holliday, 2000). However, as Hudson and Kühner (2011, 2009) and Hudson (2012) observed, these East Asian countries do not fit the productivist welfare model with the analysis of production dimension (education investment of public education spending and training investment of active labour market policy budget) and protection dimension (income protection of income replacement by social benefits and employment protection). For instance, S. Korea fell into the weak productive but protective dimension due to the policy shift from productive intent to labour market protection after the economic crisis in the late 1990s.

It is agreed that the welfare states of East Asia share common experiences in the arena of housing policy (Kwon, 1998, 2005; Phang, 2007; Lau, 2007; S. Park, 2007; Hirayama, 2007; Wang, 2007; Tang, 2007; Groves *et al.*, 2007; Y. Kim, 2008; P. Kim, 2010; Ronald & Doling, 2010; La Grange & Jung, 2013). In terms of housing, the provision of housing is recognised as an efficient means of solving housing shortage and a diligent work ethic has been promoted through a national campaign of homeownership. Therefore, state-run

housing organisations, such as the Korea National Housing Corporation¹ in S. Korea and Singapore's Housing and Development Board, have been responsible for the supply of large-scale state housing building projects (Groves *et al.*, 2007).

However, in terms of welfare regime typologies, as Esping-Andersen (1999) emphasised, the welfare regime models present simplified ideal types that cannot fully capture the complex reality of actual welfare regimes. Moreover, as Doling (1997) acknowledged, one country does not perfectly fit a welfare regime model. Even countries at the same economic developmental stage could have different tendencies and their transitions may not be exactly consecutive. In this respect, these welfare state regimes have experienced 'soft convergence' in response. Hence, as Kemeny (2001) highlighted, rather than the 'proliferation of typologies' (*ibid*, p. 58), the focus should be on understanding three relationships between housing and the welfare state: the general level, housing and the three welfare pillars and housing and other areas of welfare (*ibid*, p. 68).

2.2 Housing Allowance as Part of Housing or Welfare System

Concerning comparative housing research or welfare regime studies, the focus has been on the way in which the national housing system works to respond to the demand and supply in the public and private sectors. From the perspective of policy instrument, the housing allowance has been provided in this process to support housing costs as a result of state intervention.

2.2.1 The Development of Housing Allowance

In many countries, the government has directly or indirectly intervened in housing market with housing subsidies. The provision of housing subsidies aims to encourage or enable consumers to buy more or better housing than they would otherwise be able to purchase (Mullins & Murie, 2004, p. 158). Housing subsidies have been categorised into the supply-side and demand-side subsidies. The government supplies housing directly or it provides subsidies to housing builders to promote housing construction, i.e. 'bricks and mortar' or producer subsidies. With regards to demand-side intervention, the government provides

¹ Now, the Korea Land and Housing Corporation.

financial support for housing cost expenditures for the household to encourage the consumption of housing, i.e. consumer subsidies (Doling, 1997; Howenstine, 1975; Kemp, 2000a, 2007a; Mullins & Murie, 2004; Olsen, 2000; Priemus & Kemp, 2004; Quigley, 2011).

Until the 1970s, the major housing subsidies were supply-side subsidies (Kemp, 2000a). This might be related to the weakness of demand-side subsidies: The effects of the demand-side subsidy on the promotion of housing construction or the housing price change in the short term may be indirect (Howenstine, 1975). Moreover, Doling (1997) highlighted that the policy shift from a producer subsidy to a consumer subsidy being implemented in European countries has not been consistent across countries. Kemeny (1995) noted that the decline in construction-related subsidies was linked to the changed situations apparent within the national housing system, i.e. the decreased need for housing construction due to improvements related to the housing shortage problem and the maturation of social housing has resulted in reduced expenditures for housing construction costs (Kemeny, 1995).

Nevertheless, from the 1970s through the 1990s, many countries increased demand-side subsidies through gradual replacement of supply-side subsidies with housing allowances (Kemp, 2000a, 2007a; Priemus & Kemp, 2004; Council of Europe, 2008). Kemp (2000a) emphasised that the emergence of the income-related housing allowance in the 1970s is commonly linked to the changes implemented in other policies through the description of four key elements that played a role in changing ideas about housing policy. The elements involve the evolution of housing provision from the state to a market or quasi-market sector; the surging emphasis on consumer's choice of poor households; the decrease in severe housing shortages; the increased attention to income-related problems; and the improvement in targeting housing expenditure assistance to households in need. The personal assistance with housing expenditure delivered remarkable help to households during the period of reduction in the implementation of construction subsidies.

Moreover, the housing allowance as an income supplement indicates that the arenas of social policy and income maintenance policy started to address the housing needs of low-income households. Griggs and Kemp (2012) highlighted that housing allowance as income support is required because of the three attributes of rent payment. First, households can experience income risk caused by earning loss or earning reduction from

changes in working patterns, e.g. unemployment, retirement or leaving for health problem or increased family responsibility. Second, rent payment is the largest single expenditure item in the household budget. Third, a regional rent price differential which is greater than those in earnings exists.

2.2.2 The Feature of Housing Allowance

Welfare states have established housing allowance systems that reflect each country's social and housing systems, which are embedded in wider welfare systems. In-cash forms (housing allowance) or vouchers that consumers can spend only on housing costs are widely used types of customer subsidy for housing cost. Although the types and institutional features of housing allowances vary across countries, the aim of a housing allowance would be similar. As the Council of Europe's guideline on housing allowances states, "the goals for housing allowance system should be to improve access to decent, affordable housing for all households on low incomes and to function as a safety net for these households against increase in housing expenditure or decrease in income" (Council of Europe, 2008, p. 88). Therefore, when a housing allowance subsidises housing costs paid by low-income households, those households can reduce housing cost expenditures and therefore more of the household income can be spent on non-housing goods (Kemp, 2007a).

The fact that housing costs account for a large portion of the budget of a low-income household (Alcock, 2006; Freeman *et al.*, 1999; Kemeny, 1992, 1995; Kemp, 2000a; Griggs & Kemp, 2012) refers to the importance of income supplementation for housing cost expenditures for the poor through welfare provision. For this reason, the housing allowance is a means-tested benefit for which eligibility is limited to low-income households. In addition to household income, family composition and size of housing cost expenditure, commonly affect decisions about eligibility for the housing allowance (Kemp, 2000a).

Table 2.1 Housing Allowance Scheme in Welfare States

Country	Welfare regime	Rental housing system	Housing allowance scheme
France	Corporatist	Unitary	Separate housing allowances for all tenures (Three schemes: ALF, ALS and APL).
Germany	Corporatist	Unitary	One allowance scheme for tenants receiving social assistance benefits and another scheme for homeowners and tenants not receiving social assistance.
Sweden	Social democratic	Unitary	Separate housing allowances for main part of housing costs (Housing Allowances for Non-Pensioner and Housing Supplement for Pensioner).
The Netherlands	Corporatist/ Social democratic*	Unitary	Social assistance benefits subsidise a part of housing costs and a separate housing allowance scheme finances rents for all tenant tenures.
The UK	Liberal	Dualist	Separate housing allowance schemes for tenants in private and public sectors. Social assistance benefits do not make allowances for housing costs.
Australia	Liberal	Dualist	Rent rebate for social housing tenants. Separate housing allowance scheme (Commonwealth Rent Assistance) for private tenants.
The US	Liberal	Dualist	Different housing assistance programmes for social housing sectors. Housing Voucher is provided for the low-income households.

Source: Ditch *et al.* (2001) Table 3.2; Esping-Andersen (1990); Kemeny (1995, 2006).

Note: *The Netherlands is regarded as having a hybrid welfare regime of corporatist and social democratic welfare regimes.

In the literature, types of housing allowances are identified according to the way in which housing allowance relates to the social security benefit system (Kemp, 1997, 2000a; Ditch *et al.*, 2001; Hulse, 2002). Housing allowances are categorised as (1) social assistance or income support, which is a part of main income-related social security benefit and makes up the major income deficit of low-income households for living (e.g. the UK's HB), (2) separate income support or income supplement, which is not a main income-related social benefit and supplements the general social security benefit (e.g. housing allowances in continental Europe), (3) housing assistance, which is for housing costs expenditure and independently provided from income-related benefit. In terms of national policy, whilst the first and second types of housing allowances are regarded as benefits of social or income

policy in most countries, the third type of housing allowance is a part of housing policy, for instance the Netherlands' rent allowance and the US's Housing Voucher.

Moreover, the housing allowances differ according to the types of benefit structure—'gap' structure and residual income structure (Kemp, 1997, 2000a; Ditch *et al.*, 2001; Hulse, 2002). In countries adopting a 'gap' structure for housing cost subsidisation, housing allowance claimants are required to pay housing costs with their own income. The housing allowance subsidises housing costs exceeding a certain standard with different subsidisation rates—a high rate for low-range of housing costs and a low rate for high-range of housing costs up to benefit cap. For instance, recipients of the housing allowance in the Netherlands are expected to pay a certain percentage of rent with their incomes and the size of this self-contribution depends on household income and family composition (Priemus, 1998; Priemus & Elsinga, 2007; Haffner & Boumeester, 2010). In contrast, the housing allowance adopting residual income approach makes up for the difference between the minimum standard of disposable income after housing cost expenditures and the actual residual income after housing costs of beneficiaries.

Moreover, these features indicate that housing allowance models are differently interrelated with social benefit systems across countries. For instance, if the housing allowance is provided as income supplement, the general (and generous) social security benefit enables the beneficiary to pay some of housing costs. In this case, the benefit formula of housing allowance adopts the gap structure requiring the personal contribution to housing costs expenditure, as with the housing allowances in the Netherlands and Sweden. However, when it comes to housing allowance as income support, the benefit is designed to subsidise the main housing cost. In particular, if these are not social benefits subsidising housing costs in welfare system, the housing allowance system is unlikely to adopt the 'gap' structure. For example, the UK housing allowance could fully subsidise the eligible rent for housing allowance claims for some households. This is associated with an aspect of the social security benefits; neither the social insurance benefit nor the social assistance benefit make allowances for housing cost payments (Stephens *et al.*, 2010).

2.3 Issues of Income Poverty, Housing Affordability and Work Incentives

The income-related housing costs subsidy, i.e. housing allowance, is generally regarded as an instrument of housing policy because it secures sustainable residency with acceptable quality for low-income households. However, the housing allowance plays a role in maintaining a household's income by reducing the housing cost burden of low-income families (Heylen & Haffner, 2012; Griggs & Kemp, 2012). Therefore, the housing allowance system encompasses issues concerning low-income households' financial and residential problems (Kemp, 2000a).

2.3.1 Housing Cost, Income and Poverty

Social policy is concerned with a number of different policy objectives, including compensation for industrial injuries, income maintenance and redistribution (Sainsbury, 1999). Therefore, the income support from the national social security system varies across features of the target population. Generally, the social security benefits are categorised into three groups representing different ranges of beneficiaries and types of allocation. The first group is 'universal' or 'categorical benefits' that are not based on means tests or employment status but paid to citizens who belong to certain groups within the population, e.g. child benefit. The second group is 'social insurance', which is usually based on the recipient's contribution to benefit payments and employment status. The third group is 'social assistance', which is provided to those who pass a means test for eligibility (Atkinson, 1989). Within the income allocation of the social security system, the housing allowance could be categorised as a social assistance benefit. Social assistance benefits are delivered as a safety net to individuals or households with insufficient income. Accordingly, social assistance benefits are viewed as proper instruments for evaluating the capability of the state to care for more vulnerable individuals and the suitability of the benefit provision as a "last resort" (Kuivalainen, 2004, p. 59).

In most countries with a housing allowance system, an income-related housing allowance is a social assistance benefit with means test. Even in countries where the housing allowance is a tool of housing policy, this benefit is a means-tested benefit for low-income or the lowest-income households. As Griggs and Kemp (2012) pointed out, housing costs subsidies for low-income households are required due to the attributes of housing cost

payments. Housing cost payments are the largest and least flexible expenditure; housing costs need to be paid regardless of the household's income risk stemming from earnings loss or reduction. Here, the issue of income maintenance after housing cost expenditures for adequate quality housing is of concern. Undoubtedly, if the national support for housing costs is small, there is a stronger link between housing and poverty (Dewilde & De Keulenaer, 2003).

The Relationship between Housing Costs and Income: Housing Affordability

In terms of housing and income problems, what we consider first is the extent to which households spend their income on housing and non-housing consumption. This issue is related to housing affordability issue in housing policy studies. Housing affordability refers to the “relationship between household income and housing expenditure” (Kutty, 2005, p. 115). If the housing cost expenditure of the household in relation to its income is “reasonable or moderate”, housing is affordable (ibid). The conventional method of affordability assessment involves comparing housing cost expenditure with household income, i.e. the ratio of housing costs to income (Chaplin *et al.*, 1994; Freeman *et al.*, 1999; Freeman & Whitehead, 1995; Marsh & Riseborough, 1995; Marshall *et al.*, 2000; Randolph, 1992). The calculation of this ratio is technically simple (Chen *et al.*, 2010) and can be performed with information on the household's rent and income (Freeman *et al.*, 1999); therefore, this ratio measurement has been widely used for the assessment of housing affordability and recent research has applied it with its an alternative indicator of housing affordability, i.e. residual income measure (e.g. Griggs & Kemp, 2012; Thalman, 2003) or price-to-income ratio (e.g. Haffner & Boumeester, 2010).

Whilst the measurement is based on a simple formula, the results vary according to the definition of household income, e.g. net income or gross income and the scope of housing costs, e.g. rents, heating, service charges and mortgage interest. Concerning tenant households, the measurement of housing affordability varies depending on the inclusion or exclusion of the housing allowance as well as income tax and social security contributions.

Freeman *et al.* (1999) defined these ratios as follows:

Rent-to-Income Ratio 1 = dwelling rent ÷ net income

Rent-to-Income Ratio 2 = (dwelling rent – housing allowance) ÷ net income

Rent-to-Income Ratio 3 = dwelling rent ÷ (net income + housing allowance)

Rent-to-Income Ratio 4 = dwelling rent ÷ gross income

Rent-to-Income Ratio 5 = (dwelling rent – housing allowance) ÷ gross income

In addition, Haffner and Boumeester (2010) conceptualised net and total ratios for their study as follows (Table 2, p. 801):

Net ratio = net rent (gross rent – housing allowance) ÷ disposable income

Total ratio = total housing expenditure (gross rent + incidental expenditures) ÷ disposable income

Regarding the ratio measurement, a standard ratio for judging the prevalence of affordability problems is used as a rule of thumb, e.g. housing costs up to 30% of income in the US for the federal housing assistance programme (Kutty, 2005). However, housing research has noted the limitation of this single ratio approach (Freeman et al., 1999; Kutty, 2005; Thalman, 2003; Hancock, 1993; Kearns, 1992; Marsh & Riseborough, 1995; Stone, 2006a). The conventional ratio measure approach may not accurately address differences in household incomes (Kearns, 1992). If households with different incomes have the same ratios, one may assume that they are in the same conditions. However, the interpretation of high and low ratios relies on the differences in household income. Whilst better-off households, even with a high ratio, could have sufficient income for non-housing consumption, worse-off households, even with a low ratio, would have insufficient income to meet non-housing needs. Moreover, if other conditions are similar, a high ratio expresses a household's preference for a large quantity or high quality of housing (Lerman & Reeder, 1987), i.e. "residential comfort" (Thalman, 2003, p. 292), rather than a high housing cost burden placed on household finances.

In addition, the housing affordability ratio does not provide any information on the consumption of decent housing (Hancock, 1993). The research has emphasised that housing affordability is associated with the household's need for decent housing, for which the monthly payment represents a significant percentage of income (Freeman *et al.*, 1999; Hancock, 1993; Kearns, 1992; Marsh & Riseborough, 1995; Bramley, 1990; Chaplin *et al.*, 1994; Maclennan & Williams, 1990). One can see this in the definition of housing affordability: "Affordability is concerned with securing some given standard of housing (or different standards) at a price or rent which does not impose, in the eyes of some third party (usually government) an unreasonable burden on household incomes" (Maclennan &

Williams, 1990, p. 9). Furthermore, Bramley (1990) stated that “households should be able to occupy housing that meets well-established (social sector) norms of adequacy (given household type and size) at a net rent which leaves them enough income to live on without falling below some poverty standard” (Bramley, 1990, p. 16).

Such definitions provide two key elements for understanding the meaning of housing affordability. First, it should be possible for households to secure adequate quality of housing within their finances. However, when the expenditure-to-income measure is used, a low ratio merely indicates a ‘reasonable’ burden for housing costs on household income. Moreover, this conventional ratio measure does not express whether the household consumes housing appropriately in a particular housing market. Therefore, suggested alternatives to the housing cost burden ratio measure are imputing the standard of housing expenditure regarding attributes of housing in a given housing market and comparing housing costs to income ratios obtained with this standard expenditure and the actual expenditure of households (e.g. Thalman, 1999, 2003; Lerman & Reeder, 1987). Thalman (1999, 2003) developed housing affordability measures combining a conventional housing cost-to-income ratio with quality-based and housing expenditure measures to examine housing affordability conditions and distinguished between patterns of overconsumption and actual housing affordability problems (higher contract rent costs than standard or lack of income for housing consumption).

Also, the housing cost burden measure does not present the financial situation after housing cost payment: whether the household can meet the non-housing needs after housing expenditure (Kutty, 2005). The relationship between housing consumption and non-housing consumption, i.e. “the opportunity cost of housing vis-à-vis other goods and services” (Whitehead, 1991, p. 873) is important. Since low-income households’ resources are limited, the size of housing costs influences the size of the cost to be paid for other goods and services needed for living (Freeman *et al.*, 1999). However, when the rent expenditures place an “unreasonable burden on household incomes” (Maclennan & Williams, 1990, p. 9), the purchase opportunity for non-housing items is reduced and the household incomes after rents payment may fall below “some poverty standard” (Bramley, 1990, p. 16). The effects of unreasonable rents on income and housing problems could be more severe for low-income households than other types of households. Their financial discretion for non-housing expenditures would decrease after housing cost expenditure (Kutty, 2005; Stone, 2006a).

Income Maintenance after Housing Cost Expenditures: Above or below Poverty Line

The housing cost expenditures intensify income problems for low-income households. However, the housing cost-to-income ratio does not present the amount of household income to determine whether a household is in poverty. To deal with income problems arising from housing cost expenditures, housing studies have advocated a new measure of housing affordability indicating income after housing cost payment, i.e. residual income measure. The residual income approach emphasises ‘the standard of living’ after housing cost expenditures (Kutty, 2005, p. 121). There is a common fundamental consideration that residual income measurement is concerned with the amount of income after payment of housing costs directed towards general living consumption as well as with whether or not the minimum standard of living can be achieved.

Regarding this issue, Whitehead (1991) suggested measuring the absolute amount of residual household income after rent payment as well as the housing costs-to-income ratio (Whitehead, 1991). In other studies, the concept of residual household income after housing costs² has been adopted along with the housing cost-to-income ratio measurement to assess housing affordability (Freeman *et al.*, 1997; Freeman *et al.*, 1999; Chaplin *et al.*, 1994; Freeman & Whitehead, 1995; Marshall *et al.*, 2000; Randolph, 1992; Thalman, 2003; Stone, 2006a, 2006b; Kutty, 2005).

Overall, the assessment of the residual income after housing costs, i.e. the extent to which households’ income is maintained after housing cost expenditures, considers a number of different variables, including housing allowance, income, rent and minimum cost of living. As Table 2.2 shows, such elements are not expressed in the same way.

² Although the residual income measurement has been implemented through the measurement of housing affordability, this research will apply the residual income measurement to evaluate the income maintenance after housing cost payment.

Table 2.2 Measurement of Residual Income after Housing Costs

Research	Calculation
Randolph (1992)	Net weekly household income + estimated Housing Benefit – (estimated household applicable amount + Housing Benefit earned income disregard) *1.2 – weekly basic rent – weekly eligible service charge
Chaplin <i>et al.</i> (1994)	Net income + Housing Benefit earned income disregard + Housing Allowance – Rent – Income Support applicable amount
Freeman & Whitehead (1995)	Net income + Housing Benefit earned income disregard – Rent – Income Support applicable amount
Freeman <i>et al.</i> (1999)	Net income + Housing Benefit – Minimum housing expenditure – Minimum non-housing expenditure
Marshall <i>et al.</i> (2000)	Income – Rent – Income Support + Housing Benefit
Stone (2006a, 2006b)	‘Shelter poverty’ Disposable income – Housing consumption = Non-housing consumption > standard
Kutty (2005)	‘Housing-induced poverty’ Non-housing consumption after Housing expenditure > 2/3 of Official poverty line in the US

Source: Freeman *et al.* (1999); Chaplin *et al.* (1994); Freeman & Whitehead (1995); Marshall *et al.* (2000); Randolph (1992); Stone (2006a, 2006b); Kutty (2005).

By applying the residual income approach, Kutty (2005) and Stone (2006a) proposed a new concept indicating the relationship between housing expenditure and household income, i.e. ‘housing-induced poverty’ (Kutty, 2005) and ‘shelter poverty’ (Stone, 2006a), respectively. Both concepts focus on the income poverty arising from expenditure on housing costs. This situation occurs when a household cannot afford non-housing goods due to high housing cost expenditures. Even when the housing costs-to-income ratio is low, the household income left may not be sufficient to purchase non-housing goods meeting the standard of living, especially for low-income households. Therefore, rather than amount of income, the extent to which the residual income after housing cost payment could afford necessary non-housing consumption is significant.

As Kutty (2005) observed, ‘housing-induced poverty’ measures are more likely to be sensitive enough to capture households that cannot afford non-housing goods after housing cost payments if their housing cost-to-income ratio is lower than standard. Moreover, recent housing studies applying these housing cost-related poverty measures have shown the varied prevalence of ‘income poverty’ and ‘housing poverty’ and indicated the influence of housing cost expenditures on income problems (Stephens & Van Steen, 2011; Chen *et al.*, 2010; Stone, 2006b).

As these residual income measures address housing cost-related poverty, the standard defining whether the household remains above poverty or falls into poverty is required. However, while these two concepts of housing expenditure-related poverty indicate the likelihood of poverty caused by income problems for living, different norms of poverty are used to measure 'shelter poverty' and 'housing-induced poverty'. Whilst Stone (2006a) used the aggregation of non-housing necessities of family budget (excluding personal taxes), Kutty (2005) applied two-thirds of the official poverty line income in the US. As Kutty (2005) pointed out, the non-housing consumption standard of housing-induced poverty is lower than that of shelter poverty. Therefore the same income problems after housing cost expenditures can be estimated differently.

The effect of housing cost expenditures on the living condition of the poor is of concern in social policy studies as well as housing policy studies. Undoubtedly, the housing cost expenditure is likely to worsen poor households' finances due to the significance of housing costs' share of their living costs. Moreover, if national support for housing costs is less, there could be a stronger link between housing and poverty (Dewilde & De Keulenaer, 2003). In this respect, the social security system needs to consider the effects of housing costs on low-income households and the financial support for housing costs. This financial assistance for housing cost expenditures is linked to the changes in income maintenance after housing cost payments. As Griggs and Kemp (2012) and Heylen and Haffner (2012) observed, the housing allowance decreases households' budget share assigned to housing payments and ensures that low-income families maintain their living standard after housing cost payments. Therefore, an analysis of after-housing costs poverty is useful to determine who needs an income-related housing allowance (Heylen & Haffner, 2012).

In terms of social policy, this effect is measured by comparing households' incomes before and after housing cost payments (Alcock, 2006), i.e. the change in poverty rate before and after housing cost expenditures. Moreover, the effectiveness of the housing allowance for reducing the poverty of the poor households could be measured by comparing the poverty rates before and after housing allowance provision, just as the change in poverty is used to examine the effectiveness of social policy.

In evaluating the effectiveness of social policy for reducing poverty, it is essential to gain an understanding of two key concepts: the meaning of poverty and the measurement of

poverty (Bradshaw, 1999). First, the meaning of poverty is defined in two ways: absolute poverty and relative poverty. In absolute terms, poverty means a lack of funds available for living. In other words, the concept of absolute poverty is associated with subsistence and the meaning of absolute poverty differs depending on the way in which subsistence is defined. Absolute poverty can be measured by using one standard, e.g. the \$2 per day defined by the World Bank (Pisu, 2012), or the cost of a basket of goods and services meeting the minimum standard of living could be used as a measure of absolute poverty in each country. On the other hand, the concept of relative poverty differs in time or space because the poverty or necessities of life may vary according to societal conditions at different times. For example, poverty in a developed country may not imply the same level of poverty as that experienced in a non-industrialised country. Thus, the concept of relative poverty is subject to the development stage of the society in which poverty is studied (Alcock, 2006). Over the last 20 years, absolute poverty has decreased, whereas relative poverty still is more of a concern in Organisation for Economic Co-operation and Development (OECD) membership countries (Pisu, 2012).

Regardless of the measurement of absolute or relative poverty, the issue is how to set the income threshold as a standard representing poverty. Various approaches to establishing this income threshold defining poverty have been developed over time. Among the different poverty measurements, the budget standard approach, which was initiated by Seebohm Rowntree's work in 1901, lists necessities for living (a basket of goods) and calculates the budget to buy all of them; this budget was applied as a poverty standard (Rowntree, 2000 [1901]). Another approach is to use the deprivation indicators introduced by Townsend (1979). This approach focuses on the strong relationship between poverty and deprivation in a number of life's dimensions. Poverty, i.e. lack of resources needed for participation in community activities, is a serious problem referring to social exclusion. With this technique, the extent of deprivation relating to multi-dimensions of the standard of living is measured by indicators to define poverty. For instance, Guio (2009) suggested deprivation indicators addressing the household's financial status (e.g. being unable to afford paying for housing costs), the affordability of consumer durable goods (e.g. being unable to afford a washing machine) and housing quality indicators (e.g. suffering from higher rent cost burden).

More practically, relative poverty could be measured by comparing the poverty rates indicating the size of the population living in poverty and not living in poverty within a

society (Alcock, 2006). To compare poverty rates, it is essential to establish the poverty line that separates those who are in poverty from those who are not. Usually, 40%, 50% (e.g. OECD) or 60% (e.g. European Union) of the national median income is applied as the poverty standard. If a person or a household's income is at or below this standard, such individuals or households are considered to be in poverty. The choice of the higher (e.g. 60%) or lower (40% or 50%) poverty line influences the examination of poverty (Pisu, 2012; Behrendt, 2002; Bradshaw & Mayhew, 2010). To measure the more extreme poverty in society, the use of a lower poverty line is better than a higher poverty line. As the income threshold defining poverty is lower for the former, the population living at the lower end of the income spectrum, rather than households with middle or higher incomes, will be taken into account. When considering such obstacles, the mix of different poverty measures could be alternatives (Behrendt, 2000, 2002; Bradshaw & Mayhew, 2010).

Dealing with income poverty, while these approaches focus on cash income, there is another approach focusing on non-cash income, e.g. income from housing or in-kind benefits (education, health care) and considering cash and non-cash income in the income distribution problem (Saunders & Siminski, 2005; Mullin *et al.*, 2009; Saunders *et al.*, 2002). In most states, the government provides in-kind benefits. However, there is concern about measuring the effect of this non-cash income, in particular in-kind benefits, when this benefit is universal (Smeeding *et al.*, 1993; Garfinkel *et al.*, 2006; Paulus *et al.*, 2010; Pisu, 2012).

2.3.2 Housing Allowances and Work Incentives for the Working Poor

In recent decades, the commonly observed, but remarkable change in the welfare system of most welfare states is a policy shift from conventional passive income benefit receipt towards an emphasis on the active labour participation of the low-income household. The changed welfare schemes, such as the UK's New Deal programme or the US's welfare-to-work programme under the 1996 Personal Responsibility and Work Opportunity Reconciliation Act, are based on a 'mutual obligation' that requires low-income people who are capable of working to accept a job or participate in job training programmes on the condition that they receive social security benefits (Feeny *et al.*, 2012).

Whilst labour and social policies are crossed in these welfare-to-work programmes, the benefit recipients still remain within the social security system. When a person who is

eligible for income support benefit and able to work participates in the welfare-to-work programme, this person receives income or other social benefits up to the benefit limit according to their income from earnings. As housing-related support for low-income households, both the income-related housing allowance and other housing programmes (e.g. social housing) also have a feature of this ‘in-work’ benefit for the working poor.

The literature has discussed the importance of housing cost support programmes as an in-work benefit for the low-income household. First, as mentioned in Section 2.3.1, reduced financial burden for housing costs with a housing allowance or the below-market rent of social housing enables the low-income household to increase non-housing expenditures, including employment-related service or costs (Feeny *et al.*, 2012; Verma & Hendra, 2003; Van Ryzin *et al.*, 2003). Second, concerning the low-income households that are likely to live in a high-poverty or high-crime area, the increased choice of residence could reduce the ‘neighbourhood effect’, which is regarded as a factor with a negative impact on employment outcome in the research (e.g. Fletcher *et al.*, 2008). Third, a housing subsidy programme as in-work benefits is effective in overturning the low-income household’s resistance to labour participation created by work disincentive because receipt of welfare benefits is conditional on accepting work (Feeny *et al.*, 2012; Verma & Hendra, 2003).

Housing Support Programme and Employment Outcome

For the low-income household receiving housing support (housing allowance and/or public housing residency) as in-work benefits, the housing support is associated with employment outcome and this outcome again affects residential stability. As the housing-related cost subsidy is decreased by the increased income, this income change also creates changes to the eligibility for housing support programmes (Owens & Baum, 2009). In this respect, following the policy shift towards welfare-to-work in welfare policy, growing numbers of studies have addressed the relationship between receiving housing support and employment outcome, e.g. employment rate, working hours, duration of employment. Most of these studies have focused on (1) whether the beneficiaries face high or low work incentive and how this affects the employment outcome and (2) whether the receipt of housing support and the kinds of these programmes make the difference in employment outcome.

Concerning the first research focus, two indicators, i.e. Income Replacement Ratio and Effective Marginal Tax Rate, are used to measure the work incentive. The Income

Replacement Ratio or Replacement Rate, i.e. the ratio of net income from welfare benefit to net income from work, represents the overall generosity level of the social welfare benefits. Accordingly, one can say that the higher the replacement ratio is, the greater the work disincentive to take on an employment role because the possibility of choosing unemployment arises when employment income is less than unemployment income given through social security benefits while recipients are unemployed. Therefore, the welfare beneficiaries do not see any incentive to work. Instead, becoming workless or remaining unemployed could be a more desirable option, i.e. being trapped in unemployment (Hulse & Randolph, 2004).

The Effective Marginal Tax Rate (EMTR) relates to the net income reduction resulting from income tax and social insurance contribution payments. For the low-income household receiving housing assistance, the increase in gross income due to welfare-to-work programme participation is subject to the application of both income tax and the national insurance system. For instance, after income tax and reduced welfare benefits, a worker's EMTR of 60% would mean that 60% of net income growth per every one extra income unit increase in gross income would be paid to income tax and social insurance contribution payments and the remaining 40% would be the worker's take-home pay. Therefore, a high EMTR indicates a low financial reward for increased participation in work (Hulse & Randolph, 2004; Wood *et al.*, 2005). The financial advantage is necessary within the social security system to offset the income reduction, e.g. allowing recipients to retain their social security benefits until their incomes reach a certain level. However, one apparent problem emerges in the welfare system: The generous income supports may generate more work disincentives, discouraging the low-income household receiving social security benefits from actively finding a job (Kalb, 2003).

The research shows that housing allowance recipients are placed in a situation in which they reap less financial reward for employment. When beneficiaries of a housing allowance prefer to work, they face high income replacement rates and effective marginal tax rates—that is, low work incentive—in the UK (Kalb, 2003) and Australia (Feeny *et al.*, 2012). Also Wood *et al.* (2009) projected that the high income replacement ratios of public housing tenants are related to their lower labour participation rate compared to other housing tenants. However, as each indicator represents one aspect of work disincentive problems, the application of only one work incentive indicator lacks the capacity to provide a clear picture (Giles *et al.*, 1997). Moreover, as Bradshaw *et al.* (2005) observed,

beneficiaries could choose different participation in labour force according to personal or family features when they face the same work disincentive. When there is a higher income replacement rate, both unmarried and married mothers' labour participation indicates that they would be less likely to work. However, when the marginal tax rate is high for both full-time and part-time work, whilst single mothers were more likely to remain unemployed, mothers in couples were more likely to opt for employment .

In terms of the second research focus (the housing support and employment outcome of its beneficiaries) the research findings are divergent: The relationship between the receipt of housing cost assistance and the employment outcome is negligible, or negative or positive. Some researchers have suggested either negative or positive relationships between the housing assistance programme and its beneficiaries' employment outcome. Concerning the US housing programme, Verma and Hendra (2003) observed in their analysis of Los Angeles County's cases that post-welfare households receiving housing vouchers are likely to have higher earnings amongst all post-welfare households with and without housing support. Also, Nagle (2003) noted that households leaving the welfare system with housing cost assistance have a higher employment rate than those without housing cost assistance do, although the result for earnings is converse. However, other researchers' findings are inconsistent with these because they observed a negative effect of housing assistance programmes. In Olsen *et al.*'s (2005) work at the national level in the US, the receipt of housing cost subsidy was related to having low earnings. Moreover, Jacob and Ludwig (2008) and Carlson *et al.* (2012) found a negative relationship between benefit receipt and earnings for housing voucher recipients in Chicago and Wisconsin respectively. Examining Australia's cases, Whelan (2004) noted that the likelihood of labour participation for both private and public tenants declines with the receipt of housing support programmes.

Other results also indicate the neutral relationship between housing assistance provision and employment outcome of household receiving it. Examining the effects of federal housing assistance programmes in the US, i.e. Public Housing Assistance, Housing Voucher and Project-based Section 8 Assistance for private or non-profit organisations, Van Ryzin *et al.* (2003) observed that public housing programmes have little effect on encouraging or discouraging residents to move from welfare to work in New York City. Corcoran and Heflin (2003) research on women living in Michigan County also obtained similar results: Receiving housing assistance is unlikely to relate to better employment outcome in terms of employment provability, weekly earnings, working hours and duration

of employment. In Newman *et al.*'s (2009) work on households with female household head, the receipt of housing assistance was not associated with a reduction in the employment rate or the level of earnings across public and private housing renters.

Also, comparing the housing programme's effects on the employment outcome of households exiting welfare systems with and without housing assistance, Owens and Baum (2009) found little relationship between housing assistance programme receipt and employment outcome in the US. In other countries, Stephens (2005) suggested that there are limitations in proving significant effects of social assistance benefit changes on the employment participation in the UK's housing benefit system. Also, Feeny *et al.* (2012) compared economic outcomes of housing assistance recipients and non-recipients and found that the Australian housing support programmes³ have little impact on employment outcome of people receiving this support.

Moreover, the research presents that the element inspiring such individuals to move to work is not restricted to financial reward (Wood *et al.*, 2009; Ford *et al.*, 1995) and various factors are frequently linked with the choice of employment or unemployment. First, family characteristics contribute to different responses to welfare-to-work transition. For example, as Blundell *et al.* (2000) indicated, households' responses to in-work benefits differ according to family features. Moreover, Chen (2006) observed that the recipient's demographic characteristics, educational background and labour market status play a crucial role in determining the duration of receiving the housing allowance in Sweden. Also Hulse and Saugeres (2008) found that a low financial reward from a job or training for unstable and short-term employment is not effective in encouraging mothers to accept work because they have to consider the additional cost for childcare service when they leave the welfare system. And Wood *et al.* (2009) observed that single mothers living in public housing are unlikely to move from welfare to work.

Second, the varied arrangements of housing programmes based on tenure are associated with the different employment outcomes. As seen in the works of Hulse and Randolph (2004), Wood *et al.* (2005), Wood *et al.* (2009) and Feeny *et al.* (2010), differences exist in the effect of a housing allowance system on employment outcome between private tenants

³ In Australia, there are two housing allowance schemes depending on tenant tenure: private tenants receive 'Commonwealth Rent Assistance' and public tenants receive rent rebates. With regards to the rent rebate system, rents for public housing are set at between 20% and 25% of household income and the difference between the public housing rents and the market rents are covered by rent rebates (Feeny *et al.*, 2012).

and public tenants in Australia. While housing allowance (Commonwealth Rent Assistance) applicants receive their subsidies when they meet eligibility requirements, public housing applicants have a lengthy waiting period, which hinders active job seeking. This difference in the housing cost support programmes is likely to affect the employment outcome of their beneficiaries.

In addition, the extent of work incentive itself or the changes in work incentive based on housing allowance provision could be affected by the features of the housing allowance system, such as the level of earning disregards and the taper application (Giles *et al.*, 1997). Moreover, different circumstances between public and private tenants may result in variations in the effects of work disincentives. Hulse and Randolph (2004) and Wood *et al.* (2005) suggested that the rent pricing system in public rental housing is related to the factor affecting choice to participate in employment. Although both private and public tenants with low-income bear the financial burden for rent payment, labour market participation is lower for public tenants with lower rent burdens than private tenants paying higher rent in Australia (Wood *et al.*, 2009).

Last, some studies has emphasised beneficiaries' residential location-related issues. 'Neighbourhood effects' (e.g. public housings in declining inner city or distant from workplace) deter the low-income household from accepting employment or keeping their jobs (Atkinson & Kintrea, 2001; Bania *et al.*, 2003; Dietz, 2002; Ellen & Turner, 1997; Galster, 2011; Musterd & Andersson, 2006; Sari, 2012; Van Ham & Manley, 2010).

Summary

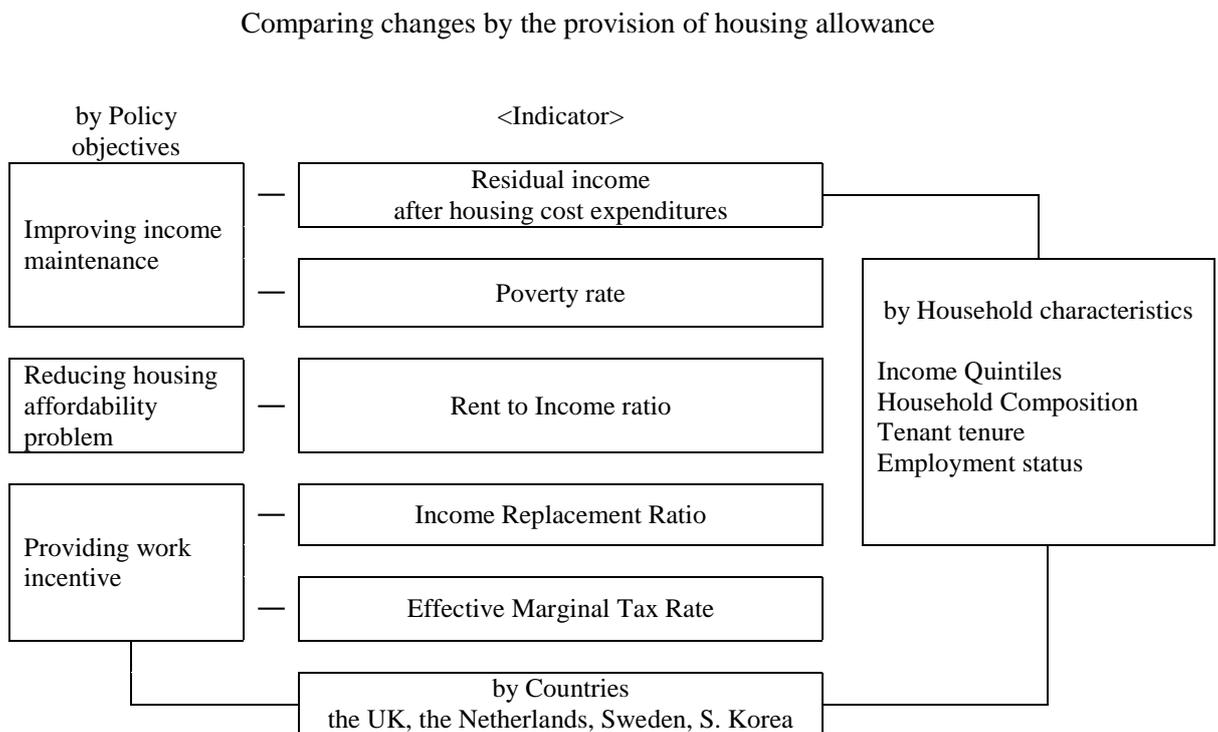
This review intends to understand the various aspects of housing and income-related issues in welfare states for establishing the theoretical framework for this research. In particular, the review focused on issues of housing-related income poverty, housing affordability and work incentives, which are the main subjects of the analysis of housing allowance effects in this study. The next chapter will explain the research method, indicators and variables that will be used to examine the effectiveness of housing allowance for achieving the different policy objectives.

Chapter 3. Research Method and Framework

Introduction

The aim of this study is to examine the effectiveness of housing allowance for achieving social and housing policy objectives in order to improve income and housing problems of low-income households in welfare states. In order to analyse varied housing allowance's effects in solving income and housing problems in different countries, this research compares the changes in the measurement of indicators in relation to income maintenance, housing affordability and work incentives, i.e. policy objectives, by the provision of housing allowance in the UK, the Netherlands, Sweden and S. Korea. Moreover, this research investigates the different institutional features of housing allowance system, affecting the effectiveness of housing allowance in the four countries. Therefore, the analytical framework should be established in order to make the examination of housing allowance's institutional features and its effects in each country and the subsequent comparative analysis work properly. In this chapter, I will explain the analytical approach and framework and address the main indicators and variables for the analysis of housing allowance effectiveness.

Figure 3.1 Research Framework



3.1 Comparative and Quantitative Approach

The Overview of Comparative Research based on the Analysis of Housing Allowance Design

This research analyses the effectiveness of housing allowance in welfare states with different housing and welfare regimes. However, this research differs from the previous comparative housing and social studies that examine the effects of housing allowances according to housing or welfare regime. This study does not intend to find the differences or similarities in housing allowance's effects on low-income households in countries according to their regimes. Instead, this study focuses on the different features of housing allowance design according to countries and expects that certain characteristics of housing allowance design contribute to the different results in solving income and housing cost-related problem, regardless of regimes. Therefore, it is important to understand clearly the feature of housing allowance design in the UK, the Netherlands, Sweden and S. Korea.

As these countries have different welfare and housing regimes, it is necessary to consider the associations of the design of housing allowances and their effectiveness with the features of regimes. This study recognises the lack of fitness between housing allowances and welfare regimes in countries. While the characteristics of housing allowance system fit those of welfare regime in some countries, it does not fit in other countries. Moreover, for the latter, housing allowance effects would not fit the result of income support scheme. For example, in the UK's welfare system representing liberal welfare regime, Housing Benefit subsidises relatively higher housing costs than other countries. In contrast, the Dutch and Swedish welfare systems have comprehensive social insurance and complementary social benefits. The arrangements of their housing allowances are more complicated and their housing costs subsidies are more restricted compared to those in the UK. Therefore, the housing allowances have a greater potential to solve income and housing costs-related problems in the UK with its residual welfare system than in the Netherlands and Sweden.

Therefore, we expect that the effectiveness of the housing allowance relates less to the feature of welfare or housing regime and more to the allowance system itself. The results might show no or little difference in the improvement of income and housing cost problems of the low-income household according to the features of welfare regime or housing regimes. Hence, this research draws a compositional feature of housing allowance

design that can be used to solve the income and housing cost problems of low-income families in welfare states regardless of welfare or housing regime. For this reason, we included the housing allowance of S. Korea in the comparative study. Several studies compared housing, social policy or welfare regime between European and Asian countries (see Chapter 2). In these studies, East Asian countries' welfare regimes varied from Western welfare regimes. As the application of design feature of housing allowance in this study is not restricted to any welfare or housing regime, this research makes recommendation for the improvement of S. Korea's housing allowance system.

Although this study analyses the benefits for housing cost rather than the entire welfare system, the overall analysis focuses on the role of housing allowances as part of the national welfare and housing system. As the housing allowance system operates in the context of national social and housing policy, the housing allowance should serve the aims of social and housing policy. This study examines housing allowance in terms of social and housing policy instruments and investigates its effectiveness in solving income and housing problem for low-income households. Therefore, this analysis should examine the effects of housing allowance on the improvement of income maintenance and housing affordability, the issues that social and housing studies have discussed as policy aims. If the results of the analysis of housing allowance show an improvement in income and reduction of housing costs for low-income households, this research would complement other studies on the effectiveness of housing allowances in welfare states.

In addition, this study examines the effectiveness of housing allowance in terms of welfare-to-work policy designed for the recipients who are working-age and able to work. However, the change in labour force participation of housing allowance recipients of in-work welfare benefit as a result of change in the work incentive is beyond the scope of this research. Assuming that the provision of housing allowance increases household income, the income increase by housing allowance provision for the working poor is expected to be related to the decrease in work incentive for housing allowance recipients. This research is limited to the comparison of changes in work incentives caused by the housing allowance. However, this research could guide future studies on the effects of housing allowance reform on welfare-to-work transition for the working poor.

As the main analysis, the effects of housing allowance on achieving social, housing and welfare-to-work policy aims will be investigated using different indicators (see Figure 3.1).

Regarding the social and housing policy objectives, the provision of housing allowance should improve income maintenance and housing affordability for low-income households. However, the provision of housing allowance contributes to the income increase among the working poor, regardless of earnings increase. This would make the provision of work incentive and the result of two related indicators worse, as both are affected by increased earnings and decreased social security benefits. Therefore, this research recognises these possible adverse effects of housing allowance on different policy aims.

Housing Allowance for Low-Income Households

Welfare states have been providing the housing allowance to low-income households with income and housing problems. However, whilst both tenant and homeowner households with low income are eligible for housing allowance in some countries, only low-income tenant households are eligible in other countries. Generally, each housing allowance for tenants and homeowners subsidises different kinds of housing cost expenditures. The housing allowance for low-income tenant households subsidises mainly rent expenditures and the housing allowance for homeowners subsidises mortgage interest payment or other housing-related loan's interest payment. This study focuses on the national housing allowance scheme for low-income tenant households. They are likely to be worse off compared to owner-occupier households; thus, the proportion of housing costs to household's budget and the effectiveness of housing allowance might be more significant for tenant households compared to homeowner households. For these reasons, this study investigates the effectiveness of housing allowance for low-income tenant households.

Comparative Analysis

This research adopts comparative and quantitative approaches to analyse the effectiveness of housing allowance. The comparative analysis is used to compare the results between the four welfare states and the quantitative method is applied to measure variables and indicators. By comparing the effectiveness of housing allowance in different countries, the research intends to examine the effectiveness of housing allowance for the low-income tenants' poor living conditions and identify the features of housing allowance design that contribute the most to the improvement of the low-income tenants' income and housing problems. In order to address these themes, the research should be able to explain the various relationships between the housing allowance provision and its outcomes in different countries. In this respect, the comparative analysis will allow us to identify findings that are consistent with the hypothesised causal relationship between the receipt of

housing allowance and the improvement in income and housing problems of low-income households and explain differences observed from the results (Pickvance, 2001).

Although housing allowance systems in welfare states present similar aims of supporting low-income households' housing cost expenditures, the design of housing allowance system varies across countries. Housing allowance systems in the four countries have been found to have the different eligibility for housing allowance claim, dissimilar definitions of eligible housing costs and different housing cost subsidisation rates. Moreover, the benefit arrangement could benefit certain households whilst hindering others. In addition, these compositional features of housing allowance could relate differently or similarly to various housing allowance effects on the low-income households. However, the effect of housing allowance on its beneficiaries' income and housing situation could be similar or different within and between countries according to the different characters of household, social and housing system and other national contexts. Regarding this issue, comparative research is applied to explain the way in which the difference (or similarity) of housing allowance system makes changes in the consequences in the dissimilar (or similar) way (Pickvance, 2001).

Furthermore, the current comparative housing studies emphasise the overall consideration of both the target of analysis and the policy system and its national context because the housing programme, e.g. housing cost assistance or housing provision, is 'embedded' in the policy system and the wide social-economic structure (Kemeny, 2001; Pickvance, 2001; Stephens, 2011). Therefore, this research premises the understanding of social and housing policy systems in the four countries and analyses the effects of housing allowance in their nation contexts.

Quantitative Approach with Policy Design Analysis

This research also employs quantitative approach to explain the relationship between the effects of housing allowance and household features and assess the differences in the change of the low-income household's living condition in the UK, the Netherlands, Sweden and S. Korea. In comparative research, the quantitative method is useful to test hypothesis, observe a phenomenon and explain similar or different results from the interrelationship between variables in several countries (Horsewood, 2011). This type of quantitative research is categorised as 'high-level' comparative study, as it is based on the explicit theory, empirical analysis and cross-cultural comparisons (Oxely, 2001). However,

there is a limitation in the generalisation of quantitative research results and in seeking policy transfer without understanding the institutional feature of policy system and structure in which the system operates (Pickvance, 2001). Therefore, this research takes quantitative approach with policy design analysis. The housing allowance scheme in each country has developed within the national housing and social security system, which affect each other. Moreover, the effectiveness of housing allowance could vary according to its role as a policy instrument in the wide social security or housing system. Moreover, welfare states have different housing allowance systems, e.g. varied benefit caps, housing cost subsidisation rules and eligibility conditions; thus, a country's system might favour a certain type of family that another country might not. The compositional feature of housing allowance design could lead to different housing allowance effects or the same results in different countries.

Moreover, this research will make recommendations for the improvement of S. Korea's housing allowance system. It is necessary to compare the institutional features of housing allowances as well as the housing and social systems and their effectiveness in order to consider the policy transferability (Rose, 1991). Regarding the success of policy transfer, the concern is the 'policy complexity' as barrier to policy transfer (Hudson & Lowe, 2009). Compared to the Korean housing allowance system, the institutional arrangements of other countries' housing allowance are more complicated and more tightly related to their housing and welfare system. However, without sufficient knowledge of the target programme or policy and adequate attention to the different national contexts as well as the essence of the original policy or programme and social structure, seeking policy transfer will not be successful (Dolowitz & Marsh, 2000). Therefore, comparing other countries' outcomes with sufficient knowledge of the housing allowance programme, housing and welfare policy in terms of the national institutional structure should not be overlooked.

Country Selection

For the comparative analysis, the UK, the Netherlands, Sweden and S. Korea were selected. This research assumes that the effectiveness of housing allowance is associated with different housing and social policy as well as the wide social-economic structure in welfare states. Therefore, countries with different housing and welfare regimes that determine distinctive systems (Kemeny, 2001) need to be chosen. Moreover, in order to make recommendations for the improvement of housing allowance system in S. Korea, this study includes countries with welfare and housing regimes different from S. Korea. Therefore,

this research applied the welfare regime typology of Esping-Andersen (1990, 1999) and the housing regime typology of Kemeny (1995) to select the three Western countries with different welfare and housing regimes from S. For practical reason, the accessibility of resource is also considered. The features of selected countries are as follows: the UK (liberal welfare and dualist housing regime), Sweden (social democratic welfare and unitary housing regime), the Netherlands (corporatist or a hybrid welfare regime of corporatist and social-democratic and unitary housing regime) and S. Korea (East Asian welfare and dualist housing regime).

Here, it is necessary to understand the importance of housing allowance as a policy instrument in the national context. Each country places different importance on the role of housing allowance as the form of nation's support for housing costs and as the social protection system. Therefore, the size of housing allowance provision is likely to vary across countries. As Table 3.1 presents, the social protection share of GDP is higher for Sweden compared to the other three countries, suggesting that the welfare regime in Sweden is more universal compared to the other three countries. Compared to Sweden, the social protection share of GDP is lower in the UK and the Netherlands. In S. Korea, it did not even reach half of the social protection share of GDP of other countries. It also indicates that the welfare system in S. Korea is residual, although the social protection share has increased in recent years.

Table 3.1 Social Protection and Rent Allowance Shares of GDP (%)

Share of GDP	Average	UK	The Netherlands	Sweden	S. Korea
Social protection*	OECD				
2000	18.9	18.6	19.8	28.4	4.8
2001	19.2	19.3	19.7	28.7	5.2
2002	19.7	19.4	20.5	29.4	5.1
2003	20.1	19.8	21.2	30.1	5.4
2004	19.9	20.5	21.1	29.5	6.0
2005	19.8	20.6	20.7	29.1	6.4
2006	19.5	20.4	20.3	28.4	7.3
2007	19.3	20.5	20.1	27.3	7.5
Rent allowance**	EU				
2000	0.51	1.44	0.35	0.62	
2001	0.50	1.43	0.34	0.61	
2002	0.51	1.47	0.37	0.58	
2003	0.49	1.40	0.34	0.57	
2004	0.50	1.42	0.34	0.55	
2005	0.55	1.44	0.33	0.53	***
2006	0.55	1.45	0.38	0.51	0.04
2007	0.49	1.15	0.38	0.47	0.03
2008	0.48	1.21	0.36	0.46	0.07

Source: *Social Expenditure: Aggregated data, OECD Social Expenditure Statistics; **Eurostat Statistics Database; ***MOHW (2007a, 2008a, 2009, 2010).

However, rent allowance (i.e. housing allowance for tenants) share of GDP is different from social protection share of GDP. This is because the housing policy and the housing market state in the country, e.g. the rental housing structure (see Table 3.2), influence the national support for housing costs. The rent allowance share of GDP is higher in the UK with the ‘dualist’ rental housing structure compared to Sweden and the Netherlands with the ‘unitary’ rental housing structure. The housing allowance is included in the social assistance provided for the lowest-income households in S. Korea. However, this benefit does not consider the actual housing costs of the claimant and provides minimal benefits, with fixed amount adjusted just for family size (see Chapter 7). For this reason, its share is significantly smaller compared to other countries.

Table 3.2 Dwelling Stocks and Population by Tenure Types in the Four Countries (%)

	the UK	the Netherlands	Sweden	S. Korea*****
Dwelling stocks (Total=100%)				
Year	2009*	2010**	2008***	2010
Owner-occupied	69.5	55	44	-
Co-operative	-	-	18	-
Rental	30.5	45	38	(100.0)
				(Private rental: 33.9)
				(Public rental: 66.1)
Population or Household (Total=100%)		Population****		Household
Year		2011		2010
Homeowner	67.9	67.1	69.7	54.3
Tenant	32.1	32.9	30.3	45.7
(Rent at market price)	(13.3)	(32.4)	(30.0)	-
(Rent at reduced price or free)	(18.8)	(0.5)	(0.3)	-

Source: *Wilcox, S. (2009) Table 17d, p.109; **Statistics Netherlands (2011); ***Ministry of the Interior and Kingdom Relations (2010) Table 3.5, p. 64; ****Eurostat EU-SILC database [ilc_lvho02]; ***** MLTM (2011) Table 5-1, p. 357 and Table 11-3, p. 410.

3.2 Research Indicators

In terms of social policy, housing policy and welfare-to-work transition objectives, the effects of the housing allowance on the low-income tenant will be examined by measuring the extent to which income maintenance, housing affordability and work incentive indicators change according to the provision of housing allowance. First, the effects of housing allowance on income maintenance are measured with two indicators. The first

indicator measures the change in residual income after housing cost payment by housing allowance provision. The second indicator measures the change in poverty rate by housing allowance provision. Second, the effects of housing allowance provision on housing affordability is measured using the change in rent-to-income ratio (RIR), i.e. the shift in the financial burden for housing costs expenditures of the low-income tenant. Third, the effectiveness of housing allowance provision is measured as the change in two work incentive indicators, i.e. Income Replacement Ratio (IRR) and Effective Marginal Tax Rate (EMTR) by the take-up of housing allowance. These two indicators consider the possibility of the changes in welfare beneficiaries' intentions to participate in labour market. Therefore, the high work disincentives would appear to be related to increased possibility of less active labour force participation

Table 3.3 Research Indicators

Policy	Objective	Indicator
Social policy	Improving income maintenance	1. Residual income after housing cost expenditure 2. Poverty rate (poverty line: 60% of the national median income)
Housing policy	Reducing housing affordability problem	Rent to Income Ratio (RIR)
Welfare-to-work transition	Providing work incentive	1. Income Replacement Ratio (IRR) = $\frac{\text{Household net income when unemployed}}{\text{Household net income when employed}}$ 2. Effective Marginal Tax Rate (EMTR) = $1 - \frac{\text{Change in household net income}}{\text{Change in household gross income by 1 income unit}}$

3.2.1 The Operational Definition of Household Income and Housing Cost

In this study, the household information produced in different contexts will be used for comparative analysis because the analysis will utilise the national datasets collected in different countries. Therefore, it is necessary to standardise the main two concepts, household income and housing cost and apply them to the measurement of the housing allowance effects on each indicator.

In addressing indicators, the study focuses on the income change by the receipt of housing allowance. Here, the unit of the analysis is a household and incomes of adult family members are summed to form a household income. This household income refers to the concept of net income, i.e. income after tax, after social insurance contributions and before

housing cost expenditure. In this study, household income is equivalised for household size and composition by using the modified OECD equivalence income scale. A given income of a household does not mean an equal amount of resources provided to households with different sizes and needs. However, the equivalence scale assumes that there are the higher economies of scale for the larger household (Pisu, 2012). And the equivalised income makes it possible to compare incomes across varied household types (Heylen & Haffner, 2012). Therefore, the equivalence scales have been used to adjust household income according to the size and composition of the household in income and poverty research.

There are several equivalence scales that apply different weights to income according to the household composition. The original OECD equivalence scale applies a weight of 1.0 to the household head, 0.7 to additional adults and 0.5 to children younger than 18 years of age. The modified OECD equivalence scale employs a weight of 1.0 to the household head, 0.5 to additional adults and 0.3 to children younger than 18 years of age. Unlike these OECD income equivalence scales, other types of income equivalence scales apply the same weight (the square root of the household members) to all household members (Behrendt, 2002; Bradshaw & Mayhew, 2010; Chanfreau & Burchardt, 2008). When comparing the equivalent scales, the adjusted income for the large household is smaller when using square root scale (Chanfreau & Burchardt, 2008). Therefore, it should be noted that the choice of equivalence scales could make difference in the level of household income and poverty. Concerning the OECD equivalence scales, the modified OECD scale indicates higher cost of living for families with more adults compared to the original OECD equivalence scale.

Concerning the definition of housing cost, this research adopts the definition of the eligible rent for the housing allowance entitlement in each country. As the concept of housing cost varies across countries, it is one of the most difficult elements to measure in cross-national research. Although the definition of housing cost in this study is narrow, the purpose of this study is to evaluate the effect of housing allowance on tenant recipients whose main burden is rent payment. Moreover, housing allowance subsidises different kinds of housing costs in each country. Whilst it is possible to include other housing costs, such as heating costs, housing repair, or housing maintenance costs in the housing allowance payment in some countries, it is not the case in other countries. In addition, the data collection will consider the concept of eligible rent for the housing allowance recipients. For example, separate questions about various housing costs are found in the Korean dataset because the

Korean housing allowance subsidises mainly rent payments and some expenditures for housing maintenance and repair service charges. Therefore, it would be reasonable to examine the extent to which the housing allowance system subsidises the eligible housing cost in each country. In some sections, this study will present the general income and housing cost-related problems of both housing allowance recipients and non-recipients. In this case, the gross housing cost could be applied to the housing allowance recipients. Otherwise, the housing cost means the eligible housing cost for the housing allowance entitlement in each country of the UK, the Netherlands, Sweden and S. Korea.

3.2.2 Income Maintenance Indicator 1: Residual Income after Housing Cost

The first indicator of income maintenance relates to the extent to which the provision of housing allowance improves the low-income tenant's finance. The residual income after housing costs payment indicates the possibility of non-housing consumption opportunity for low-income households. In this respect, two different residual household incomes after housing costs are compared, one is residual household income after housing costs when housing allowance is provided while another is residual household income after housing costs when housing allowance is not provided. If the residual household income after housing cost expenditure increased by the provision of housing allowance, it would indicate that the housing allowance is likely to be effective in improving the poor tenants' income problems.

Table 3.4 Measurement of Residual Income after Housing Cost

	Household situation	
	Housing allowance provision	Housing cost expenditure
Residual income after rents expenditure 1	No	after
Residual income after rents expenditure 2	Yes	after

3.2.3 Income Maintenance Indicator 2: Poverty Rate

If the residual household income after housing cost expenditures increases due to the receipt of housing allowance, it would likely have an effect on the low-income tenant's poverty state. Therefore, this study will examine the changes in poverty rate by housing allowance. In this study, the measurement of poverty will be based on the household net income. When comparing the results of four countries, the poverty threshold is set at 60% of national median income. This standard has been used widely in European Union and OECD countries as a poverty threshold (Bradshaw & Mayhew, 2010). Moreover, in terms

of the Korean dataset used for analysis (Korea Welfare Panel Study), households living in poverty and not living in poverty are sampled using this poverty threshold, although the 60% of national median income is not an official poverty line in S. Korea. In addition, poverty rates using 40% and 50% of the national median income thresholds are measured (see Tables A.3 through A.6 in Appendices).

Table 3.5 Comparison of Different Poverty Thresholds for Couple with Two Children

	the UK	the Netherlands	Sweden	S. Korea
60% of median income (US\$ at PPPs in 2005)	29,583	33,640	24,859	23,297
In national Currency	GBP	EUR	SEK	KRW(000s)
60% of median income	16,890	27,562	215,598	18,763
50% of median income	14,075	22,968	179,665	15,636
40% of median income	11,260	18,374	143,732	12,509
Purchasing Power Parties* (national currency per US\$ in 2005)	0.636	0.896	9.38	789

Source: OECD (2008a) Table 5.A1.1, p. 152; *OECD Aggregate National Accounts: PPPs and Exchange Rates, OECD National Accounts Statistics (database).

Concerning the poverty rate approach, if household income is below a given poverty standard, the household is regarded as being in poverty. Here, we compare three different poverty rates according to a household's housing cost expenditure and housing allowance receipt behaviours. The study will measure the poverty rate when the households do not spend their income on housing cost expenditures (PR1). And it will measure two poverty rates based on the households' income after rent payment when the low-income tenants do not receive housing allowance (PR2) and they do (PR3). By comparing PR1 and PR2, the research examines the extent to which the housing cost expenditure has negative effect on the low-income households' original income problem. Moreover, by comparing PR2 and PR3, the research examines the effects of housing allowance in improving poverty state of its beneficiaries.

Table 3.6 Measurement of Poverty Rate

Poverty rate	Household' situation	
	Housing allowance receipt	Housing cost expenditure
PR1	No	Before
PR2	No	After
PR3	Yes	After

3.2.4 Housing Affordability Indicator: Rent to Income Ratio

This research employs this conventional ratio measure, i.e. Rents to Income Ratio (RIR) as an indicator of housing affordability problem of the low-income tenant households. Although this research adopts the measurement of the residual income after housing costs as the income maintenance indicator, housing research has often used this indicator to measure housing affordability problem. It is noted that the residual income after housing costs payment is a more proper indicator showing the relationship between housing costs and income problems. However, when it comes to the low- or the lowest-income households, even the low ratio of housing costs to income have a significant effect on household finances because of the absolute lack of financial resources. Therefore, as this research concerns the effectiveness of housing allowance for the low-income tenant households, the ratio of housing cost to income should not be ignored when discussing housing affordability problem.

In order to evaluate the effects of housing allowance on relieving the financial burden arising from expenditure on housing cost, this study compares different RIRs. One is RIR1 when housing allowance is not provided and another is RIR2 when the housing allowance is provided to the low-income tenant. Concerning the former, housing cost expenditures place a high financial burden on the low-income tenants because they have to pay their housing costs from their own income without subsidisation from housing allowance. Therefore, when these households receive housing allowance, the RIR is expected to decline. The decrease in RIR indicates the effects of housing allowance provision in improving financial affordability for housing cost expenditures. As defined above, the housing cost refers to the eligible housing cost for housing allowance claim in each country, not the gross housing costs.

However, using a single RIR ratio is unlikely to determine whether a household has a housing affordability problem. Moreover, countries employ different housing affordability ratios for judgment. For example, in Canada, households that pay more than 30 % of before-tax household income for housing are regarded as having housing affordability problem. This 30% standard of housing affordability is used in the US Housing Voucher programme (Kutty, 2005). In the Australian housing allowance system (for public renters), rents for public housing are set at 20 to 25 % of the households' income and these ratios are considered as the housing affordability standard (Wood *et al.*, 2005). However, in some

countries, e.g. the UK, the governments do not state clearly the proportion of housing costs to household's income as a standard for housing affordability in the housing allowance system.

In order to account for this problem, this research adopts three RIR standards to define the extent of housing affordability problem. If a household's RIR is below 20%, this household does not have a housing affordability problem. If a household's RIR is between 20 and 30%, this household has a housing affordability problem. If a household's RIR is over 30%, this household has a severe housing affordability problem. Whether the low-income tenant has a housing affordability problem could be determined by looking at the RIRs. However, these standard ratios are benchmarks for the judgment of housing affordability in this study and they are open to be contested.

Table 3.7 Measurement of Rent to Income Ratio

	RIR1	RIR2
Housing allowance receipt	No	Yes
Housing affordability Problem		
don't have	Below 20(%)	Below 20(%)
do have	20-30 (%)	20-30 (%)
do have severe problems	Above 30(%)	Above 30 (%)

3.2.5 Work Incentive Indicator

The target of the welfare-to-work transition analysis is limited to the working-aged household. Whilst indicators of income maintenance and housing affordability relate to the positive effects of housing allowance provision, the indicator of work incentives relates to the possible negative effects of housing allowance—namely, the discouragement of welfare-to-work transition. The changes in work incentive are linked to the different choices for employment or unemployment. However, while this research addresses the changes in work incentive by the provision of housing allowance, the possible behavioural changes of the working poor are not within the scope of this research. Therefore, the analysis will employ two indicators of work incentives and compare the changes in these work incentives by the provision of housing allowance.

Work Disincentive Indicator 1: Income Replacement Ratio

If the working poor had similar or a slightly decreased income during unemployment, it would reduce the incentive to maintain their employment position in labour market and

encourage them to become jobless, i.e. facilitating being trapped in unemployment (the unemployment trap). This is because their current income could be replaced with the increased social security benefit to a certain degree. Therefore, the Income Replacement Ratio (IRR) presents the possibility of being out-of-work. Work disincentive grows with probability that the current working income will be more replaced with income while unemployed.

$$\text{Income Replacement Ratio} = \frac{\text{Household net income when a worker will be unemployed}}{\text{Household net income when currently employed}}$$

Concerning the effects of housing allowance on the working poor, the problem is that the provision of housing allowance could increase the IRR. In this case, the housing allowance has a negative effect on the welfare-to-work transition of the working poor by increasing the possibility of work disincentive. Therefore, this research compares two IRRs. IRR1 is based on the situation when the working-poor households do not receive housing allowance while IRR2 is based on the situation when they receive housing allowance. If there were differences between two IRRs, the housing allowance provision would increase work disincentive (i.e. the possibility that currently working-poor households receiving housing allowance would choose the unemployment).

Table 3.8 Measurement of Income Replacement Ratio

IRR	Housing allowance provision	
	Currently in work	Hypothetically out-of-work
IRR1	No	No
IRR2	Yes	Yes

When examining IRRs, it is necessary to impute two different household incomes, i.e. the current household income when adult members work and the simulated income when the main earner becomes unemployed. However, ‘household income’ for the purpose of IRR analysis is different from household income used for the above-stated indicators. Here, the income includes adult family members’ net earnings, unemployment insurance or unemployment assistance, social assistance, housing allowance and child benefits while it excludes other incomes, such as capital incomes. Moreover, although there could be one or two adult-workers in a household, this research assumes that only one worker, i.e. the main earner in a family, will be unemployed. The imputation of households’ incomes from the present employment position and hypothetical unemployment situation are related to the households’ income tax and social insurance contribution system in each country.

Therefore, this study utilises parameter values and equations for income tax, tax credits and national social insurance contributions of each country from OECD Taxing Wages books (OECD, 2007, 2008b) as well as the country-specific (the UK, the Netherlands, Sweden and S. Korea) information on the social security benefit and income tax system of the OECD Benefits and Wages.⁴

Work Disincentive Indicator 2: Effective Marginal Tax Rate

The Effective Marginal Tax Rate (EMTR) indicates the extent to which the income tax and the national social insurance contribution payment decrease the net income growth. The income tax and social security system in a country affect how much income can the working-poor households take home after tax payment and national insurance contribution while maintaining their social security benefits when their incomes increase. If a household could maintain a considerable amount of their increased income, it would be a work incentive to make them participate in labour market more actively. On the contrary, if a household has a little amount of increased net income per extra gross income growth, there would be a high possibility of work disincentive.

$$EMTR = 1 - \frac{\text{Change in household net income}}{\text{Change in household gross income by 1 income unit}}$$

Concerning the low-income households, such as the recipients of social assistance, they would be more likely to remain in poverty even when increasing their labour participation. This is because whilst the low-income household might have less amount of increased income owing to the newly imposed income tax and national insurance contribution, their social security benefits would be reduced due to having new or extra earnings. In work incentive studies, this is explained as the possibility of the poverty trap for the low-income household measured by EMTR. Households with high EMTR could preserve less portions of increased net income by additional labour participation. Therefore, this would reduce the incentive to increase the labour participation for working-poor households and the incentive to get a job for out-of-work households because they would have fewer financial rewards when increasing their labour participation.

⁴ For detail, see OECD Social Policies and Data, Benefits and Wages: Country Specific Information internet site (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountriespecificinformation.htm>).

Similar to the IRR analysis, this research compares two EMTRs: EMTR1 is calculated by considering household income without housing allowance provision and EMTR2 is calculated by considering household income with housing allowance provision. If EMTR2 is higher than EMTR1, the housing allowance provision relates to the reduction in the take-home portion of the net income growth, i.e. increased work disincentive, although the housing allowance itself could improve the income and housing problems for low-income households.

Table 3.9 Measurement of Effective Marginal Tax Rate

EMTR	Housing allowance provision	
	Current situation: in work or out-of-work	Hypothetically increase in labour participation
EMTR1	No	No
EMTR2	Yes	Yes

The household income category would be the same when calculating EMTR and IRR. Similar to analysing IRR, the imputation of income change by income tax, national social insurance contribution and social security benefit entitlement is based on the parameters and benefit equations of each country from OECD's (2007, 2008b) *Taxing Wages* and OECD Benefits and Wages internet site⁵. It is assumed that the gross income of each household's main earner increases by 1% of his or her gross income for working households. However, while the IRR analysis is limited to working households, both working and workless households are subject to the EMTR analysis. Therefore, 1% of annual average gross earning of single adult without children in each country is assigned to calculate the change in gross income for out-of-work households. Here, the measurement of EMTR is average across household's employment state regardless of employment type (e.g. full-time or part time jobs, different working hours).

Table 3.10 Income Tax, Social Security Contribution and Average Gross Earning of Single Adult (2011)

	the UK	the Netherlands	Sweden	S. Korea
Income tax (per annum)*	15.6	16.0	17.8	4.3
Social security contribution*	9.5	15.4	7.0	8.1
Gross earnings (US\$ at current PPPs)	52,013	55,165	42,118	43,943

Source: OECD Taxing Wages: Comparative Tables, OECD Tax Statistics (database).

Note: *As a percentage of gross wage earnings. The average gross earnings of 2006 (at national currency) were used for analysis.

⁵ For detail, see OECD Social Policies and Data, Benefits and Wages: Country Specific Information internet site (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>).

3.3 Independent Variables: Household Characteristics

The effect of housing allowances may vary not just across different countries, but also across different household groups within each country. Whilst the housing allowance is provided to the low-income households, these households have different characteristics, such as different income levels, household size and composition, private housing or social housing tenants and working households or out-of-work households. The benefit arrangement of housing allowance system considers these family-related features as the benefit eligibility. In this research, we examine the changes in household's income and housing problems by the provision of housing allowance according to these various family-related features, i.e. household income level, household composition, tenant type and adult household member's employment status and explain the differences of effects of housing allowance in its results.

Table 3.11 Independent Variables by Household Characteristics

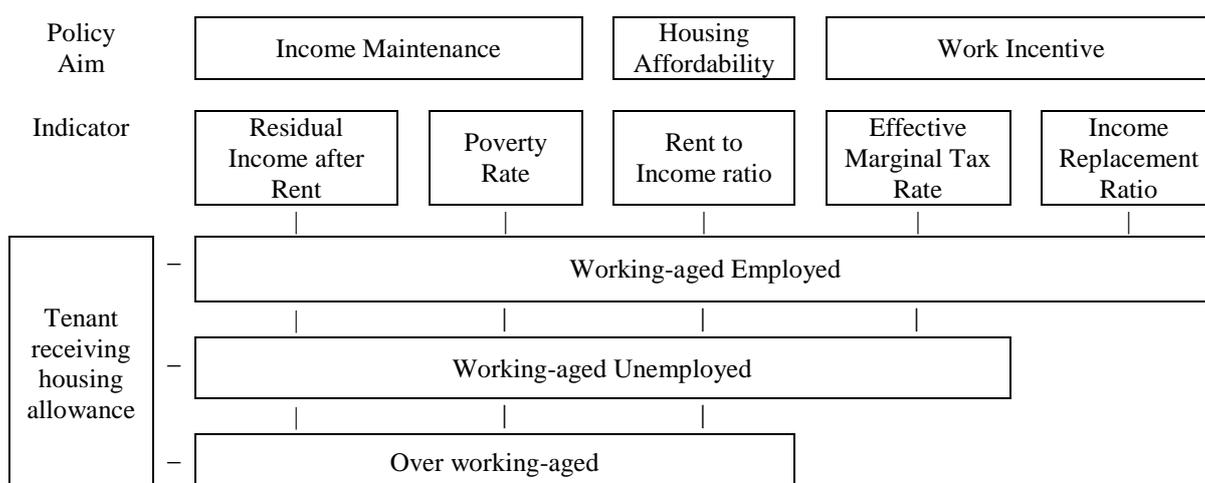
Household characteristics	Category
	<Among low-income tenants receiving housing allowance>
1. Income quintiles	1 st quintile: the lowest-income household To 5 th quintile: the highest-income household
2. Household composition	Working-aged family without children Working-aged family with children Pensioner
3. Tenant tenure	The UK : public rental/ housing association rental/ private rental The Netherlands : public rental housing/ co-operative or housing association/ private rental housing Sweden : co-operative housing/ housing association or private rental S. Korea : Permanent Public Rental Housing/ other public rental or private rental housing
4. Employment status (household's adult member)	the Employed (some of adults in work and all of adults in work) the Unemployed (adults who are able to work and unable to work)

In comparative analysis, the conceptual equivalence of variables is important as it guarantees the 'commensurability' of the objects to be compared. However, the national context can affect housing-related terms used in a certain county (Pickvance, 2001). Among independent variables used in this research, while the identical standard of categorisation is applied for categorising household income, household composition and

employment status variables in the four counties, it is not the case of tenant tenure variable. Moreover, there are differences in the meaning of tenant tenure used in national data collection and its categorisation. Furthermore, the meanings of tenant tenure concept differ according to the housing system and housing policy in the national context. As Table 3.11 presents, the sub-categories of tenant tenure indicate the conceptual differences between countries because of its limited commensurability. This conceptual difference has to be kept in mind in the comparative analysis.

It should be noted that different groups of households will be included in the analysis evaluating each indicator. Whilst all low-income tenants receiving housing allowance are subject to the income maintenance and housing affordability analysis, only working-aged households among them are subject to the analysis of welfare-to-work indicator. Moreover, whilst both working-aged employed and unemployed tenants receiving housing allowance are subject to the EMTR analysis, only employed households among all working-aged low-income tenants in receipt of housing allowance are subject to the IRR analysis. Furthermore, although some households are described as households with highest or higher income, all households receiving housing allowance belong to lower income groups among the whole population: Even when it comes to the highest-income group (5th income quintile), households have incomes low enough to qualify for means-tested benefit. The results of this study should be understood in this context.

Figure 3.2 Target of Analysis according to Indicators



3.4 The Use of Data

Concerning the quantitative analysis, a single year's data collected in the UK, the Netherlands, Sweden and S. Korea will be analysed. This research addresses the significance of income poverty and housing affordability problems and the effectiveness of housing allowance at one time point. Therefore the changes in income maintenance, housing affordability and the effects of housing allowance provision over the beneficiaries' life cycle are not within the scope of this research. Hence, there are clear limitations in discussing the results.

Moreover, it should be noted that the rule of current institutional arrangements and the rule (e.g. maximum benefit rate) used for the quantitative analysis with national dataset are different. While the current rules are explained in order to understand the feature of housing allowance system, the rules used in the quantitative analysis are those of the reference year of data collection or survey. For instance, Section 4.2 of Chapter 4 (the UK's housing allowance) explains the design and rule of 2012-13 Housing Benefit and Local Housing Allowance. However the pre-2008 benefit rules are used the analysis model in section 4.3. This is because the information of dataset is obtained before 2008 reform. Moreover, the income imputation for EMTR and IRR is based on the income tax and social insurance contribution rule of 2006/07. This is the same in other three countries; in particular, the understanding of the changed rule of the Korean housing allowance system before and after 2008 is required. Therefore, this research has a limitation to present the current income and housing situations of the housing allowance recipients.

This study will use national datasets of each country to analyse the effectiveness of housing allowance in the four welfare states. Using a harmonised data to conduct the cross-national research could make the manipulation of data and comparative analysis easier than using different datasets. However, using national datasets in a cross-national study could provide more detailed information about the national context (Glover, 1996). Moreover, as the different housing costs are eligible for housing allowance in each country, it would be convenient to use the national dataset.

The national datasets used in the study are as follows: Family Resources Survey 2006/07 in the UK, Housing Research in the Netherlands (WoOn) 2006, Household Finances (HEK)

2006 in Sweden and 2008 Korea Welfare Panel Study (3rd wave) in S. Korea (see Table A.1 in Appendices).

Family Resources Survey in the UK

Family Resources Survey (FRS) was introduced in 1992 by the Department for Work and Pensions (DWP) to get more reliable information on society for the ministry's policy development and monitoring. As FRS was conducted to meet the information needs of DWP, with an aim to collect households' information needed to monitor social security programme, to model national insurance contribution and social security benefit changes and to forecast benefit expenditure. Therefore, the main research topics of FRS are related to individual households' characteristics, income and work states, housing costs, income and benefit receipts, work and wages, tax payments, national insurance contributions, savings and assets. FRS is carried out every year in the Great Britain and Northern Ireland (from 2002). The households were sampled by the Royal Mail's small users' PostCode Address file in Great Britain and by the Valuation and Land Agency property database in Northern Ireland. Around 43,000 households were interviewed for 2006-07 FRS (DWP FRS internet site⁶).

Housing Research in the Netherlands

The Netherlands has a long tradition of large-scale national housing research. Former the Ministry of Housing, Spatial Planning and the Environment (VROM), i.e. now the Ministry of Infrastructure and Environment, has been responsible for housing surveys since the 1960s (Van Schie, 2006). VROM combined two existing main national housing surveys, the Housing Demand Survey (WBO) and the Dutch Housing Quality Survey (KWR) and launched the new housing survey, Housing Research in the Netherlands (WoON) in 2005 (VROM internet site⁷). WoON has regular samples of 40,000 respondents and it is carried out every three years. This survey consists of seven modules that have different survey cycles: housing market module, energy and safety, consumer behaviour and affordability, housing and care, liveability, living surroundings survey, structural survey, home improvement and maintenance (VROM internet website).

⁶ <http://statistics.dwp.gov.uk/asd/frs/index.php?page=index>.

⁷ The information of VROM internet site (www.vrom.nl) is accessible at Government of Netherlands internet site (www.rijksoverheid.nl).

Household Finances in Sweden

The Statistics Sweden conducts Household Finances (HEK) survey every year. For sampling for survey, Total Population Register is used coordinating with Statistics Sweden's Longitudinal Individuals Database to obtain correct information of households. The coordinated sampling makes it possible to follow sample persons and their households over several years. Household Finances survey focuses on the income distribution, income structure, the living situation and living expenses according to household types (Statistics Sweden HEK internet site⁸).

Korea Welfare Panel Study in S. Korea

Korea Welfare Panel Study (KOWEPS) launched in 2006 as a result of the collaboration of Korea Institute for Health and Social Affairs and the Social Welfare Research Centre of Seoul National University with the support of Ministry for Health and Welfare. The three existing panel surveys conducted with economically disadvantaged people, i.e. the Near Poor and the Poor Panel, Self-Support Panel and Korea Welfare Panel, were merged into and unified as Korea Welfare Panel Study. KOWEPS has the sample size of over 7,000 households, which is the biggest sample size among panel surveys for individual households' welfare commissioned by the government. The sample consists of 3,500 households with income below 60% of the national median income and 3,500 households with income over 60% of the national median income. This panel is the only one panel that contains household samples from all official administration regions of S. Korea. KOWEPS provides information on household characteristic, household economic status, housing conditions and welfare needs (KOWEPS internet site⁹).

In Chapters 4 through 7, I will analyse the effectiveness of housing allowance for achieving policy objectives—improving income maintenance, housing affordability and work incentives—in the UK, the Netherlands, Sweden and S. Korea. Each chapter consists of three sections: the development of the national support for housing costs, including housing allowance; the design of housing allowance; and the analysis of the effects of housing allowance provision on the low-income tenants. Subsequently, I will compare the results of four countries in Chapter 8.

⁸ http://www.scb.se/Pages/Product____7274.aspx.

⁹ <http://koweps.re.kr>.

Chapter 4. The Effectiveness of Housing Allowance for Tenants in the United Kingdom

Introduction

For decades the UK government has provided housing allowances to low-income households, known as the Housing Benefit (HB). HB is one of the major features of national housing costs subsidies in the UK (Diacon *et al.*, 2010) and both low-income tenants and homeowners are eligible for it. In this chapter, I will look at the way in which the national support for housing costs, including HB, has been developed in the UK (Section 4.1). I will then explain the compositional features of the HB design in Section 4.2. Finally, I will analyse the effect of the HB on income maintenance, housing affordability and work incentives of the low-income tenant household in Section 4.3.

4.1. The Development of National Support for Housing Costs in the UK

The initial forms of national support for housing have been developed over the course of 40 years in the UK. During the first half of the 20th century, the supply-side housing subsidy to local authorities as well as the rent regulation and the encouragement of homeownership shaped the early housing policy and the features of the housing market tenure. Before World War One (WWI), around 90% of households lived in privately rented dwellings. However, the rents in the private sector increased considerably after the outbreak of WWI and, consequently, the government introduced rent control and restricted the interest rate. The government also encouraged homeownership by providing financial advantages to households (e.g. tax relief on mortgage interest). For a number of reasons, homeownership rapidly increased from about 10% in 1914 to 34% in 1939, especially in light of the development of affordable mortgage finance (Lund, 2006). The government also provided more grants to local authorities for council housing construction through a series of housing-related legislation.

The initial introduction of housing allowances was associated with tenants in the newly constructed council housing. As low-income tenants from slum areas or people living in overcrowded housing could not afford the new council housing (Kemp, 2007b), the supply

of housing with affordable rent costs for low-income tenants was required. Local authorities were given the discretion of providing rent rebates or income-related rent schemes under the 1930 Housing Act. In addition, after WWII, the government increased supply-side subsidies for local governments to deal with the serious housing shortage problem as the significant number of homes destroyed during the war (Kemp, 2007b). This supply-side of national subsidies was the main policy instrument in housing policy until the 1970s.

Demand-side housing cost support, known as 'housing additions', was introduced into the social security system in 1943, being added to the means-tested social assistance benefit rates. This demand-side allowance primarily subsidised the rents of tenant beneficiaries, mortgage interest payments, repairs and insurance loan interest payments of homeowner beneficiaries (George, 1968). This allowance remained as part of the new national social assistance benefits under the 1948 National Assistance Act. This new scheme was designed to make up the difference between a household's assessed income and three 'requirements'. The first requirement was a basic level of benefit intended to subsidise day-to-day living expenses for items such as food, heating and lighting. The second requirement subsidised regular weekly additional costs and the third housing requirement subsidised the recipient's actual housing costs (Kemp, 1986). This housing cost support scheme was successful during the 1950s and 1960s and remained the fundamental component of the Supplementary Benefit when it replaced the National Assistance Benefit in 1966.

The New Housing Allowance Scheme in the 1970s

In the 1970s the social and housing policy developed separately under the Conservative government's policy. The Conservative government noted that the severe lack of housing building in England and Wales had been relieved as a whole, and thus set up new policy objectives (Whitehead *et al.*, 2005). In relation to the housing policy, the government introduced a 'fair rent' charge in all rental sectors and fair rents for housing associations. In addition, the government established the national HB scheme, known as Rent Rebate (for council tenants) and Rent Allowance (for private and housing association tenants), which applied to all tenants under the 1972 Housing Finance Act (*ibid.*).

Therefore, adding to the means-tested Family Income Supplement started in 1966 for working families with dependent children, the new housing allowance paid to these

households. Until the 1980 HB reform, low-income households received housing allowances from the separate national systems, which had different means tests, structures and levels of assistances. In calculating the amount of HB, a household's gross income was compared with a 'needs allowance' designed to reflect the basic costs of households living with a *de facto* equivalence scale in place. If their incomes were equal to the needs allowance, 60% of the rent was awarded. The allowance increased by 25 pence for every £1 by which income was below the needs allowance, while the amount decreased by 17 pence for every £1 by which income exceeded the needs allowance (Kemp, 1986). Although the next Labour government disposed of the fair rent system in the local authority sector, the national HB scheme remained in the social policy and was given attention as 'in-work' benefit for poor working households.

The Beginning of the Unified HB System: The 1980s

Throughout the 1980s, the housing policy experienced various transformations reflecting housing market features and public expenditure controls under the Conservative government (Mullins & Murie, 2004). Under the 1980 Housing Act, the government introduced the 'Right to Buy' scheme, which enabled council tenants to purchase their homes at a discounted market value. In addition, the deregulation of housing finance and competition between building societies and banks in the mortgage market increased the opportunity to obtain a mortgage and become a homeowner. As a result, homeownership increased from 58% of the total housing stock in 1981 to about 70% in 2004 (Hills, 2007). Furthermore, 'bricks and mortar' subsidies to local authorities and housing associations were significantly reduced. Consequently, housing associations had to obtain private loans following the 1988 Act. To facilitate the growth in the private and housing association sector, the government introduced the deregulation of rent in these sectors. Accordingly, the rent deregulation increased rent costs. The HB scheme played an essential role because this benefit enabled the lowest-income households to afford the increased rents. In addition, the HB scheme became important for property owners, as this allowance ensured incomes for mortgage interest payments during the recession period of the late 1980s and early 1990s.

During the 1980s, two major HB reforms in 1982 and 1986 were implemented to keep pace with policy shifts under the Conservative government. Because of these reforms, the existing HB scheme administered by the housing ministry was merged into the national social security system, after which the current HB forms were established. The 1982 HB

reform related primarily to shifts in the administrative system. At the central government level, the responsibility for HB was handed over from the housing ministry to the social security ministry. At the local level, the administration of the housing component of the existing social assistance benefit was handed over to councils. Therefore, all housing allowances were provided within the social assistance benefits by local authorities and were financed primarily by the social security ministry (Kemp, 1986).

The government subsequently set up the new HB scheme, subsidising low-income households irrespective of their eligibility for social assistance. Under this new scheme, the housing component of Supplementary Benefit was renamed the 'certificated HB' and the existing HB scheme was also renamed the 'standard HB'. However, as the two different systems use different means tests and varied benefit rules coexisted within one benefit scheme, the new HB was criticised for its complex administration and potential for fraud (ibid). Therefore, the government reformed the HB in line with the wider social security system reform under the 1986 Social Security Act. The government strengthened the income supplement through the social security system, i.e. Income Support (IS), Family Credit and Support for Mortgage Interest (SMI); the same means test rules were applied for all means-tested benefits of the social security system, including the HB. The two HB benefits were also unified into a single HB scheme. The single taper, which was 65%, was applied when net income exceeded social assistance rates. As a result of the 1980s reform, the HB scheme reflected the feature of wider social security policy and represented a more focused objective as part of the social safety net intended to prevent the recipient's income after rent from falling below the social assistance benefit level.

The HB Reforms for the 1990s through the 2000s

Since the late 1980s, the government's budget expenditure on HB substantially increased in relation with the deregulation of the private rental sector, the transformation in housing finance and the economic downturn. Therefore, the Conservative government introduced new restrictions on HB for private tenants in 1996/1997, aiming at reducing the maximum amount of eligible rent for private tenant recipients. The government applied rent ceilings known as the Local Reference Rent to private tenants and the Single Room Rent rate to single tenants under 25 years of age. The government also imposed restrictions on the SMI in 1995, highlighting the responsibility of households. This change reflected the rapid growth of SMI costs resulting from the economic recession and the increasing emphasis on mortgage debt.

In addition, the Conservative government's public expenditure cuts shifted social security benefits, targeting the unemployed and emphasising the increase in their work participations. The Unemployment Benefit (social insurance) and the Income Support for unemployed people (means-tested benefit) were replaced by the Contribution-based Jobseeker's Allowance (JSA) and the Income-based Jobseeker's Allowance, respectively, in 1996. These allowances were conditional on the claimant accepting responsibility for seeking a job and/or accepting work. The period of benefit awarded was also reduced from 12 to six months (DSS, 1998). Moreover, the New Labour government accelerated the reform of the social security system starting in 1997. The government primarily focused on the importance of work and redefined the relationship between welfare benefits and work. The shift in policy direction could be identified by the government's slogan—'work for those who can, security for those who cannot'—in DSS's (1998) '*New Ambitions for Our Country*' paper. Consequently, the social safety net function of the social security system operated primarily for the more focused target groups, such as people who are unable to work. The social security system was transformed to encourage people who able to work and the unemployed to participate in labour force and welfare-to-work programmes, such as New Deals, on the condition of the social security benefit payment.

The New Labour government's emphasis on the more targeted social assistance was also related to the shift in housing subsidies, because the New Labour's housing policy could be characterised less by subsidies and more by taxation and HB (Malpass, 2005). The shift from 'bricks and mortar' subsidies to personal subsidies mirrored this notion throughout the 1990s. As stated in the Housing Green Paper '*Quality and Choice: A Decent Home for All*', the government's position toward housing policy can be summed up as follows: transforming the role of local authorities into an enabling (i.e. rather than being a direct provider of housing) role reflecting local circumstances; supporting homeownership; securing affordable housing for homeless families and tenants; reorganising local social housing and the private market; and improving HB (DETR & DSS, 2000). Concerning HB, the paper identified a detailed range of problems of the HB scheme, including the complicated and slow process of benefit administration, complex benefit rule and less acknowledgment of the benefit provision, the concern for the late benefit arrival, high costs of administration fraud and error, the increased work disincentive, tenants' reduced responsibility for paying rents and finding low-cost renting and the possible abuse of system for rent increases by landlords (ibid). In order to improve the HB system, the government announced proposals for a radical reform of HB in 2002. This reform focused

primarily on the improvement of the HB administration and the new HB scheme. The reform aimed to improve the HB's effect on the claimant's participation in labour market. Consequently, the new housing allowance for private tenants, Local Housing Allowance (LHA) was introduced following pilot programmes that were carried out since 2003 (DWP, 2005). Although the government intended to implement LHA for both private and social housing tenants, only private housing tenants became eligible for LHA in the HB system. Also, unlike the HB for tenants of public and housing association housing, the LHA uses the local rent rate as its benefit cap (DWP, 2007a).

From the 2008 HB Reform to the current the Coalition government's welfare reform for the inefficiency of the current benefit system and work disincentive, the HB system has faced severe changes in benefit arrangement in order to reduce costs and make the welfare-to-work transition successful as the welfare reform of the welfare system intends (Murie, 2012). The clear message of this HB reform is the restriction on HB paid to individuals and, in due course, the emphasis on personal responsibility. The continuing increase in non-dependant reduction of HB arrangement rules is in line with this benefit reform.

Major changes have made in HB for private tenants. The LHA benefit rate was lowered from the 50th percentile of local market rent for each locality to the 30th percentile of the local market rent price. In addition, although the rent of the local rental market is a standard for the LHA, the single maximum LHA rate is applied regardless of the regions. The LHA benefit per week has been capped at £250 for a one-bedroom property, £290 for a two-bedroom property, £340 for a three-bedroom property and £400 for a four-bedroom property since 2011 (DWP, 2011a). Starting in 2013, recipients of both HB and LHA will face more benefit cuts. In April 2013, the LHA benefit rate will only be increased with reference to the Consumer Price Index instead of the Retail Price Index; this change is expected to contribute to the reduction of the rate growth of benefits (Murie, 2012). The HB for working-aged households living in local authority (LA) housing and registered social landlord (RSL) housing will also be restricted for under-occupied residences starting in April 2013. The eligible rent will be deducted by 14% and 25% for one extra bedroom and two or more extra bedrooms respectively.

Moreover, the HB receipt will be reduced according to the other benefit or tax credit receipt as a whole. In terms of welfare reform for the working-aged households, the government introduces a 'benefit cap' at the level of the average earnings of working

households for the total amount of benefits and tax credits, starting in April 2013. The HB is included in this benefit cap, which is set at £500 a week for couples and parents and £350 a week for a single person. Furthermore, as part of the larger welfare reform, in order to make the welfare system work more efficiently and reduce work disincentive, the Universal Credit (UC) will replace most means-tested benefits from October 2013. Accordingly, the HB will be incorporated into the UC with IS, JSA, ESA, Child Tax Credit and Working Tax Credit (Clarke *et al.*, 2012; DWP, 2010a, 2012, 2013).

Currently, all low-income households can claim HB in the UK. Among them the recipients of IS, Income-based (IB) JSA, Income-related (IR) Employment and Support Allowance (ESA) and Pension Credit (PC) can receive their maximum HB assessed by their conditions and other low-income households will receive the reduced HB from their maximum HB. Although households in receipt of IS, JSA (IB), ESA (IR) and PC account for almost 70% of total HB recipients, the remaining 30% of the total HB recipients do not receive these benefits. In terms of tenure, social housing tenants comprise the majority of HB recipients among tenants in the UK, as 70% of HB recipients are tenants in the social rented sector and 30% of HB recipients are tenants in the private sector housing. Considering that most HB recipients are economically vulnerable and live in social housing, it could be said that the HB scheme provides a more targeted social assistance benefit for low-income people and acts as a social safety net (Kemp, 2007b).

Table 4.1 HB Recipients by Tenant Tenure and Means-tested Benefit Entitlement in the UK

Year	All HB Recipients (person,000s)	Tenure types (person,000s)		IS/PC/JSA(IB)/ESA(IB) (person,000s)	
		Social Rented Sector	Private Rented Sector	Receiving	Not receiving
2002	3,812.6	3,093.8	718.8	2,636.9	1,175.7
2003	3,796.4	3,081.7	714.7	2,679.4	1,117.0
2004	3,879.4	3,135.5	744.0	2,819.2	1,060.3
2005	3,956.8	3,165.9	791.0	2,871.3	1,085.5
2006	3,990.0	3,152.2	837.7	2,901.7	1,088.3
2007	4,039.6	3,154.4	885.2	2,927.6	1,111.9
2008	4,200.1	3,114.5	1,081.2	2,929.7	1,267.6
2009	4,610.7	3,243.6	1,363.9	3,201.8	1,404.6
2010	4,817.1	3,303.7	1,510.8	3,230.0	1,583.3
2011	4,952.2	3,349.1	1,600.0	3,243.6	1,705.9
2012	5,050.4	3,391.4	1,655.3	3,243.3	1,804.1

Source: DWP (2007b) Table HB1.1 and Table HB1.2; DWP Statistics HB and the Council Tax Benefit Caseload internet site (<http://statistics.dwp.gov.uk/asd/index.php?page=hbctb>).

The UK's HB does not always subsidise the full amount of rent for the claimant. The eligible housing cost for HB and the amount of HB vary according to the claimant's condition, such as whether they receive social assistance, the composition of the household and the household's special needs. Table 4.2 illustrates the differences between the average weekly amount of HB paid to the recipients and eligible rents. The difference between the eligible rent and the amount of benefit paid to households who were not receiving social assistance benefits is larger than that of social assistance benefit recipients. Their HB receipt was £18.26 less than their eligible rents. This result mirrors the feature of HB: social assistance beneficiaries can receive their maximum HB whereas the rule of benefit reduction is applied for non-social assistance beneficiaries.

Table 4.2 Average Weekly HB and Eligible Rents for HB in the UK (£)

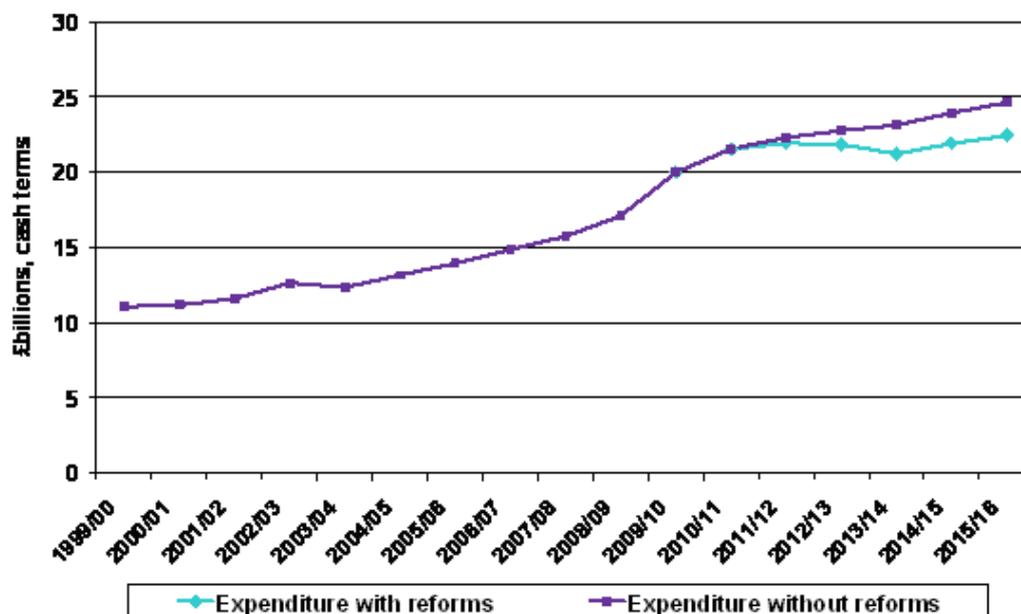
Year	Eligible rents for HB (A)			Benefits provision (B)			(A) - (B)		
	All HB Recipients	With IS/PC JSA(IB) ESA(IR)	Without IS/PC JSA(IB) ESA(IR)	All HB Recipients	With IS/PC JSA(IB) ESA(IR)	Without IS/PC JSA(IB) ESA(IR)	All HB Recipients	With IS/PC JSA(IB) ESA(IR)	Without IS/PC JSA(IB) ESA(IR)
	2002	59.54	60.13	58.22	54.66	59.32	44.21	4.88	0.81
2003	59.90	60.11	59.39	55.78	59.28	47.37	4.12	0.83	12.02
2004	63.37	63.36	63.39	59.70	63.00	50.94	3.67	0.36	12.45
2005	68.09	67.71	69.10	63.30	66.88	53.84	4.79	0.83	15.26
2006	72.00	71.11	74.37	66.70	70.20	57.37	5.30	0.91	17.00
2007	76.13	75.54	77.67	70.16	74.24	59.41	5.97	1.30	18.26

Source: DWP (2007b) Table HB1.3 and Table HB1.5.

As the welfare reform proceeds, the Coalition government projected that the HB reform from 2010/11 would reduce the HB expenditures through the national spending cuts (Budget Statement, 2010). In the UK, the national budget expenditure on HB has significantly increased for the last 10 years, from £11 billion in 2000/01 to £21 billion in 2010/11 (DWP, 2011b). The Coalition government forecasts that the total expenditure would increase to £25 billion by 2015/16. With LHA reform, the government expects to save around £1 billion by 2015/16. And further HB reform, the saving is estimated £1.1 billion in 2015/16, which are total 9% reduction in the total 2015/16 expenditure (DWP Impact of Changes to Local Housing Allowance from 2011 internet site¹⁰).

¹⁰ <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml>.

Figure 4.1 Housing Benefit Expenditure, with and without Reforms (in cash terms)



Source: DWP Impact of Changes to Local Housing Allowance from 2011 internet site. (<http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml>).

Note: See also Table A.2 in Appendices.

4.2 The Design of Housing Allowance for Tenants in the UK

The UK housing allowance system provides a rent subsidy to low-income tenants living in the private rental housing and the social rental housing owned by LA and RSL. The low-income homeowner can claim SMI for mortgage interest payments.¹¹

¹¹ Under the UK housing allowance system, homeowners receiving IS, JAS (IB), ESA (IR) or PC can claim the support as part of their benefits for mortgage interest payments and interest payments of loans for repairs and improvements of a residential property, known as Support for Mortgage Interest (SMI). In calculating the SMI, the amount of a loan that qualifies for the SMI is not more than £100,000 (£200,000 for the new working-age customers from 2009). The social assistance benefits (i.e. IS, JAS (IB), ESA (IR), or PC) subsidise only the interest payments of a home mortgage. The qualified amount of a loan is multiplied by the standard interest rate of the Bank of England Base Rate plus 1.58% and divided by 52 to calculate a weekly amount. Therefore, there is always a difference between interest payments for the mortgage provided by IS, JAS (IB), or PC and the claimants' payments as a different rate of interest is used instead of the interest rate that the claimant pays (Clarke *et al.*, 2012; OECD Benefits and Wages: Country Specific Information internet site, <http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>).

Table 4.3 Housing Cost Subsidies by Tenure Types in the UK

	Tenure			Homeowner
	Tenant			
	LA	RSL	Private	
Paid to recipients of IS, JAS (IB), ESA(IB),PC	Housing Benefit		LHA (in HB)	Support for Mortgage Interest
Paid to non-recipients				NA

The UK housing allowance system applies the same rule to all tenants. The entitlement of social assistance benefit (i.e. IS, JSA (IB), ESA (IR), and PC), known as the ‘passport for the maximum rate’, determines the benefit calculation applied to the claimant as follows:

(a) HB for social assistance beneficiaries = eligible rent for HB = maximum HB

(b) HB for non-beneficiaries = eligible rent

– 0.65*(assessed income – social assistance benefit rates)

The difference in the benefit formula between social assistance beneficiaries and non-beneficiaries indicates the reduction in the HB.

For the HB entitlement, the eligible rent for the HB claimant is calculated as the contractual rent minus the ineligible charges, such as fuel and meal charges. If there are other members of a household who are not the claimant, the partner or dependent children, The deduction for each of these ‘non-dependants’ is made from the eligible rent, thereby decreasing the size of the HB paid to the household. As part of HB reform, this non-dependant deduction increased due to its effect on the reduction of HB. The total amount of HB could be lower compared to the actual rent payment due to the deductions of ineligible charges included in their rent payment and the non-dependant deductions. However, as the other social benefit does not make allowances for rent payments in the UK, the awarded HB subsidises considerable portions of the rent payment (Stephens *et al.*, 2010).

Table 4.4 Deduction for HB in the UK (2012-2013)

Deductions for ineligible charges of housing costs		£ per week
Fuel charges		
more than one room	Heating	22.50
	Hot water	2.95
	Lighting	2.05
	Cooking	2.95
one room only	Heating and/or hot water and/or lighting	15.25
	Cooking	2.95
Service charges		
At least 3 meals or more a day	For each adult or family member 16 or over	25.30
	For each child under 16	12.80
Breakfast only	Regardless of ages	3.10
All other cases	Regardless of ages	16.85
Deductions for non-dependants		
Under 18 years old		NIL
Full-time students (except during summer vacation)		NIL
In receipt of PC		NIL
Under 25 years old and on IS, JSA (Income-based) ESA (income-related)		NIL
Aged 18 or over and in full-time paid work with a weekly gross income of	£394 or more	73.85
	£316.00 to £393.99	67.25
	£238.00 to £315.99	59.05
	£183.00 to £237.99	36.10
	£124.00 to £182.99	26.25
All others		11.45

Source: Clarke *et al.* (2012).

If the assessed eligible rents after the non-dependant deduction were the same for households that receive as well as do not receive IS, JSA (IB), ESA (IB) and PC, the size of the HB would be larger for social assistance beneficiaries than for non-social assistance beneficiaries. As formula (b) presents, the maximum HB for households that do not receive IS, JSA (IB), ESA (IB) and PC is reduced from the eligible rent after a deduction of 65% of the difference between their ‘assessed income’ and the ‘applicable amount’.

Table 4.5 Applicable Amounts for HB in the UK (2012-2013)

Personal allowances		£ per week
Single claimant	Aged under 25	56.25
	Aged under 25 (on main phase ESA)	71.00
	25 over	71.00
Lone parent	Aged under 18	56.25
	Aged under 18 (on main phase ESA)	71.00
	18 over	71.00
Couple	Both aged under 18	84.95
	Both aged under 18 (claimant on main phase ESA)	111.45
	One or both aged 18 or over	111.45
Dependent children	Under 20	64.99
Over qualifying age for Pension Credit	Single under 65	142.70
	Single 65 or over	161.25
	Couple both under 65	217.90
	Couple one or both 65 or over	241.65
Component		
Work-related activity		28.15
Support		34.05
Premiums		
Carer		32.60
Disability	Single	30.35
	Couple	43.25
Disabled child		56.63
Enhanced disability	Single	14.80
	Couple	21.30
	Child	22.89
Severe disability	One qualifies	58.20
	Two qualify	116.40
Family	Ordinary rate	17.40
	Some lone parents	22.20

Source: Clarke *et al.* (2012).

Provided that different claimants have the same assessed income, the characteristics of each family affect the varied size of the reduction in HB because the applicable amount is more generous to families with children or special needs (e.g. disability) or pensioners; as a result, the income minus the applicable amount is smaller for these families than for others. The decrease in the HB is also smaller for them than for others. After this process, the HB amount is finalised. If the assessed income is less than or equal to the claimant's applicable amount, the amount of HB is equal to the maximum HB. If the assessed income is greater than the applicable income, the amount of HB is a reduced amount—that is, the maximum HB minus 65% (taper) of the difference between the assessed income and applicable amount. Therefore, it is noted that the UK HB system respects different family features within their benefit rates.

Since the introduction of the LHA, the clear difference in the benefit calculation between the housing allowance for social housing and private housing tenants is the maximum rate

of benefits and the benefit cap. The LHA arrangement has been decided based on the local rent rate (30th percentile of the local market rent) for a given household size since the public spending cuts announced in 2010. The LHA benefit is capped at the maximum rate for a four-bedroom property (£400 per week). Therefore, when the private tenant claims an LHA, the corresponding LHA local rent rate and benefit cap are applied. Moreover, the HB rules for benefit calculation are becoming stricter as a whole in order to correspond to the welfare reform. The HB receipt will be restricted due to the total welfare benefit and tax credit benefit cap. In addition, social housing tenants will face benefit reductions as a penalty for their under-occupying choice, which will affect their benefit receipt.

4.3 The Analysis of Housing Allowance Effects on Tenants in the UK

In the remainder of this chapter, I will analyse the effect of the UK housing allowance system in achieving the previously described policy objects—improving income maintenance, housing affordability and work incentives for low-income tenant households using five indicators as presented in Table 4.6.

Table 4.6 Indictors of Housing Allowance Effectiveness in Section 4.3

Section	Indicator	Definition
4.3.1	Income maintenance	
4.3.1.1	1. Residual income after housing cost expenditures	Residual Y1: Paying rent without HA Residual Y2: Paying rent with HA
4.3.1.2	2. Poverty Rate (PR) (poverty line: 60% of the national median income)	PR1: Before paying rent & receiving HA PR2: After paying rent without HA PR3: After paying rent with HA
4.3.2	Housing affordability	
	Rent to Income Ratio (RIR)	RIR1 : Paying rent without HA RIR2 : Paying rent with HA
4.3.3	Work incentive	
4.3.3.1	1. Income Replacement Ratio (IRR)= $\frac{\text{Household net income when unemployed}}{\text{Household net income when employed}}$	IRR1: Income excluding HA IRR2: Income including HA
4.3.3.2	2. Effective Marginal Tax Rate (EMTR) = $1 - \frac{\text{Change in household net income}}{\text{Change in household gross income by 1 income unit}}$	EMTR1: Income excluding HA EMTR2: Income including HA

Note: Y and HA stand for household net income and housing allowance respectively.

Although the UK's HB system subsidises both the low-income tenant and homeowner households, this study will examine the effectiveness of the housing allowance for tenant households whose residential stability is directly affected by the rent subsidy programme. Therefore, the scope of the analysis is limited to tenant households receiving the HB (size=3,376). For this analysis, data from the Family Resources Survey 2006-07 were used. It should be noted that the analysis does not apply the current HB rules explained in Section 4.2, but the pre-LHA HB rules established in the reference year of Family Resources Survey 2006-07. Therefore, the pre-2008 HB rule is used as a standard for the analysis and the explanation of results in the UK's case. Moreover, even the highest-income group stated in this section is more likely to have incomes low enough to qualify for means-tested benefits. The results of this chapter and the following three chapters should be understood in this context. As Table 4.7 illustrates, the UK households receiving a housing allowance have an average household income of £13,481, including their housing allowances and spend £3,504 on rents payment.

Table 4.7 Income, Rents, Housing Allowance of Tenant Recipients in the UK (£, 2006-07 price)

Total tenant with HA		Annual HH income	Annual HA	Annual rents	HA÷rents (%)
Mean	%(N)	13,481.80	2,561.90	3,504.60	77.5
Total	100.0(3,376)				
Income Quintiles					
1st Q (low Y)	20.0(675)	6,612.90	2,455.60	3,080.40	81.8
2nd Q	20.0(675)	8,735.70	2,691.40	3,468.90	80.6
3rd Q	20.0(676)	10,453.30	2,594.30	3,665.60	76.4
4th Q	20.1(678)	13,553.90	2,696.90	3,893.20	75.6
5th Q (high Y)	19.9(672)	28,122.50	2,369.70	3,412.40	73.1
	(F)	(2,193.393***)	(5.834***)	(26.110***)	(7.692***)
Household Composition					
No children	26.4(891)	13,893.39	2,494.60	3,211.60	80.4
With children	34.4(1,162)	11,070.00	2,786.90	4,154.00	73.8
Pensioner	39.2(1,323)	15,322.96	2,409.60	3,131.50	78.8
	(F)	(73.429***)	(24.145***)	(168.792***)	(11.333***)
Tenant Tenure					
Public housing	51.6(1,742)	13,678.40	2,541.60	2,948.30	86.6
Housing association	33.0(1,113)	13,213.80	2,686.70	3,500.10	77.0
Private	15.4(521)	13,397.00	2,362.90	5,374.20	48.2
	(F)	(0.933)	(9.902***)	(675.792***)	(304.758***)
Employment Status					
Unemployed	89.7(3,029)	13,637.33	2,592.20	3,393.40	79.8
Employed	10.3(347)	12,124.39	2,297.30	4,475.10	57.2
	(t)	(3.595***)	(2.902**)	(-8.697***)	(10.714***)

Source: Family Resources Survey 2006-07, author calculations.

Note: HH, HA and Y stand for household, housing allowance and household net income respectively. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

In the UK, housing allowance recipients are likely to be more economically vulnerable compared to households not receiving a housing allowance. As seen in Table 4.8, housing allowance recipients have more severe income problems compared to others: The poverty rates were much higher for tenant households receiving housing allowance compared to other types of households.

Table 4.8 Poverty Rate before and after Housing Cost Expenditures in the UK (%)

Poverty lines	Total household (owner+tenant) (N=14,389)		Household without HA (owner+tenant) (N=11,011)		Household with HA (owner+tenant) (N=3,378)	
	before HC	after HC	before HC	after HC	bf.HA&HC	bf.HAaf.HC
	40% of median	9.9	19.5	8.0	14.5	15.9
50% of median	16.4	27.2	11.5	20.0	32.6	68.1
60% of median	24.0	35.4	16.7	27.0	47.9	75.1

Source: Family Resources Survey 2006-07, author calculations.

Note: HA and HC stand for housing allowance and housing cost respectively.

Moreover, the financial burdens arising from expenditure on housing costs for housing allowance recipients are quite high. As Table 4.9 presents, the tenant households receiving housing allowance spend 45% of their household income on housing costs, whereas tenant households without a housing allowance entitlement spend 28.6% of their incomes on housing costs.

Table 4.9 Financial Burdens for Housing Cost Expenditures in the UK (%)

Housing affordability measures	Total households (N=14,389)	Household without HA (N=11,011)	Household with HA (N=3,378)	<i>t</i>
	Gross HC over Y	41.6	39.6	48.6
	Total tenants (N=4,601)	Tenant without HA (N=1,225)	Tenant with HA (N=3,376)	
Rent over Y	40.8	28.6	45.2	-20.389***

Source: Family Resources Survey 2006-07, author calculations.

Note: HC, HA and Y stand for housing cost, housing allowance and household net income respectively. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

4.3.1 Social Policy Object: Income Maintenance Improvement

In dealing with the effectiveness of the UK housing allowance for achieving social policy objects (i.e. improving income maintenance), this research focuses on the changes in income poverty after housing cost expenditures for the low-income tenants. When it comes to low- or the lowest-income households, the housing cost expenditures would make the poor household reserve less income which they could not live for the adequate non-

housing consumption. Households receiving a housing allowance belong to a lower-income group of the entire population because the housing allowance is a means-tested benefit. Therefore, the effect of housing cost subsidisation in income maintenance is more of a concern. This research examines the changes in income maintenance using the residual income measure and poverty rates (see Table 4.6).

4.3.1.1 Residual Income after Rents

Firstly, we can acknowledge the effect of the housing allowance on the household's income maintenance through the change in the household's residual income after housing costs with and without the housing allowance receipt: In the UK, the household's annual residual income after housing costs relatively increased by 61%, from £7,886 without housing allowance to £9,977 with the housing allowance receipt.

Table 4.10 Changes in Residual Income after Rents by Housing Allowance in the UK (£, 2006-07 price)

Total tenant with HA		Residual income after rents		Absolute change (£)	Relative change (%)
		without HA	with HA		
Mean	%(N)	7,886.40	9,977.20	2,090.90	61.0
Total	100.0(3,376)				
Income Quintiles					
1st Q (low Y)	20.0(675)	1,708.00	3,532.50	1,824.50	110.7
2nd Q	20.0(675)	3,238.70	5,266.80	2,028.10	92.1
3rd Q	20.0(676)	4,607.90	6,787.70	2,179.80	53.9
4th Q	20.1(678)	7,312.70	9,660.70	2,348.00	36.1
5th Q (high Y)	19.9(672)	22,637.60	24,710.10	2,072.50	12.2
	(F)	(1,702.361***)	(1,888.415***)	(18.243***)	(48.111***)
Household Composition					
No children	26.4(891)	5,202.10	6,916.00	1,713.90	66.0
With children	34.4(1,162)	8,343.80	10,681.80	2,338.00	76.5
Pensioner	39.2(1,323)	9,935.90	12,191.40	2,255.50	46.2
	(F)	(86.252***)	(113.226***)	(95.499***)	(11.143***)
Tenant Tenure					
Public	51.6(1,742)	8,609.80	10,730.20	2,120.40	61.9
Housing association	33.0(1,113)	7,534.10	9,713.70	2,179.60	74.2
Private	15.4(521)	6,220.40	8,022.80	1,802.40	30.1
	(F)	(14.633***)	(18.390***)	(19.201***)	(14.507***)
Employment Status					
Unemployed	89.7(3,029)	8,090.50	10,243.90	2,153.50	63.1
Employed	10.3(347)	6,105.00	7,649.20	1,544.20	42.9
	(t)	(4.600***)	(6.108***)	(9.158***)	(2.297*)

Source: Family Resources Survey 2006-07, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively.

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

In terms of different household incomes, a greater improvement in residual income was noted for households with lower incomes compared to households with higher incomes. Although the residual income of the bottom income group has increased by 110%, the relative changes in income for the households with the highest income were just 12%. Households with higher incomes have paid higher rents compared to those with lower incomes, yet the housing allowance subsidised a smaller portion of rent payment for the higher-income households compared to the lower-income households (see Table 4.7). In addition, the UK housing allowance system applies different benefit rules according to the claimants' incomes. It is more generous towards the poorest households receiving the social assistance benefit compared to others. Therefore, the different benefit rates of the housing allowance system and, as a result, the higher subsidisation rates could make more economically vulnerable households have better results in residual income after rents payment than others.

Household Composition

With regard to family composition, the results indicated that housing allowance was more likely to improve the residual income after rent expenditures (the relative increase in residual income after rent) for non-pensioners (66.0% and 76.5% for families without and with children, respectively) compared to pensioners (46.2%). The pensioner households have higher income than others, they pay lower rent and receive lower housing allowances than others. This feature might be related to the relatively small change in residual income after rents payment for pensioner households. Moreover, in the UK housing allowance system, the basic benefit calculation rule is the same for pensioner households and non-pensioner households receiving means-tested social benefits. Therefore, the changes in residual income after rent by household types is less likely to relate to the housing allowance design.

Tenant Tenure

As seen in Table 4.7, whereas private housing tenants have paid higher rents compared to other types of tenants, their rent payment has been subsidised less by the housing allowance (48.2%) compared to the public and housing association housing tenants (86.6% and 77.0%, respectively). This outcome might be a result of the pre-LHA UK housing allowance system applying the same rule to the claimant, regardless of tenant type. However, under the dualist rental housing system, this benefit rule is less likely to be

effective for the private housing tenants than for the social housing tenants. In practice, the effect of the housing allowance in improving the residual income after rent payment was less for private renters compared to non-private renters as the residual income of private renters increased by 30.1% after the HB, which was as small as half the other tenure types' relative changes (61.9% and 74.2%, respectively).

Employment Status

The employment status of the adult family member is related to the households' earned income as well as the social assistance entitlement. Therefore, even for unemployed households, their total household incomes could be larger compared to those of employed households (i.e. the working poor). In terms of the housing allowance rule of pre-LHA, the maximum housing allowance rate is applied to the households receiving the social assistance benefit. Therefore, the unemployed receiving means-tested benefit could have a greater financial benefit in terms of the higher housing allowance rate compared to the employed. In practice, as the results illustrate, the housing allowance produced better absolute and relative changes in residual income after rent for the unemployed households compared to the employed households. Although, the UK housing allowance contributes to solving income problems more for the lowest-income household receiving means-tested benefits, we also need to consider that this result could relate to the discouragement of the welfare-to-work transition of the housing allowance recipients who are able to work.

4.3.1.2 Poverty Rate

This section will address the housing allowance effect on the poverty alleviation among housing allowance recipients. The housing allowance recipients are low-income households with financial burdens for housing cost expenditures. If the poverty rate changes due to the receipt of housing allowance, it could be concluded that the housing allowance contributes to the relief of recipients' housing cost-related poverty. Here, I will use a poverty line defined as 60% of the national median income to evaluate the poverty rates based on the household income with and without the housing allowance provision as well as before and after rent payments. As housing cost payments reduce household income and could make the deprivation more serious for low-income households, the provision of housing allowance is associated with the changes in income poverty after rent payment. As Table 4.11 demonstrates, there is a difference in poverty rates due to the housing allowance receipt in the UK. The poverty rate after making a rent payment with

the housing allowance (PR3) tends to be lower compared to the poverty rate after making a rent payment without the housing allowance (PR2). However, whilst the receipt of housing allowance accounted for 61% of the relative change in the residual income after rent payment, the poverty rates of the low-income tenants relatively reduced by 15% on average through the housing allowance provision.

Table 4.11 Changes in Poverty Rates by Housing Allowance in the UK (%)

Poverty lines	60% of median income			Absolute change (%p) PR2-PR3	Relative change (%) PR2-PR3	
	PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC			
Total tenant with HA						
Mean	(%)	47.9	72.3	61.6	10.7	14.7
Total	100.0					
Income Quintiles						
1st Q (low Y)	20.0	100.0	100.0	100.0	0.0	0.0
2nd Q	20.0	86.4	99.9	99.7	0.1	0.1
3rd Q	20.0	47.3	98.4	86.4	12.0	12.2
4th Q	20.1	5.6	59.0	21.2	37.8	64.0
5th Q(high Y)	19.9	0.3	4.0	0.7	3.3	81.5
Household Composition						
No children	26.4	53.8	71.9	60.9	11.0	15.3
With children	34.4	59.6	83.3	79.3	4.0	4.8
Pensioner	39.2	33.8	62.9	46.6	16.3	26.0
Tenant Tenure						
Public	51.6	50.1	70.1	58.6	11.5	16.4
Housing association	33.0	49.1	72.6	61.6	11.0	15.1
Private	15.4	38.2	78.9	71.8	7.1	9.0
Employment Status						
Unemployed	89.7	48.5	71.3	60.3	11.0	15.4
Employed	10.3	43.2	81.0	73.2	7.8	9.6

Source: Family Resources Survey 2006-07, author calculations.

Note: HC, HA and Y stand for housing cost, housing allowance and household net income respectively. For Poverty rates based on 40% and 50% of mediana income, see Table A.3 in Appendices.

PR1: poverty rate when housing allowance is not provided and before housing costs payment.

PR2: poverty rate when housing allowance is not provided and after housing costs payment.

PR3: poverty rate when housing allowance is provided and after housing costs payment.

Household Income Level

Before the receipt of housing allowance, the rent payment intensifies the income problems of low-income tenants in the UK. Therefore, the possibility of housing cost-related poverty for these households is noted. The poverty problem is more significant for households with lower incomes than the highest-income group because the former depend more on the housing allowance for their rent payment (see their higher HA-to-rent ratio presented in Table 4.7). However, the changes in poverty rates by housing allowance receipt are smaller for lower-income households living in more serious poverty compared to higher-income households. Although the provision of housing allowance can alleviate poverty after rent payment, it is not effective for solving poverty problem among lower-income households due to their severe poverty states. Poverty is less severe for higher-income households than lower-income households; thus, it is much easier for higher-income households to escape poverty, leaving them more income for non-housing good consumption.

Household Composition

Among the different family types, non-pensioner families have been more impoverished compared to pensioner families, regardless of rent payments and housing allowance receipts. Moreover, the receipt of housing allowance is more likely to reduce the poverty rate for pensioner households than for non-pensioner households. Among non-pensioner households, the housing allowance provision is more helpful for reducing income poverty for families without children compared to families with children. As seen in Section 4.3.1.1, although pensioner households experience less improvement in residual income after rent payment from the housing allowance compared to other families, their poverty problems are less severe than those of other families. Therefore, these pensioner households could reach the poverty line more easily through the provision of housing allowance and the greater income could be used for their living expenses after rent payments. Yet housing allowance receipt has little effects on families with children—namely, households having more needs for non-housing consumption.

Tenant Tenure

Across all tenure types, the payment of housing costs reduces the low-income tenants' residual income after rent costs and increases their poverty rates. The poverty rate is higher for the private housing tenant than for the public and housing association housing tenants. In addition, private renters tend to experience a greater poverty rate increases without housing allowance (PR1- PR2) compared to other types of renters. However, the housing

allowance provision is less likely to decrease the poverty rate for private tenants (7.1%) compared to other types of tenants (around 11%). This might relate to their more severe poverty and smaller improvements in residual income after rent payment through the housing allowance due to their higher rent costs. Therefore, the housing allowance provision is more likely to reduce the poverty rate for social housing tenants with income problems that are less serious compared to those of private tenants.

Employment Status

Concerning housing allowance recipients, no big differences in poverty rates emerge between working households and workless households before the receipt of housing allowance. However, when they pay for rent costs without a housing allowance, the poverty rate increases more for working households compared to workless households as the rent share of the household income is higher for the former than the latter. On the contrary, the poverty rate reduction by the housing allowance is larger for the unemployed (11.0%p) compared to the employed (7.8%p). This might be because working households experience greater poverty problems compared to out-of-work households and the improvement in the residual income after rents by housing allowance provision is also worse for the working household than for the workless household. Therefore, the housing allowance is more likely to be effective for the unemployed household whose poverty is not too severe compared to the employed household.

Summary: Income Maintenance Improvement

In the UK, the results indicate the high possibility of housing cost-related poverty after rent payment for low-income tenant households. As income support for these households, the UK housing allowance contributes to the improvement of income poverty arising from housing cost expenditures. However, although the changes in residual income after housing costs relate to the household's income, rents payment and the extent to which housing costs is to be subsidised, the changes in poverty rate by housing allowance provision are connected more to the extent of the original income state compared to other features of each family. Clearly, the receipt of housing allowance reduces the poverty rate for the higher-income tenant more effectively.

4.3.2 Housing Policy Object: Housing Affordability Improvement

As seen in Section 4.3.1, the UK housing allowance recipients experience significant income problem after rent payment if the housing cost is not subsidised. Moreover, the UK households receiving a housing allowance have severe financial burdens for housing cost expenditures as their rent payment accounts for 30% of their income. In terms of the households that are worse off, the Rent to Income Ratio (RIR) is more important compared to households that are better off because the absolute amount of their income is small and the non-housing consumption is also seriously reduced. In this respect, the effect of the housing allowance in improving financial burden for housing cost payments needs to be addressed. If the RIR declines as a result of the housing allowance receipt, we could say that the housing allowance improves housing affordability. Overall, the provision of housing allowance improves the housing costs burden of the poor tenants (77.5%, relatively) in the UK.

Table 4.12 Changes in Rent to Income Ratio by Housing Allowance in the UK (%)

Total tenant with HA		Rent to Income Ratio		Absolute change (%p)	Relative change (%)
		without HA	with HA		
Mean	%(N)	45.2	33.3	35.6	77.5
Total	100.0(3,376)				
Income Quintiles					
1st Q (low Y)	20.0(675)	74.3	12.9	61.4	81.8
2nd Q	20.0(675)	53.4	9.8	43.6	80.6
3rd Q	20.0(676)	45.3	11.4	33.9	76.4
4th Q	20.1(678)	36.9	10.0	26.9	75.6
5th Q (high Y)	19.9(672)	16.2	4.3	11.9	73.1
	(F)	(261.678***)	(16.945***)	(232.575***)	(7.692***)
Household Composition					
No children	26.4(891)	48.7	8.3	40.4	80.4
With children	34.4(1,162)	57.6	14.9	42.7	73.8
Pensioner	39.2(1,323)	32.0	6.1	25.9	78.8
	(F)	(148.421***)	(61.671***)	(84.067***)	(11.333***)
Tenant Tenure					
Public housing	51.6(1,742)	39.4	4.5	35.0	86.6
Housing association	33.0(1,113)	44.9	8.1	36.8	77.0
Private	15.4(521)	65.3	30.5	34.8	48.2
	(F)	(91.978***)	(405.106***)	(1.028)	(16.414***)
Employment Status					
Unemployed	89.7(3,029)	43.8	8.1	35.7	79.8
Employed	10.3(347)	57.8	23.5	34.3	57.2
	(t)	(-4.407***)	(-10.287***)	(0.497)	(10.714***)

Source: Family Resources Survey 2006-07, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively. RIR less than 20: A household does not have a housing affordability problem. RIR between 20 and 30: A household has a housing affordability problem. RIR over 30: A household has a severe housing affordability problem. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

As Table 4.12 indicates, the housing allowance recipients with the highest income do not have any household affordability problem (RIR less than 30), while the housing cost places a severe financial burden on other recipients with a lower income, regardless of the housing allowance receipt. However, housing allowance plays a role in reducing the financial burden for the rent payment for these groups. Both the absolute and relative RIR reductions by the housing allowance receipt were the greatest for the lowest-income households but smallest for the highest-income households among the beneficiaries. This is because the former's rent payment was subsidised more by housing allowances than the latter's rent payment (see Table 4.7). This result could relate to the feature of the UK HB arrangement that varies according to the claimant's means-tested benefit entitlement. Accordingly, it is noted that a generous housing cost subsidisation ratio is important in the improvement of the RIR for low-income households.

Household Composition

Among the different family types, pensioner households pay smaller rent costs and experience smaller financial burdens for housing costs compared to non-pensioner households. Regardless, all families have housing affordability problems (RIR over 30), with families with children experiencing the most severe problems (RIR over 50). When low-income households receive a housing allowance, they are able to escape from the housing affordability problem. However, the absolute changes in RIR are remarkably higher for non-pensioner households compared to pensioner households, whilst the relative changes are not. This is because dependency on the housing allowance for rent payment is similar, while the RIR before the housing allowance varies across these households.

Tenant Tenure

Like the changes in income maintenance by housing allowance, there seems to be differences between the RIR reduction of private housing tenants and non-private housing tenants in the UK. The private renter households face a more severe housing cost burden compared to non-private renters before the housing allowance receipt. Even when they receive the benefit, the private tenants experience housing affordability problems for the rent payment. However, whilst the private housing tenants pay greater rent but rely less on the housing allowance for rent payments, the social housing tenants pay smaller rents but depend more on the housing allowance for their rent payment. Moreover, the receipt of housing allowance further relieves the financial burden of non-private housing tenants

compared to private housing tenants. Concerning this situation, the extent to which the housing allowance subsidises the rent payment affects the RIR reduction.

Employment Status

Before the housing allowance receipt, both employed and unemployed households experience significant financial burdens arising from their rent payments due to the rent cost accounting for about half of their income. However, if they receive housing allowances, both are able to improve their housing affordability problems. In particular, the RIR of the unemployed household falls below 10%. Although the absolute changes in RIR are similar between the two groups, the relative change in RIR is better for the out-of-work household compared to the working household because the former's rent payment is more subsidised by the housing allowance, whilst their RIR is smaller compared to that of the latter.

As these results indicate, housing allowances subsidise the housing costs to a certain degree for low-income households and contribute to the relief of the severe housing affordability problem for low-income tenants in the UK. These results also indicate the increased opportunity of non-housing consumption after rent payment. Therefore, it seems that the outcome of the UK housing allowance provision is closely related to the reduction of the financial burdens for housing costs payment.

Sections 4.3.1 and 4.3.2 addressed the positive aspect of housing allowance in the improvement of the low-income household's income and housing problems. The next section examines the possible negative effect of housing allowance relating to the work incentive reduction due to the income supplement function of the housing allowance provision.

4.3.3. Housing Allowance as Work Incentive or Disincentive Booster

Concerning the working poor receiving in-work benefits, the housing allowance is a source of their income as long as they comply with the labour participation requirement and their incomes are lower than the means test threshold for the social security benefit. The provision housing allowance could make a difference in beneficiaries' income. The financial benefits from welfare as well as earnings are very important work incentives for the working poor. In this respect, this section focuses on work incentive changes by the

provision of housing allowance and compares the different outcomes in each indicator of work incentives (see Table 4.6).

The first indicator, Income Replacement Ratio (IRR), indicates the extent to which social security benefits while unemployed could replace a worker's income while employed. The higher IRR means that the currently working household could have income at a certain level even without labour, i.e. less work incentive and a high possibility of the unemployment trap. To examine the effect of housing allowance on work incentive changes, I will compare two IRRs. IRR1 is calculated when the household does not receive their household allowance both while employed and unemployed. IRR2 refers to receiving allowance both while employed and unemployed. Therefore, by comparing IRR1 and IRR2, we could assess the effect of housing allowances provision on IRR changes. The second indicator, Effective Marginal Tax Rate (EMTR), refers to additional earnings that a worker can take home after taxes and social security contributions. A higher EMTR indicates taking less increased net income home when a household increases the labour force participation. This result would decrease work incentive, i.e. the increased prospective of remaining in poverty (the poverty trap). In this study, we will examine the effectiveness of the housing allowance on the changes in the possibility of the poverty trap by looking at the difference in the EMTR before and after the housing allowance. The changes in IRR and EMTR possibly affect the choice of unemployment by housing allowance beneficiaries. However, the projection of the working behaviour choice according to work incentive changes is not within the scope of this research.

As this section is about the welfare-to-work transition of those who are able to work, only working-aged households are the target of analysis. Among them, both working and out-of-work households are included in the EMTR analysis whereas only working households are chosen from for the IRR analysis (see Figure 3.2). This is because the measurement of IRR assumes that an adult member of a household is employed. The parameter values and equations for income tax, tax credits and national insurance contributions of the UK chapters of OECD Taxing Wages (OECD, 2007, 2008b) and the UK country information files of the OECD Benefits and Wages¹² were used for the IRR and EMTR analysis.

¹² For detail, see OECD Social Policies and Data, Benefits and Wages: Country Specific Information internet site (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryinformation.htm>).

Before analysing the effects of housing allowance provision on work incentive, it might be useful to compare IRRs and EMTRs between households. Overall, the IRR of the total population is 51%; in other words, when a working household head enters unemployment, the household's net income would be half of what it was before (when the household head worked). However, whilst the IRR for the housing allowance recipients is around 90%, the IRR for the non-housing allowance recipients is closer to the average; this difference is statistically significant ($t=-90.221$, $p<0.001$). The housing allowance recipients would retain 90% of their former income when a household head is unemployed whereas households not receiving a housing allowance (i.e. households not in a low-income bracket) would maintain their former income at a level of 50% when the household head is unemployed. This indicates that the households receiving a housing allowance (i.e. the more vulnerable families) are more likely to experience the high possibility of the unemployment trap than households without a housing allowance. Moreover, the EMTR of the entire population is 42.1%, meaning they could increase their net income by about 60% of their gross income growth per 1 income unit through increased labour participation. However, the EMTR of households not receiving a housing allowance is lower (38.5%) than the EMTR of housing allowance recipients (54.5%); this difference is statistically significant ($t=-13.300$, $p<0.001$). Therefore, the former could preserve a greater portion of their increased net income compared to the latter—that is, there might be a greater possibility of being trapped in poverty for the housing allowance recipients.

Table 4.13 Work Disincentives of Housing Allowance Recipients and Non-Recipients in the UK (%)

	Total household (working-aged) (N=8,321)	Household without HA (N=6,435)	Household with HA (N=1,886)	<i>t</i>
Mean				
EMTR	42.1	38.5	54.5	-13.300***
	Total household (working-aged & Employed) (N=5,402)	Household without HA (N=5,063)	Household with HA (N=339)	
IRR	51.0	48.4	90.1	-90.221***

Source: Family Resources Survey 2006-07, author calculations.

Note: HA stands for housing allowance. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

4.3.3.1 Income Replacement Ratio: Unemployment Trap

In the UK, when the low-income working households receiving housing allowances become unemployed, their incomes could be maintained to a high degree of the current income, as indicated by the high IRR in Tables 4.13 and 4.14. Therefore, these working-

poor households receiving housing allowances are less likely to face work incentives encouraging them to remain in their current employment. Moreover, the receipt of housing allowance contributes to the increase in these IRRs. Therefore, the housing allowance plays a role in reducing work incentives for the working poor and boosting the possibility of falling into the unemployment trap. However, the effects of housing allowance provision on the work incentive are different for various family groups.

Table 4.14 Changes in Income Replacement Ratio by Housing Allowance in the UK (%)

Total tenant with HA (Working-aged & Employed)		IRR1 (without HA)	IRR2 (with HA)	Absolute change IRR1-IRR2 (%p)	Relative change IRR1-IRR2 (%)
Mean	%(N)	69.3	90.1	20.8	39.2
Total	100.0(339)				
Income Quintiles					
1stQ (low Y)	20.1(68)	60.0	86.8	26.8	56.4
2ndQ	20.1(68)	73.2	91.7	18.5	32.0
3rdQ	19.8(67)	74.8	91.7	16.8	30.3
4thQ	20.4(69)	71.7	91.1	19.4	33.9
5thQ (high Y)	19.8(67)	66.9	89.5	22.6	43.5
	(F)	(7.307***)	(7.182***)	(6.997***)	(6.358)
Household Composition					
No children	23.9(81)	55.6	85.1	29.5	67.2
With children	76.1(258)	73.6	91.7	18.1	30.4
	(t)	(-8.185***)	(-8.648***)	(7.657***)	(6.523***)
Tenant Tenure					
Public housing	26.8(91)	79.0	93.1	14.1	21.6
Housing association	26.0(88)	71.0	90.4	19.4	36.6
Private	47.2(160)	62.9	88.3	25.4	50.6
	(F)	(24.384***)	(16.466***)	(27.636***)	(20.590***)
Employment Status					
All in work	67.6(229)	68.5	90.0	21.5	41.9
Some in work	32.4(110)	71.0	90.5	19.4	33.6
	(t)	(-1.213)	(-0.636)	(1.478)	(2.196*)

Source: Family Resources Survey 2006-07, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively.

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

Among the various income groups of the working poor receiving housing allowances, the possibility of the unemployment trap is higher for the middle income quintile groups compared to other income groups, as indicated by their higher IRR. However, the receipt of housing allowance increases IRRs of these middle-income groups less than those of other income groups, although the provision of housing allowance increases IRR across all working households receiving housing allowances. Therefore, the provision of housing allowances has less negative effects on increasing work disincentives for the middle-income groups compared to the lowest- or higher-income groups among the working poor receiving housing allowances. Concerning the middle-income households, the housing

allowance provision helps them maintain their income and is less likely to disturb their welfare-to-work transition compared to other income groups. However, whilst the potential of choosing unemployment is limited for the lowest- and the highest-income households, the housing allowance has greater negative effects on the increase in work disincentives because the housing allowance supplements the income better if they give their earnings up. Therefore, although the housing allowance is implemented as part of in-work benefits, the recipients' situations regarding work incentives could vary according to their income level.

Household Composition

The working-poor families with children obtain fewer financial incentives to retain their employment position compared to the working-poor families without children. When both households are unemployed, families with children can maintain their income at 73.6% of the current employed status whereas families without children can maintain their income at 55.6% of the current income. This is because the IRR is related to the feature of the social security system that provides different kinds of benefits or varied benefit rates across family types. However, the housing allowance contributes to greater changes in absolute and relative IRR of households without children compared to households with children. Thus, the housing allowance is associated with greater negative effects on the incentive for being employed for households with fewer financial advantages from the benefits system (e.g. single adults rather than families with children). Therefore, due to the increased possibility of choosing unemployment for families without children, the importance of housing allowance programme might be placed on the income supplement function rather than financial rewards encouraging households' welfare-to-work transition for these families.

Tenant Tenure

Among different tenancy groups, the incentive to keep employed is larger for the private tenants than non-private tenants. Although working private tenants could maintain 63% or 88% of their current income while unemployed, other tenants could maintain a greater portion of their income. Therefore, the incentive for the working poor to maintain their jobs is greater for private housing tenants than for social housing tenants. However, the changes in the IRRs by housing allowance are bigger for the private tenants (25.4%p) than for other types of tenants (14.1%p and 19.4%p, respectively). These results indicate that the receipt of housing allowance is more related to increased work incentives for the

private tenants than for others. If the working poor were unemployed, a housing allowance would be of greater importance to the private tenants compared to the other tenant types in the dualist rental structure such as the UK.

Employment Status

Although there are differences in the employment types and the number of workers in a family, all working households experience a similar possibility of being trapped in the unemployment trap (i.e. similar IRRs), regardless of the receipt of housing allowance. The housing allowance contributes to the increase in IRRs due to its income support function. However, no differences exist in IRRs or absolute changes in IRRs between the two different working groups, even though the relative changes are bigger for households where all adults work than for households where only some of the adults work. Therefore, the extent to which the housing allowance increases the possibility of the unemployment trap is not different for households with varied employment states.

The housing allowance provision is related to the reduction of financial incentive to work for the working poor, although it works well as an income supplement for housing cost expenditures in the UK. In addition, the changes in IRR by housing allowance are more severe for the households with lower IRR compared to other types of households. Although the households facing lower work disincentive are more likely to move out of the welfare dependency, the provision of housing allowance as in-work benefit could be a negative factor in their welfare-to-work transition. In this respect, the result indicates that the positive (income maintenance) and negative (the relationship with IRR increase) aspects of housing allowance have to be considered together within the welfare-to-work system.

4.3.3.2 Effective Marginal Tax Rate: Poverty Trap

As Table 4.15 demonstrates, the housing allowance provision is related to the increase in the EMTR, i.e. the more possibility of being trapped in poverty for the working poor or the unemployed even when they increase their labour participation. The extent to which they could take the financial benefit from increased income could decrease. Therefore, the receipt of housing allowance is likely to negatively relate to the work incentive for the welfare-to-work transition or the independence from welfare. Moreover, there are differences across the characteristics of families in the UK in work incentives when low-

income households receiving housing allowance participate more actively in the labour market.

Table 4.15 Changes in Effective Marginal Tax Rate by Housing Allowance in the UK (%)

Total tenant with HA (Working-aged)		EMTR1 (without HA)	EMTR2 (with HA)	Absolute change EMTR1-EMTR2 (%p)	Relative change EMTR1-EMTR2 (%)
Mean	%(N)	47.1	54.5	7.4	24.8
Total	100.0(1,886)				
Income Quintiles					
1stQ (low Y)	20.0(377)	7.7	8.4	0.7	3.2
2ndQ	20.0(378)	38.9	43.6	4.7	19.0
3rdQ	20.0(377)	57.7	64.5	6.8	25.1
4thQ	20.0(377)	66.0	76.1	10.1	33.3
5thQ (high Y)	20.0(377)	65.1	80.0	14.9	43.4
	(F)	(156.667***)	(250.038***)	(45.390***)	(24.628***)
Household Composition					
No children	34.8(657)	23.5	30.8	7.3	25.2
With children	65.2(1,229)	59.7	67.2	7.5	24.6
	(t)	(-20.680***)	(-19.240***)	(-0.148)	(0.182)
Tenant Tenure					
Public housing	40.1(756)	47.9	52.4	4.6	17.1
Housing association	30.3(572)	47.4	53.3	5.9	20.6
Private	29.6(558)	45.7	58.5	12.8	39.5
	(F)	(0.400)	(3.285*)	(46.819***)	(24.473***)
Employment Status					
Unemployed	67.4(1,271)	48.8	49.7	0.9	3.2
Employed	32.6(615)	43.5	64.4	20.9	69.4
	(t)	(2.699**)	(-7.430***)	(-22.715***)	(-19.119***)

Source: Family Resources Survey 2006-07, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively.

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

Among the working-poor tenants with different incomes, the possibility of remaining in poverty after increasing labour participation is relatively low for the lowest-income groups, although they experience more severe poverty problems compared to other types of tenants. This is because the lowest-income households could have a higher take-home pay compared to other higher-income groups, as indicated by the lowest EMTR for the lowest-income households. Therefore, although they might experience greater income problems compared to higher-income groups, the incentive to work in order to escape from poverty could be stronger for the lowest-income household than others. Yet although the higher-income households receiving housing allowances have relatively fewer poverty problems compared to the lowest-income households, the incentive to increase the labour participation of other higher-income groups is lower. Moreover, the housing allowance

provision contributes more to the increase in the EMTR for the higher-income than the lowest-income beneficiaries. Therefore, concerning households intending to increase their labour participation with different incomes, the provision of housing allowance could result in different results among households; in particular, it could be better for the worse-off households.

Household Composition

Regardless of the housing allowance receipt, the work incentive is smaller for families with children than for childless families. As the EMTR is higher for families with children compared to other families, the low-income families with children could take a relatively smaller portion of their increased income home compared to families without children. Therefore, if they increase their works or get a new job in the labour market, the possibility of remaining in poverty is likely to be higher for households with children than for households without children. However, the potential effect of the housing allowance receipt on the work incentive change might be similar for a family with and without children as both the absolute and relative changes in EMTR are similar across families. Therefore, when the welfare policy intends to expand the welfare-to-work transition for all families, the provision of housing allowance itself could be less effective in achieving this goal for a family with children than a family without children.

Tenant Tenure

Although the EMTRs are similar for the three tenant groups before housing allowance receipt, the EMTR after the housing allowance receipt is higher for private housing tenants compared to others. Therefore, the housing allowance provision could change the work disincentive to various degrees across tenure types in the UK. As such the private housing tenants are likely to take relatively fewer shares of their increased income obtained by the additional labour participation compared to other tenants. On the contrary, the housing allowance is less likely to influence the movement from the current employment or unemployment to the more active participation in the labour market for the social housing tenants compared to private housing tenants. Therefore, the provision of housing allowance could be differentiated by considering this difference in order to increase the effectiveness of the in-work benefit for income maintenance as well as welfare-to-work participation for all tenancy groups.

Employment Status

Markedly, both working and workless households experience different possibilities of the poverty trap according to the receipt of housing allowance. If the housing allowance is not provided, the unemployed who newly entered the labour market are likely to take more earnings home compared to the employed recipients who increase their work participation. However, when both households receive housing allowances, there are reductions in work incentives for the working households due to the greatest absolute changes in EMTR (20.9%, see Table 4.15). On the contrary, the provision of housing allowance might not have an impact on work disincentive changes for the unemployed recipients when they enter the labour market. Concerning the working household, this is the undesirable result because the growth in labour participation increases the potential of being (still) in poverty. However, considering the workless households who intend to enter the labour market, the receipt of housing allowance could help ease their income poverty, but it also has a few negative effects on work incentives. Therefore, it is helpful to consider this varying importance of the housing allowance on work incentives in the welfare system.

Although the housing allowance system aims to improve income maintenance through the housing cost support to the low-income household, it also has a negative effect on encouraging the work incentive for the poor family's welfare-to-work transition. However, the effect of the housing allowance provision on the extent to which the work incentive declines or the work disincentive inclines differs for various family groups receiving the housing allowance. In this respect the various housing allowance effects, particularly the negative effects that decrease work incentives, need to be considered in order to enhance the effectiveness of the entire welfare-to-work system in the UK.

4.4 Summary

In the UK, the effectiveness of the housing allowance has made positive progress for social and housing policy objectives. The effectiveness of housing allowances differs according to the households' original income and rent payment as well as the extent to which their rent payments are reduced by the receipt of housing allowance. Both original income and rent cost expenditures relate to the household's features while the reduced extent of the

housing cost burden concerns the way in which the housing allowance design considers the different features of the households.

As seen in this chapter, the improvement in income maintenance and housing affordability provides a more financial reward to lower-income tenants, unemployed tenants and social housing tenants receiving the housing allowance. Considering their lower incomes, the social security benefit entitlement is more likely to affect the housing allowance provision at the maximum rate. Moreover, the UK HB makes an allowance for rent payments at a considerable level (the full award for eligible rent up to the benefit cap) for social security benefit recipients because there are no other social security benefits making allowances for rent payments. These factors could contribute to a greater reduction in their financial burden for rent payments. However, it is also noted that the housing allowance provision is less effective in reducing the poverty rate of households that face more severe poverty. Furthermore, the recent changes in the UK's HB rules as part of welfare reform would make the housing allowance less effective as income support for low-income tenants due to the restriction of the HB provision (e.g. lowering benefit rates and fixed benefit caps) in the current economic downturn.

Apart from the improvement in the households' economic state after the rent payment, the provision of the housing allowance could cause problems related to the welfare-to-work transition by increasing the work disincentive. In particular, the household groups with more changes in their work disincentives are lower-income households and private housing tenants, which are likely to be more vulnerable households in the housing market. On the contrary, there are household groups for which the housing allowance has little or no effect on their work disincentives, e.g. middle-income households, families with children and non-private housing tenants; these households experience greater work disincentives compared to other types of households, regardless of the housing allowance receipt. As such the housing allowance provision is not likely to be an attractive option for all households that are able to work and encouraged to participate in the labour market by the social security programme.

However, while the welfare beneficiaries face different work incentives, the same taper rate of 65% on income will be applied under the Universal Credit starting this year. In this case, the work incentive will be similar across all household types. However, non-financial

factors affecting the welfare-to-work transition of low-income households needs to be considered in the welfare system in order to facilitate this transition.

Based on the analysis in this chapter, I conclude that the UK housing allowance for tenants can effectively improve income maintenance and housing affordability; its benefit rules relate to these changes. However, in terms of the welfare-to-work transition, the housing allowance could have a negative effect on certain beneficiaries, particularly those who have a more significant demand for housing allowance under a dualist housing system in the credit crunch, (i.e. private housing tenants).

Chapter 5. The Effectiveness of Housing Allowance for Tenants in the Netherlands

Introduction

As a housing policy instrument, the Dutch housing allowance is closely connected to the operation of the national rental housing policy since the 1970s. With this rent subsidy scheme, the Dutch government aims to improve housing affordability for low-income tenants. Yet the government also emphasises individual households' responsibility for housing cost payments. In this chapter, I will explore the formation of the current housing allowance system in the Netherlands. I will then address the compositional and operational features of the Dutch housing allowance. Finally, as the main analysis of the housing allowance effectiveness, I will examine the effects of housing allowance on income maintenance, housing affordability and work incentives for low-income tenants.

5.1. The Development of National Support for Housing Costs in the Netherlands

The development of this housing allowance is connected to changes in the national housing policy of the Netherlands. The Dutch government's housing policy has been concerned with supplying affordable housing for vulnerable households with low income and social needs (Ministry of Infrastructure and the Environment, former VROM¹³). As McCrone and Stephens (1995) pointed out, the Netherlands' national characteristics—the small size of the country with the second highest population density in the OECD countries (OECD, 2009)—are related to the government's continuous and assertive intervention in the national housing market. In the Netherlands, the housing allowance has played an important role in improving the low-income household's affordability for new or good-quality housing. Moreover, it also contributed to protecting poor families from living separately due to their lower housing affordability compared to their housing needs arising from household size (Priemus & Elsinga, 2007). However, the Dutch housing policy

¹³ In 2010, the Ministry of Housing, Spatial Planning and Environment (VROM) was merged with the Ministry of Transport, Public Works and Water Management to become the Ministry of Infrastructure and the Environment.

focused primarily on the shortage of housing and the rent subsidy programme was introduced later compared to the start of other housing policy instruments.

Like other countries, the Dutch government focused on solving its housing shortage problem after WWII and intervened in the housing market with a strong rent price control system. However, the government's price control in housing market discouraged new housing construction. Therefore, the Dutch government started to provide subsidies for housing building construction. As a result, housing subsidies for building construction were the main instrument of the housing policy and the social rental housing were supplied at a large scale after WWII (Priemus & Elsinga, 2007; Haffner & Boumeester, 2010). Social rental housing still plays an important role in the Dutch housing system for low-income households, constituting 33% of the total housing stock and 75% of the total rental housing stock in 2010 (Statistics Netherlands, 2011).

However, in the 1960s, the government's housing policy faced criticism concerning the excessive public spending on housing-related expenditures and its negative effect on the housing market formation. Therefore, the Dutch government reformed the national housing policy toward liberalisation (Priemus & Elsinga, 2007; Haffner & Boumeester, 2010). Through the housing policy reform, the equalised government housing construction subsidies were provided to both social and private rental housing sectors. The strong national regulation of the rent price was relieved in 1967, which resulted in rent cost increases. As a result, a discussion of the new form of housing subsidy—that is, rent allowance, which is provided to individual households with needs for housing according to their income level—was introduced in politics (Priemus & Elsinga, 2007).

With the positive response to this new housing subsidy, the government's housing costs support has gradually shifted from 'bricks and mortar' subsidies to demand-side housing subsidies. The initial housing allowance scheme was introduced in 1970 to enhance the housing affordability of lower-income households suffering from the increase in rent cost following the liberalisation of the housing policy (Haffner & Boumeester, 2010). Initially, this rent subsidy was regarded as a supplementary measure in the housing policy, which was designed to fill the gap between the low-income renters' affordability and their rent payments. This housing allowance for tenants was soon developed into an entitlement benefit in 1975 (Priemus, 2004).

Following the shift towards liberalisation in the 1970s, the Dutch government introduced its ‘housing valuation system’ in order to determine a reasonable rent level for an independent dwelling.¹⁴ This system is also called a ‘rent point system’ because the value points are used to rate the rent price while considering different quality aspects of a dwelling.¹⁵ For example, a dwelling in the Netherlands of 131 points corresponds to a monthly rent of about €570 in 2006 (VROM). Generally, the level of maximum rent calculated with the value point of this system is likely to be different from the actual rent price in the market. However, this results in a rent cap, which the property owners can charge to their tenants. According to the rules of this system, dwellings with more than a certain value points and higher rents exceeding a limit (€615.01 in 2006) could be ‘liberalised’, thereby no longer being subject to the government’s rent regulation. In 2006, dwellings with monthly rents up to €615.01, accounting for 95% of total rental stock, were regulated by the central government while the remaining 5% of total rental stock for which rent prices exceeded this ‘liberalisation limit’ were considered as liberalised (VROM). In 2011, the maximum rent for social housing was €652.52 monthly¹⁶; however, housing costs in the private sector were higher (Government of the Netherlands¹⁷).

Throughout the 1980s, the economic recession and the government’s budget cuts resulted in the ‘retrenchment’ of the housing allowance scheme (Priemus & Elsinga, 2007). Until the mid 1980s, the scheme was calculated based on the ratio of the fixed standard rent to different levels of households’ taxable income. However, this rule was criticised for its lack of flexibility in terms of government budget spending; therefore, the government replaced the benefit calculation rule with a new benefit rule calculated with the household income after deducting the net housing expenditures in order to reflect the household’s actual housing affordability, which reduced the expansion of housing expenditures by the government (Priemus & Elsinga, 2007).

¹⁴ An independent dwelling is a dwelling with its own main entrance that can be occupied without being dependent on substantial amenities outside the dwelling (VROM).

¹⁵ The aspects of the dwelling concerned are as follows: (1) surface of the rooms (including bathrooms and kitchens), (2) size of other spaces (including attics, back-kitchens, garages), (3) central heating, (4) insulation, (5) size of kitchen sink, (6) sanitary facilities, (7) facilities for physical handicaps, (8) private external spaces, (9) type of dwelling; (10) locational aspects of the dwelling (including vicinity of public green spaces, play facilities, parking facilities, schools, shops, etc.), (11) inconvenient circumstances (such as noise hindrance, serious dereliction of the neighbourhood; soil and air pollution) and (12) services offered in the dwelling (such as alarm installation, provision of meals by the landlord, use of recreational rooms) (VROM).

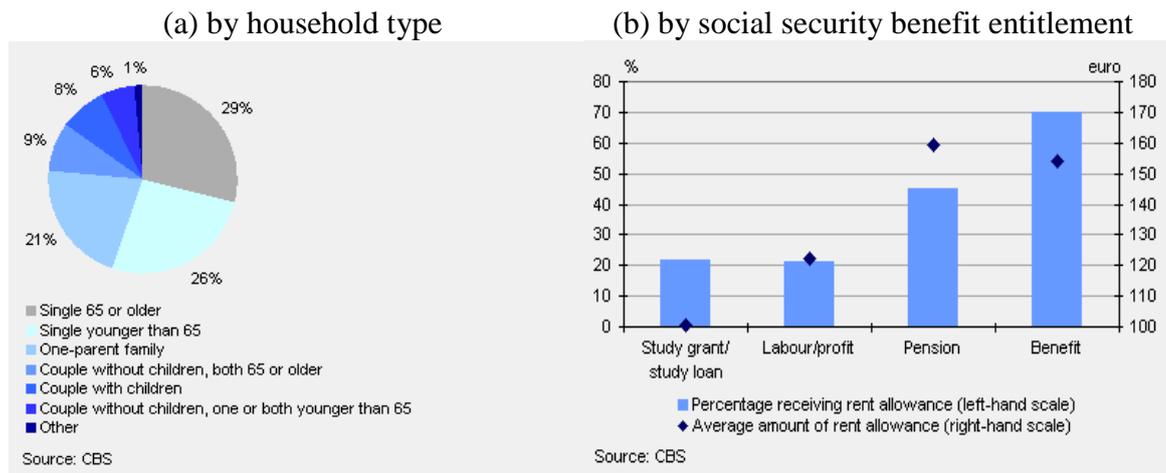
¹⁶ This limit was also used as the eligible maximum rent payment for housing allowance entitlement in 2011.

¹⁷ www.rijksoverheid.nl.

In the 1990s, although the central government still administered the rent regulation, it allowed social housing providers, such as housing associations, to differentiate the annual rent charges. Moreover, the politicians intended to raise the rents to the level of market rents. However, as the gap between the rent price and the lack of the low-income households' housing affordability could be filled with the housing allowance, the Dutch housing allowance scheme played a more important role within the country's housing policy, (Priemus & Elsinga, 2007; Haffner & Boumeester, 2010; Priemus, 2004; Priemus *et al.*, 2005). Furthermore, the new Housing Allowance Act introduced the reduction of households' own contribution to housing cost payments from 55% to 25% of total housing costs when tenants move to a more expensive, better quality dwelling than their current home (Priemus, 1998, 2002).

Currently, the same benefit scheme is applied to all low-income tenant households, regardless of their tenancy types (Priemus & Elsinga, 2007; Haffner & Boumeester, 2010). The household's income and family composition are importantly considered because the extent to which the housing allowance subsidises the housing cost is determined according to these two features of a household. In 2008, the number of tenant households receiving housing allowance was around one million, accounting for 30% of all tenant households in the Netherlands. Most allowance recipients were single-adult households: The shares of the single-adult (55%) and single-parent (26%) households were much higher compared to couple-adult households. Regarding the social security benefit entitlement of the Dutch housing allowance recipients, 70% of tenant households received income support, unemployment or disability benefits and 45% of tenant pensioners received housing allowances. The housing allowance expenditure and the average housing allowance (€159 per month) were higher for pensioners than for households receiving other social security benefits. The average provision of housing allowance in 2008 was €145 per month (Statistics Netherlands, 2010).

Figure 5.1 Housing Allowance Recipients in the Netherlands (2008)



Source: Statistics Netherlands (2010).

5.2 The Design of Housing Allowance for Tenants in the Netherlands

The Dutch housing allowance scheme adopts a ‘gap’ approach for the housing allowance provision, meaning the system requires its beneficiaries to contribute to their rent payment with their income to a certain degree (Ditch *et al.*, 2001; Kemp, 2000a). The remaining of the actual housing cost is then subsidised by housing allowance at a level above the self-contribution standard up to the maximum cost limit. The subsidisation rates and maximum limits of housing costs vary according to family features. The range of housing cost limits differs according to the number of family member and household composition.

First, the self-contribution standard known as ‘standard rent’, which is the part of housing costs for which the low-income household itself must pay, is calculated. Although the standard rent table released by the government was used prior to 2008 to calculate the required contribution of the beneficiaries to their rent, the standard rent has been calculated by considering individual households’ income since 2008. As Table 5.1 indicates, the pre-2008 standard rent was set at a lower level for households with smaller incomes than for higher-income households, irrespective of household types. Moreover, the income standard and standard rent level were more generous for households aged 65 years old or more than working-aged households. Therefore, these households are likely to have lower self-contributions to rent payments than others.

Table 5.1 Standard Rent Table by Household Type and Income in the Netherlands (€, 2007)

Household Type	Minimum		Maximum	
	Income	Standard rent (monthly)	Income	Standard rent (monthly)
Single aged <65	up to 14,425.00	202.95	20,076.00 - 20,300.00	382.82
Two or more people aged <65	up to 18,500.00	202.95	27,451.00 - 27,575.00	423.93
Single aged >=65	up to 14,225.00	201.13	17,826.00 - 18,250.00	358.80
Two or more people aged >=65	up to 18,375.00	199.32	24,076.00 - 24,275.00	384.08

Source: OECD Benefits and Wages: Country Specific Information internet site, the Netherlands country chapter (2007).

(<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>).

Since 2008, the amount of standard rent (i.e. the household's self-contributions to rent payments) has been calculated based on the household's income and household composition using the following formula:

$$\text{Standard rent} = a*Y*Y + b*Y \quad (Y = \text{household taxable income})$$

The different coefficients *a* and *b* are applied according to household types as indicated in Table 5.2. With this rule, lower-income and elderly households benefit because their lower incomes and the smaller coefficients of the standard rent formula will result in a smaller standard rent (i.e. a lower self-contribution for housing costs). The minimum standard rent in 2010 was €205.74 for households with two or more persons aged 65 or older, €207.55 for single households aged 65 or older and €209.37 for single or more person households aged below 65.¹⁸

Table 5.2 Standard Rent Formula Coefficients by Household Type in the Netherlands (2008)

Household Type	<i>a</i>	<i>b</i>
Single aged <65	0.00000811353	0.000891346453
Two or more people aged <65	0.00000468962	0.001198428415
Single aged >65	0.000001377834	-0.006924833530
Two or more people aged >65	0.00000799752	-0.005006518373

Source: OECD Benefits and Wages: Country Specific Information internet site, the Netherlands country chapter (2008), p.12.

(<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>).

The rent payment above this 'standard rent' is regarded as the eligible rent for housing allowance and the eligible rent is subsidised up to the maximum subsidisation limit with

¹⁸ For the table of standard rent before 2008 and the standard rent formula after 2008, see OECD Benefits and Wages: Country Specific Information internet site, the Netherlands country chapter of different years. (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>).

different subsidisation rates: The rent above the standard rent is to be subsidised at 100%, 75% and 50% of each housing cost range below the different highest limits according to family composition, as shown in Figure 5.2.

Figure 5.2 Housing Cost Subsidisation Rates by Household Type in the Netherlands (2010)

Up to € 647.53 Max. rent for HA (cap for single or special need)	50%	0%	0%	50%
	75%	75%	Up to € 548.18 75%	75%
	100%	100%	100%	100%
	0% self-contribution	0% self-contribution	0% self-contribution	0% self-contribution
Up to € 511.50 (cap for general household)				
Up to € 357.37 Quality allowance limit				
Up to Standard rent of each household				
Eligible housing cost limit	Single-person household	Two-person household	3+person household	Household with the elderly or the disabled

Note: The figure replicates Figure 1 in Priemus (1998) p.325. For the subsidisation rates and eligible cost limits of the Dutch housing allowance, see OECD Benefits and Wages: Country Specific Information internet site, the Netherlands country chapter in 2010. (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountriespecificinformation.htm>).

The first subsidisation range starts from the standard rent up to ‘quality allowance limit’ fixed at € 357.37 per month in 2010. The difference between the standard rent of each household and quality allowance limit is paid completely (100%) by the housing allowance. The next subsidisation range is from the quality allowance limit up to the benefit cap. For this range, the housing costs are subsidised at 75%. The upper limit of this range is €511.50 for one- or two-person households and €548.18 for households with three people or more per month. However, although no additional subsidisation for housing costs exists above this range limit for households with two people or households without the elderly or the disabled, single-adult households or households with the elderly or disabled could receive additional subsidisation for housing costs above this range. The housing costs above this range up to the maximum rent for housing allowance (€647.53 per month) is to

be paid at 50% (OECD Benefits and Wages Country Specific Information internet site¹⁹; Priemus, 1998; Haffner & Boumeester, 2010).

Therefore, the feature of the Dutch housing allowance for the low-income tenants could be summarised as having a ‘gap’ structure and reflecting various household incomes and family characteristics for the institutional arrangements of housing allowance system. For this feature, the rule of the Dutch housing allowance system differentiates individual households’ financial contribution to housing costs by household income and composition. Therefore, it can provide greater income supplement for socially vulnerable households (e.g. low-income, the elderly or the disabled). Moreover, due to the higher subsidisation rates for the lower housing costs, it can provide a more shopping incentive for low-rent housing.

5.3 The Analysis of Housing Allowance Effects on Tenants in the Netherlands

In this section, I examine the effectiveness of the Dutch housing allowance for income maintenance, housing affordability and work incentives for low-income tenant households. As in Chapter 4, the effects of housing allowances will be evaluated based on the consideration of households’ features using various indicators.

¹⁹ <http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>.

Table 5.3 Indicators of Housing Allowance Effectiveness in Section 5.3

Section	Indicator	Definition
5.3.1	Income maintenance	
5.3.1.1	1. Residual income after housing cost expenditures	Residual Y1: Paying rent without HA Residual Y2: Paying rent with HA
5.3.1.2	2. Poverty Rate (PR) (poverty line: 60% of the national median income)	PR1: Before paying rent & receiving HA PR2: After paying rent without HA PR3: After paying rent with HA
5.3.2	Housing affordability	
	Rent to Income Ratio (RIR)	RIR1 : Paying rent without HA RIR2 : Paying rent with HA
5.3.3	Work incentive	
5.3.3.1	1. Income Replacement Ratio (IRR)= $\frac{\text{Household net income when unemployed}}{\text{Household net income when employed}}$	IRR1: Income excluding HA IRR2: Income including HA
5.3.3.2	2. Effective Marginal Tax Rate (EMTR) = $1 - \frac{\text{Change in household net income}}{\text{Change in household gross income by 1 income unit}}$	EMTR1: Income excluding HA EMTR2: Income including HA

Note: Y and HA stand for household net income and housing allowance respectively.

The analysis of the Dutch housing allowance effect is limited to the tenant household. This research used households' information from 'Housing Research in the Netherlands (WoON) 2006' for the analysis. In the Netherlands, tenant households are eligible for the housing allowance; thus, they are the target of the analysis (size=7,124). Moreover, as stated in Chapter 3, the rule applied for the analysis in Section 5.2 is not the current rule of the Dutch housing allowance system, but the benefit rule of the reference year of the WoOn 2006 survey. Therefore, for instance, the old 'standard rent' table released by the government is used for the analysis. Furthermore, it should be noted that the Dutch housing allowance recipient used in this analysis are the lower-income households in the population, even some of them are described as the higher-income group in this section.

On average, the Dutch housing allowance recipients who are all tenants receive €1,684 of the annual housing allowances, which subsidises 36% of their gross rent payments.

Table 5.4 Income, Rents and Housing Allowance of Tenant Recipients in the Netherlands (€, 2006 price)

Total tenant with HA		Annual HH income	Annual HA	Annual rents	HA÷rents (%)
Mean	%(N)	12,247.52	1,684.43	4,638.75	36.0
Total	100.0(7,124)				
Income Quintiles					
1st Q (low Y)	20.0(1,425)	9,215.04	1,525.19	4,280.10	34.3
2nd Q	20.0(1,424)	11,062.55	1,639.21	4,379.79	36.9
3rd Q	20.0(1,426)	12,202.17	1,762.43	4,624.48	37.9
4th Q	20.0(1,425)	13,392.33	1,738.57	4,777.66	36.3
5th Q (high Y)	20.0(1,424)	15,366.87	1,756.71	5,131.88	34.3
	(F)	(15,623.571***)	(28.059***)	(153.132***)	(21.811***)
Household Composition					
No Children	29.3(2,088)	11,840.72	1,399.13	4,213.15	32.8
With Children	28.9(2,061)	11,281.11	1,910.47	4,893.16	38.9
Pensioner	41.8(2,975)	13,202.53	1,728.06	4,761.20	36.2
	(F)	(604.405***)	(282.377***)	(257.707***)	(117.189***)
Tenant Tenure					
Public housing	0.4(32)	12,473.85	1,525.50	4,711.22	32.3
Housing association or Co-op	93.5(6,662)	12,207.16	1,681.26	4,626.60	36.0
Private	6.0(430)	12,855.95	1,745.27	4,821.61	35.5
	(F)	(17.888***)	(2.299)	(6.722**)	(1.554)
Employment Status					
Unemployed	76.6(5,454)	12,226.41	1,707.78	4,630.44	36.5
Employed	23.4(1,670)	12,316.46	1,608.18	4,665.89	34.1
	(t)	(-1.467)	(4.667***)	(-1.118)	(6.534***)

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HH, HA and Y stand for household, housing allowance and household net income respectively. Co-op stands for co-operative housing. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Like other countries, the Dutch housing allowance recipients are more likely to live in poverty compared to households not receiving the housing allowance. Table 5.5 shows that the poverty rates were higher for housing allowance recipients than for housing allowance non-recipients, even when housing allowances were paid to the beneficiaries in order to subsidise their housing costs.

Table 5.5 Poverty Rates before and after Housing Cost Expenditures in the Netherlands (%)

Poverty lines	Total household (owner+tenant) (N=48,844)		Household without HA (owner+tenant) (N=41,720)		Household with HA (tenant only) (N=7,124)	
	before HC	after HC	before HC	after HC	bf.HA&HC	bf.HAaf.HC
40% of median	0.8	10.8	0.6	7.9	2.2	56.8
50% of median	3.1	21.9	1.5	15.0	11.9	84.5
60% of median	10.0	34.4	4.2	25.2	44.0	95.8

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HC and HA stand for housing costs and housing allowance respectively.

Overall, the Dutch households (both housing allowance recipients and non-recipients) have faced a high (40% or more) ratio of housing cost expenditures to household income. Moreover, housing allowance recipients experience greater burdens associated with

housing cost payments if their housing costs are not subsidised by the housing allowance. Therefore, the quality of living could be lower after housing cost expenditures, especially for low-income households compared to others, although the Dutch government controls the rent price in the housing market.

Table 5.6 Financial Burden for Housing Cost Expenditures in the Netherlands (%)

Housing affordability measures	Total household (N=48,844)	Household without HA (N=41,720)	Household with HA (N=7,124)	<i>t</i>
Gross HC over Y	43.4	42.5	48.3	-13.959***
	Total tenant (N=20,929)	Tenant without HA (N=13,805)	Tenant with HA (N=7,124)	
Rent over Y	35.0	30.4	44.0	-69.68***

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HC, HA and Y stand for housing cost, housing allowance and household net income, respectively. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

5.3.1 Social Policy Object: Income Maintenance Improvement

Addressing the effects of the Dutch housing allowance on income maintenance, the extent to which household income after housing cost expenditures could be reserved by the receipt of housing allowance matters. We might expect that the housing allowance could help recipients maintain their household incomes to a certain degree, after rent payments. The improvement in income after housing cost payments could relieve low-income households' poverty. In this section, I will examine the effectiveness of housing allowance considering the changes in two indicators—residual income after rent and poverty rate—resulting from the housing allowance for tenant households (see Table 5.3).

5.3.1.1 Residual Income after Rents

The changes in the residual household income after gross rent payments have been used as an evaluation tool for the income support function of the housing allowance provision. On average, the residual income after rent payments increased from €7,146 to €8,498, which accounts for 21% of the relative change. It appears that the Dutch housing allowance plays a role in maintaining the income of the poor household to a certain degree. However, the results showed differences in the effect of housing allowance provision as income support according to households' features.

Table 5.7 Changes in Residual Income after Rents by Housing Allowance in the Netherlands (€, 2006 price)

Total tenant with HA		Residual income after rents		Absolute change (€)	Relative change (%)
		without HA	with HA		
Mean	%(N)	7,146.15	8,498.84	1,352.69	21.3
Total	100.0(7,124)				
Income Quintiles					
1st Q (low Y)	20.0(1,425)	5,519.35	6,455.25	935.89	18.8
2nd Q	20.0(1,424)	6,259.91	7,560.21	1,300.31	23.0
3rd Q	20.0(1,426)	6,846.72	8,325.06	1,478.34	24.1
4th Q	20.0(1,425)	7,820.46	9,317.18	1,496.72	21.7
5th Q (high Y)	20.0(1,424)	9,285.41	10,837.59	1,552.18	18.7
	(F)	(1,394.692***)	(3,250.758***)	(247.249***)	(52.506***)
Household Composition					
No children	29.3(2,088)	6,690.42	7,973.39	1,282.97	22.0
With children	28.9(2,061)	7,174.96	8,331.92	1,156.96	18.1
Pensioner	41.8(2,975)	7,446.05	8,983.25	1,537.21	22.9
	(F)	(92.610***)	(202.542***)	(245.378***)	(92.825***)
Tenant Tenure					
Public housing	0.4(32)	7,597.18	8,763.67	1,166.49	16.3
Housing association or Co-op	93.5(6,662)	7,133.74	8,479.71	1,345.96	21.2
Private	6.0(430)	7,304.83	8,775.50	1,470.66	22.6
	(F)	(2.359)	(5.417**)	(8.939***)	(4.770**)
Employment Status					
Unemployed	76.6(5,454)	6,926.61	8,349.02	1,422.41	22.7
Employed	23.4(1,670)	7,863.15	8,988.14	1,124.99	16.5
	(t)	(-14.975***)	(-10.614***)	(18.287***)	(19.066***)

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively. Co-op stands for co-operative housing. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

Regardless of the benefit rule change in 2008 for the standard rent, the Dutch housing allowance system requires lower-income households to contribute smaller housing costs to their rents compared to higher-income households. However, among the Dutch housing allowance recipients, the absolute change in residual income after housing costs by the receipt of housing allowance is bigger for higher-income households compared to lower-income households. In practice, higher-income households among the housing allowance recipients are likely to receive a greater housing allowance compared to lower-income households and their rents payment are larger compared to those of lower-income households, as Table 5.4 shows. However, the relative changes are better for the three middle-income groups (24.1%, 23% and 21.7%, respectively) compared to the highest- or the lowest-income groups. Yet the size of maximum housing allowance depends more on the household type than the level of income due to the different benefit caps according to family composition.

Household Composition

Under the Dutch housing allowance calculation rule (both before and after 2008), single households and households with the elderly or disabled benefit from the higher eligible housing cost standard. In practice, both absolute and relative changes in residual income after rent payments are better for the smaller household and household with pensioners who experience less financial burden for housing costs than households with children (see Table 5.4). Although the size of housing allowance itself is larger for the household with children than other households, the financial burden for housing costs payment is also more severe for families with children compared to other families. Therefore, it seems that the higher housing allowance provision might contribute little to the improvement of income problems after housing expenditures for families with children. In this respect, it is necessary to consider households' original financial burden for housing costs payment as well as the amount of housing allowance receipt for the result of income maintenance by different household types.

Tenant Tenure

As the Dutch housing allowance adopts the same benefit rules for all tenant tenure, tenant households with similar financial burdens for housing costs would receive equal housing allowances, if other conditions are not considered. This might be related to the unitary rental housing system in the Netherlands. In practice, the housing cost subsidisation ratios are similar (around 35%) across all tenant groups (see Table 5.4). However, both the absolute and relative changes in residual income after housing costs payment by the housing allowance are smaller for public housing tenants compared to other tenant households. Just focusing on this result, the housing allowance provision is more positively related to the improvement of income maintenance after housing cost expenditures for public housing tenants compared to other tenancy households. However, this might be due to the other family features. When household net income or housing costs differ, the discriminated improvement in residual incomes according to tenure types might be expected because the amounts of gross rent payments, housing allowance and household income are considered as a whole for the benefit arrangement.

Employment Status

As the Dutch housing allowance system is a means-tested benefit, its beneficiaries are economically vulnerable households, regardless of whether they have any earned incomes. Among housing allowance recipients, whilst both working and out-of-work households

have similar household incomes and housing costs payments, the extent to which their housing costs are subsidised by housing allowance is larger for unemployed households compared to employed households. This might be because of their other family features, such as family composition. As a result, unemployed households experience more absolute and relative increases in their residual incomes after rent through the housing allowance provision compared to employed households.

5.3.1.2 Poverty Rate

The concern is not merely the increase in residual income after housing cost expenditures by housing allowance receipt. The housing allowance recipients are the poor or the poorest households living in poverty and largely dependent on the welfare benefit. Moreover, even when the housing allowance beneficiaries have larger residual incomes after housing costs than the income before housing allowance receipt, their non-housing consumption opportunity would be limited more than those of the better-off households. In practice, the housing cost expenditures bring housing cost-related poverty for low-income households: The poverty rate after housing costs is higher than the poverty rate before housing costs for low-income tenant households (see Table 5.8). However, this poverty state could be relieved by the receipt of housing allowance. Indeed, the housing allowance provision accounted for 21% of the relative change in the residual income after rent payment, resulting in a relative decrease of 10% in poverty rates. Differences in poverty rate changes by housing allowance emerged according to various household features in the Netherlands.

Table 5.8 Changes in Poverty Rates by Housing Allowance in the Netherlands (%)

Poverty lines	60% of median income			Absolute change (%p) PR2-PR3	Relative change (%) PR2-PR3	
	PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC			
Total tenant with HA						
Mean	(%)	44.0	93.8	85.0	8.8	9.4
Total	100.0					
Income Quintiles						
1st Q (low Y)	20.0	100.0	100.0	100.0	0.0	0.0
2nd Q	20.0	84.5	100.0	99.9	0.1	0.1
3rd Q	20.0	32.9	99.9	98.9	1.1	1.1
4th Q	20.0	2.5	96.6	83.6	12.9	13.4
5th Q (high Y)	20.0	0.0	72.3	42.3	30.1	41.6
Household Composition						
No children	29.3	60.5	93.5	88.0	5.5	5.9
With children	28.9	58.1	90.9	82.4	8.5	9.3
Pensioner	41.8	22.6	96.0	84.6	11.4	11.8
Tenant Tenure						
Public	0.4	34.4	90.6	87.5	3.1	3.4
Housing association or Co-op	93.5	44.5	93.9	85.1	8.8	9.3
Private	6.0	36.3	92.3	82.1	10.2	11.1
Employment Status						
Unemployed	76.6	44.8	96.7	88.6	8.1	8.3
Employed	23.4	41.3	84.3	73.0	11.3	13.4

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HA, HC and Y stand for housing allowance, housing cost and household net income respectively. Co-op stands for co-operative housing. For poverty rates based on 40% and 50% of median income, see Table A.4 in Appendices.

PR1: poverty rate when housing allowance is not provided and before housing cost payments.

PR2: poverty rate when housing allowance is not provided and after housing cost payments.

PR3: poverty rate when housing allowance is provided and after housing cost payments.

Household Income Level

Overall, lower-income tenants receiving the housing allowance experience more serious poverty problems compared to higher-income tenants receiving the housing allowance even when households do not pay for housing costs (PR1). In addition, housing cost-related poverty seems to be severe for all tenants receiving the housing allowance; in particular, the poverty rate of the highest-income group increased sharply by more than 70% after rent payments without housing allowance. However, the poverty rates of higher-income groups have been reduced whereas the poverty rate of lower income-groups has changed little. This is because the improvement in residual income after housing cost was better for higher-income groups, whose income level is closer to the poverty threshold. Lower-income groups are at a disadvantage as their income poverty are more serious, but the changes in residual income after housing cost through housing allowance are less pronounced compared to higher-income groups. Therefore, the provision of the Dutch

housing allowance is more likely to help recipients with higher income escape from poverty and provide more resources for non-housing consumption after housing cost expenditures.

Household Composition

For all family types, the rent payment without housing allowance intensifies income problems, as the increase in poverty rates (from PR1 to PR2) indicates. Moreover, the rent cost expenditures without housing allowance triggers more severe housing cost-related poverty for the pensioner households compared to non-pensioner households. However, for both pensioner and non-pensioner households, the provision of housing allowance resulted in an increase in residual income after rents; this income increase is linked to the reduction in poverty rates. The poverty rate has decreased more for pensioners (11.4%p) than non-pensioners (8.5%p for family with children and 5.5%p for family without children). This result relates to greater changes in residual income after rents through the housing allowance provision for pensioners. In addition, as pensioners have greater incomes compared to non-pensioners, it is much easier for the Dutch pensioner households to escape poverty and they would live with more non-housing good consumption to meet the standard of living.

Tenant Tenure

The housing cost payments are associated with living in poverty for all tenant households receiving the housing allowance because the poverty rate increases after housing cost expenditures. However, housing cost-related poverty is more serious for housing association or co-operative housing tenants than for public and private housing households. Moreover, the provision of housing allowance is less effective for reducing the poverty rate after the housing cost for housing association or co-operative housing tenants: The changes in poverty rates are smaller for them than for public and private housing households. Both the absolute and relative reductions in poverty rate are larger for private housing tenants who have experienced greater improvement in residual income after housing costs through housing allowance. However, private housing tenants receiving the housing allowance have greater incomes compared to other tenants receiving the housing allowance. Therefore, private tenant households benefit most in the Dutch rental housing market. With the housing cost subsidisation, these households are likely to experience more improvements in housing cost-related poverty and have more income for non-housing consumption than others.

Employment Status

When the housing allowance is not provided to the tenants in a low-income household, the housing cost payments are likely to increase income problems for the unemployed because of their higher dependency on the housing allowance for housing cost payment (see Table 5.4). Although the housing allowance improves their poverty, the poverty rate is still higher for unemployed households. These households are more likely to remain in the lower-income group compared to working households. On the contrary, both the absolute and relative reductions in poverty rates are larger for employed households that experience less improvement in residual income after rent through the provision of housing allowance. Therefore, even though they receive the financial support for housing costs, which contributes to their income problems, it is easier for working households with higher income to be relieved from the financial burden for housing cost payments and have more opportunity for non-housing good consumption related to the quality of living.

Summary: Income Maintenance Improvement

The Dutch housing allowance made contributions to income maintenance for low-income tenants. However, among the Dutch housing allowance beneficiaries, lower-income households are less likely to experience greater improvements in their residual income after rents as well as poverty rates than higher-income households. Although their self-payment for rents might be lower than higher-income households, other factors (i.e. household type and actual rent costs) are also related to the results. Moreover, regardless of households' features, the receipt of the housing allowance is more effective for reducing poverty rates for households with higher income than households with lower income. Due to the significance of their original income poverty, it would not be easy to push their residual income after housing cost expenditures over the poverty line income even with financial subsidisation for housing costs.

5.3.2 Housing Policy Object: Housing Affordability Improvement

If the housing allowance system functions properly, the low-income household experiences a reduced financial burden for housing cost payments. In this respect, the result of income maintenance improvement in Section 5.3.1 indicates the effectiveness of the Dutch housing allowance as income support for housing costs. Another indicator presenting the financial burden on housing costs payment is the housing costs-to-income ratio (Rent to Income Ratio, RIR). As the housing allowance recipients are the poor or poorest households, their

financial resources for housing and non-housing consumption are more limited compared the better-off households. Therefore, the higher RIR also means more severe deprivation after housing cost payments for households living in poverty than for households not living in poverty. The Dutch housing allowance is likely to be effective for reducing housing affordability problems as the RIR of the housing allowance recipients fell from 44% to 27.7% with the housing allowance provision. However, the housing affordability problem still exists for low-income households receiving the housing allowance in the Netherlands.

Table 5.9 Changes in Rent to Income Ratio by Housing Allowance in the Netherlands (%)

Total tenant with HA		Rent to Income Ratio		Absolute change (%p)	Relative change (%)
		without HA	with HA		
Mean	%(N)	44.0	27.7	16.3	36.0
Total	100.0(7,124)				
Income Quintiles					
1st Q (low Y)	20.0(1,425)	53.2	33.9	19.3	34.3
2nd Q	20.0(1,424)	45.2	28.1	17.1	36.9
3rd Q	20.0(1,426)	43.4	26.7	16.8	37.9
4th Q	20.0(1,425)	40.5	25.5	15.0	36.3
5th Q (high Y)	20.0(1,424)	37.5	24.5	13.0	34.3
	(F)	(348.701***)	(291.034***)	(126.699***)	(21.811***)
Household Composition					
No children	29.3(2,088)	40.8	13.8	32.8	32.8
With children	28.9(2,061)	51.0	20.2	38.9	38.9
Pensioner	41.8(2,975)	41.3	15.2	36.2	36.2
	(F)	(468.641***)	(188.313***)	(395.763***)	(117.189***)
Tenant Tenure					
Public housing	0.4(32)	42.7	28.8	13.9	32.3
Housing association or Co-op	93.5(6,662)	44.0	27.7	16.3	36.0
Private	6.0(430)	43.5	27.5	15.9	35.5
	(F)	(0.509)	(0.374)	(1.711)	(1.554)
Employment Status					
Unemployed	76.6(5,454)	44.0	27.5	16.5	36.5
Employed	23.4(1,670)	43.8	28.3	15.5	34.1
	(t)	(0.480)	(-2.845**)	(3.874***)	(6.534***)

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively. Co-op stands for co-operative housing. RIR less than 20: A household does not have a housing affordability problem. RIR between 20 and 30: A household has a housing affordability problem. RIR over 30: A household has a severe housing affordability problem. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

The receipt of housing allowance reduced the low-income tenant households' financial burden for housing cost payments across all income groups. As Table 5.4 presented, the extent to which the housing allowance subsidises housing costs does not differ much across households. However, although the absolute reduction in RIR is greater for the lowest-income group, they still face more severe affordability problems associated with

housing costs (RIR over 30%) compared to others. In practice, the original RIR of the lowest-income group is higher than for other types of households. Concerning other income groups, the three middle-income groups have experienced greater relative reduction in RIR compared to the highest-income group as the extent to which housing allowance subsidises housing cost is better for these three groups than the higher-income group. Therefore, the housing allowance reduces the housing costs burden more effectively for the middle-income groups for whom housing costs are more subsidised by the housing allowance.

Household Composition

Without the housing allowance provision, the housing cost payment places a severe financial burden on both pensioner and non-pensioner households (RIR over 40%). Thus, the non-housing good consumption for living would be limited for them after housing cost expenditures. However, the receipt of the housing allowance decreases RIR for all households by more than half. Among the three family types, the effect of the housing allowance on RIR reduction is greater for families with children, for which both the absolute and relative decreases in RIR are higher. In terms of the income maintenance analysis (see Section 5.3.1), due to the higher financial burden for housing costs, the improvement in residual income after rents is lower for households with children compared to other households. However, when considering only the RIR change, the higher subsidisation of housing costs by housing allowance could reduce their RIR more than for childless households and pensioner households. Therefore, the Dutch housing allowance is likely to be more helpful and effective in improving the housing affordability of low-income families with children rather than other families.

Tenant Tenure

Regardless of tenancy types and the housing allowance receipt, the housing cost expenditures place a similar financial burden on three tenant groups, as there are no statistically significant differences in RIRs. However, all tenant groups faced a housing affordability problem even after they received housing allowances (RIR around 27-29%). Moreover, the findings indicated no significant differences in either the absolute or relative changes of RIR by the provision of housing allowance. Indeed, although differences exist in rent payments and the size of housing allowance provision among tenant groups, their housing costs are relatively similarly subsidised due to the same benefit rules for all tenancy types if other conditions are not considered.

Employment Status

The Dutch housing allowance contributes to the reduction of RIR for both the unemployed and the employed households, although both still have a housing affordability problem (RIR around 28%) when they receive housing allowances. The housing allowance is likely to reduce the financial burden for housing costs of workless rather than working households because the housing costs of the former is relatively more subsidised compared to the latter. Therefore, the improvement in RIR is better for out-of-work households than working households. Thus, the provision of housing allowance increases housing affordability more effectively for the unemployed than the employed among the low-income tenants receiving the housing allowance. However, as Section 5.3.1 demonstrated, the housing allowance leads to a lower poverty rate but greater changes in poverty rates for working households compared to workless households. Therefore, although the housing allowance is more likely to reduce RIR of unemployed households, they do not benefit from preserving financial resources for non-housing goods consumption. This finding is captured from using both residual income and ratio measures in order to evaluate the effectiveness of the housing allowance.

Based on these results one general point becomes clear: The Dutch housing allowances are likely to improve housing affordability problems by reducing financial burdens for housing costs. Moreover, the housing allowance is more effective for reducing this problem for households in which the housing cost subsidisation rate is higher. However, the Dutch housing allowance could not remove housing affordability problems from all households receiving the housing allowance. Some households still have problems affording their rents when the housing allowance subsidises their payments.

5.3.3 Housing Allowance as a Work Incentive or Disincentive Booster

The findings in Sections 5.3.1 and 5.3.2 indicate that the Dutch housing allowance focuses on solving low-income households' income and housing problems by subsidising housing costs. Regarding the working poor, housing allowance as in-work benefit allows them to manage their household budget, thereby reducing their resistance to participation in welfare-to-work programmes (Feeny *et al.*, 2012; Verma & Hendra, 2003; Van Ryzin *et al.*, 2003). However, as the income increase by the take-up of housing allowance supplements non-earned income, it decreases people's incentives to work. Moreover, as Kalb (2003) noted, the more generous income support benefit is related to the less work

incentives. Therefore, it is necessary to examine the extent to which the provision of housing allowances is associated with work incentive changes. Here, I examine two work disincentive indicators: the Income Replacement Ratio (IRR), which shows the potential of falling into the unemployment trap, and the Effective Marginal Tax Rate (EMTR), which indicates the possibility of being in the poverty trap (see Table 5.3).

These two indicators address different income and labour participation situations and the target of the analysis varies by each indicator. Among working-age households, only working households are included in the analysis of IRR while both working and workless households are included in the EMTR analysis (see Figure 3.2). Therefore, I will have more households (size=5,613) for the EMTR analysis than for the IRR analysis (size=1,846) of housing allowance recipients. The IRR and EMTR are calculated with the income changes based on the interaction between social security and tax contribution. The parameters and equations for income tax, tax credits and national insurance contributions of the Netherlands from OECD Taxing Wages Books (OECD, 2007, 2008b) and the Netherlands' country information files of the OECD Benefits and Wages²⁰ are used for the IRR and EMTR analysis. Again, the tax and benefit rules used for the analysis are not the current ones, but those of the reference year of the WoOn 2006 survey.

As Table 5.10 presents, the Dutch working-aged tenants—both recipients and non-recipients of the housing allowance—could preserve 30% of their marginally increased earnings when they accept a new job or work extra hours. However, the EMTR has been higher for tenants with the housing allowance than for tenants without it. As explained in Chapter 3, a higher EMTR shows that the working household reaps smaller financial rewards for extra participation in work (Hulse & Randolph, 2004; Wood *et al.*, 2005). Therefore, recipients of the housing allowance face fewer incentives to work due to a smaller financial reward when they increase their labour force participation. A higher IRR means that a larger share of household income has been replaced by the social security benefit when the main wage earner is unemployed, i.e. greater work disincentive. Unlike the EMTR results, the potential to stop working and accept unemployment is likely to be smaller for working tenants who are receiving the housing allowance. The IRR indicates the generosity of welfare benefits for the unemployed (Hulse & Randolph, 2004). The

²⁰ For detail, see OECD Social Policies and Data, Benefits and Wages: Country Specific Information internet site (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountry-specific-information.htm>).

disincentive to work is weaker for working tenants who are receiving the housing allowance (IRR is 68.7%) compared to those who are not (IRR is 79.7%).

Table 5.10 Work Disincentives of Housing Allowance Recipients and Non-Recipients in the Netherlands (%)

	Total tenant (Working-aged) (N=10,648)	Tenant without HA (N=5,035)	Tenant with HA (N=5,613)	<i>t</i>
Mean				
EMTR	68.0	48.9	85.1	-90.544***
	Total tenant (Working-aged & Employed) (N=7,909)	Tenant without HA (N=6,063)	Tenant with HA (N=1,846)	
IRR	77.2	79.7	68.7	34.297***

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HA stands for housing allowance. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

However, this research does not report on the changes in labour activity participation caused by the shift in work disincentive according to the take-up of housing allowance. Moreover, studies have pointed out that family's demographic characteristics or tenancy types influence the transition from welfare to work (Blundell *et al.*, 2000; Chen, 2006; Hulse & Saugeres, 2008; Wood *et al.*, 2009) in addition to the financial reward from the increase in earned income. Although some studies examined the positive relationship between housing cost subsidy programme and employment outcome (e.g. Nagle, 2003; Verma & Hendra, 2003), the effects of housing allowance on its beneficiaries' labour market participation is not within the scope of this research. Here, the analysis focuses on whether the housing allowance provision changes the incentive to work in different types of households.

In the remainder of this section, I will address the change in work incentive by the provision of housing allowance for low-income recipients of the housing allowance.

5.3.3.1 Income Replacement Ratio: Unemployment Trap

The Income Replacement Ratio (IRR) concerns the income supplement by housing allowance for the working poor. The working poor are eligible for housing allowance take-up until their incomes reach a level that brings them out of welfare dependency. In addition, when these households participate in a welfare-to-work programme, the housing allowance helps them maintain their household incomes at a certain level when they become unemployed. As pointed out in Chapter 2, the provision of housing allowance is

important for maintaining low-income households' non-housing consumption. The issue is the ratio of the possible income to be topped up with welfare benefits to employment income, i.e. IRR. A high IRR indicates a lower work incentive. Thus, generous welfare benefit system would have a negative effect on encouraging welfare-to-work transition (Hulse & Randolph, 2004). Therefore, from the beneficiaries' point of view, it would be better to receive this benefit constantly, regardless of their employment status. However, from the government's perspective, this benefit provision is likely to reduce work incentives due to increases in IRR by the housing allowance provision. As mentioned before, we cannot discuss the employment outcome according to the change in work incentive by housing allowance provision, although we can find the difference in IRR changes among different household types.

Table 5.11 Changes in Income Replacement Ratio by Housing Allowance in the Netherlands (%)

Total tenant with HA (Working-aged & Employed)		IRR1 (without HA)	IRR2 (with HA)	Absolute change IRR1-IRR2 (%p)	Relative change IRR1-IRR2 (%)
Mean	%(N)	63.2	68.7	5.5	10.0
Total	100.0(1,846)				
Income Quintiles					
1stQ(low Y)	20.0(369)	60.1	66.8	6.7	14.2
2ndQ	23.6(436)	57.7	64.6	6.9	12.6
3rdQ	17.1(315)	62.1	66.5	4.5	8.6
4thQ	19.3(357)	67.7	71.7	4.1	6.4
5thQ(high Y)	20.0(369)	69.6	74.4	4.8	7.3
	(F)	(58.019***)	(38.627**)	(58.456***)	(48.865***)
Household Composition					
No children	40.8(753)	61.0	68.3	7.3	13.8
With children	59.2(1,093)	64.8	69.0	4.2	7.3
	(t)	(-5.707***)	(-1.034)	(18.180***)	(12.784***)
Tenant Tenure					
Housing association or Co-op	88.8(1,639)	62.9	68.2	5.3	9.9
Private	11.2(207)	65.9	72.5	6.6	11.1
	(t)	(-3.147**)	(-4.363***)	(-4.042***)	(-1.710)
Employment Status					
All in work	68.2(1,259)	64.8	70.4	5.6	10.2
Some in work	31.8(587)	59.9	65.1	5.2	9.6
	(t)	(7.380***)	(8.385***)	(2.992**)	(1.590)

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively. Co-op stands for co-operative housing. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

As Table 5.11 presents, regardless of whether the low-income working tenant receives the housing allowance, the work incentive to maintain the current employment is smaller for higher-income households. As higher-income households have higher IRR1 and IRR2, they can maintain their incomes during unemployment at the rate of nearly 70% of their

employment income. However, it is more beneficial for lower-income households to receive the housing allowance for income maintenance compared to higher-income households. Whilst the IRR has increased by 14.2% for the lowest-income group after receiving the housing allowance, it has increased only by 7.3% for the highest-income group. Lower-income households need housing allowances to maintain their incomes at times of unemployment because of their lower IRRs. Therefore, the housing allowance as in-work benefit is negatively related to the work incentive improvement and is of a greater concern for lower-income households in the welfare-to-work programme.

Household Composition

The receipt of housing allowance is more likely to increase work disincentive for working households without children than for working households with children. Whilst the IRR is lower (i.e. less work disincentive) for childless families (61%) compared to families with children (64.8%) before housing allowance provision, IRRs of both groups are similar (around 69%) after housing allowance take-up. This indicates that the effects of the housing allowance on the absolute and relative work incentive changes are larger for working families without children than for working families with children. Accordingly, when members of a household are unemployed, the provision of housing allowance is more likely to improve households' income maintenance for families without children than for families with children. This might be linked to the tendency of the Dutch housing allowance scheme to favour the small or single-person households for their benefit rates.

However, although the negative effect of housing allowance on work incentive is larger for families without children than for families with children, we cannot project a worse employment outcome only for families without children with this result. As discussed in Chapter 2, families with children that depend on the welfare benefit are less likely to enter the labour force compared to families without children, even when the work incentives are similar. They need to consider 'opportunity cost' of increased earnings, (losing welfare benefit for childcare and finding childcare service while working). Moreover, as Owens and Baum (2009) noted, there is a risk of households earning too much to be eligible for the housing allowance. This risk would be most serious for families with children compared to other family types due to their higher housing costs. Therefore, drawing the comprehensive picture of employment outcome that is based only on the changes in work incentive in terms of the different effects of the housing allowance has its limitations.

Tenant Tenure

Regardless of housing allowance provision, the private housing tenants among the working poor receiving the housing allowance face a smaller work incentive due to the higher IRR compared to other tenant households. However, the findings did not show statistically significant differences between tenant groups in the increase in work disincentive by housing allowance provision—approximately 10% for both tenure groups—although the absolute difference in the IRR changes between private and housing association housing tenants has been noted. The provision of a housing allowance is more likely to help private housing tenants with their income maintenance at the time of employment. However, the provision of housing allowance might not affect the income replacement of all tenant groups in the same way when they change their employment status.

Therefore, there is little relationship between the receipt of the housing allowance and the decrease in work incentive by tenant tenure in the Netherlands. This result is similar to the result from Sweden (see Chapter 6). Sweden and the Netherlands have the unitary housing regime but the UK has a dualist one. Moreover, some studies found differences in employment outcome between private and public tenants receiving housing allowance in Australia due to the varied arrangements of housing subsidy programmes that are based on tenant tenure (Feeny *et al.*, 2010; Hulse & Randolph, 2004; Wood *et al.*, 2005; Wood *et al.*, 2009). Although the discussion is limited to these countries, this different result is related to the features of the unitary rental housing system and the arrangement of housing allowance that does not discriminate tenant tenure for the benefit provision. It could therefore be said that the characteristic of housing allowance system based on tenant tenure changes the incentive to work.

Employment Status

Among the working poor receiving the housing allowance, households with two adult workers have smaller work incentive compared to households with one adult worker, regardless of housing allowance receipt. However, for both working groups, the housing allowance tends to increase their IRRs similarly (around 10%), as with different tenancy groups. In other words, the negative effect of housing allowance provision on the increase of work disincentive is similar for all working groups. The changes in IRR by housing allowance are also important for the working poor because the extent of income replacement is tied to the outcome of income maintenance without generating any earnings. In addition, the IRRs of both working household groups also increase by about 10%.

Therefore, it might be reasonable to conclude that the provision of the housing allowance is linked to the work incentive reduction (i.e. greater potential for falling into the unemployment trap) for beneficiaries of the Dutch housing allowance. Moreover, although work incentive and its changes by housing allowance take-up differ across family types, the results are similar for both private and public housing tenants. However, it should not be concluded that households with lower IRR or smaller change in IRR by housing allowance provision have better employment outcomes. While some households have stronger work incentives compared to others, their family characteristics could prevent them from working steadily. The increase in IRR indicates the reverse effect of income supplement by housing allowance take-up on the working poor. This is where the government's policy goals clash. The resolution of this clash will enhance the effectiveness of housing allowance as in-work benefit.

5.3.3.2 Effective Marginal Tax Rate: Poverty Trap

The second work incentive indicator is the Effective Marginal Tax Rate (EMTR), which indicates the extent to which households can preserve their increased earnings after tax and benefit contribution. When households' earnings increase marginally (by 1 income unit) and recipients can take most of this money home, it might provide greater financial reward for participation in work, i.e. the lower the EMTR, the stronger the work incentive (Hulse & Randolph, 2004; Wood *et al.*, 2005). When household income rises, the availability of housing allowance drops, thereby affecting the stability of the working poor's housing (Owens & Baum, 2009). Although the increased earned income would supplement their incomes, housing costs are the largest and most inflexible element of low-income households' budget, as noted in Chapter 2. Therefore, from the point of view of benefit recipients, the provision of housing allowance is important for the working poor when their earnings reach a certain level. However, as explained in Chapter 3, the financial reward for labour force participation is the outcome of the interaction between social security benefit and tax contribution by income changes. Throughout this process, the take-up or non-take-up of housing allowance could create differences in household income and therefore affect EMTR (Wood *et al.*, 2005).

If there are no changes in EMTR, the housing allowance has little effect on work incentives. In contrast, if the provision of the housing allowance changes the work incentive, the housing allowance should be considered in terms of the welfare-to-work

transition due to the change in possibility of the poverty trap for the working poor. As Table 5.12 presents, the findings indicate a greater potential for the poverty trap in the form of a lower work incentive when households receive their housing allowances, although the differences in EMTRs according to the housing allowance provision are quite limited. However, as mentioned in the analysis of IRR, this research does not project the labour activity changes of housing allowance recipients with the outcome of EMTR. The discussion has weaknesses when the employment outcome relates only to the work incentive. Instead, this study examines the variation in EMTR and the effect of housing allowance on the changes in EMTR by household types.

Table 5.12 Changes in Effective Marginal Tax Rate by Housing Allowance in the Netherlands (%)

Total tenant with HA (Working-aged)		EMTR1 (without HA)	EMTR2 (with HA)	Absolute change EMTR1-EMTR2 (%p)	Relative change EMTR1-EMTR2 (%)
Mean	%(N)	83.7	85.1	1.4	3.4
Total	100.0(5,613)				
Income Quintiles					
1stQ(low Y)	20.1(1,129)	84.7	84.9	0.2	0.4
2ndQ	19.9(1,115)	86.6	86.9	0.4	0.9
3rdQ	28.9(1,620)	93.9	94.5	0.6	1.6
4thQ	11.2(630)	89.2	89.4	0.3	0.7
5thQ(high Y)	19.9(1,119)	61.7	67.4	5.7	13.0
	(F)	(223.179***)	(157.713***)	(146.366***)	(109.553***)
Household Composition					
No children	55.2(3,099)	86.7	87.2	0.6	1.5
With children	44.8(2,514)	79.9	82.4	2.5	5.7
	(t)	(8.054***)	(5.980***)	(-9.807***)	(-8.317***)
Tenant Tenure					
Housing Association or Co-op	91.4(5,133)	84.0	85.5	1.5	3.4
Private	8.6(480)	79.9	81.0	1.1	2.7
	(t)	(2.619**)	(2.919**)	(1.208)	(0.930)
Employment Status					
Unemployed	66.4(3,725)	92.0	92.0	0.0	0.0
Employed	33.6(1,888)	67.2	71.4	4.3	10.1
	(t)	(28.114***)	(23.761***)	(-16.203***)	(-14.701***)

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively. Co-op stands for co-operative housing. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

When low-income recipients of the housing allowance accept a job or work overtime, the work incentive is greater for higher-income compared to lower-income households. Although the higher-income households could take 30-40% of the marginally increased income home, it could be less than 15% for lower-income households. Therefore, housing

allowance recipients who have higher incomes are less likely to remain in poverty compared to households with lower income. However, across all income groups, the EMTR increases with the provision of the housing allowance. In addition, the increase in EMTR is larger for higher-income households compared to lower-income households. The extent of the marginally increased income decreases more for higher-income households. Therefore, the negative effect of the housing allowance on the work incentive is more serious for higher-income groups, even though their EMTRs are lower.

Household Composition

The levels of EMTRs and EMTR changes by the housing allowance provision are not consistent with those of IRRs for families with and without children. When a household's labour force participation increases, the likelihood of falling into the poverty trap is higher for families without children, whilst the changes in EMTR by the housing allowance is lower for these families compared to families with children. Households without children could take around 15% of the marginal income increase home. For families with children, the comparable figure is around 20%. However, families with children are more likely to be reluctant to increase their labour participation even when there is similar or higher work incentive for them compared to other family types, as noted in Chapter 2. In addition, the negative effects of the Dutch housing allowance on work incentive are more serious for families with children compared to families without children. The reduction of work incentives by the provision of housing allowance is smaller for families without children. Whilst the relative increase in EMTR by housing allowance is only 1.5% for families without children, it is 6% for families with children. Therefore, the negative effect of housing allowance on work incentive changes (i.e. the increase in the likelihood of being trapped in poverty) is larger for families with children because of the lower take-home pay from the marginal income increase. Although this research does not examine the difference in the employment outcome according to family types, it is expected that households with children are at a disadvantage for welfare-to-work transition when it comes to the financial incentive to increase labour force participation.

Tenant Tenure

Regardless of housing allowance take-up, tenants of housing associations or co-operative housing are more likely to fall into the poverty trap due to their higher EMTRs (around 85%) than are private renters, although both groups' EMTRs are high. However, the difference in the changes in EMTR by housing allowance was not statistically significant.

The effect of the housing allowance on work disincentive change did not differ between social and private housing tenants. Although the housing allowance provision itself results in a negative effect by boosting the work disincentive, the findings from both the IRR and EMTR analyses indicated that the effectiveness of the housing allowance is not different across tenancy groups in the Netherlands. This result is comparable to the results of work incentive changes in Australia and the UK (see Chapter 2 and Chapter 4) where different rules of housing allowance provision are applied to private and public tenants in the dualist rental housing system. However, the Dutch housing allowance system, which applies the same rule to different tenant groups, could be related to the lack of difference in the effects of housing allowance on work incentives. Therefore, when considering only tenant types, the decrease in housing allowance provision for working-aged recipients might reduce the work disincentive for all types of tenants.

Employment Status

Whether low-income households receive housing allowances or not, out-of-work households face higher EMTRs (more than 90%) compared to working households (around 70%). Therefore, working households are likely to reap more financial rewards from the marginally increased incomes (30% per 1 income unit increase) compared to out-of-work households (less than 10% per 1 income unit increase), indicating that working households have a greater work incentive. Even when members of low-income workless households get a job or enter work-related programmes, they are likely to remain in poverty because their increase in marginal income is smaller; thus, there might be fewer work incentives for out-of-work families than for working families. However, whilst the provision of the housing allowance increases EMTR for working households, it does not increase EMTR for workless households. Therefore, it seems that the Dutch housing allowance intensifies work disincentives for working households.

However, we do not project that the employment outcome of out-of-work households is worse compared to working households due to their lower work incentives and we do not conclude that the provision of housing allowance discourages working households from increasing their labour participation. As discussed in Chapter 2, other elements such as family characteristics and labour market status have effects on the choice of employment, although the financial reward from labour activity is regarded as an important element in the welfare-to-work transition. The result of this research suggests the varied effects of housing allowance on the work disincentive indicators by a household's employment status.

The housing allowance does not increase a disincentive to work for out-of-work households. The effects of the housing allowance related to changes in work disincentive are more important compared to in-work benefits for working households.

Summary: Housing Allowance as Work Incentive or Disincentive Booster

The problem with the work disincentive is the likely contribution of housing allowance to income maintenance for low-income tenants. Studies have noted the different effects of a housing allowance on employment outcomes. However, although the employment outcome of housing allowance recipients is not the concern of this research, this study found the negative effects of housing allowance on work incentives for the working poor in the Netherlands. Moreover, this study revealed differences in changes in work incentive by housing allowance according to household features. The housing allowance is found to have the greatest negative effects on higher-income households that are more likely to escape welfare dependency. Considering the financial burdens of working families with children, such as childcare expenses or higher housing costs, the households with a greater work disincentive are at a disadvantage, as noted in Chapter 2. In contrast, private and public tenants do not seem to differ in work disincentives and changes in work disincentives by housing allowance. This could be related to the characteristics of the Dutch housing regime and housing allowance system. Although the work incentive for the working poor is an important element, it is not the only one affecting the employment outcome. Therefore, this research does not claim that the better outcome of work incentives by certain household types indicates better employment outcome. The employment outcome, according to the varied effects of housing allowance will be left for further studies.

5.4 Summary

The Dutch housing allowance works as a housing cost subsidy for low-income tenant households. With the housing allowance as income support, low-income tenants' financial burden for housing cost expenditures decreased by 36%. This reduced spending on housing costs contributes to the improvement of income maintenance after housing cost expenditures, raising the likelihood of escaping poverty and the increasing non-housing

consumption. Therefore, the housing allowance provision is a very important factor in improving the finances of low-income households in the Netherlands.

However, the provision of housing allowance does not always improve the income maintenance and housing affordability for households that obtain greater benefit generosity (e.g. lower-income families or smaller households) because the housing allowance arrangement considers the individual family's features as a whole. At the same time, the income maintenance of these lower-income households is not better compared to that of other households. Indeed, the reduction in poverty rate by the housing allowance take-up is better for higher-income households, regardless of other family characteristics. Although benefit rates within the Dutch housing allowance scheme do not differ according to the claimant's employment status, the housing allowance is more likely to contribute to income maintenance as well as housing affordability for unemployed households compared to employed households. Moreover, the improvement in income maintenance and housing affordability is similar for all tenancy groups because the Dutch housing allowance system applies the uniform rule to all households, regardless of tenant type.

In addition, the provision of housing allowance is likely to weaken the work incentive for the working poor recipients of the housing allowance in the Netherlands. This problem initially relates to the housing allowance's contribution to income maintenance. Working low-income households can choose unemployment and dependency on social security benefits instead of earning income combined with in-work benefits. The take-up of housing allowance is likely to expand this possible work disincentive in the Netherlands. Moreover, the provision of housing allowance is likely to reduce work incentive due to the decreased take-home income. Here, we need to focus on the differences in work incentives and the effects of housing allowance on work incentive change according to family types, especially family composition and employment status as well as similarities among tenant tenure groups.

Considering these results, this research suggests that the form of the housing allowance provision should be differentiated according to the characteristics of the working-poor families in order to achieve the policy objectives. The results should not be interpreted to mean the withdrawal of housing allowance provision in order to increase work incentives or to encourage welfare-to-work transition for the working poor. As the Dutch housing allowance is within the scope of a housing policy rather than income or labour policy, the

effect of the housing allowance in the work disincentive needs to be discussed in light of interrelated policy objectives. This explains why the housing allowance must be addressed in relation to the entire welfare system.

Chapter 6. The Effectiveness of Housing Allowance for Tenants in Sweden

Introduction

The Swedish housing allowance system has the long history of policy development. There are three different housing allowance schemes that are based on type of family (i.e. families with children, young people (18-28 years old) without children and pensioners). As benefit rates are calculated differently according to claimant characteristics in terms of household incomes, housing costs and number of children within each housing allowance scheme, the current benefit forms are more various and complicated than those in the other three countries. This chapter focuses on this compositional feature and effectiveness of the Swedish housing allowance system. First, I will look at the background of the Swedish housing allowance system and its design. Subsequently, I will analyse the effectiveness of the housing allowance in improving income maintenance, housing affordability and work incentives for low-income tenants who receive a housing allowance.

6.1. The Development of National Support for Housing Costs in Sweden

The introduction of the Swedish housing allowance dates to the 1930s. In 1936, the Swedish government introduced ‘family grants’ to provide financial support for housing costs for families with children. This initial form of housing allowance for families was a means-tested benefit and the eligibility was limited only to families with at least three children who were living in rental housing. In addition, the rental housing had to meet certain minimum standards of housing quality, such as floor space and equipment. However, as the government developed the social security system, the provision of housing allowance expanded to include other families (i.e. homeowner households in 1938 and pensioner households in 1946). Unlike ‘family grant’, the housing allowance for pensioners was a benefit from the local government that determined rules and decisions for the aid (Åhren, 2007). Moreover, the family grant was replaced by ‘Housing Allowance for families with children’ in 1948. However, the eligibility of this benefit still limited as the families with one child or living in housings built before 1948 were not allowed to claim this benefit.

Although the shortage of housing buildings was tackled by the national housing supply, housing-related problems still remained for low-income households (Åhren, 2007). Therefore, the government started to change benefit rules of the housing allowance system. The minimum standard of housing quality under the housing allowance scheme was abolished in 1972²¹. It has been criticised that the standard of housing quality for housing allowance eligibility prevented low-income households from receiving the housing allowance because they were unable to afford to live in dwellings that met the minimum qualifying housing standards. Additionally, the calculation of the housing allowance provision changed. While the former scheme was based on household incomes and their needs for housing, the new calculation depended on the number of children, housing condition and housing cost expenditures. Moreover, the total housing allowance provision reflected household income and was reduced as household incomes increased. However, whilst housing allowances for families with children and pensioners have a long history in the social security system, families without children were not eligible for this benefit until 1974. Households without children were able to receive housing allowance only from 1974-1986 and 1991-1997. In addition, since the 1996-1997 reforms, childless families aged 29 years old and older were excluded from benefit eligibility (ibid).

The current form of the Swedish housing allowance administered by the state agency was established in the 1990s. In 1995, the local government's housing allowance for pensioner households was replaced by the housing allowance administered by the central government and the same rules were applicable nationwide. Moreover, significant changes in housing allowances for families were introduced during the 1996-1997 reforms (Chen & ÖST, 2005) to improve control of benefit administration and reduce the government's expenditure for the housing allowance. Although the benefit rates have slightly changed, the following are the main rules of the 1997 reform that are currently applied to the benefit claim. First, there could be differences in the preliminary housing allowance calculated based on the estimated household income for the following 12 months and the final allowance calculated once the assessed taxable income for the year is finally decided. The difference between the preliminary and final allowance should be repaid to the government or beneficiary. Second, different income limits are applied according to household type. Third, the expenditure for floor space that exceeds the space limit of the housing allowance

²¹ However, because of the 1997 reform, eligible floor space limits were reintroduced and these standards are currently applicable according to the number of children.

does not qualify for eligible housing costs. Fourth, households without children aged 29 years and older are not eligible for the housing allowance.

In 2010, almost 180,000 non-pensioner households (4% of total households in Sweden) received the housing allowance for families with children and young families without children. And 4.4% of total population received housing allowance for pensioner (Housing Supplement) in 2008. However, the numbers of all housing allowance recipients (i.e. families with children, young families without children and pensioners) have decreased since the late 1990s (The Swedish Social Insurance Agency, 2010a).

Table 6.1 Non-Pensioner Households Receiving Housing Allowance in Sweden

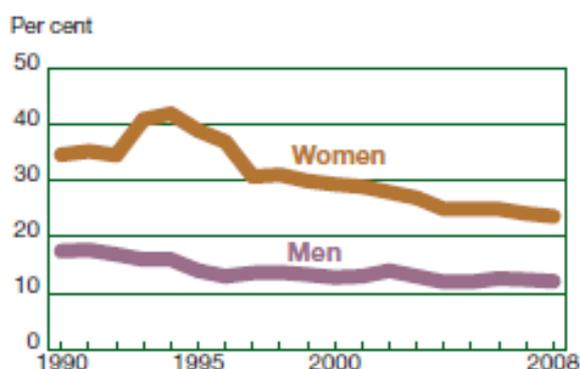
Year	Households with children(a) (000s)	Households without children(b) (000s)	Sum (a+b) (000s)	(a+b) as % of All households in Sweden (%)
2000	227	41	268	6.1
2001	204	34	238	5.4
2002	191	33	224	5.0
2003	179	34	213	4.8
2004	176	37	214	4.9
2005	177	42	219	4.9
2006	170	41	212	4.7
2007	160	38	198	4.4
2008	147	33	180	4.0
2009	141	33	174	3.8
2010	143	40	183	3.9

Source: The Swedish Social Insurance Agency, Statistics and Analysis, Housing Allowance, internet site²².

Among pensioner recipients, the number of female pensioners who receive housing supplements is still more than twice the number of male pensioners. This finding relates to the lower pension income for women; therefore, they need more financial support for housing costs compared to male pensioner (ibid).

²² For URL, see Internet Sites in Bibliography.

Figure 6.1 Pensioners Receiving Housing Supplement as a % of Total Pensioners in Sweden (2008)



Source: The Swedish Social Insurance Agency (2010a), p. 60.

6.2 The Design of Housing Allowance for Tenants in Sweden

The Swedish housing allowance system has three different schemes according to family composition: Housing Allowance for families with children, Housing Allowance for young people (aged 18-28) without children and Housing Supplements for Pensioners²³. For all three types of housing allowances, the level of household income, family composition and size of housing cost expenditures may change the housing allowance provision (The Swedish Social Insurance Agency, 2008, 2010b, 2012a).

6.2.1 Housing Allowance for Families with Children

The housing allowance for families with children is paid to single parents with children, married or co-habiting couples with children younger than 18 years old. Under this housing allowance scheme, both tenant and homeowner can claim the housing allowance for their housing cost expenditures. If a family lives in rental housing, the rent, heating and any management fees that are part of the rent are eligible for housing allowance claim. If a family lives in a co-operative housing, annual fees to the co-operative, including heating and other fees, are subject to the eligible housing cost. Concerning homeowners, property tax, 70% of the site leasehold fee, heating and other running expenses are calculated

²³ The Swedish Social Insurance Agency administers housing allowances for families with children and without children and recipients of sickness or activity compensation. The Swedish Pensioner Agency administers housing allowances for other pensioners (e.g. old-age pensioners) (The Swedish Social Insurance Agency, 2011).

according to a special formula and 70% of interest expenses on housing loans are eligible for housing allowance (The Swedish Social Insurance Agency, 2012a).

Concerning low-income families with children, the important determinants that affect the housing allowance provision are the size of family (i.e. the number of children) and household income. These criteria are applied because the maximum housing allowance (up to the benefit cap), the standard of income threshold for benefit entitlement, floor space eligibility for housing allowance and the benefit reduction from the maximum allowance vary according to these two features of each family. Of note, the benefit cap, income threshold and floor space limit are larger for families with more children compared to families with fewer children (The Swedish Social Insurance Agency, 2012a).

Table 6.2 Housing Allowance Arrangement for Non-Pensioner Household in Sweden

Benefit arrangement		(units)	Number of children			
			0	1	2	3
Maximum HA		(SEK/month)	1,000	2,600	3,200	4,000
Income for maximum HA provision	<Adult> single (a)	(SEK/year)	42,800	117,000	117,000	117,000
	couple (b)	(SEK/year /person)	58,000	58,500	58,500	58,500
Income limit for eligibility	If all adults' income is more than (a) per annum	single (SEK/year)	77,000	247,500	292,500	349,500
	If one adult's income is more than (b) per annum	couple (SEK/year)	94,000	306,000	351,500	408,000
Taper		(%)	33	20	20	20
Floor space limit*		(m ²)	60	80	100	120
Subsidisation rate for eligible housing cost	75% of	(SEK/month)	1,800-2,600	2,000-3,000	2,000-3,300	2,000-3,600
	50% of	(SEK/month)	2,600-3,600	3,000-5,300	3,300-5,900	3,600-6,600

Source: Chen & ÖST (2005) p. 611; The Swedish Social Insurance Agency (2008, 2012a).

Note: *housing allowance for young people without children aged 18-28. Maximum floor space for one child is 80m² and increases by 20m² per additional child up to five or more (the maximum is 160m²); household income is calculated based on estimated taxable income²⁴ for the calendar year, income from capital and income from abroad, 80% of student grants and 15% of net economic wealth in excess of SEK 100,000 is added to income.

²⁴ Here, 'taxable income' means an income from employment and business minus general social security contributions, basic deductions and deductions for marine income according the definition of Statistics Sweden (The Swedish Social Insurance Agency, 2012a).

The amount of eligible housing costs for the housing allowance provision is assessed according to benefit rules and the fixed amount of the child grant, which is based on a claimant's household composition. Then the number of children and the level of housing cost expenditure are added to eligible housing costs. In the next step, the available amount of allowance is determined as follows: If the claimant's estimated income is below the income standard for the maximum housing allowance (a and b in Table 6.2), the sum of assessed housing expenditure and child grants are paid to the claimant; if the claimant's income exceeds this threshold, 20% of the difference between household income and income standard for the maximum housing allowance is deducted from the maximum housing allowance.

While the benefit rates and calculations are complicated, these rules consider different housing needs and family incomes (Åhren, 2007; Chen & ÖST, 2005; The Swedish Social Insurance Agency, 2012a). The housing allowance provision based on this calculation is regarded as the preliminary housing allowance imputed with estimated incomes for the calendar year or years for which a household is applying. The final housing allowance is determined at the end of the final taxation. Therefore, if there are differences between a preliminary and final housing allowance, recipients must either repay or will receive the difference (The Swedish Social Insurance Agency, 2008, 2012a).

6.2.2 Housing Allowance for Young People without Children

The housing allowance for young people without children reflects the smaller household size and housing need compared to those of the large family such as families with children on the benefit arrangement rule; thus the benefit cap and floor limit for eligible housing costs are lower compared to that for families with children. Moreover, the taper applied for young family households without children is higher (33%) than that of families with children (20%) (Chen & ÖST, 2005; The Swedish Social Insurance Agency, 2008).

Households' housing cost expenditures for only 60m² of floor size are eligible for the housing allowance for young people without children. These households receive the housing allowance at 75% of the eligible housing cost when their income is between SEK 1,800 and SEK 2,600 per month and 50% of the eligible housing cost when their income is between SEK 2,600 and SEK 3,600 per month. This is the maximum housing allowance. Similar to the housing allowance reduction for families with children, the claimant could

receive their maximum allowance that falls below the benefit cap when the household income is higher than the income standard for the maximum benefit (a and b in Table 6.2). If household incomes are greater than these standards, the allowance is reduced by 33% of the difference between the household income and these standards (Chen & ÖST, 2005; The Swedish Social Insurance Agency, 2008). Therefore, compared to the benefits for families with children, the benefit provision for young people without children may be less generous.

6.2.3 Housing Allowances for Pensioners: Housing Supplement and Special Housing Supplement

There are two housing allowances provided to low-income pensioners in Sweden: the 'housing supplement' for pensioner and the 'special housing supplement' for pensioners receiving the housing supplement with the lowest income after housing cost expenditures. The housing supplement can be paid to people living in Sweden and receiving one of the following pensions: a full old-age pension, sickness compensation, activity compensation, widows' pension, special survivor's pension, wives' supplement, or any national pension of European Union country equivalent to the Swedish benefits (The Swedish Social Insurance Agency, 2010b).

When calculating the amount of housing supplement, different rates of household income and eligible housing costs, according to type of pension, are applied. First, the maximum possible housing supplement is calculated based on the pensioner's age and household composition. While the housing supplement subsidises the major part of housing cost expenditures for pensioners with 'sickness compensation' or 'activity compensation', it does not exceed 91% of SEK 4,500 for unmarried persons and SEK 2,250 for married persons. Concerning old-age pensioners, the housing supplement subsidises 93%²⁵ of housing costs per month for single persons with an income below SEK 5,000 and couples with an income below SEK 2,500 per person. Second, the reduction in the housing supplement is calculated using each person's income. The housing supplement is reduced by the difference between the maximum housing supplement and 62% of each person's income up to the price base amount (i.e. SEK 42,400 in 2010²⁶ adding to 50% of each

²⁵ Whilst the subsidisation rate for housing costs of pensioners was 91% prior to 2006, this rate increased to 93% of housing cost only for old-age pensioners (The Swedish Social Insurance Agency, 2010b).

²⁶ The price base amount is based on cost of living benefits (The Swedish Social Insurance Agency, 2010b).

person's income above the price base amount) (The Swedish Social Insurance Agency, 2010b).

The special housing supplement can be provided to pensioners who already received the housing supplement if their disposable income after housing cost expenditures is smaller compared to the reasonable living standard²⁷, which are SEK 4,786 for unmarried persons and SEK 4,044 for married persons per month (Swedish National Social Insurance Agency, 2010b). Additionally, there are benefit caps for the housing costs subsidised by this special supplement. Concerning persons aged 65 years and older, the reasonable housing cost limits are SEK 6,200 per month for unmarried persons and SEK 3,100 for married persons. For a person aged under 65, a reasonable housing cost is SEK 5,700 for unmarried persons and SEK 2,850 for married persons. For married couples, the housing cost for each spouse is calculated at half of their total housing cost (Swedish Social Insurance Agency, 2007a, 2010b).

Summary of the Swedish Housing Allowance System

Similar to the Dutch housing allowance, the Swedish housing allowance system has a 'gap' structure and applies the different subsidisation rates for eligible rent—the lower rate for the higher eligible housing cost range and *vice versa*. Moreover, the benefit arrangement considers the varied incomes and housing needs according to the features of different families. Based on family composition, benefits are calculated differently for households. Therefore, families with children and larger families are likely to receive greater benefits compared to childless families in terms of eligible housing costs and the reduction from the maximum benefit; however, the benefit is capped for all families at a certain level. Moreover, low-income pensioners receiving the housing supplement could also receive additional allowances within the housing allowance system. This difference between housing allowances for pensioners and non-pensioners could improve the income and housing problems of pensioners more so than that for non-pensioner households.

In the following sections, I analyse the effectiveness of the housing allowance for solving income and housing problems of low-income tenants in Sweden and discuss the ways in

²⁷ A monthly reasonable standard of living is considered equivalent to a twelfth of 1.294 price base amounts for unmarried persons and a twelfth of 1.084 price base amounts for married persons (The Swedish Social Insurance, 2007a).

which the results of the analysis relate to the features of the Swedish housing allowance system.

6.3 The Analysis of Housing Allowance Effects on Tenants in Sweden

This section examines the effectiveness of the Swedish housing allowance in improving income maintenance, housing affordability and work incentives for low-income tenant households. If the housing allowance receipt relieves the significance of income and housing problems of low-income tenants, the effectiveness of this subsidy as income support for housing cost expenditures exists. In order to analyse the housing allowance effects in achieving these policy objects, the changes in the results of five indicators, i.e. Residual income after rent payment, Poverty rate, Rent to Income Ratio, Income Replacement Ratio and Effective Marginal Tax Rate by housing allowance provision will be examined.

Table 6.3 Indictors of Housing Allowance Effectiveness in Section 6.3

Section	Indicator	Definition
6.3.1	Income maintenance	
6.3.1.1	1. Residual income after housing cost expenditures	Residual Y1: Paying rent without HA Residual Y2: Paying rent with HA
6.3.1.2	2. Poverty Rate (PR) (poverty line: 60% of the national median income)	PR1: Before paying rent & receiving HA PR2: After paying rent without HA PR3: After paying rent with HA
6.3.2	Housing affordability	
	Rent to Income Ratio (RIR)	RIR1 : Paying rent without HA RIR2 : Paying rent with HA
6.3.3	Work incentive	
6.3.3.1	1. Income Replacement Ratio (IRR)= $\frac{\text{Household net income when unemployed}}{\text{Household net income when employed}}$	IRR1: Income excluding HA IRR2: Income including HA
6.3.3.2	2. Effective Marginal Tax Rate (EMTR) = $1 - \frac{\text{Change in household net income}}{\text{Change in household gross income by 1 income unit}}$	EMTR1: Income excluding HA EMTR2: Income including HA

Note: Y and HA stand for household net income and housing allowance respectively.

For the analysis, Household Finances (HEK) 2006 dataset was used. Among households of the Household Finances (HEK) 2006 dataset, only tenant households that received the housing allowance (size = 1,022) were considered. The benefit rule applied for the analysis

in Section 6.3 is not the current one explained in Section 6.2; the benefit rules and arrangement of the reference year of the survey.

On average, these low-income tenants received the housing allowance of SEK 21,335 annually, which accounts for 17.9% of annual household income. However, these tenants paid SEK 55,290 in rent. Compared to the UK housing allowance's subsidisation rate (70%), that of the Swedish housing allowance is less (40%). This relates to the benefit rules of the Swedish housing allowance system, which adopts a 'gap' approach²⁸. The 50% or 75% of the housing cost is eligible for housing allowance claim and thus, the extent to which housing allowance subsidises housing costs might be smaller compared to that of the UK housing allowance system.

Table 6.4 Income, Rents and Housing Allowance of Tenant Recipients in Sweden (SEK, 2006 price)

Total tenant with HA		Annual HH income	Annual HA	Annual rents	HA÷rents (%)
Mean	%(N)	128,791.94	21,335.09	55,290.27	40.5
Total	100.0(1,022)				
Income Quintiles					
1st Q (low Y)	20.0(204)	89,147.10	17,372.01	44,407.17	40.2
2nd Q	20.0(205)	109,413.84	24,232.58	48,908.54	50.5
3rd Q	20.0(204)	118,949.59	26,226.47	55,493.86	48.8
4th Q	20.0(205)	131,156.80	21,786.17	60,832.49	36.2
5th Q (high Y)	20.0(204)	195,375.77	17,041.82	66,813.41	26.6
	(F)	(217.160***)	(15.290***)	(57.916***)	(22.366***)
Household Composition					
No children	21.8(223)	128,889.55	17,134.22	46,895.48	37.0
With children	31.7(324)	138,249.18	19,919.92	67,670.81	29.8
Pensioner	46.5(475)	122,295.27	24,272.59	50,786.58	49.4
	(F)	(8.849***)	(19.134***)	(136.394***)	(44.447***)
Tenant Tenure					
Co-op	18.1(185)	137,276.79	16,588.21	49,566.68	38.0
Private or Housing association	81.9(837)	126,916.55	22,384.28	56,555.34	41.0
	(t)	(1.607)	(-5.553***)	(-3.569***)	(-1.208)
Employment Status					
Unemployed	74.3(759)	121,437.98	24,011.18	52,220.95	46.8
Employed	25.7(263)	150,014.96	13,612.08	64,148.13	22.1
	(t)	(-6.858***)	(11.415***)	(-7.592***)	(15.199***)

Source: Household Finances (HEK) 2006, author calculations.

Note: HH, HA and Y stand for household, housing allowance and household net income respectively. Co-op stands for co-operative housing. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

As Table 6.5 indicates, housing allowance recipients, both tenants and homeowners, are lower income households experiencing severe poverty in Sweden. Even before these households pay their housing costs, the poverty rates of housing allowance recipients are

²⁸ This rate of the Dutch housing allowance system employing a similar gap structure is 36%.

higher than those of non-recipients. Moreover, the poverty rates of housing allowance recipients after housing cost expenditures have increased significantly compared to non-recipients.

Table 6.5 Poverty Rates before and after Housing Cost Expenditures in Sweden (%)

Poverty lines	Total Household (owner + tenant) (N = 10,703)		Household without HA (owner + tenant) (N = 9,567)		Household with HA (owner + tenant) (N = 1,136)	
	before HC	after HC	before HC	after HC	bf.HA&HC	bf.HAaf.HC
	40% of median	3.8	15.0	2.2	9.7	17.1
50% of median	8.6	22.8	4.2	16.5	45.3	81.3
60% of median	14.4	32.0	8.3	25.7	66.0	88.6

Source: Household Finances (HEK) 2006, author calculations.

Note: HA and HC stand for housing allowance and housing cost respectively.

Moreover, housing allowance recipients face higher financial burdens (over 50%) for housing costs payments compared to non-recipients, although, households in Sweden have housing affordability problems, according to the definition of this study (the ratios are over 30%). This finding means that housing cost payments without the housing allowance provision could lead to more serious income and housing problems for low-income households.

Table 6.6 Financial Burden for Housing Cost Expenditures in Sweden (%)

Housing affordability measures	Total household (N = 10,703)	Household without HA (N = 9,567)	Household with HA (N = 1,136)	<i>t</i>
	Gross HC over Y	38.0	36.1	
	Total tenant (6,423)	Tenant without HA (N = 5,401)	Tenant with HA (N = 1,022)	
Rents over Y	37.0	33.6	54.7	-4.621***

Source: Household Finances (HEK) 2006, author calculations.

Note: HC, HA and Y stand for housing cost, housing allowance and household net income respectively. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

6.3.1 Social Policy Object: Income Maintenance Improvement

Within the Swedish social security system, the three housing allowances are provided to low-income households for their housing cost expenditures. These housing allowances help low-income families maintain their income after paying housing costs to a certain degree and the improvement in household income could alleviate poverty among economically vulnerable households. In this section, I analyse the effectiveness of the Swedish housing allowance in improving income maintenance after housing cost

expenditures by assessing the changes in households' residual incomes after housing cost and changes in poverty rates by the receipt of housing allowance.

6.3.1.1 Residual Income after Rents

The purpose of housing allowance system is to support low-income households for their housing cost payments and help them maintain their income for living costs. In practice, it seems that the Swedish housing allowance system contributes to its beneficiaries' income maintenance. As Table 6.7 presents, when the Swedish low-income tenant receives the housing allowance, they maintain a residual income after housing costs of around SEK 18,000, thus, relatively increasing their income by 70% on average. The residual income after housing costs change differently according to the households' features.

Table 6.7 Changes in Residual Income after Rents by Housing Allowance in Sweden (SEK, 2006 price)

Total tenant with HA		Residual income after rents		Absolute change (SEK)	Relative change (%)
		without HA	with HA		
Mean	%(N)	66,072.64	84,011.04	17,938.40	70.1
Total	100.0(1,022)				
Income Quintiles					
1st Q (low Y)	20.0(204)	40,147.08	53,886.85	13,739.77	75.5
2nd Q	20.0(205)	45,916.82	67,436.60	21,519.77	93.7
3rd Q	20.0(204)	47,830.56	70,960.49	23,129.94	108.3
4th Q	20.0(205)	60,867.40	79,901.23	19,033.82	60.0
5th Q (high Y)	20.0(204)	135,725.65	147,971.41	12,245.76	12.7
	(F)	(174.479***)	(169.273***)	(28.008***)	(8.325***)
Household Composition					
No children	21.8(223)	68,362.84	84,845.00	16,482.16	64.8
With children	31.7(324)	87,231.17	98,501.24	11,270.07	23.8
Pensioner	46.5(475)	50,565.10	73,735.67	23,170.57	104.1
	(F)	(45.861***)	(22.586***)	(89.143***)	(18.791***)
Tenant Tenure					
Co-op	18.1(185)	81,273.82	96,086.95	14,813.12	34.5
Private or Housing association	81.9(837)	62,712.76	81,341.93	18,629.17	77.9
	(t)	(2.872**)	(2.306*)	(-3.916***)	(-5.566***)
Employment Status					
Unemployed	74.3(759)	54,366.98	75,508.69	21,141.71	89.7
Employed	25.7(263)	99,854.37	108,548.23	8,693.86	13.2
	(t)	(-11.144***)	(-8.244***)	(18.465***)	(9.853***)

Source: Household Finances (HEK) 2006, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively. Co-op stands for co-operative housing. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

The reduction in housing cost expenditures by the receipt of housing allowance changes the income state of its recipients. However, the changes in income maintenance differ

according to a household's original income level. The absolute and relative changes are greater for households with lower incomes compared to households with higher incomes. Under the Swedish housing allowance system for tenants, lower-income households are favoured in relation to the benefit arrangement when other features of housing allowance claimants are the same. In practice, the extent to which housing costs are subsidised by the housing allowance is higher for lower-income tenants than for other households (see Table 6.4). Therefore, the housing allowance is more likely to improve the residual income after rent payments for tenants in a lower-income bracket compared to those in a higher-income bracket, which mirrors the Swedish housing allowance benefit rules.

Household Composition

Concerning pensioners, the additional allowance for housing costs is provided according to their income within the housing allowance system in Sweden. In practice, the difference between pensioners and non-pensioners who receive the housing allowance concerns the extent to which the housing allowance reduces housing costs. The housing allowance subsidises a greater amount of housing costs for pensioners rather than for non-pensioners whilst the financial burden for housing costs is higher for the former compared to the latter. Furthermore, the different standards for eligible housing costs and the varied benefit arrangement are applied to families with and without children. Although the benefit arrangement is more generous for households with children compared to young households without children, the financial burden for housing costs tends to be higher for families with children. Accordingly, changes in the residual income after rents by the housing allowance provision are smaller for households with children than those for young households without children.

Tenant Tenure

The Swedish housing allowance system applies the uniform benefit calculation rule to all types of tenancy. When other conditions of households (e.g. number in household and income) are not considered, the housing allowance subsidises low-income tenants from different tenant tenures to a similar degree. In practice, the subsidisation rates of the housing allowance for housing costs are similar for tenants of co-operative, housing association and private housings (see Table 6.4). However, due to different housing costs and incomes of families, the absolute and relative changes in the residual income after housing costs vary across tenant groups. Both the absolute and relative changes (i.e. increase in residual income after rent), are larger for private and housing association

housing tenants compared to others. Therefore, housing allowances are more likely to help private and housing association housing tenants compared to co-operative housing tenants in terms of income maintenance after housing cost expenditures.

Employment Status

The size of the housing allowance and the extent to which housing allowance subsidises housing costs are greater for unemployed households compared to employed households in Sweden. Out-of-work households have less household income compared to working households and, thus, receive benefits that are based on a more generous arrangement for lower-income households. In practice, the absolute and relative changes in residual income after housing costs by the housing allowance are larger for unemployed households compared to employed households. Although working households were better off after housing cost payments, the absolute and relative increases in residual income after housing costs are considerably lower compared to those of unemployed households. Therefore, the housing allowance is more effective for improving the income maintenance for unemployed households.

6.3.1.2 Poverty Rate

If the low-income household's poverty rate after housing cost expenditures declines by the receipt of housing allowance, we can say that the housing allowance is effective in solving income problems. As tenants who receive the housing allowance are the lowest-income households among the entire population, they experience more severe poverty problems than do others and housing cost payments are likely to increase these problems. However, whilst the housing allowance provision accounts for 70% of the relative change in residual income after rent payments for low-income tenants, the poverty rates of this group decrease by 4%, relatively. Moreover, the changes in poverty rates are different between family groups.

Table 6.8 Changes in Poverty Rates by Housing Allowance in Sweden (%)

Poverty lines	60% of median income			Absolute change (%p) PR2-PR3	Relative change (%) PR2-PR3	
	PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC			
Total tenant with HA						
Mean	(%)	66.8	89.9	86.5	3.4	3.8
Total	100.0					
Income Quintiles						
1st Q (low Y)	20.0	100.0	100.0	100.0	0.0	0.0
2nd Q	20.0	100.0	100.0	100.0	0.0	0.0
3rd Q	20.0	88.2	100.0	100.0	0.0	0.0
4th Q	20.0	43.9	99.5	98.5	1.0	1.0
5th Q(high Y)	20.0	2.0	50.0	33.8	16.2	32.4
Household Composition						
No children	21.8	67.7	86.1	83.4	2.7	3.1
With children	31.7	42.6	82.7	74.7	8.0	9.7
Pensioner	46.5	82.9	96.6	96.0	0.6	0.7
Tenant Tenure						
Co-op	18.1	63.2	87.6	83.8	3.8	4.3
Private or Housing association	81.9	67.6	90.4	87.1	3.3	3.7
Employment Status						
Unemployed	74.3	79.2	95.3	93.3	2.0	2.1
Employed	25.7	31.2	74.5	66.9	7.6	10.2

Source: Household Finances (HEK) 2006, author calculations.

Note: HC, HA and Y stand for housing cost, housing allowance and household net income, respectively. Co-op stands for co-operative housing. For poverty rates based on 40% and 50% of median income, see Table A.5 in Appendices.

PR1: poverty rate when housing allowance is not provided and before housing costs payment.

PR2: poverty rate when housing allowance is not provided and after housing costs payment.

PR3: poverty rate when housing allowance is provided and after housing costs payment.

Household Income Level

As the poverty rate change between PR1 and PR2 indicates in Table 6.8, housing cost expenditures without the housing allowance intensifies the poverty of low-income tenants. Moreover, poverty is likely to be more serious for households with lower income rather than for households with higher income. However, the provision of housing allowance contributes to the reduction in poverty after housing cost expenditures. The concern is that whilst the housing allowance is more effective in improving residual income after housing cost payments for lower-income households, these households experience little change in poverty rate by housing allowance receipt. Rather, the absolute (16.2%p) and relative (32.4%) changes in poverty rates by the housing allowance are better for households with the highest income, although the changes in residual income after housing costs is smaller for this group. Among households receiving the housing allowance, the lowest-income households are the most economically vulnerable. Therefore, although they receive the financial support for housing costs, they are less likely to escape poverty.

Household Composition

Concerning family types, more severe poverty problems exist among pensioners and childless families compared to families with children, owing to their lower household income (see Table 6.4). Moreover, rent expenditures intensify poverty considerably. The Swedish housing allowance could improve income maintenance after housing cost payments for all types of families. However, whilst the increase in residual income after housing costs is larger for pensioners, the decrease in poverty rate is smaller for this group compared to non-pensioner households. Moreover, the absolute (8.0%) and relative (9.7%) changes in poverty rates are larger for families with children who have higher household incomes. Thus, the increase in residual income after housing costs by the housing allowance receipt does not necessarily reduce poverty after housing cost expenditures among families.

Tenant Tenure

Although poverty rates are slightly higher for private and housing association housing tenants compared to co-operative housing tenants, the difference in poverty rate changes among them is little in comparison to changes among different income groups or family compositions. Because only few differences exist in income and rent costs between the two tenant groups, both groups might experience similar poverty problems. Moreover, the extent to which the housing allowance subsidises housing costs is similar between these groups (see Table 6.4). Therefore, whilst the housing allowance provision changes the poverty rates of all tenant tenure groups, the effectiveness of the housing allowance does not differ across these groups.

Employment Status

Although both employed and unemployed households that receive the housing allowance are low-income households, unemployed households are likely to experience more income poverty compared to employed households. The extent to which the housing allowance subsidises housing costs is higher for out-of-work households compared to working households. Therefore, without the receipt of the housing allowance, out-of-work households are likely to face greater poverty problems compared to working households, according to the changes between PR1 and PR2. However, whilst the housing allowance improves the income maintenance for unemployed households more effectively, the absolute and relative changes in the poverty rate by housing allowance are larger for employed households.

Summary: Income Maintenance Improvement

The Swedish housing allowance system makes clear contributions to the improvement of the income maintenance after housing cost payments for its beneficiaries, although there are differences in changes in residual income after rents that are based on household features. The same result is found across all family types concerning changes in poverty rates by the receipt of housing allowances; the poverty rate changes more for higher-income households compared to the change for lower-income households. Therefore, the financial state after housing cost expenditures is better for households with higher incomes compared to households with lower incomes: The improvement in income by the housing allowance provides more possibility of non-housing consumption for higher-income recipients.

6.3.2 Housing Policy Object: Housing Affordability Improvement

The financial burden for housing costs could be simply expressed by the cost-to-income measure, i.e. Rent to Income Ratio (RIR). The meaning of this ratio measure is more important for low-income households whose financial resources are limited. As their incomes are small, even when the rent-to-income ratio is low, the residual income after housing costs is not sufficient to purchase non-housing good and service. In this respect, this research examines the effect of the housing allowance on the reduction of the RIR.

Concerning low-income tenants who receive the housing allowance in Sweden, there are clear differences in RIR according to the housing allowance provision. As Table 6.9 shows, the RIR is lower when low-income tenants receive the housing allowance than when they do not receive this benefit. Although they still have a severe housing affordability problem (RIR over 30%), the housing allowance could relieve the financial burden for housing costs. However, there are differences in the change in RIR by the provision of housing allowance according to the characteristics of families who receive it.

Table 6.9 Changes in Rent to Income Ratio by Housing Allowance in Sweden (%)

Total tenant with HA		Rent to Income Ratio		Absolute change	Relative change
		without HA	with HA	(%p)	(%)
Mean	%(N)	54.7	31.0	23.7	40.5
Total	100.0(1,022)				
Income Quintiles					
1st Q (low Y)	20.0(204)	61.2	36.7	24.5	40.2
2nd Q	20.0(205)	56.7	26.4	30.3	50.5
3rd Q	20.0(204)	59.6	28.9	30.7	48.8
4th Q	20.0(205)	55.7	33.7	22.0	36.2
5th Q (high Y)	20.0(204)	40.3	29.5	10.8	26.6
	(F)	(41.133***)	(11.499***)	(36.459***)	(22.366***)
Household Composition					
No children	21.8(223)	47.9	28.9	19.0	37.0
With children	31.7(324)	58.3	39.2	19.1	29.8
Pensioner	46.5(475)	55.5	26.5	29.0	49.4
	(F)	(19.328***)	(59.452***)	(31.899***)	(44.447***)
Tenant Tenure					
Co-op	18.1(185)	45.2	27.8	17.4	38.0
Private or Housing Association	81.9(837)	56.8	31.8	25.0	41.0
	(t)	(-7.313***)	(-2.786**)	(-5.623***)	(-1.219)
Employment Status					
Unemployed	74.3(759)	56.1	28.4	27.7	46.8
Employed	25.7(263)	50.6	38.6	11.9	22.1
	(t)	(3.525***)	(-8.449***)	(14.093***)	(15.199***)

Source: Household Finances (HEK) 2006, author calculations.

Note: HA and Y stand for housing allowance and household net income, respectively. Co-op stands for co-operative housing. RIR less than 20: A household does not have a housing affordability problem. RIR between 20 and 30: A household has a housing affordability problem. RIR over 30: A household has a severe housing affordability problem.

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

When low-income tenants do not receive the housing allowance, they are likely to have a severe housing affordability problem, owing to their RIR being over 40%. Among them, even when they receive the housing allowance, housing cost payments still causes problems for the lowest-income households. However, as the Swedish housing allowance system applies a more generous benefits arrangement to lower-income households, the extent to which the housing allowance subsidises housing costs is actually better for these households. As seen in Table 6.9, the relative changes in RIR are larger for lower income households compared to others. On the contrary, households with higher incomes are at a disadvantage under the benefit rule, which might result in a lower reduction of the housing cost burden than that for lower-income households. In this respect, it seems that both the different amounts of the housing allowance paid to each household and the varied extents to which the housing allowance reduces housing costs for each household could relate to the results in housing affordability changes.

Household Composition

The financial burden for housing costs is most significant for families with children. Regardless of the housing allowance receipt, these households face greater housing affordability problems compared to others. Even when they receive the housing allowance, they still have a housing affordability problem owing to their RIR of about 40%. Although the housing allowance for families with children is more generous, the extent to which the housing allowance subsidises their housing costs is smaller for these families, owing to their higher housing costs than those of others. Therefore, the absolute and relative reductions in RIR are smaller for families with children compared to childless families and pensioners. On the contrary, whilst young people without children receive fewer benefits in terms of the standard eligible housing costs and benefit rates, the extent to which their housing costs are subsidised with the housing allowance provision is better for these young household without children compared to families with children in Sweden. Therefore, their relative reduction in RIR by the housing allowance is also higher compared to families with children. Moreover, both absolute and relative changes in RIR are larger for pensioners with higher housing allowance-to-rent ratio compared to non-pensioners (see Table 6.4). Therefore, the extent to which the housing allowance subsidises housing costs could change the RIR and, in this respect, the housing allowance provision to families with children is less effective compared to other types of families.

Tenant Tenure

While the private and housing association housing tenants pay more in housing costs, they have smaller household incomes compared co-operative housing tenants. Therefore, it is expected that private renters or housing association tenants face greater housing affordability problems compared to co-operative housing tenants. In practice, RIRs before and after receiving housing allowances are higher for private and housing association tenants (56.8% and 31.8%, respectively) than that of co-operative housing tenants (45.2% and 27.8, respectively). However, the Swedish housing allowance does not have different benefit calculation rules based on tenant tenure and the extent to which the housing allowance subsidises housing cost are similar for all tenant groups. Therefore, the effect of the housing allowance on RIR change is similar for all tenant groups, as indicated by similar relative changes in RIRs (around 40%).

Employment Status

Without the housing allowance provision, both employed and unemployed low-income households face severe financial burden because of high housing costs (half of their incomes). However, when they receive the housing allowance, unemployed households do not have housing affordability problems while employed households still have affordability problems owing to their RIR being 38%. Although unemployed households have lower incomes, they could receive better benefits under the current housing allowance system. Moreover, because their housing cost payments are lower compared to that of working households, their housing allowance could subsidise housing costs to a higher degree. This leads to greater absolute and relative changes in RIR for out-of-work households. Therefore, the Swedish housing allowance is more likely to reduce the financial burden of housing costs for out-of-work households compared to working households. This change could lead to more purchasing power for living necessities after housing cost expenditures.

In brief, the housing allowance provision contributes to the improvement of income and housing problems of low-income tenants in Sweden. The increase in residual income after rents and the RIR reduction are better for the lower-income households compared to other higher-income households. This result could relate to the feature of the Swedish housing allowance arrangement that favours low-income households. However, similar to other countries, the housing allowance does not reduce poverty more for lower income households than for higher income households. This is because the changes in poverty are related to the original income and housing cost expenditures of households.

The results of income maintenance and housing affordability changes present positive effects of housing allowance provision. In next section, we will assess the probable negative outcome in work incentive changes due to the income supplement function of housing allowance provision.

6.3.3. Housing Allowance as Work Incentive or Disincentive Booster

In this section, I evaluate whether the housing allowance influences work incentives of low-income households via two indicators. The first indicator is the Income Replacement Ratio (IRR), which indicates the possibility of choosing unemployment owing to few differences in household income between being employed and unemployed (i.e. the unemployment trap). The second indicator is the Effective Marginal Tax Rate (EMTR),

which presents the potential of remaining in poverty although low-income households increase their labour participation (i.e. the poverty trap). The changes in work incentives could be linked to the behavioural choice of its beneficiaries for employment or unemployment. However, the working poor's behavioural changes responding to work incentive increase or decrease are not addressed here. This research focuses on the extent of work incentive for housing allowance recipients itself and the change in work incentives by the provision of housing allowance.

The imputation of these two indicators is associated with changes in household income, income tax, national insurance contribution and social security benefits. Therefore, the measurements of EMTR and IRR are calculated with rules of the Swedish income tax and social security system. The benefit rules used for the analysis model are based on data collection of the reference year, not the current benefit rules explained in Section 6.2. For this analysis, the parameter values and equations of OECD Taxing Wages (OECD, 2007, 2008b) as well as the country file of OECD Benefits and Wages (2006)²⁹ were applied. Although the analysis of work incentives addresses the housing allowance effects on working-aged households' work incentive changes, both employed and unemployed tenant households that received the housing allowance (size = 431) are included in the analysis of EMTR, whilst the analysis of IRR was confined to employed tenant households receiving the housing allowance (size = 124) (see Figure 3.2).

Before analysing work incentive changes by the housing allowance provision to tenant recipients, I address the differences in work disincentives between households that received the housing allowance and household that did not receive the housing allowance. As Table 6.10 indicates, the EMTR of working-aged tenants reached 41.3%, which means a household could take about 60% of every new income growth when their gross earnings increased. However, tenants receiving the housing allowance have a higher EMTR (76.2%) compared to tenants not receiving the housing allowance (36.8%). In other words, when a household's gross income increases by 1 unit, housing allowance recipients could take just a quarter of this newly increased income, whilst non-recipient households could take more than 60% of the every extra income increase. Therefore, the possibility of remaining in poverty is higher for housing allowance recipients when they work extra hours.

²⁹ For detail, see OECD Social Policies and Data, Benefits and Wages: Country Specific Information internet site (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>).

However, the IRR for tenants is quite high; in particular, IRR for tenants who receive the housing allowance is over 100. This is because the average unemployment benefit for full-time workers is used for all working households' income and tax simulations, owing to the lack of household information from HEK. Therefore, in practice, the IRR of low-income households that receive the means-tested benefit may be lower than 100%. This should be considered when addressing IRR changes by the housing allowance provision for tenants.

On the other hand, this indicates that the higher unemployment benefits could increase income replacement by the social security benefits for the lowest income households than for others. Moreover, although the same unemployment benefit rate is applied to households that receive the housing allowance and households that do not receive this benefit, housing allowance recipients face higher IRR compared to non-recipients, as indicated by a statistically significant difference in IRR between housing allowance recipients and non-recipients ($t = -29.854$, $p < 0.001$). In this respect, we could say that there are likely to be more work disincentives for housing allowance recipients than for non-recipients when both groups experience a similar income supplementation based on unemployment.

Table 6.10 Work Disincentives of Housing Allowance Recipients and Non-Recipients in Sweden (%)

	Total tenant (Working-aged) (N = 3,789)	Tenant Without HA (N = 3,358)	Tenant with HA (N = 431)	<i>t</i>
Mean				
EMTR	41.3	36.8	76.2	-17.770***
	Total Tenant (Working-aged & Employed) (N = 2,717)	Tenant Without HA (N = 2,593)	Tenant with HA (N = 124)	
IRR	87.2	86.1	110.1	-29.854***

Source: Household Finances (HEK) 2006, author calculations.

Note: HA stands for housing allowance. Concerning IRR, the average unemployment benefit for full-time workers is used for all working households' income and tax simulation. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

6.3.3.1 Income Replacement Ratio: Unemployment Trap

As indicated above, the IRR of working tenant households that receive the housing allowance is quite high because the higher unemployment benefit provision is assumed here. Therefore, there could be strong work disincentives for the working-poor who receive the housing allowance because it presents a higher possibility of the unemployment trap compared to the current employed status, which increases when the more generous social

security benefit rate is applied for low-income households. Moreover, as Table 6.11 displays, the receipt of housing allowance changes the IRR; although the difference between IRR1 (109%) and IRR2 (110%) is small, it is statistically significant ($t = -2.783$, $p < 0.01$). Therefore, the housing allowance provision might influence the increase in the work disincentive because of the little difference in household income when individuals are employed and when they are unemployed.

Table 6.11 Changes in Income Replacement Ratio by Housing Allowance in Sweden (%)

Total tenant with HA (Working-aged & Employed)		IRR1 (without HA)	IRR2 (with HA)	Absolute change IRR1-IRR2 (%p)	Relative change IRR1-IRR2 (%)
Mean	%(N)	109.0	110.1	1.2	1.4
Total	100.0(124)				
Income Quintiles					
1stQ(low Y)	20.2(25)	120.5	116.1	-4.5	-3.2
2ndQ	20.2(25)	106.2	107.4	1.2	1.4
3rdQ	20.2(25)	105.7	108.3	2.6	2.6
4thQ	21.0(26)	106.6	109.6	3.0	2.9
5thQ(high Y)	18.5(23)	105.6	109.1	3.5	3.4
	(F)	(9.346***)	(4.671**)	(20.163***)	(20.776***)
Household Composition					
No children	28.2(35)	110.5	109.5	-0.9	-0.4
With children	71.8(89)	108.4	110.4	2.0	2.1
	(t)	(0.885)	(-0.480)	(-2.937**)	(-3.097**)
Tenant Tenure					
Co-op	29.0(36)	108.9	110.4	1.5	1.7
Private or Housing association	71.0(88)	109.0	110.0	1.0	1.3
	(t)	(-0.025)	(0.234)	(0.487)	(0.642)
Employment Status					
All in work	79.0(98)	109.0	110.5	1.5	1.7
Some in work	21.0(26)	108.9	108.6	-0.3	-0.1
	(t)	(0.034)	(1.028)	(1.783)	(2.037*)

Source: Household Finances (HEK) 2006, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively. Co-op stands for co-operative housing. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

The incentive to remain in employment or welfare-to-work transition programme is greater for working tenant households with higher income than for households with lower income. Because the IRR of the lowest-income households is highest, they could realise a better financial gain compared to other households when they stop working. However, while the other income groups show increases in IRRs when they receive the housing allowance while unemployed, the lowest-income groups presents a decrease in IRR (from 120.5% down to 116%) even when they receive the housing allowance while unemployed. Therefore, the receipt of housing allowance has not always expanded disincentive to work for them (i.e. a high possibility of the unemployment trap). However, concerning

households with higher incomes, the housing allowance provision could have negative effects on the intention to keep their employment position in the labour market.

Household Composition

For both low-income working family types, the differences in work disincentives as measured by IRR are not statistically significant. Therefore, the potential of choosing unemployment would be similar for them. However, while the provision of housing allowance lowers the IRR for couple-adult households, it increases IRRs for one-parent households. Therefore, the housing allowance provision influences the growth of work disincentives for working-poor one-parent households. For this reason, the housing allowance as in-work benefit could be differently considered according to family type in Sweden. Although the housing allowance provision contributes to income maintenance for the working-poor as a whole, its effects on the welfare-to-work transition would vary for different family groups.

Tenant Tenure

It is interesting that both social and private housing tenants have similar IRRs; the difference in IRRs of both housing tenants are not statistically significant, regardless of the housing allowance provision. Additionally, the absolute and relative increases in IRR do not vary across households. This result indicates that the possibility of choosing unemployment, instead of remaining employed, is similar for all tenants who receive the housing allowance. Possibly, this is because the social security and housing allowance system treats all tenants equally. Therefore, while the housing allowance is likely to reduce working-poor tenants' intentions to retain their work, regardless of their tenancy conditions, changes do not differ across tenure type. Therefore, concerning only tenant tenure types, the provision of the housing allowance could be regulated in the same way to encourage the welfare-to-work transition.

Employment Status

Regardless of the different numbers of workers in a household, their IRRs are similar as the difference between IRRs are not statistically significant, like those of different family types and tenant tenures. This finding indicates that the possibility of choosing unemployment is the same for all working households that receive the housing allowance. However, the provision of the housing allowance has not always facilitated an increase in IRR for both groups. Whilst the housing allowance is associated with a relative increase in

IRR for couple-adult households with two workers and working single-adult households, it is associated with a relative decrease in IRR for working couple-adult households with only one worker. Therefore, it would be more helpful to receive the housing allowance for couple-adult households with two workers and working single-adult households to maintain their income at a higher level while unemployed. Concerning these working-poor households, the housing allowance could influence a reduction in intent to work because of the increase in income maintenance by housing allowance when they give up their earnings and choose unemployment.

The IRR findings suggest that the work disincentive relating to income replacement by welfare benefits is quite high for all working-poor tenants in receipt of housing allowance in Sweden. However, the analysis was limited in terms of capturing the actual work incentive because the more generous income replacement is assumed here. Moreover, the housing allowance could have a different effect on the changes in the work incentive according to households and it could differently affect the intention of the working poor to move from welfare to work. Concerning working-poor tenants with high IRRs and who experience an increase in IRR by the receipt of housing allowance, the negative effect of the housing allowance should be considered.

6.3.3.2 Effective Marginal Tax Rate: Poverty Trap

As Table 6.12 shows, the EMTR increased from 64% to 76% by the provision of housing allowance. This finding means that low-income tenants could take less than 30% of the every new income growth when they receive housing allowances whereas they could take almost 35% of the every additional income increase when they do not receive housing allowance. The housing allowance provision changes the possibility of remaining in a state of poverty (the poverty trap) for low-income tenants. Hence, for tenant recipients, the housing allowance is likely to be less effective in providing a work incentive to increase labour participation and help them escape the current welfare benefit dependency.

Table 6.12 Changes in Effective Marginal Tax Rate by Housing Allowance in Sweden (%)

Total tenant with HA (Working-aged)		EMTR1 (without HA)	EMTR2 (with HA)	Absolute change EMTR1-EMTR2 (%p)	Relative change EMTR1-EMTR2 (%)
Mean	%(N)	64.0	76.2	12.2	43.8
Total	100.0(431)				
Income Quintiles					
1stQ(low Y)	22.0(95)	99.8	99.8	-	-
2ndQ	20.9(90)	57.5	86.0	28.6	117
3rdQ	17.2(74)	65.5	70.0	4.5	6.3
4thQ	20.0(86)	51.3	65.2	13.9	46.3
5thQ(high Y)	20.0(86)	42.6	55.9	13.3	45.5
	(F)	(45.579***)	(14.777***)	(6.224***)	(5.778***)
Household Composition					
2 adults + children	36.9(159)	75.3	92.4	17.0	70.5
1 adult + children	63.1(272)	57.4	66.7	9.3	28.3
	(t)	(4.956***)	(5.389***)	(1.559)	(1.861)
Tenant Tenure					
Co-op	15.3(66)	48.3	61.8	13.6	25.4
Private or Housing association	84.7(365)	66.8	78.8	11.9	47.2
	(t)	(-4.062***)	(-2.780**)	(0.289)	(-0.871)
Employment Status					
All in work	64.3(277)	76.7	85.2	8.5	38.0
Some in work	35.7(154)	41.1	59.9	18.8	54.4
	(t)	(11.162***)	(5.782***)	(-2.402*)	(-0.876)

Source: Household Finances (HEK) 2006; author calculations.

Note: HA and Y stand for housing allowance and household net income respectively. Co-op stands for co-operative housing. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

While lower-income households have little profit from increased earnings due to the higher EMTR, the highest-income household preserves half of these earnings when earnings increase marginally. Therefore, work incentives are higher for households with a certain level of income rather than for the poorest households. The result also indicates differences in EMTR changes among households by housing allowance. While the housing allowance is not associated with changes in EMTR for the lowest-income group, the EMTR of the other four income groups has increased. Therefore, whilst the receipt of housing allowance could have little effect on work incentive change for the lowest-income households, it is more likely to intensify work disincentives for the lowest-income households than for others.

Household Composition

Concerning family types, more work incentives exist for one-parent households compared to couple-adult households because marginal income changes are better for the former owing to their lower EMTR. Therefore, couple-adult households receive little financial

reward to change their employment status. However, the take-up of housing allowance is likely to boost the work disincentive for both family types (i.e. the likelihood of remaining in poverty); the difference in work disincentive change by the receipt of housing allowance is not statistically significant between couple-adult and lone-parent households.

Tenant Tenure

The EMTR is higher for private or housing association tenants compared to others, thus, the possibility of being trapped in poverty is higher for these households (i.e. less take-home pay when they participate more actively in labour). However, the receipt of the housing allowance increases the work disincentive for recipients regardless of tenant tenure. Particularly, private or housing association housing tenants have experienced worse conditions compared to co-operative housing tenants. While EMTR has increased by 25% for co-operative housing tenants, it increased twice as much for private and housing association housing tenants. Therefore, in encouraging tenant households to increase labour participation, the housing allowance provision is unlikely to be effective in improving the financial gain from additional labour participation for private or housing association housing tenants. This negative effect might be more serious for them compared to other housing tenants.

Employment Status

When low-income households that receive the housing allowance opt to increase their labour participation to earn greater incomes, households with only one adult working reap greater financial reward for their increase in take-home pay because of their lower EMTR compared to households with all adults working. This indicates that the possibility of remaining in poverty is higher for households with all adults working when these households intend to work extra hours. Therefore, although both groups are low-income households, each group faces different work incentives. Moreover, although the housing allowance provision contributes to the expansion of work disincentives for both households, it leads to a smaller increase in EMTR for households with all adults working than other households. Therefore, concerning households with all adults working, the problem of work disincentives and the negative effect of the housing allowance provision on work incentive are not serious. Hence, the housing allowance as a work benefit is more useful for these households to improve the welfare-to-work transition with the support of income maintenance than for other households.

Overall, the Swedish working-poor who receive housing allowances are likely to experience severe work disincentives (i.e. the high possibility of falling into unemployment trap as well as poverty trap). The housing allowance receipt has more negative effects for increasing the probable work disincentive for lower income tenants compared to higher income tenants. The housing allowance provision is related to the increase in EMTR, thus, this change is likely to disturb the encouragement of the welfare-to-work transition for low-income tenants who receive in-work benefits.

6.4 Summary

The Swedish housing allowance is likely to achieve different policy goals for more economically vulnerable households for which benefits are assigned. However, there are differences in the improvement of income maintenance and housing affordability across various households that receive the housing allowance. The design of housing allowance concerns this result. The Swedish housing allowance system applies different benefit arrangements according to household income and family type. These two factors relate to the achievement of income and housing policy aims for low-income households. The more important factor is household income, which determines the maximum or reduced benefit size. In practice, while the lower-income household or the unemployed are more likely to have lower income, they experience more improvement in income maintenance after housing cost expenditures and housing affordability compared to the higher-income household or the employed.

In terms of income maintenance, different allowance schemes according to family composition also affect the results. In particular, pensioner households experience more improvement in income maintenance compared to other types of households because they can receive an additional allowance for housing costs after receiving the housing allowance. Moreover, the Swedish housing allowance system considers housing needs depending on different family features (i.e. bigger floor space and higher housing costs for families with more children).

However, whilst the financial burden arising from expenditure on housing cost decreases due to the housing allowance provision to all households, the benefit arrangement does not

always improve the condition of families that are more favoured by the benefit rules. Moreover, it should be noted that the effect of housing allowance on income maintenance and housing affordability improvement is similar for households with different tenancy, unlike the results in relation to family composition or household income. This could be related to the feature of the Swedish housing allowance system which does not differentiate tenure tenancy when calculating benefits. However, while the improvement in income reduces the poverty among households that receive the housing allowance, the housing allowance improves the conditions of higher-income households more compared to lower-income households.

Although low-income households could reduce their financial burden arising from housing cost expenditures by housing allowance, there is concern that the housing allowance relates to the reduction in work incentives for low-income households with members who are able to work or currently work. As the Swedish housing allowance boosts the working poor's income if they opt to be out-of-work, this increases the possibility of the unemployment trap. Moreover, it reduces the financial reward from the marginal take-home pay growth and increases the possibility of remaining in poverty for the working poor.

Among households that receive the housing allowance, the housing allowance could increase work incentives for some households whilst it could play a negative role in reducing work incentives for other households. The most prominent difference in the work incentive changes by the housing allowance provision is between lower- and higher-income households. The housing allowance is less likely to reduce both work incentives (IRR and EMTR) for lower income recipients. This difference in work incentive changes needs to be considered for welfare-to-work transition relating to housing allowance recipients.

Chapter 7. The Effectiveness of Housing Allowance for Tenants in South Korea

Introduction

For decades, the main stream of housing policy has been premised on housing supply in South Korea (S. Korea). Since the 1960s, the government has facilitated the supply of housing and thus homeownership-oriented housing market has been developed. In addition, with regards to poor households, the government has expanded the supply of public rental housing below market price. A rent subsidy programme is available, although this has only been the case for the last ten years. In order for the housing allowance system to become an efficient and effective policy tool for low-income households, it is necessary to examine the effectiveness of the current housing allowance system. In this chapter, I will first explore the evolution of national housing support schemes from the supply and demand perspectives in S. Korea. I will then address the feature of the Korean housing allowance in the national social security system. Subsequently, I will analyse the effects of housing allowances on low-income tenants by examining the changes in income maintenance, housing affordability and work incentives.

7.1. The Development of National Support for Housing Costs in S. Korea

Housing Supply Facilitation by the State since the 1960s

Since the 1960s, the supply of newly built houses has been the top priority of the national housing policy in S. Korea. Its objectives were to solve the housing shortage and drive national economic development (S. Park, 2007; Y. Park, 2009). The Park Cheung Hee government (1963-1979), which came to power through a military coup d'état in 1961, launched its Five-Year Economic Development Plan with foreign aid (Jin, 2007; Kwon, 1998, 2009; S. Park, 2007). Under the Five-Year Economic Development Plan, large-scale housing building construction was regarded as an effective measure due to its direct economic effects on land development and employment. Moreover, the mass construction of housing brought public support and legitimacy to the military dictatorship (S. Park, 2007; Jin, 2007; Kwon, 1998; Y. Park, 2009). During this period, the Korean government

constructed housing units through a state housing company³⁰ administered by the housing ministry and provided construction subsidies via the state-owned bank³¹ to private housing builders. This government legislated the Livelihood Protection Act in 1961 and introduced the first national social security system (Livelihood Protection system) in 1966 as part of its populist policy (Kwon, 1998). However, the eligibility of this benefit was limited to selected beneficiaries such as young person below working age or those who were unable to work owing to disability or sickness and it subsidised only food and fuel cost expenditures.

Although the government-led housing building supply was affected by the budget spending cuts stemming from the economic downturn in the early 1970s, its supply-centred housing policy continued into the 1980s. The government's housing policy from 1972 to 1981 was characterised by the slogan 'One House per One Household', by the deregulation of the housing construction for private housing and the introduction of special savings accounts, known as Housing Subscription Savings and Housing Subscription Deposit that gave priority to the first homebuyer applying for the newly built housing allocation scheme³² in urban areas. However, although the housing shortage was alleviated in the 1970s, the increase in housing stock has been slower than the growth of household formation in S. Korea (S. Park, 2007; Y. Park, 2009; Kim, 2010).

Housing Construction and the Development of Social Insurance Schemes in the 1980s

In the 1980s, the government's housing policy still focused on homeownership. The new military regime under Cheon Doo Hwan (1980-988) expanded state intervention in land development and the construction of housing. Under the Rental Housing Construction Promotion Act of 1984, the government also promoted the construction of public rental

³⁰ This state-owned company, known as Korea National Housing Corporation was merged with another state company, Korea Land Corporation in 2009 and is now the Korea Land and Housing Corporation.

³¹ In 1966 the Korean government established Korea Housing Bank, a state-owned and specialised bank for housing finance. This bank provided loans for housing construction to local governments and private builders whilst also raising funds from customers through the management of housing subscription accounts, the issuing of housing bonds and the sale of housing lotteries. This bank was converted to a private commercial bank (Housing and Commercial Bank) in 1997 before being merged with another private bank (Kookmin Bank) in 2001. At present, Kookmin Bank is a private commercial bank and maintains only some housing finance businesses commissioned by the government (S. Park, 2007; Kookmin Bank internet site, www.KBstar.com).

³² If people are planning to purchase a newly built housing for sale or rent a newly built public rental housing in urban areas, they have to apply for the housing allocation scheme. Having a Housing Subscription or a Housing Deposit account is one of the application eligibility for this scheme and gives them a priority for the first allocation of housing (S. Park, 2007; Kookmin Bank internet site, www.KBstar.com).

housing in urban areas. However, the initial type of public rental housing supplied in the mid 1980s, known as Five-year Public Rental Housing was not for the low-income households. It was instead to be sold to sitting tenants or new homebuyers after the five-year rental contract.

However, under the Roh Tae Woo government (1988-1993), the supply of public rental housing was tailored to low-income households (Kwon, 1998; S. Park, 2007; Y. Park, 2009; Kim, 2010). The government released its Two Million Housing Construction Plan after the 1987 election. The national housing corporation provided Permanent Public Rental Housing³³ for the lowest-income households which were receiving income support from the social security system (Livelihood Protection system) (ibid). As the rental prices of public rental housings remained below market level, low-income people were able to afford their rent. At the same time, the government introduced National Pension (1986) and Health Insurance (1988-89) schemes whilst also expanding the eligibility for social assistance benefit to people who were able to work in 1982 (Lee & Ahn, 1990). However, the social security system still failed to make allowances for housing cost expenditures of low-income people.

Under the next Kim Young Sam government (1993-1998), the construction of Permanent Public Rental Housing was interrupted for financial reasons and due to concerns regarding vacant dwellings of Permanent Public Rental Housing in certain areas (Jin, 2007). As a result, from 1993, 50-year Public Rental Housing³⁴ replaced the supply of Permanent Public Rental Housing. However, several deregulation policies of this government, e.g. the deregulation of the land development, the redevelopment and reconstruction of housing blocks in urban area and the finance system, led to a national economic crisis in 1997, which was compounded by the Asian financial crisis in late 1990s. Given this situation, the new Kim Dae Joong government began to reform the national system and rent allowance was introduced as part of the new social security system in 2000 (Y. Park, 2009; Kim, 2010).

³³ The entitlement to social security benefit for the low-income household is one of the eligibility conditions for the tenancy of this public housing. Unlike Five-year Public Rental Housing, this public rental housing was not for sale after a certain period. Therefore, the low-income households are able to keep their tenancy contract constantly as long as the tenant receives this national income support from the government.

³⁴ This public rental housing is accessible for non-homeowners and the housing is to let for long-term periods at lower rent price compared to the private market.

Introduction of Housing Allowance under the New Social Security System and the Emergence of Various Public Rental Housing

Whilst the Kim Dae Joong government (1998-2003) implemented conditions attached to the International Monetary Fund's lending programmes, it also expanded the eligibility of four national social insurance schemes between 1998 and 2001 in addition to reforming the public assistance system in 2000 (Lee, 2004). The newly social security system, i.e. the National Basic Livelihood Security (NBLIS) system, was designed to ensure the national standard of living cost for low-income households. It also introduced the welfare-to-work programme as a condition of benefit receipt for households whose members are able to work. Moreover, for the first time ever the social security system made allowances for housing costs. However, the government still placed a higher priority on housing supply than on the expansion of housing allowance. This government, unlike its predecessor, increased the supply of public rental housing in order to ensure tenant households' residential stability.

The increase in public rental housing supply was related to the worsened housing market situation for the tenant households due to the increase in rent prices during this period: Middle-income and low-income private tenants faced a substantial housing cost burden (S. Park, 2007; Jin, 2007; Y. Park, 2009; Kim, 2010). In response to this situation, the government launched its One Million National Rental Housing Plan, providing public rental tenancies with a government-controlled rent and deposit system for households ineligible for Permanent Public Rental Housing (ibid). This plan offered 10-year and 20-year-contract National Rental Housing with wider income eligibility and more spacious floor sizes than those offered by Permanent Public Rental Housing for the lowest income households.

The next Roh Moo Hyun government (2003-2008) continued supplying public rental housings via new construction and the transformation of private rental housings to public ones. Moreover, by concentrating on the supply of National Rental Housing, the government attempted to create a variety of public rental housing systems in response to different families' housing needs (Jin, 2007; Y. Park, 2009; H. Park, 2012).

Table 7.1 Public Rental Housing in S. Korea (2010)

	Permanent public housing	50-year public rental housing	National rental housing (10&20 years)	Rental housing for employees	Selling to tenant after 5or10-year contract	Transforming private housing into public housing	
						National rental housing Buying & Letting scheme	Long-term tenancy public housing
No. of dwelling	190,519	100,722	317,878	28,347	213,352	58,063	15,574
As a % of the total public rental housing	20.6	10.9	34.4	3.1	23.1	6.3	1.7
Supply period	1989-1993	1993-1998	1998-present	1990-present	1993-present (10-year: from 2004)	2004- present	2005- present
Rent contract	deposit +monthly rent	deposit +monthly rent	deposit +monthly rent	deposit +monthly rent	deposit +monthly	deposit +monthly rent	deposit only or deposit +monthly rent
Total Period of tenancy (including renewal)	50 years	50 years	- 10 & 20 years - 30 years at maximum	3 / 5/ 50 years	- 5 years - 10 years	2 years	2 years
The size of dwelling	26.34-42.68m ²	Less than 50 m ²	-More than 60m ² -60-50 m ² -Less than 50m ²		Less than 83 m ²		
Tenant eligibility	-lowest-income households -NBLs recipients	Non owner-occupier	-lowest-income households -NBLs recipients -households with income less than 70% of average urban worker's income	Private employees	Non owner-occupiers (HSS subscriber)	-lowest- income households -NBLs recipients	

Source: Jin (2007), MLTM (2011) Table 11-3, p. 410.

The government introduced a new public rental housing scheme, whereby the government agency purchases or hires unoccupied private housing on behalf of the public and transforms those houses into public rental housing. Moreover, the government changed the housing allowance in the NBLs system in 2008. In the national social security system, the eligible housing costs of the NBLs beneficiaries were subsidised only with NBLs Housing Benefit; other benefits made no allowance for housing costs. However, NBLs Housing Benefit was a fixed amount prior to 2008, and was adjusted only for household size. From 2008, NBLs Livelihood Benefit and Housing Benefit were calculated based on household income, with 20.65% of NBLs benefit paid as Housing Benefit up to the benefit cap (see Section 7.2).

The Lee Myung Bak government (2008-2013) has supported the diversity of public rental housing and increased the supply of public rental housing through the New Plus housing plan. In this period, the nationwide introduction of the Housing Voucher system has been

discussed as a housing policy instrument by the central government³⁵. However, at the local level, the Seoul (capital city of S. Korea) Metropolitan government merged income support for housing costs of the low-income citizen and launched a rent subsidy programme³⁶ in 2010. This Seoul Housing Voucher Programme is designed for low-income private tenants ineligible for the NBLs benefit due to their income being higher than the NBLs means-test standard (Park & Oh, 2012). These changes reflect an awareness of the shortcomings of the housing allowance under the current social security system.

7.2 The Design of Housing Allowance for Tenants in S. Korea

The Korean housing allowance has been provided under the National Basic Livelihood Security (NBLs) system since 2000. Unlike housing allowances in the other three countries, the Korean housing allowance is not a separate social assistance benefit, but one of the seven benefits of NBLs system: Livelihood, Housing, Education, Health, Maternity, Funeral and Self-Support.

Income Standard of NBLs Benefits Eligibility: Minimum Cost of Living

The NBLs system aims to fill the income gap between the poverty line income and the low-income households' income for guaranteeing a minimum living income. For this purpose, the government's Minimum Cost of Living (MCL), has become the income standard for a household's NBLs benefit claim (Yeo *et al.*, 2007). Therefore, if low-income households wish to receive NBLs benefits including the Housing Benefit, their incomes should be less than the MCL, adjusted for household size (see Table 7.2). If any members of the household are able to work, the NBLs benefit will be provided on the condition that family member participates in the welfare-to-work programme or the Self-Support Programme³⁷. If the household's income is lower than the MCL for a given

³⁵ The implementation of Housing Voucher has been delayed until now.

³⁶ The cap of Seoul City government's rent allowance is based on the minimum housing cost calculated for the Minimum Cost of Living. See Table 7.2 for the Minimum Cost of Living.

³⁷ Under the NBLs scheme, the claimant who is able to work must participate in welfare to work programmes in order to receive NBLs benefits. Based on the claimant's labour ability level, job experience and the features of household, available welfare to work programmes, i.e. Self-Support Programme, are

household size, Livelihood and Housing Benefits are provided to meet their basic living costs. Other NBLs benefits are need-based.

However, the maximum sum of the NBLs Livelihood and Housing Benefits is smaller than the MCL. This is because other social support allowances, such as medical care, school fee support and other cash benefits are considered as national income support. Therefore, these allowances are deducted from the MCL and the rest is the maximum NBLs Livelihood and Housing Benefits (c in Table 7.2).

Table 7.2 The Minimum Cost of Living and the NBLs Benefit Cap in 2012 (KRW)

	Household size					
	1	2	3	4	5	6
The MCL (a)	553,354	942,197	1,218,873	1,495,550	1,772,227	2,048,904
Other allowances(b)	100,305	170,789	220,941	271,093	321,245	371,398
NBLs benefit cap (c=a-b)	453,049	771,408	997,932	1,224,457	1,450,982	1,677,506
Max. Housing Benefit (19.348%* of c)	87,656	149,252	193,079	236,906	280,736	324,583
Max. Livelihood Benefit (80.652%* of c)	365,393	622,156	804,853	987,549	1,170,246	1,352,943

Source: MOHW (2012a).

Note: *These ratios have been changed every year since 2008.

The Arrangement of Housing Allowance in the NBLs system

Under the NBLs system, both renters and homeowners are eligible for Housing Benefit. However, the households living in care homes or hospitals are ineligible for Housing Benefit, whilst they could receive other NBLs benefits. The NBLs Housing Benefit offers different allowances according to tenure types. Low-income renters could receive their allowances in cash and use the allowances for rent and housing repair costs. Low-income homeowners could use repair or maintenance services provided by the community service project team consisting of the NBLs welfare-to-work programme participants. The fixed amount of service charge is deducted from their housing allowance while the rest is paid to low-income homeowners in cash.

Table 7.3 Monthly Deduction of Housing Benefit for Owner-Occupiers in 2012 (KRW)

	Number of Household				
	1	2	3	4	5
Monthly Deduction	26,000	45,000	58,000	71,000	86,000

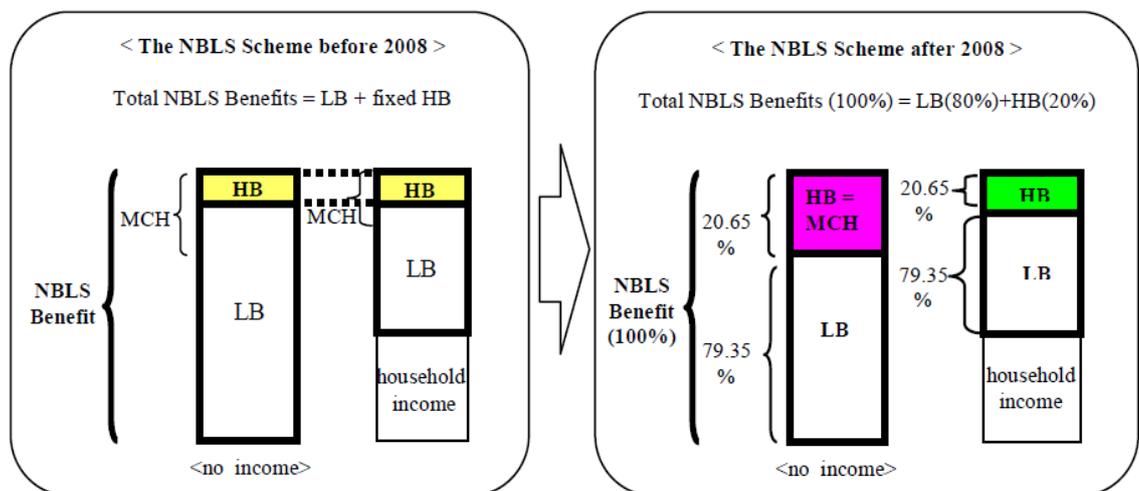
Source: MOHW (2012a).

assigned. These programmes are as follows; job search service, job placement, job training programme, low-salary work for the public, internship programme, entrepreneurship programme and small business projects.

In 2008, the new NBLS Livelihood Benefit and Housing Benefit calculation rule was introduced. Prior to 2008, whilst the amount of Livelihood Benefit was income-based, Housing Benefit was based on the number of people in a household. Therefore, the same NBLS Housing Benefit was paid out to claimants with families of the same size, regardless of different income and housing needs. Thus, in 2007, 33,000 KRW was provided for one- and two-member households, 42,000 KRW for three- and four-member households and 55,000 KRW for five- and six-member households (MOHW, 2007a).

Eligible claimants of the NBLS Benefit now receive the Livelihood and the Housing Benefits with a fixed percentage. In 2008 the initial percentages of these benefits were 79.35% and 20.65% for Livelihood Benefit and for Housing Benefit respectively (MOHW, 2008b). As a result, every household could have Housing Benefits in different amounts. Moreover, while both Livelihood Benefit and Housing Benefit made allowances for the housing cost before 2008, only Housing Benefit makes allowances for housing costs to the NBLS beneficiaries.

Figure 7.1 The NBLS Livelihood Benefit and Housing Benefit before and after 2008



In the NBLS system, the benefit cap of Housing Benefit is the Minimum Cost of Housing (MCH), which is the amount of housing costs as a part of the MCL (15-17%). This MCH amount is also adjusted for the household. Therefore, the actual financial burden for housing costs payment of the low-income is not considered. This benefit rule is the clearest difference between the housing allowance systems in S. Korea and in the other three countries.

In 2010, 1,549,820 persons (3.2% of the population and 5.1% of all households in S. Korea) received NBLS benefits. Most NBLS recipients (95%) are general recipients receiving Livelihood and Housing Benefits together because they do not live in a care home or hospital.

Table 7.4 The Number of NBLS Recipients from 2001 to 2010

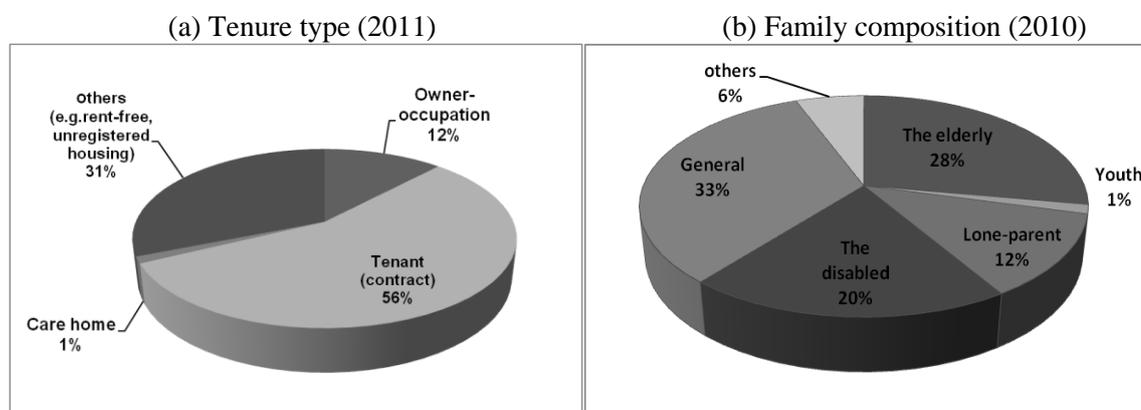
Year	Total recipients			General recipients (Eligible for HB)			Other recipients* (Ineligible for HB)	
	No. of household	No. of recipient (person)	As % of total population (%)	No. of household	No. of recipient (person)	As % of total recipients (%)	No. of recipient (person)	As % of total recipients (%)
2001	698,075	1,419,995	3.0	698,075	1,345,526	94.8	74,469	5.2
2002	691,018	1,351,185	2.8	691,018	1,275,625	94.4	75,560	5.6
2003	717,861	1,374,405	2.8	717,861	1,292,690	94.1	81,715	5.9
2004	753,681	1,424,088	3.0	753,681	1,337,714	93.9	86,374	6.1
2005	809,745	1,513,352	3.1	809,745	1,425,684	94.2	87,668	5.8
2006	831,692	1,534,950	3.2	831,692	1,449,832	94.5	85,118	5.5
2007	852,420	1,549,848	3.2	852,420	1,463,140	94.4	86,708	5.9
2008	854,205	1,529,939	3.1	854,205	1,444,010	94.4	85,929	6.0
2009	882,925	1,568,533	3.2	882,925	1,482,719	94.5	85,814	5.8
2010	878,799	1,549,820	3.2	878,799	1,458,198	94.1	91,622	6.3

Source: MOHW (2012b).

Note: *NBLS recipients living in care homes or hospitals are not eligible for HB.

Among households receiving the NBLS benefits, 55.7% are tenants whilst 12% are homeowners. Moreover, 16.7% of all NBLS households are tenants in Permanent Public Rental Housing for the lowest income household (MOHW, 2012b). In terms of family composition, households with elderly or disabled members comprise 48% of all NBLS recipients, whilst lone-parent households comprise approximately 12% of all recipients (MOHW, 2011).

Figure 7.2 Households Receiving the NBLS Benefit in S. Korea



Source: MOHW (2012b) for (a); MOHW (2011) Table 6-1-6, p. 323 for (b).

7.3 The Analysis of Housing Allowance Effects on Tenants in S. Korea

This section analyses the effectiveness of the Korean housing allowance for low-income tenant households. The analysis focuses on the effects of housing allowance in achieving different policy aims, i.e. improving income maintenance, housing affordability and work incentives for its beneficiaries. The changes in income maintenance after housing cost expenditures, financial burden for housing costs payments and work incentives by housing allowance provision are examined using different indicators in Table 7.5.

Table 7.5 Indictors of Housing Allowance Effectiveness in Section 7.3

Section	Indicator	Definition
7.3.1	Income maintenance	
7.3.1.1	1. Residual income after housing cost expenditures	Residual Y1: Paying rent without HA Residual Y2: Paying rent with HA
7.3.1.2	2. Poverty Rate (PR) (poverty line: 60% of the national median income)	PR1: Before paying rent & receiving HA PR2: After paying rent without HA PR3: After paying rent with HA
7.3.2	Housing affordability	
	Rent to Income Ratio (RIR)	RIR1 : Paying rent without HA RIR2 : Paying rent with HA
7.3.3	Work incentive	
7.3.3.1	1. Income Replacement Ratio (IRR)= $\frac{\text{Household net income when unemployed}}{\text{Household net income when employed}}$	IRR1: Income excluding HA IRR2: Income including HA
7.3.3.2	2. Effective Marginal Tax Rate (EMTR) = $1 - \frac{\text{Change in household net income}}{\text{Change in household gross income by 1 income unit}}$	EMTR1: Income excluding HA EMTR2: Income including HA

Note: Y and HA stand for household net income and housing allowance respectively.

The 3rd wave dataset of Korea Welfare Panel Study (KOWEPS 2008) is used for analysis. The tenants receiving housing allowance (N=460) are the target of analysis. Since 2008, the revised housing allowance under the NBLs system has been implemented. However, the benefit rule applied for the analysis is the NBLs rule before 2008, which is the reference year of KOWEPS 2008 data collection. Therefore, there are some limitations when it comes to discussion regarding the effectiveness of housing allowance. Moreover, according to the limited information from the dataset, the categories of tenant type are different from those used in Chapters from 4 to 6. The Permanent Public Rental Housing tenant is one category and another category consists of other types of public housing tenants (see Table 7.1) and private rental housing tenants.

In S. Korea, low-income households eligible for NBLS Housing Benefit received housing allowance of 431,000 KRW, which accounts for 33% of rent expenditures. This housing allowance subsidised housing costs least for the lowest-income household among housing allowance recipients. Moreover, larger families are likely to receive larger housing allowances, although they also tend to pay higher rents. In addition, there is a significant difference in the housing cost subsidisation rate between Permanent Public Rental Housing tenants (50%) and other tenure types (29%).

Table 7.6 Incomes, Rents and Housing Allowance of Tenant Recipients in S. Korea (000 KRW, 2007 price)

Total tenant with HA		Annual HH income	Annual HA	Annual rents	HA÷rents (%)
Mean		7,388	431	2,066	33.0
Total (%)	100.0				
Income Quintiles					
1st Q (low Y)	20.6	4,218	402	2,001	27.4
2nd Q	19.1	5,593	406	1,750	41.5
3rd Q	20.4	6,602	424	1,866	33.1
4th Q	20.4	8,127	460	2,074	32.4
5th Q (high Y)	19.6	12,569	467	2,641	31.2
	(F)	(500,131.8***)	(26,229.97***)	(9,749.959***)	(1,408.476***)
Household Composition					
No children	19.6	7,371	396	1,587	37.9
With children	32.3	9,955	506	2,661	29.6
Pensioner	48.0	5,693	396	1,860	33.3
	(F)	(140,641.4***)	(366,210.1***)	(39,635.39***)	(1,118.108***)
Tenant Tenure					
Permanent Public Rental Housing	19.5	7,675	416	1,008	51.4
Other public & all private housing	80.5	7,334	435	2,293	28.7
	(t)	(37.60142***)	(-111.371***)	(-419.309***)	(247.0675***)
Employment Status					
Unemployed	69.6	6,363	413	1,916	33.6
Employed	30.4	9,777	474	2,332	31.6
	(t)	(-356.325***)	(-281.305***)	(-120.08***)	(14.66039***)

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HH, HA and Y stand for household, housing allowance and household net income respectively. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Much like recipients of housing allowance in the other three countries, those in S. Korea are economically vulnerable. In practice, all poverty rates of housing allowance recipients based on three poverty lines are higher than those of non-recipients, regardless of housing cost expenditures and housing allowance receipt. Therefore, the housing allowance could be an important financial resource for relieving income and housing cost-related problems of low-income households in S. Korea.

Table 7.7 Poverty Rates before and after Housing Cost Expenditures in S. Korea (%)

Poverty lines	Total household (owner+tenant) (N=6,314)		Household without HA (owner+tenant) (N=5,591)		Household with HA (owner+tenant) (N=723)	
	before HC	after HC	before HC	after HC	bf.HA&HC	bf.HAaf.HC
	40% of median	13.1	22.2	10.5	18.6	47.2
50% of median	19.6	28.9	16.0	24.8	66.2	81.4
60% of median	25.1	35.4	21.0	31.3	78.2	87.7

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HA and HC stand for housing allowance and housing cost respectively.

Moreover, the housing costs impose a severe financial burden on many Korean households which spend approximately 40% of their income on gross housing costs. Tenant households' rent-to-income ratio is higher than 30%, thus indicating severe housing affordability problems in S. Korea. It is found that the ratio of rent to income is higher for households who do not receive allowances than for housing allowance recipients. This might be because recipients of housing allowance are on low income and are eligible for public rental housing residency with below market rent. In addition, the financial burden arising from high market rent and repaying loan for large lump-sum deposit (almost 50% of housing price for sale) of the Korean private rental housing system may relate to this result.

Table 7.8 Financial Burdens for Housing Cost Expenditures in S. Korea (%)

Housing affordability measures	Total household (N=6,314)	Household without HA (N=5,591)	Household with HA (N=723)	<i>t</i>
	Gross HC over Y	39.5	39.1	44.8
	Total tenant (N=2,233)	Tenant without HA (N=1,773)	Tenant with HA (N=460)	
Rent over Y	41.3	42.6	33.0	72.301***

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HC, HA and Y stand for housing cost, housing allowance and household net income respectively. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

The remainder of this chapter examines the effectiveness of housing allowance for tenant recipients in achieving aims of social and housing policy and welfare-to-work transition in S. Korea.

7.3.1 Social Policy Object: Income Maintenance Improvement

As shown in Table 7.7, renters who receive a housing allowance are likely to have more serious income problems. However, considering housing allowance as an income support

instrument, the household's economy would be expected to improve because of the reduced housing cost expenditure. This section will therefore analyse the effects of housing allowance on the income maintenance of the low-income tenant household. Two indicators are used: the change in residual incomes after rents and poverty rates by housing allowance.

7.3.1.1 Residual Income after Rents

If households have more residual income after rent payment when they spend their housing allowances on rent, the receipt of housing allowance contributes to the preservation of household income, which is a valuable resource for non-housing good consumption for low-income households. In practice, the provision of housing allowance makes changes to the residual income after rent payment for its beneficiaries: Their residual income after rents increased relatively by 11.6%. The improvement in the residual income after rent payment varies across households in S. Korea, as indicated in Table 7.9.

Table 7.9 Changes in Residual Income after Rents by Housing Allowance in S. Korea (000 KRW, 2007 price)

Total tenant with HA	Residual income after rents		Absolute change (000 KRW)	Relative change (%)	
	without HA	with HA			
Mean		5,469	5,808	339	11.6
Total (%)	100.0				
Income Quintiles					
1st Q (low Y)	20.6	2,044	2,410	367	30.4
2nd Q	19.1	3,711	4,072	361	10.8
3rd Q	20.4	4,804	5,133	329	7.5
4th Q	20.4	6,401	6,737	336	5.6
5th Q (high Y)	19.6	10,512	10,816	304	3.1
	(F)	(413,766.715***)	(413,031.350***)	(22,350.884***)	(2,190.889***)
Household Composition					
No children	19.6	5,631	5,999	368	12.1
With children	32.3	8,123	8,407	284	3.6
Pensioner	48.0	3,616	3,981	365	16.8
	(F)	(156,862.785***)	(151,812.332***)	(180,413.583***)	(1,494.152***)
Tenant Tenure					
Permanent Public	19.5	6,516	6,864	348	6.4
Other public & private	80.5	5,215	5,552	337	12.8
	(t)	(140.901***)	(142.995***)	(53.365***)	(-48.518***)
Employment Status					
Unemployed	69.6	4,396	4,752	355	14.5
Employed	30.4	7,924	8,227	304	4.9
	(t)	(-372.405***)	(-368.015***)	(320.130***)	(62.944***)

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively.

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

The receipt of housing allowance increases the residual income after rent payment for all low-income households in S. Korea. Moreover, the housing allowance take-up is more likely to improve the income maintenance after housing costs expenditure for the lowest-income households. The absolute and relative changes in the residual income after rent payment by housing allowance were most notable for the lowest-income group (30%) and least notable for the highest-income group (3%). The Korean housing allowance rule pre-2008 was not based on the household income and the actual housing costs. Nevertheless, the lowest-income households which were under the most pressure from housing costs were the most likely to maintain their incomes because of the housing allowance.

Household Composition

As the 2007 NBLs Housing Benefit rate increases with household size, larger households are more likely to receive greater housing allowances compared to smaller households. In practice, families with children receive larger housing allowances than families without children. However, the increased housing allowance did not always contribute to a more significant increase in the residual income after housing costs expenditure. Both the absolute and relative changes in residual income after rent payment were smallest for families with children: 284,000 KRW and 3.6% respectively. Although families with children received more generous housing allowances, their housing costs were less subsidised by the housing allowance because they paid higher rents (see Table 7.6). In contrast, the receipt of housing allowance is more likely to be effective for income maintenance after housing costs expenditure for pensioners and households without children. These households' residual income after housing costs increased more than it did for families with children, although the size of the benefit itself was smaller. In this respect, it is necessary to consider the actual housing costs of individual households for the housing allowance rate in order to reflect on a family's housing need.

Tenant Tenure

As the rent of the Korean public rental housing is capped by the government at 55-83% of the local rental price in the private housing sector, there is a price gap between public and private rental housing. The tenants of Permanent Public Rental Housing paid half the rent of those living in private rental housing and other public housing (see Table 7.6). Moreover, the different changes in the residual income after rent payment emerged by tenure types: Whilst the absolute change in the residual income after rent payment was larger for

Permanent Public Rental Housing renters (348,000 KRW) compared to other renters (337,000 KRW), the relative change in the residual income after rent payment was lower for Permanent Public Rental Housing tenants (6.4%), which was only a half of the others (12.8%). However, the NBLS system has not considered the differences in rents between tenure types and applies a uniform rule to all tenants. Although, there is a difference in residual income changes between tenant groups, this is not related to the features of the housing allowance system. Rather, the outcome is associated with other family features regarding original rent costs or household income.

Employment Status

The Korean housing allowance system has never reflected actual housing costs (before and after 2008). However, the employed recipient who paid the higher rents received greater housing allowances than the unemployed recipient, although the former have more income than the latter. However, the receipt of housing allowance is likely to be more effective to reduce income problems for out-of-work households with low income than for working households with high income. Both the absolute (355,000 KRW) and relative changes (14.5%) in the residual income after rent payment by housing allowance are larger for unemployed households than for employed households. Therefore the Korean housing allowance contributes to the income improvement more for lower-income unemployed households which are more economically vulnerable than employed households.

7.3.1.2 Poverty Rate

The next indicator of income maintenance improvement is poverty rate changes by housing allowance—whether the increase in residual income after rent payment by the receipt of housing allowance is linked to poverty alleviation. Three poverty rates (PR1, PR2 and PR3) compared are based on different household incomes according to the provision of housing allowance and housing costs expenditures (see Table 7.5).

The poverty rates of S. Korea's housing allowance recipients tend to be higher than those of non-recipients as presented in Table 7.7. Moreover, rent payments without housing cost subsidy are likely to worsen poverty problem for them: PR2 is higher than PR1 and PR3. However, whilst the housing allowance provision accounted for 11.6% of the relative change in the residual income after rent payment for the beneficiaries, the poverty rates of its beneficiaries relatively declined by an average of only 1.6%.

Table 7.10 Changes in Poverty Rates by Housing Allowance in S. Korea (%)

Poverty lines	60% of median income			Absolute change (%p) PR2-PR3	Relative change (%) PR2-PR3	
	PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC			
Total tenant with HA						
Mean	(%)	83.0	89.6	88.2	1.4	1.6
Total	100.0					
Income Quintiles						
1st Q (low Y)	20.6	100.0	100.0	100.0	0.0	0.0
2nd Q	19.1	100.0	100.0	100.0	0.0	0.0
3rd Q	20.4	100.0	100.0	100.0	0.0	0.0
4th Q	20.4	100.0	100.0	100.0	0.0	0.0
5th Q (high Y)	19.6	13.2	47.0	39.9	7.1	15.2
Household Composition						
No children	19.6	86.4	88.9	88.9	0.0	0.0
With children	32.3	57.6	75.1	70.8	4.3	5.8
Pensioner	48.0	98.8	99.7	99.7	0.0	0.0
Tenant Tenure						
Permanent public	19.5	83.7	86.8	85.1	1.7	2.0
Other public & private	80.5	82.9	90.3	89.0	1.3	1.5
Employment Status						
Unemployed	69.6	93.5	95.1	95.1	0.0	0.0
Employed	30.4	59.0	77.1	72.5	4.6	6.0

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HA, HC and Y stand for housing allowance, housing cost and household net income respectively. For poverty rates based on 40% and 50% of median income, see Table A.6 in Appendices.

PR1: poverty rate when housing allowance is not provided and before housing costs payment.

PR2: poverty rate when housing allowance is not provided and after housing costs payment.

PR3: poverty rate when housing allowance is provided and after housing costs payment.

Household Income Level

Although the tenants receiving housing allowances are regarded as living with the lowest income, among them, lower-income groups suffer the most from poverty after housing cost expenditures. Even after they receive allowance for rent payment (PR3), most lower-income households among housing allowance recipients still live in poverty. However, the income of these households increased as a result of the housing allowance provision. The housing allowance improved poverty rates better for the higher income groups than did it for lower-income groups. The receipt of housing allowance contributes to the absolute (7.1%) and relative (15.2%) decreases in poverty rates for the allowance recipients with the highest income. Although these households are also low-income households receiving a means-tested benefit, their incomes could more easily increase to the poverty line through the reduction in housing costs expenditure with housing allowances. Therefore, the improvement in residual income after housing costs as a result of the housing allowance is

most likely to reduce the income deficit for higher-income households than for lower-income households in S. Korea.

Household Composition

Among housing allowance recipients, families with children pay the highest rent. Therefore, their higher financial burdens are more likely to exacerbate their income problems if they do not receive a housing allowance. As is evident from Table 7.10, the change in the absolute poverty rate between PR1 and PR2 is larger for households with children than for pensioners and households without children. When housing allowances are used for rent payment, the poverty rates after rent payment are reduced for all households. However, regardless of housing cost expenditures with or without housing allowance, the poverty rates are lowest for households with children, whilst the poverty rate is quite high for most pensioners and households without children. In addition, the poverty rate decreased as a result of the housing allowance receipt only for households with children: The absolute reduction was 4.3% and the relative reduction was 5.8%. As the higher income of families with children indicates, those households' incomes are much closer to the poverty line; thus, they are more likely to escape from poverty through the housing allowance provision and have more opportunities for non-housing consumption after housing cost expenditures compared to childless families and pensioners, although the improvement in residual income after housing costs was better for households without children and pensioners.

Tenant Tenure

Whilst Permanent Public Rental Housing tenants have higher incomes than other low-income tenants, their rent costs are just half of others in S. Korea. Therefore, it is expected that poverty might be less of a problem for Permanent Public Rental Housing tenants. In practice, the poverty rates are lower for Permanent Public Rental Housing tenants compared to other housing tenants. The Korean housing allowance alleviates the poverty for all types of tenants. Among them, Permanent Public Rental Housing tenants experience slightly higher absolute and relative reduction in poverty rates compared to other tenant groups. Moreover, Permanent Public Rental Housing tenants have greater residual income after rent payment and thus they are more likely to escape poverty resulting from decreased housing costs payment. Again, households with higher income are at an advantage for solving poverty problems by the receipt of housing allowance.

Employment Status

Out-of-work households receiving housing allowance are more likely to fall into poverty than are working households, regardless of housing costs. In addition, whilst out-of-work households have paid lower rents than working households, housing expenditure could increase more the risk of poverty for out-of-work families than for working families, as shown by the larger increase in poverty rates from PR1 to PR2 in Table 7.10. However, the take-up of housing allowance is more likely to alleviate poverty problems for the employed than for the unemployed. The absolute and relative reductions in poverty rates were better for working families than workless families. Whilst the increase in the residual income after rent payment by the housing allowance provision was larger for out-of-work households than for working households, this result did not bring about a more reduction in the poverty rate for the former than the latter. Therefore, employed higher-income households are more likely to alleviate poverty problems stemming from housing costs when compared to unemployed lower-income households through the receipt of housing allowance.

Summary: Income Maintenance Improvement

Although the Korean housing allowance system has never been calculated based on the actual housing costs, it does help the poor households maintain their income after housing cost expenditures to a certain degree. This benefit improves the residual income after rent payment for its beneficiaries. In addition, the income increase by housing allowance receipt is slightly related to poverty alleviation. However, rather households with the better income maintenance by the housing allowance provision, households with higher income experience the more reduction in poverty rates as a result of the housing allowance receipt and thus have more opportunities for non-housing good and service consumption after housing costs expenditures.

7.3.2 Housing Policy Object: Housing Affordability Improvement

The high ratio of housing costs to income indicates the undesirable division of the limited financial resources for low-income household. Therefore, if the housing allowance relates to the decrease in this ratio, the housing allowance contributes to the reduction of housing cost related poverty for the poor household. In practice, the housing costs impose a heavy financial burden on low-income tenant households in S. Korea. If they do not receive housing allowance, they spend a third of their income on rent (see Table 7.11). However,

the housing allowance take-up could ease their financial burden for rent costs because their Rent to income ratio (RIR) would drop from 33.6% to 26.4%, thus improving their housing affordability by 33%, although they still have problem when it comes to affording housing costs.

Table 7.11 Changes in Rent to Income Ratio by Housing Allowance in S. Korea (%)

Total tenant with HA	Rent to Income Ratio		Absolute change (%p)	Relative change (%)	
	without HA	with HA			
Mean		33.6	26.4	7.2	33.0
Total (%)	100.0				
Income Quintiles					
1st Q (low Y)	20.6	55.0	43.8	11.2	27.4
2nd Q	19.1	33.4	25.6	7.8	41.5
3rd Q	20.4	29.9	23.1	6.8	33.1
4th Q	20.4	26.4	20.5	5.9	32.4
5th Q (high Y)	19.6	22.2	18.2	4.0	31.2
	(F)	(44,672.627***)	(30,787.947***)	(207,977.132***)	(1,408.476***)
Household composition					
No children	19.6	25.9	19.1	6.7	37.9
With children	32.3	31.1	25.1	6.0	29.6
Pensioner	48.0	38.3	30.2	8.1	33.3
	(F)	(12,968.576***)	(10,875.454***)	(29,794.458***)	(1,118.108***)
Tenant Tenure					
Permanent Public	19.5	14.9	8.6	6.3	51.4
Other public & private	80.5	37.7	30.3	7.4	28.7
	(t)	(-466.900***)	(-482.276***)	(-126.718***)	(247.068***)
Employment Status					
Unemployed	69.6	35.8	28.0	7.8	33.6
Employed	30.4	27.3	21.6	5.7	31.6
	(t)	(153.120***)	(123.509***)	(293.093***)	(14.660***)

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HA and Y stand for housing allowance and household net income. RIR less than 20: A household does not have a housing affordability problem. RIR between 20 and 30: A household has a housing affordability problem. RIR over 30: A household has a severe housing affordability problem. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

In S. Korea, lower-income recipients of the housing allowance have greater financial burdens arising from expenditure on housing costs, as shown by their higher RIRs in Table 7.11. In reference to the lowest-income group, their non-housing consumption is considerably limited as they spend half of their income on rent. However, the housing allowance contributed to the reduction in RIRs of all income groups, although the pre-2008 Korean housing allowance was linked to family size and the benefit was based on the minimum housing cost standard set by the government. Although it is unlikely to solve the housing affordability problem for all income groups, the tenants with the highest incomes could solve housing affordability problems because their RIR falls to 20% or below. Moreover, the RIR of higher-income groups decreases the most whilst the absolute change

in RIR is larger for the lowest-income group. This is because the housing allowance subsidises the housing cost of the higher-income household more than it does the housing cost of the lowest-income household, although the size of housing allowance receipt is larger for the lowest-income group compared to others. Therefore, the housing allowance has a greater effect on reducing the financial burden for housing cost expenditures of higher-income households. Both their higher residual income and lower RIR give them more opportunity to spend their income on non-housing good necessities.

Household Composition

Although families with children pay higher rents compared to other families, RIR was higher for pensioners. Moreover, among pensioner households, there are still housing affordability problems when their housing costs are subsidised with housing allowances. Unlike the housing allowances in Sweden and the Netherlands, there has never been a supplementary element of housing allowance for pensioners in S. Korea. In particular, as the pensioner households' residual income is smallest, the housing costs are likely to place a heavier financial burden on pensioners and restrict more significantly their non-housing consumption opportunities. However, the absolute changes in RIR are bigger for pensioners while the relative changes in RIR are larger for pensioners and for families without children. Whilst pensioners and families without children pay lower rents than families with children, more of their housing costs are subsidised by the housing allowance when compared to families with children. Therefore, the take-up of housing allowance could improve their RIR more than the RIR of families with children. However, unlike households without children, pensioner households are more likely to have housing affordability problems because their RIRs are higher compared to others, despite the absolute and relative reductions in RIR.

Tenant Tenure

Unlike other household groups, there was a significant difference in RIR between Permanent Public Rental Housing tenants and other types of tenants in S. Korea. Whilst Permanent Public Rental Housing tenants receiving housing allowance do not have housing affordability problems (RIR below 20%), other households do (RIR above 30%) even with the housing allowances. Therefore, the low-income tenants of Permanent Public Rental Housing could maintain their residency with below market rent, as the lowest-income households receiving social security benefit are eligible for Permanent Public Rental Housing tenancy. Moreover, they have more residual income after housing costs

than other housing tenants. Furthermore, these households' RIR decreased relatively by 50% through the take-up of housing allowance, although the absolute decrease in RIR is smaller for Permanent Public Rental Housing tenants compared to other tenants. This is because Permanent Public Rental Housing tenants' housing costs are further subsidised by the provision of housing allowance, although the size of housing allowance is smaller for Permanent Public Rental Housing. In the Korean rental housing system, the rent of Permanent Public Rental Housing is lower than it is for other public and private rental housing. In addition, the rent of all public housings is capped by the government at a price which is lower than local private housing rents. Therefore, under the current housing allowance system, which does not consider the gap in rent between different types of rental housing, non-Permanent Public Rental Housing tenants remain at a disadvantage.

Employment Status

Although unemployed households receiving housing allowance pay lower rents than employed households do, housing costs place a heavier financial burden on unemployed households. Whilst the RIR for out-of-work households is around 30%, regardless of housing allowance take-up, the RIR remained between 21% and 27% for working households. Moreover, as the residual income after housing costs payment is larger for employed households, their income problems are less severe than for unemployed households after housing cost expenditures. However, both the absolute and relative reductions in RIR by housing allowance take-up were better for unemployed households (7.8% and 33.6%, respectively) than for employed households (5.7% and 31.6%, respectively). Although unemployed households receive smaller housing allowances than working households do, their rent costs are lower and are more subsidised by the housing allowance. Therefore, the housing allowance is more likely to relieve the financial burden for housing costs for out-of-work households.

In S. Korea, the improvement in RIR is related to the extent to which the housing costs of low-income households are subsidised by housing allowance. The problem of housing affordability as measured by RIR is worst for pensioners and the private housing tenants. Moreover, the housing allowance is not effective in solving housing affordability problems of pensioners and private housing tenants. This is due to the fact that the Korean housing allowance scheme does not provide additional allowance with housing costs for the disadvantaged family by the benefit arrangement. Moreover, the benefit arrangement does not reflect the actual rent price gap between the public and private housing markets. This is

the weakness of the Korean housing allowance system, the benefit rules of which should certainly be changed.

7.3.3. Housing Allowance as Work Incentive or Disincentive Booster

The work incentive is an important instrument of the welfare-to-work transition, as the financial benefit affects the choice of employment or unemployment by welfare beneficiaries who are able to work. The provision of housing allowance could change the beneficiary's income and thus affect his or her incentive to find a job. In this study, two indicators are used to measure the work incentive for low-income households who are receiving housing allowances (see Table 7.5). The changes in each indicator by the receipt of housing allowance are compared to examine the effects of housing allowance on incentive to work. However, this research does not examine the possible changes in the work-poor's behaviour in labour market according to work incentive changes. The analysis will focus on the extent of work incentive for working-aged households receiving housing allowance and the increase or decrease in their work incentives by the receipt of housing allowance.

The first indicator, Income Replacement Ratio (IRR) is the extent to which a worker's employment income would be replaced with social security benefit provision while being unemployed. A high IRR means that the household could maintain its income at a certain degree without labour force participation. This high RIR is understood as the work disincentive, which could lead the working poor to unemployment, indicating the possibility of the unemployment trap. The second indicator, Effective Marginal Tax Rate (EMTR), refers to the extent of a worker's additional net earnings after tax and social security contributions. Because the high EMTR indicates a small increase in the net income by extra work, the working poor are more likely to remain in their poverty state, meaning the probability of the poverty trap.

The measurement of IRR and EMTR is based on changes in the income, social security benefits and tax contribution of each household. In order to impute IRR and EMTR, this study uses the equations and parameter values for income tax, national insurance contributions and social security benefit of S. Korea from OECD Taxing Wages books (OECD, 2006, 2007) as well as the country information files of S. Korea from the OECD

Benefits and Wages³⁸. Again the model for IRR and EMTR imputation is based on the pre-2008 NBLs rules and tax rules. Among the households from the 2008 Korea Welfare Panel Study, only working-aged households are subject to the analysis of this section. However, whilst working-aged households receiving housing allowance are used in EMTR analysis, only working-aged and employed households receiving housing allowance are used in IRR analysis.

Before interpreting the results of housing allowance recipients, it might be helpful to look at the work incentives of working-aged households in S. Korea. As shown in Table 7.12, working households which are not receiving housing allowance have more incentives than households receiving housing allowance: Working households may perceive unemployment as less attractive (lower IRR) and see employment as a way out of poverty (lower EMTR).

Table 7.12 Work Disincentives of Housing Allowance Recipients and Non-Recipients in S. Korea (%)

	Total household (Working-aged) (100.0)	Household Without HA (97.7)	Household with HA (2.3)	<i>t</i>
EMTR	18.7	18.5	26.8	-84.604***
	Total household (Working-aged & Employed) (100.0)	Household Without HA (99.4)	Household with HA (0.6)	
IRR	39.5	39.3	86.1	1,747.834***

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HA stands for housing allowance. * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

With regards to EMTR, there is higher incentive to increase labour force participation in S. Korea. As the average EMTR is 18.7%, workers would pay around a fifth per extra income increase by 1 income unit for tax and social security contribution and take the rest home. However, this incentive is smaller for households receiving housing allowance than for non-recipient households. Moreover, there is a considerable difference in IRR between housing allowance recipients and non-recipients among working households. Whilst the incomes of housing allowance recipients are to be replaced by social security benefit at 86% of the current income, the incomes of non-recipients are to be replaced at only 39% when the main wage earner becomes unemployed. This would be more likely to lead to

³⁸ For detail, see OECD Social Policies and Data, Benefits and Wages: Country Specific Information internet site (<http://www.oecd.org/els/socialpoliciesanddata/benefitsandwagescountryspecificinformation.htm>).

unemployment for working-poor recipients of housing allowance. These results seem to be contradictory as they indicate both the increased possibility of choosing unemployment whilst the decreased possibility of being in poverty when the housing allowance recipients intend to work extra hours.

In the following sections, I examine the work incentive of tenant housing allowance recipients and the effects of the housing allowance on work incentive changes.

7.3.3.1 Income Replacement Ratio: Unemployment Trap

The IRR of working tenants who receive housing allowance is quite high: over 80%. This means that the unemployment income of the working-poor recipients of housing allowance is 80% of their employment income. Therefore, these families face a higher possibility of falling into the unemployment trap. However, the absolute and relative changes in IRR by housing allowance are just 1%. Therefore, since the housing allowance hardly changes the IRR, its effect on work incentive changes is minimal in S. Korea. The differences in IRR changes among family groups are shown in Table 7.13.

Table 7.13 Changes in Income Replacement Ratio by Housing Allowance in S. Korea (%)

Total tenant with HA (Working-aged & Employed)		IRR1 (without HA)	IRR2 (with HA)	Absolute change IRR1-IRR2 (%p)	Relative change IRR1-IRR2 (%)
Mean		83.7	84.5	0.8	0.9
Total (%)	100.0				
Income Quintiles					
1st Q (low Y)	9.6	87.2	88.2	1.0	1.1
2nd Q	33.7	79.4	80.5	1.1	1.4
3rd Q	14.6	83.8	84.5	0.7	0.8
4th Q	14.7	89.6	90.0	0.4	0.4
5th Q (high Y)	27.4	84.6	85.1	0.5	0.6
	(F)	(4,708.864***)	(4,154.959***)	(22,683.130***)	(21,224.970***)
Household Composition					
No children	26.1	84.6	85.7	1.2	1.4
With children	73.9	83.4	84.0	0.6	0.8
	(t)	(18.155***)	(27.868***)	(170.688***)	(128.200***)
Tenant Tenure					
Permanent Public	15.1	82.4	83.4	1.0	1.2
Other public & private	84.9	83.9	84.7	0.7	0.9
	(t)	(-27.747***)	(-25.893***)	(30.877***)	(29.746***)
Employment Status					
All in work	85.3	82.7	83.5	0.8	1.0
Some in work	14.7	89.6	90.0	0.4	0.4
	(t)	(-179.621***)	(-171.510***)	(192.137***)	(188.560***)

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively.

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Household Income Level

When employed tenants receiving housing allowance become unemployed, the high rate replacement of the income by social security benefits makes unemployment attractive. For households of different incomes, the lowest- and the second-highest income groups are more likely to face low work incentive due to their IRRs of around 90%, although the difference in IRRs is small. For all income groups, the receipt of housing allowance accounts for approximately 1% of absolute and relative changes in IRR. However, the increase in IRR is bigger for lower-income households than higher-income households among housing allowance recipients. The Korean housing allowance affects income maintenance when the working-poor family enters or leaves the labour market. With this income maintenance effect, the receipt of housing allowance could have a negative effect on the intention to work and escape the welfare dependency, although the difference in IRR by the take-up of housing allowance is small.

Household Composition

The IRRs of families with children are slightly lower than those of childless families. Families with children could maintain similar levels of employment and unemployment income when they choose unemployment. As higher IRR could reduce the working poor's intention to participate in labour market or workfare programmes, families with children are less likely to be trapped in unemployment. Moreover, both the absolute and relative increases in IRR by housing allowance take-up are bigger for households without children. Housing allowance improves the low-income households' residual income after rent and social security benefits help them maintain their incomes when they choose a different employment status; thus, unemployment is more likely to be attractive for households without children than for households with children. Therefore, in order to reduce the likelihood of being trapped in unemployment, the differentiated benefit arrangements according to both family types and their incomes should be considered.

Tenant Tenure

As the IRRs of Permanent Public Rental Housing tenants are lower than those of other tenants, Permanent Public Rental Housing tenants would maintain a lower portion of their current working income if they became unemployed. Therefore, the work disincentive affecting the working-poor tenant's choice of employment or unemployment might be lower for Permanent Public Rental Housing tenants than for other tenant households. However, the take-up of housing allowance represents the larger absolute and relative

changes in IRR of Permanent Public Rental Housing tenants compared to other public rental housing tenants and private tenants. Therefore, the housing allowance receipt could increase the possibility of the unemployment trap for Permanent Public Rental Housing tenants. Moreover, the effect of housing allowance receipt on the decrease in their intention to work might be less important for private housing tenants than for Permanent Public Rental Housing tenants. The low-income of these households will make them eligible for Permanent Public Rental Housing residency below market rent even when they become unemployed. In contrast, private housing tenants and other public housing tenants face a more serious financial burden for rent costs than tenants in Permanent Public Rental Housing. Although their IRRs are higher than those of Permanent Public Rental Housing tenants, it might not be easy for them to give up their main earnings as the loss of income would intensify their housing and income problems. Therefore, Permanent Public Rental Housing tenants are more likely to be trapped in unemployment due to their high IRR and lower rent than private sector tenants, although their income replacement ratios are not better when compared to other types of tenants.

Employment Status

The IRR is higher for families of which one adult in a couple works. These families are more likely to maintain their income at a similar level when they become unemployed: Thus work incentive is lower for households of which one adult of the couple works. As seen in Section 7.3.1, the effect of housing allowance on income maintenance after rent payment is smaller for employed households than it is for unemployed households. However, when working households become unemployed, the housing allowance contributes to their income maintenance while leaving the labour market because the receipt of housing allowance increases the IRRs of both working household groups. In addition, both the absolute and relative increases in IRR are bigger for households where all adults are working. In terms of the working poor's welfare-to-work transition, greater labour participation of household members who are able to work could result in a faster transition from dependency on in-work benefit to independence from welfare. However, the housing allowance for these households could reduce their intention to work than it would for working-poor households due to their higher changes in IRR by the receipt of housing allowance. Therefore, housing allowances are likely to have a greater negative effect on the households with more labour force participation and more engagement in the welfare-to-work transition.

7.3.3.2 Effective Marginal Tax Rate: Poverty Trap

Although work incentives for extra labour are smaller for housing allowance recipients than for non-recipients as the former's EMTR is higher (26.8%) than that of the latter (18.7%), housing allowance recipients could take around 70% of one additional earning unit home. Moreover, the EMTR of tenants receiving housing allowance is approximately 20%, as seen in Table 7.14. Therefore, housing allowance recipients have incentives to increase their labour force participation and earn additional income. However, the EMTR of the low-income tenant receiving housing allowance does not change by the provision of housing allowance in S. Korea. It might relate to the fact that the size of housing allowance, which may cause earning changes does not differ according to the income under the pre-2008 NBL rule used for the analysis. As the pre-2008 housing allowance is adjusted for family size, the same benefit is paid to households of the same size, regardless of income. Therefore, the difference in household disposable incomes before and after a 1% earnings increase could be the same, regardless of the inclusion or exclusion of housing allowance for income calculation. If the amount of housing allowance changes with household income, the EMTR results would be different.

Table 7.14 The Effective Marginal Tax Rate of HA Recipients in S. Korea (%)

Total tenant with HA (Working-aged)		EMTR					<i>F</i> or <i>t</i>
Mean		21.0					
Income Quintiles (100.0)	(%)	1 st (low Y) (21.6)	2nd (18.5)	3rd (19.3)	4th (22.8)	5 th (high Y) (17.8)	
		7.3	40.2	34.8	7.3	20.1	(<i>F</i> =5,923.872***)
Household Composition (100.0)		No children (27.0)		With children (73.0)			
		16.4		22.7			(<i>t</i> =-30.999***)
Tenant Tenure (100.0)		Permanent Public Rental (9.9)		Other public & private (90.1)			
		54.4		17.3			(<i>t</i> =84.934***)
Employment Status (100.0)		Unemployed (11.7)		Employed (88.3)			
		7.3		22.8			(<i>t</i> =-136.453***)

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: HA and Y stand for housing allowance and household net income respectively.

p* < 0.05 *p* < 0.01 ****p* < 0.001

Household Income Level

There might be more incentive to increase labour participation for the lowest- and the second-highest income groups than for other income groups. They could preserve more

than 90% of their extra earnings per one income unit increase whereas other income groups could save 60-70% of extra income increase. Therefore, if these five working-poor groups receiving housing allowance increase their labour participation, the lowest- and the second-highest-income groups would reap greater financial rewards than households of other income groups. However, the lowest- and the second highest-income groups' IRR is higher than that of other housing allowance recipients. Therefore, whilst the possibility of being in unemployment trap is higher for them, they are also more likely to escape poverty if they increase their labour force participation. For these groups, the social security system needs to provide greater incentives to increase their working hours.

Household Composition

The difference in EMTRs between these two family types is not as big as findings relating to household income, tenancy and employment status. Both households with and without children could take around 80% of one extra earning home when they increase their labour participation. However, when these households increase their working hours or accept a job, families with children are more likely to remain in poverty because their EMTR is higher than it is for families without children. This might be because the current income tax credit and other social security benefits for the working-poor with children are still insufficient in the Korean welfare system. However, the IRR of working families with children is slightly lower than it is for working families without children and thus the possibility of the unemployment trap is less for families with children. Therefore, greater incentives to remain employment should be provided for families with children within the welfare-to-work programme.

Tenant Tenure

Permanent Public Rental Housing tenants tend to be at a higher risk of being trapped in poverty due to their higher EMTR (over 50%) whilst the EMTRs of other public housing tenants and all private tenants are less than the average EMTR. In terms of working tenants, Permanent Public Rental Housing tenants are more likely to be trapped in unemployment because of their stable rental tenancy and lower housing costs burden, although their IRRs are lower compared to the IRRs of other tenants. However, the social welfare system, even the housing allowance arrangement, does not consider this difference between public and private housing tenants in S. Korea.

Employment Status

A workless family's EMTR is three times lower (7.3%) than a working family's EMTR (22.8%). Therefore, unemployed households might be more likely to seek a job because these households could take more than 90% of their one additional income home. However, although employed households might preserve their increased earnings at lower rates than unemployed households, the poverty trap seems to be low for both types of households. Because they would save around 80% of an additional income unit by extra labour participation, the work incentive may be enough to convince them to increase their labour force participation.

Whilst the Korean households receiving housing allowance observe the work incentives to increase the labour participation, they also face the work disincentive expressed by income replacement and marginal increase in take-home pay. However, taking into account housing allowance's function as income support, an interesting result that the provision of housing allowance does not affect the increase or decrease of work incentive for its beneficiaries emerged.

7.4 Summary

For the last decade, the S. Korean social security system has provided housing allowance to the low-income household as an income supplement for housing cost expenditures. However, despite the change in the post-2008 NBLIS benefit arrangement, the housing allowance does not actually consider housing costs of low-income households. The benefit cap of the Korean housing allowance is still calculated with the national average housing costs at minimum level. Moreover, due to the adjusted benefit rate for the family size, the larger families could receive a more generous housing allowance than smaller families if their incomes are similar.

As the housing allowance is not tailored to the actual housing cost expenditures, housing allowances in S. Korea have a smaller influence on tenants with higher rent payments than such allowances do in other countries. Nevertheless, the receipt of housing allowance improves the residual income after rent expenditure of low-income tenants and also decreases their housing affordability problems. The effects of housing allowance on

income maintenance and housing affordability are better for the lowest-income recipients, pensioners and families without children as well as the unemployed recipients. However, the housing allowance-related reduction in poverty rate is less likely to occur among lower-income than among higher-income tenants, which is similar to findings in the other three countries. Moreover, the change in the poverty rate is smaller in S. Korea. This is because the government has set the housing allowance rate at a minimum cost standard of livelihood.

The housing allowance for low-income tenants has lightened the financial burden of housing costs and provided more opportunities for non-housing goods and services consumption for their living. However, the housing cost subsidies are not based on the actual housing cost expenditures but on household size. Therefore, although the Korean housing allowance eases the considerable burden for housing cost payment for low-income tenants, some tenants who are struggling to pay their rent still have housing affordability problems when they receive housing allowances. In particular, housing affordability for pensioners in S. Korea has improved less than in the other three countries which provide a supplementary allowance for housing costs (such as Sweden) or apply a more generous benefit rate (such as the Netherlands) for such families. Hence, it is essential that the housing allowance system considers different forms of families in addition to income and housing costs.

Moreover, the receipt of housing allowance as income supplement could affect the change in work incentives for the working poor. For some NBLIS beneficiaries, their benefits are conditional on their participation in the welfare-to-work programme. For them, the work incentive helps them to escape welfare dependency. However, this could pose a dilemma for recipients of the Korean housing allowance because the strong disincentive to keep a job and the powerful incentive to increase labour force participation exist at the same time. Although the effects of housing allowance receipt on work incentive changes is small, it appears with the changes in income replacement by welfare benefit while being unemployed. Therefore, the NBLIS housing allowance should be arranged with attention to its two opposite outcomes.

This study is based on the pre-2008 Korean NBLIS system, according to which the housing allowance is based on family size, rather than on the actual housing costs or income. Still, the NBLIS housing allowance is not based on the low-income household's actual housing

cost need. As long as the NBS housing allowance is based on the average minimum cost for housing set by the government and does not consider the actual financial burden for housing costs, considerable changes in income maintenance, housing affordability and work disincentive might not be expected in S. Korea.

Chapters 4 to 7 of this study have examined the effectiveness of housing allowance provision in each country of the UK, the Netherlands, Sweden and S. Korea. The next chapter will compare the results of Chapters 4-7 whilst simultaneously analysing the changes in low-income tenants' income maintenance, housing affordability and work incentives in the four countries.

Chapter 8. Comparing the Effectiveness of Housing Allowance for Tenants

Introduction

The aim of this study is to examine the effectiveness of housing allowance as a rent subsidy programme for low-income tenants and explain how varied institutional features of housing allowance systems make different changes in income maintenance, housing affordability and work incentives in the four countries. This chapter compares the features of housing allowance systems and findings obtained by examining five indicators—the Residual Income after Housing Costs, Poverty Rate, Rent to Income Ratio (RIR), Income Replacement Ratio (IRR) and Effective Marginal Tax Rate (EMTR)—to find connections among the various housing allowance systems and their effects on the low-income households' living conditions. In Section 8.1, I will compare the features of housing allowance systems in the UK, the Netherlands, Sweden and S. Korea in terms of the selection of beneficiaries, benefit size and design complexity. In Sections 8.2 through 8.4, I will explain how changes in these five indicators are associated with the institutional feature of the housing allowance systems in the four countries.

8.1 The Design of Housing Allowance for Tenants in the Four Countries

The aim of housing allowances in the four countries is quite similar: to reduce a low-income household's financial burden arising from housing costs and therefore secure residential stability and protect household from deprivation. However, similarities and differences in the national housing allowance system among the four countries reflect the varied features of each country's housing allowance system that contributes to the difference in housing allowance effectiveness. This section focuses on the three aspects of the housing allowance design—the eligibility conditions for housing allowance entitlement, the subsidisation rule for housing costs and the structural complexity of the housing allowance system—in the UK, the Netherlands, Sweden and S. Korea.

8.1.1 Eligibility Conditions for Housing Allowance Entitlement

Low-income Households versus the Social Assistance Recipients

In the four countries, the most crucial housing allowance eligibility condition is a claimant's economic status because a means test is the gateway to the housing allowance entitlement. However, differences occur in how a means test is carried out for claimants across the countries. Although the means test for the housing allowance is separated from the main social assistance in the UK, the Netherlands and Sweden, no separate means test for housing allowance exists in S. Korea. The Korean housing allowance is part of the national social assistance system, the National Basic Livelihood Security (NBLs) system, meaning the eligible beneficiaries of the housing allowance are confined to only NBLs recipients who qualify for residential conditions (i.e. not living in a care home or hospital).

As Table 8.1 presents, the share of housing allowance recipients of the entire population or total households is least for S. Korea, at just around 5% of the total population. In contrast, housing allowances in the three European countries subsidise a greater proportion of the population compared to S. Korea. The share of the Dutch housing allowance recipients is highest: A third of total households receive housing allowance. The share of the UK recipients is around 8%, which is similar to the Swedish results. This is because both social assistance recipients and other low-income households passing the means test for housing allowance entitlement are able to receive housing allowance in the UK, the Netherlands and Sweden. Unlike benefit rules of these countries, the benefit rule of the Korean NBLs system restricts the size of low-income households receiving a housing allowance.

Table 8.1 Housing Allowance Recipient Share of Population in the Four Countries (%)

	the UK	the Netherlands	Sweden	S. Korea
Year	2011	2008		2010
% of Population	7.8	-	Housing Supplement for pensioner only: 4.4 (2008)	-
% of Household	-	30	HA for families with and without children only: 3.9 (2010)	NBLs recipients eligible for NBLs HB: 5.1

In practice, low-income households in S. Korea are placed in a more economically vulnerable situation compared to other countries. As presented in Section 3.1 of Chapter 3, poverty is more widely spread in S. Korea: The relative poverty rate of S. Korea is higher (15%) than that of the Netherlands (7.2%), Sweden (8.4%) and the UK (11.3%). Moreover, the income distribution among the population is more unequal in S. Korea than in the

Netherlands and Sweden. Even when unemployed low-income households receive a housing allowance, income maintenance is worse for the Korean households than those in the other three countries. This is because the unemployment benefit, including the housing allowance, replaces a lower portion of employment income in S. Korea (see Table 8.3). Therefore, poor households with an income level slightly higher than the NBLS eligibility income threshold face more serious income and housing problems than those who are eligible for the housing allowance in S. Korea.

Condition for the Maximum Benefit Provision

In each country, different conditions must be met for the maximum benefit rate up to the cap of housing allowance provision. These conditions are commonly the household's income level or family composition or both. However, the ways in which these conditions are applied in the national system differ among the countries. In the UK, low-income households receiving social assistance are able to take their housing allowances at the maximum rate according to their eligible rent and other deductions. For other households, the housing allowance is reduced according to the difference between their incomes and the amount of their personal allowances, which vary across family types.

Moreover, in the Netherlands and Sweden, both income and family composition affect the reduction of housing allowance from the maximum rate. In the Netherlands, the household income level, family member's age and family composition determine the size of housing allowance provision and subsidisation rates for different ranges of housing costs. In Sweden, the income standard for the maximum benefit provision and the housing allowance reduction rate are adjusted for family types. Whilst the maximum benefit rate is applied when a household's income is lower than this income standard, the size of housing allowance is reduced from the maximum rates by applying tapers according to family types, if a household's income is higher than the income standard.

However, although the current Korean housing allowance system (post-2008) adopts the household income level as well as household size for the benefit arrangement, household size only influenced the benefit provision in the pre-2008 system, which is the rule used for the data analysis in the study. The pre-2008 Korean housing allowance system offered fixed-amount benefits: The fixed higher rate housing allowance is provided to bigger families while the lower rate to smaller families. In addition, household income had no effect on the benefit arrangement of the Korean housing allowance recipients before 2008.

Reflection of National Rental Housing Structure upon Benefit Arrangement for Different Tenancies

The situation of tenant households within housing markets varies by their rental market structures: One is the ‘unitary’ rental system in the Netherlands and Sweden and the other is the ‘dualist’ rental system in the UK and S. Korea. Although the housing allowance system subsidises housing costs for both social and private housing tenants in the four countries, differences emerge in the way in which the housing allowance system considers the feature of the national rental housing system. In the ‘unitary’ rental system countries, the same housing allowance rule is adopted for all claimants, regardless of their tenancy types. However, whilst the UK housing allowance applies different benefit caps to the social housing tenant and the private housing tenants (e.g. the local-based rent reference of LHA for private tenants), the Korean housing allowance system does not consider the ‘dualist’ rental structure.

Due to the same benefit rule for both public and private housing tenants, the housing allowance system is likely to provide fewer financial advantages to the private housing tenants facing a higher burden for rent payments compared to the public housing tenants in S. Korea. If the housing allowance system does not deal with the housing price gap between different tenant tenures in the ‘dualist’ rental system, one tenant tenure would receive ‘double benefits’—living in housing with sub-market rent prices and receiving the housing allowance from the national system—whilst another tenure group would be at a disadvantage. This could weaken the effects of the housing allowance in terms of improving the income and housing problems of the low-income private housing tenants.

8.1.2 The Subsidisation for Eligible Housing Costs

Although the four countries’ housing allowance systems aim to relieve financial burdens associated with housing cost payments, only some sorts of housing costs are regarded as eligible for the housing allowance claim. Moreover, differences exist in the range of ‘eligible housing costs’ for the housing allowance claim among countries: Whilst rent is regarded as an eligible housing cost for housing allowance in the UK, the Netherlands and S. Korea, the rents plus heating costs are eligible costs for housing allowance in Sweden. In assessing households’ housing costs, this eligible housing cost concept is applied to determine the ultimate size of housing allowance provision. However, the amount of housing allowance is calculated based on the amount of eligible housing costs based on

actual rent cost expenditures in the UK, the Netherlands and Sweden whereas the calculation of the housing allowance is not based on the actual housing costs in S. Korea. Therefore, the information about housing cost payments and eligible housing costs is not collected for the benefit claim process in S. Korea.

The core issue is the extent to which the national housing allowance system could subsidise these assessed eligible housing costs. In practice, the UK housing allowance subsidises the greatest portion (77.5%) of assessed eligible housing costs, which is twice as high as the subsidisation rates in the other three countries. This high subsidisation rate is associated with one of the benefit rules in the UK's housing allowance system. In the UK, the various benefits-calculation rules are applied according to the claimant's entitlement of social assistance benefits (e.g. Income Support). If the housing allowance claimant receives one of these benefits, their housing allowance amount is the same as their assessed eligible housing costs under the benefit cap. Indeed, most UK housing allowance recipients are also social assistance recipients. Moreover, no benefit makes allowance for housing costs in the UK's social security system. Although the low-income household in other countries might use some parts of their personal allowance for housing cost expenditures, they cannot do it in the same way in the UK. Therefore, when we compare the subsidisation rate of housing allowance only, the UK's rate is likely to be higher than that of the other countries.

However, in Sweden and the Netherlands, the housing allowance claimants are likely to receive a smaller housing allowance compared to their assessed eligible housing costs. Their systems adopt a 'gap' structure, requiring a personal contribution for housing cost payments with their own income and subsidise with different rates according to the housing cost level, which are large for the low level housing costs and small for the high level housing costs. In Sweden, if a household's income is larger than the income standard for the maximum benefit, the provision of housing allowance is reduced by applying different tapers (20% or 33%) according to family types. The Swedish housing allowance also subsidises 50% or 75% of a claimant's assessed eligible housing costs, at most. In the Netherlands, the housing allowance system requires low-income households to contribute to their rent payments with their income. Moreover, the Dutch housing allowance system subsidises the housing costs at three different rates: 100% for the lowest limit, 75% for middle and 50% for highest limit. Finally, before 2008, the Korean claimants received a fixed amount of housing allowance adjusted to household size; even after 2008, the

housing allowance provision is not based on the actual rent payment and subsidises just partial rents in S. Korea.

8.1.3 Simple versus Complex Structure of Housing Allowance System

Among the four countries' housing allowances, the Korean housing allowance is likely to be least supportive because only rents are partially subsidised by a fixed amount of housing allowance, which is adjusted for household size (pre-2008 system). The housing allowance provision did not consider the feature of family, such as household income, house space and/or housing costs, in S. Korea. Moreover, the benefit amount is based on the minimum expenditures of housing costs because the government calculates a fixed amount of housing allowance with the Minimum Cost of Living (MCL). This standard cost is imputed for the national poverty line and used to determine the maximum social assistance benefit cap in Korea. However, the housing costs accounted for just 15-17% of MCL. In practice, the expenditure for housing allowance was less than 10% of the total NBLs benefit expenditure before 2008 (MOHW, 2008a). The Dutch housing allowance system has quite a simple, yet reasonable structure for its housing allowance system: the claimants' self-contribution to rent payment according to their income and three tiers of housing cost limits with different subsidisation rates.

The Swedish housing allowance system works with the most complicated eligibility filtering and benefit arrangement. The housing allowance is determined based on the family composition and income level. There are three-band housing expenditure limits, two subsidisation rates (50% and 75% of the eligible housing cost) and two tapers (20% and 33%), which are applied according to family types and household income. The housing allowance would be reduced from their maximum amount when households' incomes are over the income threshold, which varies according to family types. Some portions of the housing allowance include the supplementary allowance for the children of family with children and for the elderly.

Moreover, it seems that the UK housing allowance system has a similar structure as the Swedish housing allowance; once claimants pass a means test, they are categorised into two groups and different benefit calculation rules are applied to them. Although the social assistance recipients could receive the same amount as their assessed rent cost up to benefit caps, the housing allowance amount of the non-social assistance is different from those of

social assistance recipients because their housing allowance is the same as the amount that their assessed rent costs minus 65% of the difference between household income and the applicable amount. Regarding the applicable amount, the UK housing allowance reflects the household's feature upon the size of the applicable amount: the higher rate of the applicable amount for families with children or the elderly. This applicable amount affects the size of the housing allowance reduction because the difference between the household's income and the applicable amount is deducted from the maximum benefit amount. Therefore, if the household income is similar across different families, the higher applicable amount gives advantages to households because of the smaller deduction from the maximum housing allowance provision.

However, the benefit arrangements are simpler in the Netherlands and S. Korea compared to those of the UK and Sweden because the Dutch and Korean housing allowance systems use only family size or family composition to determine the benefit amount. If the claimants are eligible for housing allowance after the means test, they can take up their allowances, although there are variations in benefits among family groups between the two countries. The Dutch housing allowance system decides the size of housing allowances according to the claimants' family types; it applies higher benefit cap limits for single, elderly and disabled households than for large families. Under the Korean housing allowance system, which is the simplest one, the fixed housing allowances adjusted to household size were given to the social assistance beneficiaries before 2008.

Of course, the UK and the Swedish housing allowance systems consider different family features in the entire process of the housing allowance arrangement. For example, different income limits, personal allowance standards and benefit deduction rules are applied to household members in the UK system. Moreover, the Swedish housing allowance system has a more sophisticated benefit arrangement adjusted for the family's specific condition (e.g. income, housing space limit and family composition) compared to other countries' system. Therefore, the structure of the benefit arrangement process is more complex in the UK and Sweden, where other family characteristics and housing conditions are simultaneously considered, in contrast to the Netherlands and S. Korea.

Table 8.2 Design of Housing Allowances for Tenants in the Four Countries

	the UK	the Netherlands	Sweden	S. Korea***
Beneficiary	SA* recipients and non-recipients who passed HA income-test			SA* recipients only
Tenant tenure	All tenant tenure			
Eligible housing cost (main)	Rents	Rents	Rents + heating	Rents
Floor space limit	LHA** since 2011	No	Yes	No
Subsidisation for eligible housing cost	-Full for SA recipients -Partial for non-SA recipients	Partial for all	Partial for all	Partial for all
Differentiation applied by	Family type	Family type & size	Family type & size	Family size
Reduction by family condition	Yes (SA receipt or not)	No	Yes (income threshold)	No
Benefit arrangement	-Assessed eligible HC for SA recipients -Taper applied HA for non-SA recipients	-3 tiers of rent limits with different subsidisation rate	-Varied rates and taper	Fixed HA adjusted to family size

Note: *SA refers to the national social assistance benefit in each country; **in 2011, the UK housing allowance system introduced the maximum rates adjusted for the number of bedrooms and set the rate of a four-bedroom property as the maximum rate of Local Housing Allowance for private tenants; ***the NBLs Housing Benefit pre-2008.

In terms of household's living conditions, although households receiving housing allowance are low-income households, their living conditions are different among the four countries as seen in Table 8.3.

Table 8.3 Income Distribution and Income Maintenance by Social Security System in the Four Countries

Year	Income distribution		Income maintenance by social security system		
	Poverty rate	Gini coefficient of income inequality	Gross replacement rate	Net replacement rate	
				excluding (a)	including (b)
			Social Assistance & Housing Allowance		
	2008	2009	2009	2010	2010
UK	11.3*	0.3422	11	29	49
Netherlands	7.2	0.2937	33	38	68
Sweden	8.4	0.2611	38	43	60
Korea	15.0	0.3150	9	20	35
OECD	11.1	0.3152**			

Source: OECD Income Distribution and Poverty database for Poverty rate (www.oecd.org/els/social/inequality); OECD Tax-Benefit Models for Gross and Net Replacement Rates (www.oecd.org/els/social/workincentives).

Note: * 2007, ** 2008.

1) Poverty rate is defined as a percentage of persons living with less than 50% of median equalised household income.

2) Gross Replacement Rate is defined as the average of the gross unemployment benefit replacement rates based on incomes before any tax and social security contributions have been deducted, or cash benefits (social assistance and housing allowance) received.

- 3) Net Replacement Rate is defined as the average of the net unemployment benefit replacement rates based on incomes after any tax and social security contributions have been deducted and cash benefits (social assistance and housing allowance) received.
- 4) (a) is based on incomes after any tax and social security contributions when social assistance and housing allowance are not received.
- 5) (b) is based on incomes after any tax and social security contributions have been deducted when social assistance and housing allowance are received.

Compared to the Netherlands and Sweden, poverty is more widely spread in the UK and S. Korea. Low poverty rates are generally related to low income inequality (Atkinson & Marlier, 2010), and the two continental European countries studied here have lower overall income inequality than the UK and S. Korea. Therefore, low-income households in the UK and S. Korea are placed in worse living conditions compared to those in the Netherlands and Sweden. Moreover, the social security system works to a varied extent of income protection for unemployed households. Similar to the result of income distribution between the two continental Europe countries and the UK and S. Korea, the income maintenance effect of the housing security system is likely to be higher for households in the Netherlands and Sweden than those in the UK and S. Korea. Regardless of the income tax and social insurance contribution payments and income-related social assistance and housing allowance entitlement, the unemployed household's income is well maintained by the receipt of social security benefits in the Netherlands and Sweden due to their higher income replacement rate compared to those in the UK and S. Korea. This is related to the common characteristic of the Dutch and Swedish social security systems, with their generous social security benefit and supplementary income-related benefit system.

Moreover, in S. Korea, the social protection provided by the social security system has generated less momentum than that in the other three countries. As seen in Table 3.1 of Chapter 3, the social protection expenditures of the Korean government did not reach half the social protection shares of GDP in the UK, the Netherlands and Sweden. Therefore, we can find that the Korean housing allowance system is likely to offer fewer social benefits compared to other countries analysed in this study. These contextual factors create differences in the design of housing allowances and different housing allowance effectiveness is not only caused by the housing allowance itself but also by these contextual factors.

Table 8.4 Current Situation of Housing Allowances for Tenants in the Four Countries

	the UK	the Netherlands	Sweden	S. Korea
Welfare regime	Liberal	Corporatist/Social democratic	Social democratic	East Asian
The national rental housing structure	Dualist	Unitary	Unitary	Dualist
Recent changes	-2008, LHA for private tenant -2011, benefit cap for LHA -April 2013, total social benefit cap for working-aged households and reduction for under-occupying in social housing -October 2013, replaced with UC	2008, standard rent calculation formula introduced	2010, Swedish Pension Agency administers housing supplement for old-age pensioner	2008, NBLs benefit calculation rule changed
Poverty rate (50% of median income) (2008)	11.3	7.2	8.4	15.0
Gini coefficient (2009)	0.3422	0.2937	0.2611	0.3150
Net income replacement rate by social security benefit (%) (2010)	49	68	60	35
HA Share of GDP (%) (2007)*	1.15	0.38	0.47	0.03
Social Protection Share of GDP (%) (2007)*	20.5	20.1	27.3	7.5

*Source: see Tables 3.1 in Chapter 3 and Table 8.3.

In the remainder of this chapter, I will compare the results of research indicators—changes in residual household income after rents, housing affordability and likelihood of work disincentive increase—by housing allowance provision in the four countries.

8.2 Improvement in Income Maintenance of Low-Income Tenants

In order to examine the effectiveness of housing allowance for its beneficiaries' income maintenance, we focused on the change in the residual income after rents and poverty rates. The change in the residual income after rents shows the effect of housing allowance on the household's finance directly whereas the poverty rate presents the housing allowance's effect on a household's poverty problem as a whole. As Table 8.5 presents, the housing allowance beneficiaries could maintain greater incomes after paying rents when the housing allowance is provided than when this benefit is not provided. Moreover, their poverty rates decrease due to their income improvement stemming from the housing allowance provision. Thus, the housing allowance contributes to low-income households'

income maintenance, thereby expanding the probability of non-housing good and service consumption after housing cost expenditures. Indeed, the more relative changes in the residual income after rents payment by housing allowance provision do not relate to a greater reduction in poverty rates in all countries. However, differences in changes in residual income after rents and poverty rates exist amongst the four countries. In the following sections, I will discuss whether and how this result is related to the design of the housing allowance system in its national policy environment.

Table 8.5 Changes in the Residual Income after Rents and Poverty Rates by Housing Allowance in the Four Countries

Mean (%)	the UK	the Netherlands	Sweden	S. Korea
Rent subsidisation rate by HA	77.5	36.0	40.5	33.0
Relative change in residual income after rents	61.0	21.3	70.1	11.6
Poverty rate before HA provision	72.3	93.8	89.9	89.6
Poverty rate after HA provision	61.6	85.0	86.5	88.2
Absolute change in poverty rate (%p)	10.7	8.8	3.4	1.4
Relative change in poverty rate	14.7	9.4	3.8	1.6

Note: This result is limited to tenant housing allowance recipients in the four countries. In the UK and S. Korea, the pre-2008 housing allowance system was analysed here.

8.2.1 Changes in the Residual Income after Rents by Housing Allowance

Two clear differences exist in the changes in income maintenance between the three European countries and S. Korea. First, the Korean housing allowance recipients experience smaller changes in the residual income after paying rents as well as poverty rate by housing allowance provision compared to households in the other three countries. Concerning this result, it is necessary to consider the contextual factors surrounding the housing allowance system. The characteristic of the national housing allowance would not be the only reason for explaining the difference in the results of this study because budget and policy limitations exist in each country. For example, countries place different importance on the housing allowance in the welfare policy expenditure. Moreover, these countries differ in the total social protection expenditure, with 28% of GDP in Sweden, 20% of GDP in the UK and Netherlands, followed by only 7% of GDP in S. Korea in 2007. Therefore, the Korean housing allowance is anticipated to have less influence on changing households' economic status. Second, the larger housing allowance provision and the higher subsidisation rates are associated with improved income maintenance in the UK, the Netherlands and Sweden. Moreover, two major factors nested in the housing allowance design are associated with the changes in the income maintenance by housing allowance. The first factor concerns the way in which the national housing allowance system

subsidises the housing costs. The second factor concerns the way in which the benefit arrangement considers various family features.

Reflection of the Actual Size of Financial Burden for Rents Cost

In the UK, the Netherlands and Sweden, the calculation of housing allowance size is based on the actual rent payment paid by claimants. Although there are benefit caps in each country, the provision of housing allowance might be bigger for households with a higher rent payment compared to those with a lower rent payment. This could contribute to the greater reduction in rent payment, which seems to be associated with improved income maintenance to some extent in the three European countries. However, the actual rent payment was not considered in the process of the housing allowance calculation in S. Korea before (and after) 2008 system and the benefit rates were decided by the size of families. Hence, it is not anticipated that more benefits would result in improved income maintenance. In practice, the results of income maintenance and housing affordability have confirmed the limitation of the housing allowance provision that does not consider the actual rent payment in S. Korea.

Reflection of Family Characteristics

When the improvement in income maintenance is compared by households' features (i.e. household income level, family composition, tenant tenure and employment status), several results are related to the way in which the housing allowance system considers different family features for the benefit arrangement. First, concerning the household income level, the UK and the Swedish housing allowance systems have separate rules of benefit calculation according to the household's income level (and the social assistance entitlement in the UK). In practice, the relative changes in the residual household income after rents were bigger for lower income groups in these countries.

Second, the housing allowance system considers different features of families for benefit arrangement (e.g. family size or the number of children or pensioners in a family) because these features could be related to the size of housing consumption and non-housing consumption for a living. In the UK, the housing allowance provision makes more absolute and relative changes in the residual income after rents for families with children and pensioners because their personal allowances are commensurate with their family composition. In Sweden and the Netherlands, pensioners and childless families experience more income changes through the housing allowance provision compared to families with

children. The additional allowance for housing costs for the elderly in Sweden and the higher benefit cap for elderly people in the Netherlands are more likely to decrease these households' financial burdens. In the case of S. Korea, the social assistance benefit (i.e. NBS) is based on the National Minimum Cost of Living, which is only adjusted for family size. Although the Korean housing allowance provision also changes with the number of family members, it does not reflect other family characteristics as in the case of other countries. However, it is noted that families with children receiving the housing allowance experience smaller income changes compared to other family types.

Third, there are differences in the changes in the residual income after rents by housing allowance provision according to tenants' tenure in the four countries. The same benefit rules are applied to both the private and social housing tenants in Sweden and the Netherlands, yet the improvement in the residual income after rents differs among tenure groups. The problem is found in the case of the low-income tenants in S. Korea. In the Korean rental housing market, the price gap between private and public rental housing can be noted. The government has set the rent price cap for public housing and supplied public rental housing for low-income households (e.g. Permanent Public Rental Housing³⁹).

However, the Korean housing allowance system does not employ any devices resolving rent gap among tenants with different tenures. Moreover, Korean low-income households not living Permanent Public Rental Housing are more likely to face serious income and housing affordability problems compared to others. The relative changes in residual income after rents is likely to be larger for the private housing tenant because their original income level is lower compared to households living in Permanent Public Rental Housing. Significant differences in the reduction in housing affordability problems between the two tenure groups in Korea exist, indicating that the Korean housing allowance systems do not adequately reflect this rental structure.

Another explicit common finding of residual income changes is that workless households have shown better absolute and relative changes in residual income after rents in the four countries, although no separate benefit rules for households' employment status existed in all four countries. However, improvement in income maintenance by housing allowance could raise the work disincentive issue for those capable of working among the housing

³⁹ This kind of public rental housing was supplied to accommodate the lowest-income household (e.g. social assistance beneficiaries) in S. Korea. See Table 7.1 in Chapter 7.

allowance recipients. This is a different kind of issue from income maintenance—namely, the increase in work disincentive by housing allowance provision in the hypothetical unemployment or employment position. This issue will be discussed in Section 8.4.

8.2.2 Changes in Poverty Rates by Housing Allowance

Another issue of income maintenance is the extent to which a change in the income maintenance by housing allowance provision improves poverty of low-income households receiving housing allowance. The poverty problem of housing allowance recipients tends to be more serious compared to poverty problems of non-housing allowance recipients across all four countries. Moreover, the financial burden for housing cost is quite high. In practice, low-income households receiving housing allowance in the four countries spend 30-50% of their household incomes on rent. This would increase poverty problems for the low-income households. However, the provision of housing allowance gives financial advantages to low-income households' finances because they spend less income on housing costs than they would if they do not receive housing allowance; thus, they could have more residual income after rents. Hence, it is anticipated that the reduced rent payments through housing allowance could play a role in tackling the poverty problem and lead to the increased non-housing necessities consumption needed for a living. In practice, the poverty rates after the provision of the housing allowance decreased across all four countries, although there are differences in the poverty rate changes among these countries.

However, a greater improvement in residual income after rents does not necessarily lead to a more poverty rate reduction when we look at the national averages. The relative income change is best for the Swedish housing allowance recipients (70.1%), followed by the UK households (61%) and the Dutch households (21.3%). The improvement is smallest for the Korean households (11.6%). In contrast, both absolute and relative changes in poverty rates are largest for the UK households, followed by the Dutch households, with around 3% in Sweden and 1% in Korea (see Table 8.3). These results could be related to the result indicating that housing allowance provision is more likely to subsidise the UK households' rents rather than those of households in other countries. However, the housing allowance in S. Korea does not reduce poverty as much among low-income households as in other countries. Their poverty rates changed by fewer than 2% points due to the housing allowance provision. This result could be related to the smallest changes in residual income after rents by housing allowance provision in S. Korea compared to other countries. In

addition, the Korean housing allowance does not reflect the actual rent payment of its beneficiaries. Therefore, the changes in residual income after rents as well as poverty rates are likely to be smaller compared to those of other countries.

Commonly, the poverty rate changes more for the low-poverty households compared to other types of households in all four countries, regardless of the size of housing allowance provision and the high or low subsidisation rate for housing costs. In practice, the housing allowance recipients with higher incomes are more likely to experience better improvement in poverty rates compared to other recipients with lower income in the four countries. The growth in the residual income after rents due to the provision of housing allowance could help fill the gap between the poverty line income and the low-income household's income. However, except for this common feature, there are differences among household subgroups facing the greater decrease in poverty rate amongst the four countries: They are pensioners in the UK and the Netherlands, but they are families with children in Sweden and Korea; they are public and housing association tenants in the UK, private housing tenants in the Netherlands and social tenants living in Permanent Public Rental Housing in Korea; they are workless households in the UK but working households receiving housing allowances in the other three countries.

Therefore, contrary to the result of the residual income after rent changes, it is not easy to draw a connection between the factors within the housing allowance design and the poverty rate reduction. The provision of housing allowance accounts for the improvement in low-income households' income problems. However, the poverty rate change is subordinate to the change in residual income after rents by housing allowance. Some household groups with a greater housing allowance provision or a higher subsidisation rate are likely to experience the greater poverty rates reduction compared to others in the UK and the Netherlands. However, other household groups do not show the same results. Moreover, it has been shown that housing allowance recipients experiencing greater poverty rate reduction are unlikely to experience changes in the residual income after rents by housing allowance compared to others in Sweden and S. Korea.

8.3 Reduction in Housing Affordability Problem of Low-Income Tenants

Compared to the households not receiving a housing allowance, the households with the housing allowance experience a greater financial burden arising from housing cost payments in all four countries, as indicated by their higher Rent to Income Ratio (RIR) in Table 8.6. Therefore, if such households pay their rent costs from their own incomes without housing allowances, their household budget for non-housing consumption would be lessened. Indeed, the low-income tenants receiving a housing allowance spent between one-third and half of their incomes on rent payments.

Table 8.6 Changes in Rent to Income Ratio by Housing Allowance in the Four Countries

Mean (%)	the UK	the Netherlands	Sweden	S. Korea
RIR without HA	45.2	44.0	54.7	33.6
RIR with HA	9.7	27.7	31.0	26.4
Absolute change in RIR(%p)	35.6	16.3	23.7	7.2
Relative change in RIR	77.5	36.0	40.5	33.0

Note: This result is limited to tenant housing allowance recipients in the four countries. In the UK and S. Korea, the housing allowance system before 2008 was analysed here.

However, concerning the changes in RIR, differences exist between the UK tenants receiving the housing allowance and those in the other three countries. Although the low-income tenants receiving the housing allowance do not have a housing affordability problem due to the provision of housing allowance, those in other countries still have problems affording their housing cost expenditures as their rent costs account for approximately 30% of their incomes, even when the housing allowance is provided to them. Moreover, the UK housing allowance recipients experienced the greatest absolute and relative changes in RIR.

The differences in the housing cost subsidisation rules in the UK and the other three countries could explain this result. The housing allowance system aims to reduce low-income households' rent cost burden. However, at the same time, it prevents the housing allowance from subsidising the entire rent costs in all circumstances, as evident in the UK, where it is possible to have all eligible rent subsidised by housing allowance receipt. To address this issue, the housing allowance system adopts some practical devices, such as benefit caps or residual space limits. Such tools were likely to be less strong in the UK

(before 2011)⁴⁰ compared to similar efforts in the Netherlands and Sweden. For example, the UK housing allowance claimants receiving social security benefits could receive the maximum amount of the housing allowance for the assessed eligible housing costs. If low-income tenants do not receive social security benefits, a single taper (65%) is applied for benefit reduction, irrespective of other household features. In contrast, other countries' housing allowance system contains strict rules, such as the limit on living space and housing costs for which the household can claim housing allowance in Sweden and the definite benefit limits adjusted for household types in the housing allowance systems in the Netherlands and S. Korea. Moreover, in S. Korea, the size of NBLS housing allowance is based on the national minimum housing costs. Therefore, it cannot be expected that the Korean housing allowance recipients could experience the same improvement in housing affordability as recipients in the other three countries.

Concerning the changes in RIR by household groups in each country, an identical result was found across the four countries. Household groups that receive the greatest housing allowance for their housing costs experienced the greatest improvement in their housing affordability problems. However, since household groups with the greatest housing allowance provision experienced greater RIR reduction than other groups in the UK, Sweden and the Netherlands, the size of housing allowance is unlikely to affect the extent of RIR decrease in S. Korea. This is because the benefit arrangement of the Korean housing allowance system is based on the national average housing cost set at a minimum; thus, the provision of housing allowance might not be enough to change RIR. Moreover, it is noted that lower-income groups and unemployed households have experienced the greatest absolute and relative reduction in housing affordability problems across the four countries.

However, concerning household composition and tenant tenure, the absolute RIR changes of the low-income tenants in the UK and the Netherlands differ from those in Sweden and Korea. Whereas families with children in the UK and the Netherlands have experienced greater absolute RIR decrease, in Sweden and S. Korea pensioner households experienced the greatest RIR reduction. Families with children tend to pay higher rents compared to

⁴⁰ However, from 2010, a housing allowance cap was introduced for LHA (housing allowance for private housing tenants in 2011). Moreover, from April 2013, the benefit cap will be applied for the total social security benefit paid to working-aged households and the housing allowance reduction will be forced for 'under-occupying' social housing tenants in the UK. See Chapter 4 for details.

others in these countries and their systems reflect the actual rent payment in the UK and the Netherlands. Moreover, as mentioned earlier, the Swedish pensioners could receive supplementary allowances for housing costs, leading to the greater RIR reductions compared to those of other households.

Furthermore, whilst all tenant tenure groups in the UK and the Netherlands have experienced a decrease in RIR to a similar extent, the reduction in the housing affordability problem was greater for private housing tenants than for other tenant groups in Sweden and S. Korea. Markedly, this result relates to the way in which the housing allowance system reflects the actual rent in the UK and the Netherlands. In the UK, the national housing allowance system subsidises full eligible housing costs for the low-income tenant receiving social assistance, regardless of their tenant tenure. In the Netherlands, the housing allowance system does not treat their benefit claimants differently by their tenure. Because of these features, the housing allowance could contribute to the RIR improvement at a similar extent for tenants regardless of their tenant tenures in two countries.

Moreover, concerning the relative changes in RIR, whereas tenants with lower income than other housing allowance recipients and out-of-work households are likely to experience greater relative decrease in RIR across the four countries, there are differences in relative changes in RIR by household composition and tenant tenure. Families with children have faced the greatest relative reduction in housing affordability problems in the Netherlands, yet the greatest relative changes in RIR were noted for childless families or pensioners in the other three countries. In addition, the UK public housing tenants and the Korean tenants living in Permanent Public Rental Housing have experienced the greatest relative reduction in housing affordability problems; however, such improvement did not vary between different tenant groups in the Netherlands and Sweden.

Such results differ from the result of the absolute RIR changes. In practice, the housing allowance provision in Sweden and the Netherlands subsidises low-income tenants at a similar level. However, this might not be the case in S. Korea. There is no difference in the size of the housing allowance provision according to tenant tenure in Korea, but public rental housing is provided with sub-market rents. Therefore, the housing allowance recipients living in Permanent Public Rental Housing are at an advantage in the current Korean housing allowance system. In practice, the housing cost subsidisation rate for the

low-income tenants living in Permanent Public Rental Housing is over 50%, which is twice that for other tenants in S. Korea.

However, although the RIR has improved due to the housing allowance provision, the household groups with an originally higher financial burden for housing costs still face a higher burden for housing costs when the housing allowance is provided. Similarly in the four countries, these housing allowance recipients are tenants with lower income compared to other tenants, those living in private housing, working households and families with children (except for the case of the Korean housing allowance recipients). The receipt of housing allowance is less likely to solve the housing affordability problem effectively for these tenant groups.

8.4 Changes in Work Disincentives of Low-Income Tenants

The housing allowance is effective for solving low-income households' income and housing problems. However, income improvement resulting from the social security benefit provision might not increase active participation of its beneficiaries in the labour market due to their satisfaction with the income supplement of the social security system. Moreover, low-income households could also be at risk of losing their means-tested benefit due to their increased earnings. Even if the working-poor households increase their participation in the labour force, they could experience the poverty problem because their net incomes would be reduced by the income tax and the national insurance contribution payment. Although this situation is linked to the changes in employment or unemployment state of households, the issue of the behavioural changes due to work incentive is not addressed in this research. Here, we focus on the changes in work incentives of low-income households by housing allowance.

As shown in Table 8.3, the receipt of housing allowance and social assistance makes clear changes to the income replacement rates in the four countries. Therefore, the housing allowance take-up is related to the work incentive issue of the working poor in the welfare system. Hence, this study compared and examined the changes in households' simulated incomes by housing allowance receipt as indicators of work incentive changes—the Income Replacement Ratio (IRR) and the Effective Marginal Tax Rate (EMTR).

Table 8.7 Changes in Work Disincentives by Housing Allowance in the Four Countries

Mean (%)	the UK	the Netherlands	Sweden*	S. Korea
Income Replacement Ratio				
IRR1 (without HA)	69.3	63.2	109.0	83.7
IRR2 (with HA)	90.1	68.7	110.1	84.5
Absolute change in IRR (%p)	20.8	5.5	1.2	0.8
Relative change in IRR	39.2	10.0	1.4	0.9
Effective Marginal Tax Rate				
EMTR1 (without HA)	47.1	83.7	64.0	21.0
EMTR2 (with HA)	54.5	85.1	76.2	21.0
Absolute change in EMTR (%p)	7.4	1.4	12.2	-
Relative change in EMTR	24.8	3.4	43.8	-

Note: This result is limited to the current tenant and working-aged recipients in the four countries. Whilst both working and workless households are analysed for EMTR, only currently working households are studied for IRR. The discussion is confined to these groups and the result could be different from the national average. *As the full-time workers' average unemployment benefit amount is used for the low-income households' IRR imputation, the IRR is higher compared to those in other countries.

8.4.1. Changes in Income Replacement Ratio by Housing Allowance

The IRR levels of the working-poor tenants receiving the housing allowance are quite high, regardless of housing allowance provision across the four countries. This ratio is smallest for the Dutch tenant households receiving the housing allowance. As the difference between the current income and the simulated income for the unemployed position is bigger in the Netherlands compared to the other countries, there could be fewer work disincentives for the Dutch housing allowance recipients compared to others. In addition, except for the Swedish tenant receiving the housing allowance, household groups with higher IRR1 also faced higher IRR2 in the UK, the Netherlands and S. Korea, although there is no consistency in the family features of household groups high on both IRR1 and IRR2 in these countries. The social security system gives greater financial advantages to these households to maintain their income while being out of work.

The issue is whether the housing allowance provision could make changes in the income replacement when the working poor lose their earnings. As Table 8.7 presents, IRRs of the low-income tenants receiving the housing allowance have increased as a result of the housing allowance receipt in all four countries. If the IRR changes due to the housing allowance receipt are quite large, the size of the housing provision accounts to a certain extent for the sum of social security benefits paid to the household and plays a role in increasing the possibility of work disincentives.

Among the four countries, the changes in IRR of the UK housing allowance recipients are greater compared to those in the other three countries. In the UK, a claimant whose income is lower, such as a social assistance recipient, is more likely to receive higher housing allowance. Moreover, the housing costs subsidisation rate is highest for the UK tenants receiving housing allowances. Therefore, when the UK working poor lose their major earnings, the housing allowance provision is likely to contribute to their income replacement to a higher degree. On the contrary, the Swedish and Korean housing allowance recipients experienced little change in IRR as a result of the provision of housing allowance. Thus, their housing allowances account for smaller portions of the entire social security benefits paid to them when these working poor households' income loss is subsidised with the social benefits.

Although, the households with higher IRR before housing allowance provision still face higher IRR when they receive the housing allowance, not all household groups with higher IRR experienced the biggest increase in their potential work disincentives. The family groups who experienced the most changes in IRR are low-income tenants with lower IRR1 and IRR2 in the UK. Although these households have lower IRR among income groups and family types, they have higher IRR among tenant tenure and employment status types in the Netherlands. Households with higher IRR among family types and households with lower IRR among tenant tenure and employment status groups experienced more work disincentive growth due to the housing allowance provision in Sweden.

However, commonly, the tenant housing allowance recipients with higher absolute changes in IRR experienced greater relative changes in the four countries, although some household groups are similar while others are different across the four countries. The housing allowance recipients experiencing a greater increase in work disincentives are households with lower income in the Netherlands and S. Korea; they are private housing tenants in the UK and the Netherlands but social tenants living in Permanent Public Housing in S. Korea. In addition, childless families and households with all adults working experienced greater changes in IRRs in all of the countries except Sweden. Clearly, there are differences in the types of household groups and the extent to which the social security benefit and tax system's interaction could change their work disincentives. Nonetheless, certain tenant groups receiving housing allowance experience greater financial advantages for maintaining their incomes at a higher level compared to other groups. Thus, the housing

allowance provision could have greater negative effects on work disincentive for these households.

Moreover, it should be considered that the measurement of the possibility of unemployment trap is based on a hypothetical situation and refers to the household income before paying housing costs. As the actual situations of the current or future rent payments are not considered here, the residual income after rent payments might affect the behavioural choice for employment and unemployment.

8.4.2 Changes in the Effective Marginal Tax Rate by Housing Allowance

Increase in Earnings by 1 Income Unit and Marginal Change in Take-Home Pay

Another work incentive also relates to the income maintenance of the low-income households when they increase their labour force participation. This incentive is expressed as the Effective Marginal Tax Rate (EMTR), which is the extent that the households could take income home as a result of increased participation in labour force. In order to examine EMTR, it is assumed that housing allowance increases housing allowance recipients' income by 1%. The EMTR obtained from the analysis is the average EMTR across different types of working and working hours.

If the EMTR is high, incomes remain at low level even when a household participates in the labour force more actively (i.e. the high possibility of the poverty trap). Therefore, the work incentive is likely to be low for low-income households because the net income from increased labour participation after income tax and the national insurance contribution payment would be small for them. As Table 8.7 indicates, the Korean housing allowance beneficiaries would take greater portions of their income increase among the four countries. This could relate to the relatively lower income tax rate and the social security contribution in S. Korea than those in the three European countries (see Table 8.8).

Table 8.8 Income Tax and Social Security Contribution of Single Adult in the Four Countries

Country	As a % of gross wage earnings in 2011	
	Income tax	Social security contribution
The UK	15.6	9.5
The Netherlands	16.0	15.4
Sweden	17.8	7.0
S. Korea	4.3	8.1
OECD	14.8	10.0

Source: OECD Taxing Wages: Comparative Tables, OECD Tax Statistics database.

Note: Income tax and social security contribution of single individual without children at the income level of the average worker in each country.

Within a country, the differences in EMTR among housing allowance beneficiary groups are marked. In the UK, the work incentive is worse for higher-income groups and families with children receiving housing allowances than for other housing allowance recipients. It does not seem that the entire tax and benefit system provides greater financial advantages to these households in terms of their net income increases. In contrast, the possibility of falling into the poverty trap is more severe for low-income households, childless families and workless households compared to other types of households in the Netherlands and Sweden. In S. Korea, the EMTR is higher for the middle- and highest-income groups, families with children, Permanent Public Rental Housing tenants and working households. Therefore, these households are likely to be at a disadvantage in terms of the net income growth when their gross incomes increase due to the changes in their labour participation.

Clear differences are evident in EMTR changes by the provision of housing allowance between S. Korea and the other three European countries. Concerning the low-income tenants receiving the housing allowance in S. Korea, there is no difference in the EMTR before and after housing allowance provision. If the housing allowance recipients have the same net income increase regardless of the provision of housing allowance, it could be interpreted that the role of the housing allowance in the process of the income tax and social security interaction is minor in S. Korea. The Korean housing allowance pre-2008 was a fixed-amount according to the household size and therefore not based on the household's actual income. Thus, the importance of housing allowance is too small to be recognised (or to play a role) in relation to the entire tax and social security benefit system.

In contrast to the Korean case, the provision of housing allowance is likely to deepen the potential poverty trap for its beneficiaries in the UK, the Netherlands and Sweden. The tenant housing allowance recipients face higher EMTR when the housing allowance is provided than when it is not provided. In these countries, whilst the housing allowance provision could contribute to the current income maintenance, it would reduce their net income growth in the likely anticipated situation when they work extra hours. In addition, the housing allowance tenants facing higher EMTR before housing allowance provision also experienced higher EMTR after they received housing allowances in these three

countries. Furthermore, the same household groups experience more absolute and relative changes in EMTR due to the housing allowance provision.

However, differences in EMTR by housing allowance provision across the three European countries have been noted. The increases in EMTR by housing allowance (i.e. the probable further reduction in take-home pay) are greater for the Swedish and UK housing allowance recipients compared to those for the Dutch recipients. Moreover, whilst the UK household groups with higher EMTR² have experienced more absolute and relative changes in EMTR by housing allowance provision, the household groups with the lower EMTR have faced greater EMTR increases in the Netherlands. In Sweden, the result is restricted to income group categories and the employed, although households with higher incomes have even lower EMTR. These households comprise the working households in the UK, the Netherlands and Sweden and also include families with children in the Netherlands. Therefore, the housing allowance provision has more negative effects on the increase in work disincentive (i.e. increasing the possibility of the poverty trap) for these households compared to other households.

8.5 Summary

The comparative analysis found significant features in the national housing allowance systems that affect changes in income maintenance and housing affordability problems of its beneficiaries. The most important compositional factors are the higher housing cost subsidisation rate by housing allowances and the reflection of the actual rent payments upon housing allowance. In addition, the research identified that the differentiated benefit arrangements according to family composition could improve particular family groups, such as pensioners in Sweden or families with children in the UK. The results also related to the way in which the housing allowance system deals with rent prices in different rental housing structures. Moreover, it was necessary to consider other contextual factors to compare the housing allowance effects between the three European countries and Korea.

Concerning the main research questions (i.e. the housing allowance's effects on improving income and housing problems), the housing allowance provision improves low-income tenants' finances after rent payment in the UK, the Netherlands, Sweden and S. Korea.

However, the provision of the housing allowance can also increase work disincentives for its recipients in these four countries by supplementing the household income and reducing housing cost expenditures when tenants do not intend to work more. Therefore, the housing allowance has both positive and negative aspects as income support for the working poor. Amongst the four countries, the UK housing allowance recipients are more likely to fall into this dilemma because they experience greater improvements in income maintenance and housing affordability compared to the recipients in the other three countries.

However, the effect of housing assistance on the employment outcome is not clear and the positive and negative results are mixed in the findings detailed by researchers (see Chapter 2). Therefore, the effectiveness of housing allowance should be considered from a more flexible point of view. Moreover, the extent to which the provision of housing allowance could increase work disincentive differs across family groups. The size of the negative effects of housing allowance provision might vary according to households, which might be another issue to reconsider when improving the housing allowance as in-work benefits for different families in order to facilitate the welfare-to-work transition of certain households.

The next chapter presents the conclusion of this study. I will discuss the research findings and implications of this study as well as make recommendations for the improvement of the Korean housing allowance system based on the findings of the comparative analysis.

Chapter 9. Conclusion

Introduction

Through comparative analysis, this research finds that the provision of housing allowance does solve the income and housing problems of its beneficiaries in the UK, the Netherlands, Sweden and S. Korea. Moreover, the study has identified the features of housing allowance design that are commonly or exclusively associated with the larger effects of housing allowances in those countries. This final chapter discusses the research findings and acknowledges limitations of the study in Section 9.1. And then I make recommendations for the improvement of housing allowance system in S. Korea and offer concluding remarks in Section 9.2.

9.1 The Review of Research

Discussion

A housing allowance programme should enable low-income households to solve their income and housing cost-related problems (Council of Europe, 2008). This research examines the effectiveness of housing allowance in improving income maintenance, enhancing housing affordability and providing work incentives for low-income tenant households. To compare the effects of housing allowances on policy objectives in countries with different welfare and housing regimes, this study concentrated on the UK, the Netherlands, Sweden and S. Korea.

The results revealed that the ability of a housing allowance to solve the income and housing cost problems of low-income people does not fit the characteristics of welfare regime. This is consistent with the previous studies on the variation of housing allowance effects according to welfare regimes (e.g. Stephens *et al.*, 2010; Griggs & Kemp, 2012). Previous studies have assumed that the feature of housing allowance reflects the varied characteristics of income support benefits according to welfare regime, i.e. greater proportion of housing allowance recipients among population with lowest income and greater benefit generosity in liberal welfare regime than those in social-democratic and conservative-corporatism regimes. Therefore, the varied effects of housing allowance were

expected to be determined by the type of welfare regime (i.e. a greater effect of housing allowance in the former than in the latter). In explaining the lack of fitness between welfare regime and housing allowance effects, Griggs and Kemp (2012) have noted the limitation of welfare regime typology, which does not fit the actual welfare system and does not incorporate housing. Moreover, the housing allowance system reflects the objectives of both income and housing policies. However, these studies are not based on the analysis of the combination of housing allowance and income support benefit in the entire welfare system.

An analysis of the design of the UK's housing allowance reveals that the UK has more generous rules for calculating the benefits than the Netherlands, Sweden and S. Korea. Moreover, among the three European countries, the UK's housing allowance system does not employ the 'gap approach' but provides fewer reduced allowances for the 'maximum benefit' than other two countries. Based on the variation in the benefit arrangement, it is expected that the UK's housing allowance subsidises the actual housing cost more than those of the other countries. In addition, the proportion of the poorest households among housing allowance recipients is smaller in the UK than in social-democratic and conservative corporatism regimes as shown in Griggs and Kemp's (2012) work. Therefore, this study suggests that to compensate for the weakness of income support system, welfare regime that is more residual (as in the UK) provides a more generous housing allowance. The generosity of housing allowance differs from that of welfare regime.

Moreover, this research emphasises that the features of housing allowance design are associated with the improvement of income maintenance and housing affordability. The housing allowance systems in countries within and between regimes have different rules pertaining to the subsidisation of housing costs. The results of this study demonstrated that the extent to which the actual housing cost is subsidised by housing allowance is linked to the effects of housing allowances that vary by country. Not surprisingly, the improvement in income and housing cost-related problem of low-income households is larger for recipients of the housing allowance in the UK than it is for recipients in other countries. The result of Stephens *et al.* (2010) and Griggs and Kemp's (2012) studies also revealed the larger effect of housing allowance in the UK than in other countries. Therefore, this research suggests that the generous subsidisation of housing costs is an important factor in the variation in the effects of the housing allowance.

In addition, this study suggests that the combination of the housing allowance's generosity and the reflection of the actual housing cost for benefit arrangement have a stronger effect. The UK, Sweden and the Netherlands' housing allowance provisions, based on actual housing costs, have greater effects on solving income and housing costs problems of the poor compared to S. Korea's housing allowance system not based on the actual housing cost paid by the benefit recipients. In particular, the effect of housing allowance in the UK, Sweden, and the Netherlands is larger than it is in other European countries studied in Stephens *et al.*'s (2010) work, although the comparison is not based on the same indicators that are used in this study. Therefore, this research emphasises that the variations in the design of housing allowance according to countries change their effectiveness of housing allowance.

Regarding the effect of housing allowance on the improvement of income maintenance, the residual income after rent payment and the poverty rate after rent payment are both improved by the provision of housing allowance in the four countries studied; this is consistent with the previous studies. Here, the UK housing allowance is more likely to reduce the poverty rate of housing allowance recipients than other countries' housing allowances are, although the improvement in residual income after rent payments is better for the Swedish housing allowance recipients than for the UK recipients. However, considering overall changes in poverty rate and residual income after rents, the UK's housing allowance system with its higher subsidisation for housing cost had a larger effect on income maintenance improvement compared to other countries' housing allowance system.

Moreover, the effects of S. Korea's housing allowance and those of the three European countries should not be overlooked. The housing allowance in S. Korea is less likely to improve the income maintenance of low-income tenants. This is because of the minimal benefit generosity that does not reflect the actual housing cost of the housing allowance recipients but is calculated based on the minimum standard for housing cost. The limited benefit generosity of housing allowance is less effective in achieving its policy objective. Therefore, the result revealed the importance of the housing allowance design in improving the effectiveness of housing allowance.

In terms of making housing more affordable, the results revealed a relationship between the higher housing cost subsidies (the greater benefit generosity) and the larger effect of

housing allowance. Griggs and Kemp's (2012) work also supports the strength of this link. The changes in the Rent to Income Ratio (RIR) in the UK, Sweden and the Netherlands, where the effects of the housing allowance on housing affordability are better than in other European countries (Stephens *et al.*, 2010), differ from those in S. Korea. This result relates to the variation in housing allowance design, which is based on the applicant's actual housing cost in the UK, Sweden and the Netherlands; in S. Korea, it is based on the national minimum cost of housing. The greatest improvement in RIR of the UK's housing allowance recipients and the least RIR change in S. Korea reveal the significant relationship between the housing cost subsidisation rule of housing allowance design and the effectiveness of housing allowance.

Moreover, the variation in RIR changes does not result from different features of welfare regimes. Instead, this result clearly relates to the design of each country's housing allowance. However, changes in RIR across tenant tenure groups reveal differences between dualist (the UK and S. Korea) and unitary housing regime countries (Sweden and the Netherlands). The housing cost subsidisation rate by housing allowance is higher for public housing tenants in the UK and S. Korea, but similar for both tenants in public and private housing in Sweden and the Netherlands. In dualist rental housing system, private housing tenants with low income are more likely to be at a disadvantage in the housing market. However, their housing allowance systems are less likely to consider this varied situation between private and public housing tenants. In practice, the Korea housing allowance system applies the same rule to all tenants. Moreover, the UK housing allowance system did not favour private housing tenants over public housing tenants.

As a result, the provisions of housing allowance in the UK and S. Korea are likely to have a greater effect on the RIR improvement of public housing tenants. Stephens *et al.* (2010) explained that this result implies the strong influence of the combination of public rental housing tenure and housing allowance in the UK. In line with Stephens *et al.*'s (2010) work, the results of this study revealed that the tendency of the housing allowance design to favour certain tenant tenures improves that type of tenant tenures more than others, particularly in the dualist rental housing system. In contrast, the findings showed no difference in the housing cost subsidisation by housing allowance in Sweden and the Netherlands and no variation in RIR changes in the Netherlands between tenant tenure groups. Therefore, if the housing policy is to solve the problems of low-income tenants arising from the rental housing system, the design of housing allowance could be modified

to compensate for the disadvantage of a certain tenant tenure group. This change in the benefit design improves the effect of housing allowance in a given rental housing system.

This research also examined the effect of housing allowances on incentives to work for low-income tenants. Although some studies focused on the income support aspect of housing allowances (e.g. Griggs & Kemp, 2012), other studies incorporated the analysis of the relationship between housing allowance receipt and labour activity or employment outcome (e.g. Chen, 2006; Wood *et al.*, 2009; Stephens *et al.*, 2010). These studies reveal the negative effect of housing allowance provision on beneficiaries' acceptance of employment. However, other factors also affect the change in labour activity or employment outcome, such as demographic features of families, education or age of family members. This research extends its analysis of the housing allowance effects in income and housing policy to those in welfare-to-work policy. However, it does not take into account the extent of positive or negative effects of housing allowances on changes in labour activity. Instead, this study focuses on the variation in work incentives among a variety of household types of housing allowance recipients and the presence of housing allowance effects on work incentive; in this respect, it is not in line with previous studies.

The financial reward for employment is tied to the variation in income by employment status and housing allowance provision. This research demonstrated that the provision of housing allowance increases household income. Income support effect from social benefits rather than from increased earnings worsened the work incentives for the working poor who receive the housing allowance as in-work benefit. Therefore, this result suggests that housing allowance is a deterrent to work incentives. However, although the reduced work incentives in the form of a housing allowance was expected to discourage the beneficiaries from remaining employed, this research did not account for changes in employment status. As seen in other studies, changes in employment status of the working poor depends not solely on the increase or decrease in financial incentive to work, but also on other factors.

Moreover, the results revealed the variation in work incentives and the effects of the housing allowance on work incentives among different household types. Therefore, the combined effect of households' features and the provision of housing allowance could exist. The work incentive indicators relate to the interaction between the social security benefit system and the tax system. The variations in work incentives and their changes by housing allowance provision emerge according to the characteristics of this interaction

between two systems in the national context. Some household types are more likely to be favoured by income tax and social security systems than others. However, the combination of family characteristics and the income support effects of housing allowance is likely to have a negative effect on work incentives, especially for private housing tenants in the UK and the Netherlands and for employed households in the UK, the Netherlands and S. Korea. This negative effect should be reduced in order to improve the housing allowance as a form of in-work benefit. Therefore, this research suggests that the housing allowance system could alter the arrangement of original housing allowance provision for these households in ways that would strengthen the incentive to work.

Limitations of Research

However, this study is not without limitations. First, although this research adopted quantitative analysis, it was not intended to produce or estimate a model that would explain the relationship of housing allowance to changes in income maintenance, housing problems and work incentives. Although we can discuss the effectiveness of housing allowance based on the findings of comparative analysis by different systems and variations in family features, the effect of housing allowance on low-income households' living conditions could not be estimated in this study. Moreover, this research did not project the behavioural changes of the working poor in labour force participation according to the changes in work incentives by the provision of housing allowance.

Second, this research does not address the income and housing problems and the effectiveness of housing allowance for low-income households over their life cycles. As the point-in-time analysis is carried out, findings and discussions of this research are confined to a specific time point. Therefore, the changes in households' living conditions and effects of housing allowance receipt according to their stages of life cycle are not within the scope of this study. Moreover, the analysis is based on the dataset collected at a single time point, the effects due to benefit rule changes over time could not be assessed in this study. Therefore, the recent changes in the housing allowance arrangement in the UK and S. Korea were not addressed here.

Third, there are limitations in the comparisons made in this study. Although I compared housing allowance systems in the four countries, the compositional and effectiveness aspects of the Korean housing allowance for comparison are limited. As the Korean housing allowance is one allowance of the national social security benefit (NBS)

consisting of total seven allowances, the feature of Korea's housing allowance is that of the NBLIS benefit system as a whole, rather than its own one. Moreover, as Housing Allowance of NBLIS is not a major benefit such as Living Allowance accounting for 80% of NBLIS benefit provision, its effects on income maintenance and housing affordability is restricted. Furthermore, the comparative analysis did not include a country in which housing voucher system operates, for example the US. The introduction of housing voucher system has been discussed in recent years alongside the NBLIS housing allowance in S. Korea. If we had compared the European housing allowance system and the US's housing voucher system, this study could have provided more useful findings.

Fourth, the equivalence of independent variables is of concern. In particular, as tenant tenure variable reflects the characteristics of each country's housing system, the categorisation of tenant tenure applied to survey data may be different across countries. Therefore, this study used several definitions and categorisations of tenant tenure variable because each national dataset has somewhat different categorisation of tenant tenure reflecting its own housing system. Concerning household composition variable, the finding does not capture income and housing problems of all family types because this study analysed only four prototypes of households.

Lastly, this research analysed the effect of housing allowance using five indicators, i.e. Residual Income after Rents Payment, Poverty Rate, Rent to Income Ratio, Income Replacement Ratio and Effective Marginal Tax Rate. However, the literature has used more indicators to address these issues. For instance, the change in poverty could be measured using the poverty gap approach, which addresses the distance between household income and the poverty line. As this research adopted only the poverty rate measure, the changes in poverty gap were not within the scope of the analysis.

Conclusion

Despite these limitations, this study confirms the importance of understanding the features of housing allowance itself in addition to the combined features of the welfare regime and housing allowance in the analysis of the effectiveness of housing allowance. Especially, the comparative research based on regime typology should consider the likelihood of discrepancies between the features of housing allowance and those of welfare regimes. Without the consideration of these discrepancies, the researcher would miss the

significance of the housing allowance design itself that is more important in deciding the effectiveness of housing allowances.

Among the elements of the housing allowance design, this study identified the generous subsidisation for the actual housing cost as the most important factor that explains the differences in housing allowance effects. The modification of benefit generosity for housing allowance recipients at a disadvantage in the welfare system could make the housing allowance more effective. Therefore, this result offers a clear answer to the research question and offers insight into the improvement of housing allowance systems in all welfare and housing regimes. The analysis of the effects of housing allowances in countries with a range of welfare or housing regimes but similar types of housing allowance could provide additional explanations for the results of this study.

Moreover, variations in the effects of housing allowances according to household types should be considered, even in the most generous housing allowance system. If a large proportion of housing allowance recipients belongs to household groups with the smallest improvement in income and experiences housing problems, it raises a question about the actual effectiveness of housing allowance, despite its generosity. Therefore, this study suggests that it is necessary to identify household groups that find themselves at a disadvantage in relation to the effects of housing allowance and to consider alternative rules for these households in order to enhance the positive effects and mitigate the negative effects of housing allowance.

This study emphasises the contribution of housing allowance as an important instrument of a variety of policies and systems. Therefore, the modified application of housing allowance could be considered to alleviate the adverse effects of housing allowance in income and housing affordability on one hand and work incentive on the other. We need to take cognisance of the effectiveness of housing allowances in the interaction between different policies and in the wider welfare and housing systems.

9.2 Recommendations for the Korean Housing Allowance System

We can summarise the S. Korean government's response to income and housing problems of the low-income household as the provision of the social security benefit in social policy and the provision of the public rental housing with sub-market rent in housing policy. Compared to other European countries, the implementation of rent subsidy programme is relatively new in S. Korea. Moreover, the Korean housing allowance system has a less importance as a public policy measure. Although the arrangement of housing allowance provision changed from flat amount adjusted for household size to fixed rate (almost 20%) of the total NBLS benefit⁴¹ in 2008, the housing allowance provision is still based on the Minimum Cost of Living (MCL)⁴² for the benefit maximum and capped at the rate of around 15-17% of the MCL. This minimal housing allowance provision is not enough to enable the low-income household to afford the cost of rents (Lee *et al.*, 2010). Moreover, it does not reflect the rent price differential between the private and public rental housing sectors in S. Korea. Therefore, the explicit weakness of the Korean housing allowance arises from the benefit arrangement in which the housing allowance provision does not consider the actual financial need of low-income tenant households.

Therefore, the introduction of the alternative or supplementary rent subsidy programme has been discussed in S. Korea. For instance, the Seoul Metropolitan Government introduced Seoul Housing Voucher Programme in 2010 for low-income citizens who live in private rental housing but are not entitled to the NBLS Housing Benefit due to their incomes being over the NBLS means test standard (Park & Oh, 2012)⁴³. This local government's rent allowance considers severe financial burden of the low-income tenants living in private rental housing in the metropolitan city under the Korean rental housing system. In addition, the central government has also considered the nationwide 'Housing Voucher Programme'

⁴¹ The major NBLS benefit comprises Living Benefit and Housing Benefit and the ratio of these two benefits is around 8:2. However, this ratio has changed every year since 2008. As of 2012, the Living Benefit comprised 80.652% of the NBLS benefit and Housing Benefit share is 19.348% of the NBLS benefit (MOHW, 2012a).

⁴² The Minimum Cost of Living is released by the government every year as the standard of poverty line and the cap of the social assistance (i.e. the National Basic Livelihood Security) benefits in S. Korea.

⁴³ The eligibility is confined to low-income households whose incomes are between 100% (the eligible income for the NBLS benefit entitlement) and 120% of the National Minimum of Living Cost, or those between 120% and 150% of the National Minimum of Living Cost and with special family needs (Seoul Metropolitan Government internet site, <http://www.seoul.go.kr/main/index.html>).

as part of the national support for the private rental housing sector tenant. However, due to the lack of government budget for Housing Voucher, the Ministry did not carry out 'Housing Voucher' pilot for the last years; thus, the details have not yet been released.

Here, I make recommendations for improving the housing allowance system in S. Korea through the results of comparative analysis. Of course, implicit and explicit limitations could deter the success of housing allowance reform through policy transfer. Above all, the fact that housing subsidy programme is embedded in the national housing and social structure is more of a concern. Therefore, although some factors are regarded as the core of policy or programme in one national context, they do not work properly in another national context. Moreover, as the more practical problem, the limitation or lack of the national budget relates to the housing allowance reform in S. Korea. In global economic downturn, more emphasis is placed on the budget cut and the reduction of the welfare benefit provision and S. Korea is no exception. However, the poverty rate and income inequality is higher in S. Korea than in the other three countries. Moreover, the income protection of social security system, including housing allowance is the worst. Indeed, the housing cost subsidisation rate by housing allowance is the lowest and the effect of housing allowance on income and housing problems is the smallest in S. Korea. Therefore, the housing allowance system should be reformed in order to increase its effectiveness.

First, the benefit arrangement should consider the adequate subsidisation rate of housing costs. The findings explained that one of the most important factors affecting changes in income and housing problems is subsidising larger portions of housing costs in given circumstances. As the comparative analysis indicates, the subsidisation rate is higher for three European countries showing better improvement in income-related problem after housing cost expenditure than S. Korea. In particular, the subsidisation rate of the UK housing allowance is the highest and the result is clearly positive. Although the UK welfare system is 'residual', its housing allowance system contributes to the achievement of its aim. Of course, the benefit system needs to control for the excessive benefit claim. In the UK, as it is possible for some recipients to receive housing allowance for the full eligible rent, the housing allowance system employs benefit caps. In addition, the Dutch and Swedish systems adopt diminishing rates of subsidisation from 100% for the low housing cost range to 50% for the high range up to benefit caps. However, the Korean housing allowance standard does not reach the minimum cost standard for housing defined

by the government. Therefore, the adequate housing cost standard to be applied as a benefit cap and the subsidisation rate should be discussed together.

Second, the benefit is to be calculated based on the actual rent costs paid by the claimant in order effectively reduce the financial burden arising from housing cost expenditures. Whether the benefit calculation considers the actual housing costs is the most outstanding distinction between S. Korea and other three European countries. The UK system has more generous rules under the benefit cap than do the Netherlands and Sweden. Although the Dutch and Swedish housing allowance systems require households to pay some portions of rent with their incomes, the size of the benefit is calculated based on their actual housing costs. Of course, the higher claim compared to their actual housing costs or under-occupying residence is of concern. Three European countries have responded to these problems by applying the eligible housing cost cap and/or the limitation on the residence size eligible for housing allowance adjusted for the household income or household size.

Therefore, the provision of housing allowance is more effective in improving income maintenance and housing affordability in these countries because their systems reflect the actual living condition. In contrast, the Korean housing allowance system is based on the housing cost standard of Minimum Cost of Living—that is, the average housing cost in mid-sized cities in S. Korea. It does not reflect the reality of the low-income tenant and thus the effectiveness of the provision of housing allowance is limited. The current housing allowance is a part of the national social assistance system in S. Korea. Therefore, while investigating the claimant's income and household information might not incur high additional administrative cost, the verification of the actual rent payment would be a concern. If this problem were solved, the housing allowance system could actually reduce the actual housing costs of the low-income household.

Third, the benefit arrangement of the housing allowance system should reflect the structure of the national rental housing market. When comparing the Korean housing allowance system with the Dutch and Swedish ones, we could not find the different benefit rules according to varied tenant tenure in S. Korea, whereas the same benefit rule is applied for all tenant tenure groups in these two countries. This operation is in line with the 'unitary' rental housing structure in the Netherlands and Sweden. However, the UK with 'dualist' rental structure applies varied benefit arrangement to social and private housing tenants. Moreover, the undergoing benefit reforms introduce the varied restriction rules on the

benefit entitlement of these two types of tenants. In S. Korea, the dualist rental model has been rigidly established for a long time (S. Kim, 2010). As the supply of the public rental housing has targeted low-income households, its rent price and deposit have been set at a rate lower than that of private rental housing market⁴⁴. However, the current housing allowance system does not reflect the rental price differential between the public and private housing tenants and thus the current housing allowance gives less financial advantages to low-income tenants living in the private rental sector. Therefore, the housing allowance system needs to contain some benefit principles concerning this institutional situation.

Fourth, there is a need to introduce the ‘local rent standard’ for housing allowance as a benefit cap in each locality. This is clearly important because the maximum housing allowance is calculated based on the MCL imputation, i.e. the average housing costs in medium-size cities. While the Dutch and Swedish housing allowance systems apply the same benefit cap across the country, the UK system operates with ‘local rent standard’ based on the actual local rent price for the private housing tenants receiving LHA. However, in S. Korea, although the rent differential among regions has a practical effect on the financial burden for rent payment, the benefit arrangement does not consider this situation. The suggested housing allowance standard, the ‘local rent standard’, will not be able to subsidise the full rent costs paid by individual households. The subsidisation rate for the rents cost should be arranged. However, through the application of the ‘local rent standard’, the Korean housing allowance system could provide adequate amount of rent subsidy based on local price rather than on the average rent costs in medium-size cities (the current MCL standard). This change could improve income and housing problems of the low-income household more effectively.

Fifth, the benefit arrangement needs to consider family composition in detail. The family’s housing need may differ according to the characteristics of households. However, whilst the maximum NBS Housing Benefit was adjusted only for the household size, the family composition has not been considered for the benefit arrangement in S. Korea. In contrast, other three countries consider different family features for the benefit arrangement by applying more generous benefits to certain households, e.g. higher subsidisation rate for

⁴⁴ The deposit and rent price of public housing are capped by the government during the first year of providing support and they change according to the level of the local private rental housing market price at the rate of 55–83% of the local market price.

the disabled or elderly families in the Netherlands and higher allowance rate for the families with children in Sweden. Therefore, in addition to household income, family composition has to be considered as part of the benefit arrangement and this feature could be used to make a decision about the benefit cap or the reduction in housing allowance.

Sixth, it is necessary to expand the category of the eligible households. Currently, the entitlement of the Korean housing allowance is limited to the lowest income households with incomes smaller than the MCL that are eligible for the NBLs benefits. However, both social assistance beneficiaries and non-beneficiaries who meet the standards of means-test for housing allowance are eligible for the benefit in other three European countries. In practice, while the eligibility rate is around 5% in S. Korea, it is almost 9% in the UK and Sweden. Moreover, households receiving the Dutch housing allowance make up 30% of the total households. However, as the delay of Housing Voucher programme indicates, the practical issues should be addressed. The expansion of overall eligibility rate is related to the lack of the national budget for voucher expenditures and the additional administrative costs. Moreover, the equality in the eligibility and benefit arrangement among NBLs benefits should not be overlooked.

Finally, we need to discuss the role of the Korean housing allowance from the perspective of the wider social security system. Compared to other three countries' housing allowances, there has been little focus on the role of housing allowance as part of welfare system and the government's budget expenditure on allowance is minor in S. Korea. However, the Korean housing allowance plays the same role in improving income maintenance and housing affordability for the low-income tenants as do housing allowance systems in other three countries. In this respect, the Korean social and housing policy needs to establish a solid status of housing allowance within the system. Similar to other three European countries, the Korean housing allowance is a part of the social assistance of which provision is conditional on participation in welfare-to-work programme. Importantly, the effect of housing allowance on work incentive decrease is smaller in Korea compared to the three European countries. Therefore, we need to open a space for the discussion of the provision of housing allowance as in-work benefit and work incentive, arguing for the housing allowance reform.

Final Remarks

This research offers a clear account of the effectiveness of housing allowance for solving low-income tenants' income and housing problems in a variety of institutional situations. Moreover, the study establishes that the important determinant of housing allowance effects is the adequate extent of housing cost subsidisation based on the actual housing cost need. It also emphasises the differentiated benefit arrangement of housing allowance according to the feature of a household, such as family composition, as well as the feature of country, for instance the national rental housing structure. Indeed, through the comparative analysis, this study provides important implications for improving the housing allowance system in S. Korea. Although, the Korean housing allowance offers minor benefits within the national social security system, it could be changed in response to the needs of economically vulnerable households through the benefit reform as recommended in this study. Moreover, when employing devices that control the appropriate quality and quantity of the housing allowance provision, the Korean housing allowance system could prevent benefit design-related problems found in other countries, such as the small shopping incentive for low-rent housing.

Appendices

Table A.1 Summary of Dataset

	<i>the UK</i>	<i>the Netherlands</i>	<i>Sweden</i>	<i>S. Korea</i>
Dataset	Family Resources Survey 2006/07	Housing Research in the Netherlands (WoON) 2006	Household Finances (HEK) 2006	Korea Welfare Panel Study (KOWEP) 2008
Ministry/Agency	Department for Work and Pensions	The Ministry of Infrastructure and Environment (former The Ministry of Housing, Spatial Planning and the Environment , VROM)	Statistics Sweden	-Korea Institute for Health and Social Affairs -Social Welfare Research Centre of Seoul National University -Ministry of Health and Welfare
Duration	every year	every three years	every year	every year
Size (household)	43,166	64,000	11,269	7,000
Sampling	Great Britain: the Royal Mail's small user's Postcode Address File (PAF) Northern Ireland: the Valuation and Lands Agency (VLA) property database.	40,000 'regular' +24,000 oversampling	Population Register + Longitudinal Individuals Database (LINDA) of Statistics Sweden	Sampling from 2005 Census and 2006 People's Life Survey 3500(below 60% of median income) +3500 (over 60% of median income)

Table A.2 Housing Benefit Expenditures by Tenure in the UK (£ million, Real Terms, 2012/13 Prices)

Year	Total	LA	RSL	Private	(LHA)
2000/01	14,861	7,001	4,065	3,796	-
2001/02	15,140	6,901	4,549	3,690	-
2002/03	16,106	6,889	5,352	3,864	-
2003/04	15,398	6,273	5,359	3,769	-
2004/05	15,938	6,299	5,576	4,063	-
2005/06	16,494	6,232	5,861	4,401	-
2006/07	17,115	6,193	5,991	4,931	-
2007/08	17,701	6,137	6,278	5,286	(474)
2008/09	18,734	5,880	6,694	6,160	(2,041)
2009/10	21,570	5,902	7,496	8,171	(5,146)
2010/11	22,479	5,670	7,705	9,103	(6,945)
2011/12	23,384	5,719	8,218	9,447	(7,788)
2012/13	23,838	5,853	8,764	9,221	(7,906)
2013/14	22,988	5,669	8,465	8,854	(7,747)
2014/15	22,991	5,633	8,476	8,882	(7,874)
2015/16	22,884	5,600	8,486	8,798	(7,855)
2016/17	22,794	5,523	8,508	8,764	(7,892)
2017/18	22,652	5,467	8,542	8,643	(7,830)

Source: DWP Statistics Medium term forecast for all DWP benefits file, Housing Benefit worksheet.
(<http://statistics.dwp.gov.uk/asd/asd4/index.php?page=expenditure>).

Note: Results from 2000/01 to 2011/12 are outturn and results from 2012/13 to 2017/18 are forecast.

Table A.3 Changes in Poverty Rates by Housing Allowance in the UK (%)

Poverty lines		40% of median income			50% of median income			60% of median income			Absolute change (%p)	Relative change (%)
Total	tenant	PR1	PR2	PR3	PR1	PR2	PR3	PR1	PR2	PR3	PR2-PR3	PR2-PR3
with HA		bf.HA&HC	bf.HA af.HC	af.HA&HC	bf.HA&HC	bf.HAaf.HC	af.HA&HC	bf.HA&HC	bf.HA af.HC	af.HA&HC		
Mean	(%)	15.9	55.2	34.1	32.6	65.0	47.4	47.9	72.3	61.6	10.7	14.7
Total	100.0											
Income Quintiles												
1st Q (low Y)	20.0	67.9	99.1	97.5	94.4	99.9	99.9	100.0	100.0	100.0	0.0	0.0
2nd Q	20.0	11.3	91.6	53.6	57.5	98.1	91.0	86.4	99.9	99.7	0.1	0.1
3rd Q	20.0	0.4	63.3	13.5	9.8	89.2	36.2	47.3	98.4	86.4	12.0	12.2
4th Q	20.1	0.1	20.6	5.6	1.2	36.1	9.4	5.6	59.0	21.2	37.8	64.0
5th Q (high Y)	19.9	0.0	1.3	0.3	0.1	1.6	0.4	0.3	4.0	0.7	3.3	81.5
Household Composition												
No children	26.4	33.6	58.7	42.1	44.6	65.3	52.7	53.8	71.9	60.9	11.0	15.3
With children	34.4	18.0	73.1	60.6	46.7	79.7	72.5	59.6	83.3	79.3	4.0	4.8
Pensioner	39.2	2.3	37.2	5.4	12.1	51.9	21.7	33.8	62.9	46.6	16.3	26.0
Tenant Tenure												
Public	51.6	16.9	52.8	30.2	35.3	63.0	43.6	50.1	70.1	58.6	11.5	16.4
Housing association	33.0	15.5	55.0	33.0	31.9	64.7	46.5	49.1	72.6	61.6	11.0	15.1
Private	15.4	13.8	63.9	49.5	25.0	72.6	62.0	38.2	78.9	71.8	7.1	9.0
Employment Status												
Unemployed	89.7	16.1	54.5	32.8	32.9	64.2	45.7	48.5	71.3	60.3	11.0	15.4
Employed	10.3	14.7	61.4	45.5	29.7	72.0	62.5	43.2	81.0	73.2	7.8	9.6

Source: Family Resources Survey 2006-07, author calculations.

Note: PR1: poverty rate when housing allowance is not provided and before housing costs payment; PR2: poverty rate when housing allowance is not provided and after housing costs payment; PR3: poverty rate when housing allowance is provided and after housing costs payment.

Table A.4 Changes in Poverty Rates by Housing Allowance in the Netherlands (%)

Poverty lines		40% of median income			50% of median income			60% of median income			Absolute change (%p)	Relative change (%)
Total with HA	tenant	PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC	PR1 bf.HA&HC	PR2 bf.HAaf.HC	PR3 af.HA&HC	PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC	PR2-PR3	PR2-PR3
Mean	(%)	2.2	51.1	19.6	11.9	78.2	56.6	44.0	93.8	85.0	8.8	9.4
Total	100.0											
Income Quintiles												
1st Q (low Y)	20.0	11.2	89.8	65.1	58.0	99.9	99.9	100.0	100.0	100.0	0.0	0.0
2nd Q	20.0	0.0	70.3	23.1	1.4	97.5	88.8	84.5	100.0	99.9	0.1	0.1
3rd Q	20.0	0.0	52.6	8.1	0.0	89.0	61.3	32.9	99.9	98.9	1.1	1.1
4th Q	20.0	0.0	31.2	1.3	0.0	66.9	27.4	2.5	96.6	83.6	12.9	13.4
5th Q (high Y)	20.0	0.0	11.8	0.6	0.0	37.7	5.6	0.0	72.3	42.3	30.1	41.6
Household Composition												
No children	29.3	1.1	64.9	29.4	8.6	82.8	72.1	60.5	93.5	88.0	5.5	5.9
With children	28.9	6.2	52.6	28.0	29.6	76.9	61.5	58.1	90.9	82.4	8.5	9.3
Pensioner	41.8	0.3	40.4	7.0	1.9	75.9	42.3	22.6	96.0	84.6	11.4	11.8
Tenant Tenure												
Public	0.4	3.1	46.9	21.9	6.3	78.1	50.0	34.4	90.6	87.5	3.1	3.4
Housing association or Co-op	93.5	2.3	51.4	20.0	12.3	78.3	57.0	44.5	93.9	85.1	8.8	9.3
Private	6.0	1.4	47.2	13.7	6.0	76.3	51.2	36.3	92.3	82.1	10.2	11.1
Employment Status												
Unemployed	76.6	1.9	55.0	19.8	10.4	82.6	59.1	44.8	96.7	88.6	8.1	8.3
Employed	23.4	3.4	38.6	19.2	16.8	63.8	48.3	41.3	84.3	73.0	11.3	13.4

Source: Housing Research in the Netherlands (WoON) 2006, author calculations.

Note: Co-op stands for co-operative housing. PR1: poverty rate when housing allowance is not provided and before housing cost payments; PR2: poverty rate when housing allowance is not provided and after housing cost payments; PR3: poverty rate when housing allowance is provided and after housing cost payments.

Table A.5 Changes in Poverty Rates by Housing Allowance in Sweden (%)

Poverty lines		40% of median income			50% of median income			60% of median income			Absolute change (%p)	Relative change (%)
Total	tenant	PR1	PR2	PR3	PR1	PR2	PR3	PR1	PR2	PR3	PR2-PR3	PR2-PR3
with HA	(%)	bf.HA&HC	bf.HA af.HC	af.HA&HC	bf.HA&HC	bf.HAaf.HC	af.HA&HC	bf.HA&HC	bf.HA af.HC	af.HA&HC		
Mean	(%)	17.2	71.9	60.4	45.7	82.7	77.5	66.8	89.9	86.5	3.4	3.8
Total	100.0											
Income Quintiles												
1st Q (low Y)	20.0	47.5	99.0	97.5	96.6	100.0	100.0	100.0	100.0	100.0	0.0	0.0
2nd Q	20.0	22.9	95.6	82.9	65.4	100.0	100.0	100.0	100.0	100.0	0.0	0.0
3rd Q	20.0	13.7	88.2	71.6	47.1	100.0	98.0	88.2	100.0	100.0	0.0	0.0
4th Q	20.0	2.0	67.8	48.3	19.5	90.2	80.5	43.9	99.5	98.5	1.0	1.0
5th Q (high Y)	20.0	0.0	8.8	1.5	0.0	23.0	8.8	2.0	50.0	33.8	16.2	32.4
Household Composition												
No children	21.8	22.0	72.2	58.7	49.3	81.6	76.2	67.7	86.1	83.4	2.7	3.1
With children	31.7	6.8	42.3	28.4	25.3	64.8	54.3	42.6	82.7	74.7	8.0	9.7
Pensioner	46.5	22.1	92.0	82.9	57.9	95.4	93.9	82.9	96.6	96.0	0.6	0.7
Tenant Tenure												
Co-op	18.1	13.5	69.2	57.8	43.2	78.9	75.7	63.2	87.6	83.8	3.8	4.3
Private or Housing association	81.9	18.0	72.5	60.9	46.2	83.5	77.9	67.6	90.4	87.1	3.3	3.7
Employment Status												
Unemployed	74.3	21.1	85.6	73.5	55.7	92.2	88.8	79.2	95.3	93.3	2.0	2.1
Employed	25.7	6.1	32.3	22.4	16.7	55.1	44.9	31.2	74.5	66.9	7.6	10.2

Source: Household Finances (HEK) 2006, author calculations.

Note: Co-op stands for co-operative housing. PR1: poverty rate when housing allowance is not provided and before housing costs payment; PR2: poverty rate when housing allowance is not provided and after housing costs payment; PR3: poverty rate when housing allowance is provided and after housing costs payment.

Table A.6 Changes in Poverty Rates by Housing Allowance in S. Korea (%)

Poverty lines		40% of median income			50% of median income			60% of median income			Absolute change (%p)	Relative change (%)
Total tenant with HA		PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC	PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC	PR1 bf.HA&HC	PR2 bf.HA af.HC	PR3 af.HA&HC	PR2-PR3	PR2-PR3
Mean	(%)	49.1	66.5	63.2	70.3	80.8	78.1	83.0	89.6	88.2	1.4	1.6
Total	100.0											
Income Quintiles												
1st Q (low Y)	20.6	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0
2nd Q	19.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0
3rd Q	20.4	46.1	94.4	85.2	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0
4th Q	20.4	0.0	35.6	30.1	50.0	87.9	79.0	100.0	100.0	100.0	0.0	0.0
5th Q (high Y)	19.6	0.0	1.6	0.0	0.0	14.3	10.0	13.2	47.0	39.9	7.1	15.2
Household Composition												
No children	19.6	44.8	67.6	60.7	75.2	81.9	81.0	86.4	88.9	88.9	0.0	0.0
With children	32.3	11.8	28.2	25.6	29.9	53.4	46.2	57.6	75.1	70.8	4.3	5.8
Pensioner	48.0	75.9	91.8	89.5	95.5	98.7	98.4	98.8	99.7	99.7	0.0	0.0
Tenant Tenure												
Permanent public	19.5	34.9	48.8	39.5	66.5	77.2	72.2	83.7	86.8	85.1	1.7	2.0
Other public & private	80.5	52.5	70.8	68.9	71.2	81.6	79.6	82.9	90.3	89.0	1.3	1.5
Employment Status												
Unemployed	69.6	63.8	82.6	79.0	86.3	92.5	90.8	93.5	95.1	95.1	0.0	0.0
Employed	30.4	15.4	29.6	27.0	33.5	53.9	49.2	59.0	77.1	72.5	4.6	6.0

Source: 2008 Korea Welfare Panel Study, author calculations.

Note: PR1: poverty rate when housing allowance is not provided and before housing costs payment; PR2: poverty rate when housing allowance is not provided and after housing costs payment; PR3: poverty rate when housing allowance is provided and after housing costs payment.

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