Housing Vouchers in the United States, Great Britain, and the Netherlands: Current Issues and Future Perspectives

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Abstract

We compare the current U.S. housing voucher program with the British housing benefit and the Dutch housing allowance programs. After presenting the theory behind income-related housing support, which underpins both the U.S. and European systems, we compare the three programs with respect to their scope (the budgeted versus the entitlement approach), the relationship between housing support and rent levels, the poverty trap, moral hazards, and administrative problems.

The United States can learn from Great Britain and the Netherlands that a full entitlement program can best promote equity, but given the present political and economic climate, it is unlikely that Congress will adopt such a program anytime soon. Great Britain and the Netherlands can learn from the United States how to design a more efficient tenant subsidy program, one that provides incentives to find less expensive units and promotes family self-sufficiency through enhanced job-seeking behavior.

Keywords: Federal policy; Housing assistance programs; Low-income housing

Introduction

Income-related housing support in the form of housing allowances or vouchers has become an important policy instrument in the United States and in many countries in Western Europe. In the eyes of most policy makers, vouchers have replaced supply-side subsidies and rent control as the most efficient and effective way to ensure that affordable housing is available for low- and moderate-income families. However, Europe and the United States have developed significantly different designs for their income-related housing support systems. In this article, we compare the current U.S. housing voucher program with the British housing benefit and Dutch housing allowance programs. The primary focus is not so much on a comparison between the British and the Dutch systems (see Priemus and Kemp 2004 for such a comparison), but rather a comparison between the U.S. and European approaches.

In the following section, we briefly summarize the approach to housing subsidies after World War II and the reasons for the growing dissatisfaction with that approach in the 1960s and 1970s. Next, we describe the shift to housing allowances that occurred in the 1970s and 1980s in the United States and Western Europe. We then examine the theory behind income-related housing support. Broadly speaking, this theory underpins both the U.S. and the European systems. We proceed to describing the current income-related housing support programs in the United States, Great Britain, and the Netherlands. We specify the basic differences between U.S. housing vouchers on the one hand and the British and Dutch income-related housing support on the other, elaborating on the following differences:

1. Budgeted (cash-limited) versus entitlement (demand-led) programs
2. The relationship between housing support and rent levels

We go on to identify and elaborate on some of the common concerns of the authorities responsible for designing and maintaining housing vouchers and housing allowances:

1. Adverse incentives in the housing and labor markets as a result of the poverty trap and moral hazard
2. Administrative problems and the need to control program budgets

We finish by reflecting on the future of income-related housing support (see also Kemp 1986), and we try to determine what Great Britain and the Netherlands can learn from the United States and vice versa.

The supply-side approach

After World War II, Western Europe experienced a severe housing shortage; the damage from the war was extensive, the building industry had been idle for more than five years, and delayed household formation had led to pentup demand for housing. National governments wanted to stimulate building production in general and the production of houses in particular. The usual approach was a combination of rent control, property subsidies, and public loans. Private capital markets had collapsed, and governments were unwilling to rely on price mechanisms alone. Although higher rents and prices would have increased building companies' profits and attracted large investments into the building and real estate industries, the general argument was that higher rents would also lead to higher wages and that this could reduce international competitiveness (Van der Schaar 1991).

After Congress passed the Public Housing Act in 1937, local public housing authorities (PHAs) in the United States began to develop housing. Here, too, the policy instruments consisted of a mix of public loans, rent control (by a limited number of localities), and property subsidies. The path to affordable housing followed similar courses in Europe and the United States, except that in most European countries, the market share of social housing (that is, public housing plus housing association units) became much larger than it was in the United States.

On both continents, the increasing expense of public loans and property subsidies placed a heavy burden on public finances. In the 1960s and 1970s, politicians in both Europe and the United States expressed growing concern over these instruments of housing policy. The following criticisms were raised (Balchin 1996; Donnison 1967; Hills 1991):

1. The housing market was distorted because rents were too low, thereby reducing landlords' profits and creating maintenance arrears. Subsidies impeded filtering and reduced both residential and occupational mobility.

2. Property subsidies did not always reach households with modest incomes. Subsidies were oriented toward new rented and new owner-occupied housing, which is mostly affordable for middle-income and higher-income families, not the poor. As soon as the incomes of some households improved, the mismatch between the needs of the family and the subsidies that were provided increased. It was not the poor who were able to take advantage of the subsidies, but rather families with moderate or even above-average incomes.

3. Budgetary impacts were becoming more and more unacceptable for national governments. Because each year saw another cohort of new subsidized units being added to the stock and because it was perceived as difficult to raise rents significantly, the share of the public budget swallowed up by property subsidies generally increased every year.

The shift to the demand side

At the end of the 1960s and during the 1970s, an alternative approach in the form of income-related housing support, mostly defined as housing allowances, was put forward. In 1972, the U.S. Department of Housing and Urban Development (HUD) launched an 11-year study of housing allowances called the Experimental Housing Allowances Program (EHAP), which was one of the largest social experiments ever undertaken by the U.S. government. This demonstration examined the behavior of over 30,000 households and administrative practices at 12 different locations (Bradbury and Downs 1981; Lowry 1983; Struyk and Bendick 1981).

EHAP actually consisted of three separate experiments. The Housing Allowance Demand Experiment sought to determine how households used the money they received and how variables such as payment levels and housing quality affected participation. The Housing Allowance Supply Experiment studied the impact of allowances on housing markets. The Administrative Agency Experiment assessed the administration of housing allowance programs and the costs associated with delivering them.

Researchers found that stricter housing standards substantially decreased participation but that allowances helped retain the supply of existing housing by promoting repairs and ongoing maintenance of units that did not meet standards (Cronin and Rasmussen 1981). A key finding from the Housing Allowance Supply Experiment was that housing allowances had little impact on prices (Winnick 1995). Finally, researchers found that the payment level did little to affect mobility or residential location. Ties to relatives, neighborhoods, workplaces, and schools were far more important in influencing locational decisions.

It could be argued, however, that researchers underestimated the impact of housing allowances because participants likely perceived that EHAP was temporary. When people know that a program is temporary, they are less likely to alter their behavior in response to it. Consequently, EHAP probably had less of an impact on residential mobility and property prices than a permanent program would have.

EHAP results provided the basis for the 1982 *Report of the President's Commission on Housing* (cited in Maney and Crowley 1999), which recommended that a housing allowance program be the primary form of housing assistance to low-income people.

In Europe, Germany introduced *Wohngeld* (Howenstine 1986; Kemp 1997), a subsidy for low-income households living in a unit with a relatively high rent. Housing allowances were also introduced in Great Britain and the Netherlands, not as a substitute for property subsidies, but as a demand-oriented subsidy on top of property subsidies. The underlying idea was that property subsidies could gradually be phased out and that in time, housing allowances would be the only form of financial housing support besides fiscal support for owner-occupants. Most experts and politicians considered this to be a feasible transition once the housing shortage was resolved; general supply-mobilizing property subsidies would then no longer be appropriate. A more targeted form of support to make good-quality housing affordable for low-income households seemed to offer a more efficient solution (Kemp 1986, 1997).

The theory behind income-related housing support

Many economists are not sympathetic to the idea of supply-side subsidies. If government intervention into the housing market is necessary, income assistance is considered preferable to supply-side subsidies. Advocates for demand-side programs believe that the choice of whether to accept public support and how to spend the money should be left up to the individual. They also assert that measures should operate in a way that distorts the market as little as possible. According to welfare theorists, this approach maximizes the effects of the assistance given. Nevertheless, even in the United States, public provision of heavily subsidized goods and services does occur, though this practice is coming under increasing fire from some economists and policy analysts.

Public housing is a case in point. PHAs in the United States manage a total of 1.2 million units (New Facts 2000). Economists have offered two major alternatives to this type of in-kind support: the negative income tax and vouchers. The rationale behind a negative income tax (a general allowance in the form of freely disposable means) is that it guarantees low-income households a basic level of amenities in terms of education, housing, health care, and nutrition while maintaining choice. People receive an allowance, which can be supplemented with extra income from work, interest, or specific forms of public assistance. On both sides of the Atlantic, there are still too many technical difficulties involved in implementing a negative income tax to make this a viable alternative. Further, at present, the political support for such an approach on a large scale is weak, although the U.S. Earned Income Tax Credit (EITC) and the British Working Tax Credit and Child Tax Credit programs represent a step in that direction. Stegman, Davis, and Quercia (2004) argue that the ETIC is actually an instrument of housing policy.

Given that the time is not yet right for a negative income tax, the question that arises is whether there might be a better solution that could be implemented in the short term. Such a solution actually exists in the United States:

allowances that are not freely disposable. These are tied to a particular purpose and are known as vouchers.

A voucher is a defined or otherwise restricted subsidy. It transfers a given amount of purchasing power to an individual or a household, together with some freedom of choice in how this subsidy can be disbursed (Priemus 1998b). This freedom relates to choosing among suppliers or choosing among a variety of goods and services. Suppliers are expected to compete with one another on an equal basis. A voucher could be an open-ended (demand-led) entitlement, or it could be part of a budgeted (cash-limited) program. A voucher has strings attached but at the same time offers a degree of choice to the recipient, who can choose among various suppliers of goods and services in the areas of housing, schooling, and health care. On the one hand, a voucher restricts the type of goods and services the recipient may acquire: Housing vouchers cannot be used to pay for food, any more than health care vouchers can be used to pay for school fees. On the other hand, the income liberated through voucher assistance can be used to pay for other goods and services. Because of this fungibility, financial assistance in the form of housing vouchers is less restrictive than is generally thought.

Compared with a negative income tax, vouchers are somewhat paternalistic because they are tied to a specific sector. However, paternalism is not always bad. First, vouchers are also intended to affect supply. They do so by stimulating demand and can remove or prevent shortfalls where there are market failures. Second, vouchers respond to the preferences of politicians and taxpayers who are reluctant to give low-income households and individuals so much freedom. If recipients were to follow their own particular preferences and spend their subsidies on non-necessities, key social problems (housing needs, poor-quality education, or deficient health care) would not be solved. Taxpayers would quickly lose any desire to foot the bill because their tax morality would be sorely tried.

Many policy analysts and economists argue that after a negative income tax, vouchers are the next-best option in making basic services affordable to low-income households and individuals. Nevertheless, it is important that policy analysts keep an eye on (1) how the various kinds of vouchers (housing, education, health, child care, employment and training, environmental protection, transport, and food) overlap or leave gaps and (2) how voucher procedures are managed, including the types of counseling that are provided. Thus, it is clear that the devil is in the details: The actual form that vouchers take determines how attractive or problematic they will be in practice (Priemus 2000).

Mary Nenno (1998) and other U.S. policy experts emphasize the continued need for supply-oriented housing programs as part of area-improvement efforts; they criticize a full shift from supply- to demand-side programs. Future directions in federally assisted housing are far from certain, notes Nenno (1998). They are strongly influenced by larger issues on the political agenda, including the drive to cut government costs and to implement devolution—to shift responsibility to the state and local levels. She and some other observers favor a return to HUD's primary statutory mission of improving the supply and condition of housing in conjunction with the revitalization of neighborhoods, cities, and, increasingly, metropolitan areas.

Further, it is important for HUD as well as local PHAs to consider the spatial impact of household-oriented programs on neighborhoods. For example, the clustering of voucher households in fragile neighborhoods already undergoing racial and economic decline can further undercut their viability (Varady and Walker 2003). Similarly, Spencer (2005) notes that the EITC, a household-oriented program, constitutes a significantly greater, though unplanned, investment in low-income neighborhoods than Empowerment Zones do.

Income-related housing assistance programs in the United States, Great Britain, and the Netherlands

Table 1 compares the tenant subsidy programs of these three countries. Next, we discuss these programs country by country.

The U.S. housing voucher program

Vouchers are provided to families under HUD's Section 8 Housing Choice Voucher Program (HCVP), which is administered by local PHAs that determine a family's eligibility to participate based on total annual gross income and family size. In general, income may not exceed 80 percent of the median income of the county or metropolitan area in which the family happens to live. Three-fourths of vouchers are reserved for extremely low income families—those whose income is at or below 30 percent of the area median.

Voucher recipients are required to pay 30 percent of their monthly adjusted gross income for rent and utilities; the government subsidizes the balance up to a locally determined maximum or payment standard. Local PHAs set payment standards based on fair market rents (FMRs), which are designated annually by HUD for regional housing markets throughout the country. FMRs reflect the rent and utilities charged in a particular housing market for a typical, nonluxury unit (adjusted by size). FMRs are usually set at the 40th percentile

Table 1. A Comparison of Housing Voucher/Housing Benefit Systems in the United States, Great Britain, and the Netherlands

	United States	Great Britain	Netherlands
Name of the program	Section 8 Housing Choice Voucher Program	Housing benefit	Huursubsidiewet (Housing Allowance Act of 1997)
Magnitude of the program			
Participants	2.1 million	3.8 million	985,000 (about 31 percent of all tenants)
Cost	$14.7 billion	$23.6 billion	$2.17 billion (2004–05)
Program features			
Calculating the subsidy amount	The subsidy equals the difference between 30 percent of household income and the benefit payment standard, which takes into account the fair market rent in the metropolitan area.	The subsidy is equal to 100 percent of the (reasonable) rent minus 65 percent of income above a threshold that varies by size and type of household.	The subsidy varies with the rent level, household income, and household size. There are specific provisions for elderly tenants and tenants with disabilities.
Housing quality	The unit must pass HUD's housing quality standard before the voucher is approved.	There is no minimum housing quality threshold. Rules exist to prevent recipients from living in overly large or expensive units.	There is no minimum housing quality standard, as long as the definition of an independent unit applies.
Housing search	Recipients have 60 to 120 days to find a house. Failure rates range between 30 and 50 percent across different metropolitan areas.	Tenants must apply for the housing benefit after they have found their unit.	Tenants must apply for the housing allowance after they have found their unit.
Equity considerations	Housing vouchers are viewed as a straightforward solution to the housing affordability problem. They are not an entitlement; many who need assistance do not receive it. In 1999, 29 percent of extremely low income and very low income renter households were receiving a housing subsidy under one or more federal, state, or local programs.	The housing benefit is viewed as a way of making rental housing affordable to low-income tenants. The housing benefit is an entitlement program. All eligible tenants who apply for the benefit will receive it. The participation rate among eligible tenants is over 80 percent.	The housing allowance is viewed as a way of making rental housing of a certain quality affordable to low-income tenants. The housing allowance is an entitlement program. All eligible tenants who apply for an allowance will receive it. The participation rate among eligible tenants is estimated at about 70 percent.
Poverty and racial deconcentration	HUD (1) allows localities to provide higher voucher payments to promote moves to low-poverty areas and (2) allows families to move from one PHA's jurisdiction to another's (the "portability" feature).	Recipients who move can claim the housing benefit for their new unit. Housing rented by local councils, and to a lesser extent housing rented by not-for-profit housing organizations, is often clustered on large projects.	Recipients who move can claim the housing allowance for their new unit up to a certain maximum rent. In certain areas (postwar urban quarters, growth centers, urban renewal areas), there is a very large

Table 1. A Comparison of Housing Voucher/Housing Benefit Systems in the United States, Great Britain, and the Netherlands *Continued*

	United States	Great Britain	Netherlands
Poverty and racial deconcentration *Continued*	Research on the Moving to Opportunity demonstration has not provided conclusive evidence that moves to promote deconcentration also promote self-sufficiency. Families making such moves do experience better neighborhood conditions, however. Voucher recipients sometimes recluster in fragile neighborhoods already experiencing racial and income decline; this pattern undercuts neighborhood viability.	Most of the tenants on these properties tend to receive housing benefits.	share of social rented housing where recipients of housing allowances are concentrated. The housing allowance reduces the stigma and spatial concentration of poverty.
Poverty trap	There is considerable debate among U.S. experts as to whether housing vouchers discourage people from working harder. Research on U.S. welfare reform indicates that a workfare requirement promotes job seeking, but many acquire low-paying jobs. The EITC is reducing the disincentives to work for those receiving both welfare and housing assistance.	There is concern about the possible negative impact of the housing benefit on incentives to work. Many unemployed claimants are required to enter welfare-to-work programs. Single parents and people receiving disability insurance are increasingly required to attend "work-focused interviews." The Working Tax Credit (which was inspired by the EITC) helps improve incentives to work, but does exacerbate the poverty trap.	There is emerging concern about the possible negative impacts of the housing allowance on work incentives and on economizing on housing costs. The poverty trap has become more of an issue as a result of the accumulation of income-related programs.
Moral hazard			
Reasonable rents	Some landlords charge higher rents for voucher recipients than would be dictated by the market. HUD requires local PHAs to establish their own methodology for determining what constitutes a reasonable rent.	The program has checks to ensure that the housing benefit is not paid on rents that are higher than would be dictated by the market or rents that are unreasonably high. Local councils and not-for-profit landlords set their own rent levels. The government is phasing in new guidelines for determining rents on units rented by these providers.	Some 95 percent of all rents are regulated, mostly below market level. Rents are supposed to be reasonable or even less than reasonable.

Table 1. A Comparison of Housing Voucher/Housing Benefit Systems in the United States, Great Britain, and the Netherlands *Continued*

	United States	Great Britain	Netherlands
Moral hazard *Continued*			
Incomes	Households must recertify their income with the local PHA every year. Little is known about the extent of underreporting of income. Sometimes the "man of the house" is present but not listed on the lease. Most PHAs require that all adults living in the household be listed on the lease whether there is a formal marriage or not. Little is known about the numbers not listed on the lease but living in the unit anyway. Cross-checking data with records of other agencies is often not feasible due to privacy considerations. The splitting of households to receive more benefits is not a significant problem.	Checks are made to verify income. Recipients are required to report changes in their circumstances. Local authority housing benefit administrators have powers to prevent and detect fraudulent claims. The splitting of households is not widely perceived to be a significant problem.	Checks are made to verify information on household income and rents. Recipients are required to report changes in their circumstances. Nevertheless, it is estimated that in about 10 percent of cases, the information given does not match the reality. Data are cross-checked with the records of other social agencies, municipalities, and housing associations. Privacy considerations give way to combating fraud. The splitting of households is perceived as a problem.
Methods for controlling public budgets	PHAs can decide not to pay 100 percent of the benefit standard but instead to pay 90 percent or less. PHAs can decide to eliminate higher voucher payments for moves to low-poverty neighborhoods. The implementation of the Bush administration's Flexible Voucher Program would likely mean sharp cuts in funding.	The housing benefit is a demand-led program and hence is not subject to an annual budget limit.	The housing allowance is a demand-led program and hence is not subject to an annual budget limit. The Housing Minister, however, is supposed to compensate with cuts elsewhere in the housing budget for overruns in the housing allowance budget.
Administration	Vouchers are administered by local PHAs.	The housing benefit is administered by local authorities, of which there are about 400 in Great Britain. The rules governing the program are laid down by the central government.	The housing allowance is administered by housing associations and local authorities. Program administration is going to be switched to tax authorities.
Proposed reforms	The Bush administration is proposing a Flexible Voucher Program.	A new LHA is intended to replace the current housing benefit program. It is being tested in 18 local authority areas for private tenants and will be implemented nationally in 2008. The new program will eventu-	For the short term, plans are to adapt the program to reduce public expenditures. If rents are liberalized, housing associations are willing to pay €250 million annually to the national

Table 1. A Comparison of Housing Voucher/Housing Benefit Systems in the United States, Great Britain, and the Netherlands *Continued*

	United States	Great Britain	Netherlands
Proposed reforms *Continued*		ally be extended to recipients renting from local councils and not-for-profit housing organizations, but probably in a modified form. The amount of the subsidy will no longer be determined by the amount of rent paid by the tenant. Instead, the new LHA will be paid at a standard rate within each housing market area and will vary only by household type and size. Recipients will be allowed to keep the excess if the allowance is higher than the standard payment under the LHA. The standard payment will be set at a quasi-median rent level for the local housing market. As in the present housing benefit program, the LHA will be reduced from the standard amount by 65 percent of any income over an income threshold.	government to largely cover additional expenditures on housing allowances.

LHA = local housing allowance.

of local rents, the dollar amount below which 40 percent of standard-quality housing units rent. The 40th percentile rent is obtained from the distribution of rents of units occupied by recent movers (renter households that moved into their unit within the past 15 months).

After receiving a voucher, a family usually has 60 to 120 days to find housing. Once a unit is found, the PHA inspects it to make sure it meets housing quality standards, reviews the lease before approving the unit for rental, and checks that the rent is reasonable. A recipient may also select a unit whose rent is above or below the payment standard. If the unit costs more than the standard, the family must pay the difference, up to a limit of 40 percent of income. The PHA pays the rent subsidy directly to the landlord on behalf of the participating family; the family pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

Since 1970, HUD's housing voucher program has grown from about 30,000 households (under the EHAP's 12-site experiment) to about 2.1 million authorized vouchers today (Sard, Lawrence, and Fischer 2005). In 2000, the mean income of voucher holders was about $10,000, and 57 percent of nonelderly, nondisabled voucher households had income from work. That same year, the average recipient spent $644 per month on rent, received a $392 subsidy payment, and devoted a third of its income to rent (HUD 2003).

The Bush administration's fiscal year 2005 budget contained a proposal to make major changes in the housing voucher program. The new Flexible Voucher Program would provide block grants to state and local housing agencies, allowing them greater discretion in choosing recipients. If implemented, it would sharply cut funding for vouchers. In support of the change, HUD officials argued (1) that program costs have "spiraled out of control" (Jackson 2004, A23), (2) that vouchers are consuming an ever-greater portion of the HUD budget (Congress appropriated about $14.7 billion for the program in 2005), (3) that HUD is forced to base voucher amounts on inaccurate FMRs, (4) that rents paid by vouchers are out of line with market rents, and (5) that the voucher program has "shut the door" on the working poor (Jackson 2004, A23).

Low-income housing advocacy groups have critiqued the flexible voucher proposal (see, for example, Center on Budget and Policy Priorities 2004; Sard and Fischer 2004), and it was not included in either the House or the Senate appropriations for fiscal year 2005. Some advocates believe that the authorizing committees will likely consider the same or a slightly revised proposal in 2005, a scenario that seems more likely with the reelection of President Bush.[1]

The British housing benefit program

In Great Britain, the housing benefit is a national program that is administered by local authorities. Guidance on how to implement the statutory regulations governing the program is provided by the Department for Work and Pensions (DWP). Most of the benefit expenditure and some of the administrative costs incurred by local authorities are reimbursed by the DWP.

Only renters are eligible for the housing benefit, but owner-occupants who receive social assistance (welfare), which is administered by the local offices of the DWP, get help with their mortgage interest payments as an addition to their

[1] E-mail correspondence to David Varady from Barbara Sard, Director of Housing Policy at the Center on Budget and Policy Priorities, September 21, 2004.

benefit.[2] Local authority tenants receive their housing benefit in the form of a rebate, which is paid directly into their rent account by the local authority. Tenants who rent from private landlords and not-for-profit housing associations receive an allowance, which may be paid either to the tenants or, if they so designate, to their landlords. Many landlords require such a designation, and in practice about 60 percent of rent allowances are paid that way (DWP 2002).

The housing benefit is means tested, and applicants have to complete a very long and complicated form to get it. This is normally submitted to their local authority along with proof of their income, rent, and other details. In recent years, extensive checks have been introduced to verify claimants' circumstances to minimize the risk of errors and to prevent or detect fraud. Local authorities are required to process claims within 14 days, but in practice most take longer than that (DWP 2002).

Currently, the housing benefit is designed to ensure that recipients have an income, once *eligible* rent is deducted, that is no less than the social assistance benefit rates (Hills 1991). Tenants who receive social assistance or who have an income that is not in excess of social assistance benefit rates receive a housing benefit equal to 100 percent of their eligible rent. For tenants whose income is in excess of the social assistance benefit rates, the housing benefit is reduced from 100 percent of the eligible rent by a fixed percentage (65 percent) of the difference between their income and the social assistance benefit rates. (Amounts are deducted from the eligible rent if the recipient has nondependents such as adult children living in the household) (Zebedee, Ward, and Lister 2004).

Thus, the housing benefit formula for people who are on social assistance or who have an income that is no more than the social assistance benefit rate (and for simplicity, ignoring nondependent deductions) is $\mathrm{HB} = R$. For those with an income above that level, the formula can be expressed as follows:

$$\mathrm{HB} = R - 0.65{*}(Y - \mathrm{SA}) \qquad (1)$$

where

HB = housing benefit

R = eligible rent

Y = assessed income

SA = social assistance benefit rates

[2] The money paid by DWP to welfare recipients who are home buyers is increased to cover their mortgage interest payments. By contrast, welfare recipients who rent (and other low-income tenants) are eligible for the housing benefit. Thus, tenants who are welfare recipients get money from the DWP to cover their nonhousing expenses and a housing benefit from the local authority to help them pay their rent.

Social assistance benefit rates differ according to the size and type of household. Hence, the program does not distinguish between single-person and multiple-person households per se. For example, the amount of social assistance single-person households can receive varies widely depending on such factors as age, the presence of dependent children, and disability. Most students in higher education are not eligible for the housing benefit (Zebedee, Ward, and Lister 2004).

The housing benefit program has very complex limits that apply largely to private persons renting deregulated tenancies.[3] If the rent is deemed to be unreasonably high or above market value for the property or the unit is in excess of specified size criteria for different household types/sizes, the housing benefit is calculated on an amount that is deemed reasonable. Rent increases may also be restricted for benefit calculation purposes if the increase is deemed to be too soon or too large. In addition to these unreasonable rent rules, ceilings limiting the maximum rent that is eligible for benefit have existed since 1996. A government agency—the Rent Service—sets these ceilings and makes decisions on reasonableness.

It has been estimated that about 70 percent of deregulated private tenants claiming the housing benefit under these rules have their eligible rent restricted to a lower amount than their actual rent as a result of either the unreasonable rent rules or the ceilings or both (Kemp, Wilcox, and Rhodes 2002). These benefit restrictions do not affect the amount of rent that the landlord is allowed to charge the tenant, except indirectly by limiting the amount that the latter can afford.

Great Britain currently spends about 1.2 percent of its gross domestic product on the housing benefit, which is more than many other countries spend (Kemp 1997; Stephens, Burns, and MacKay 2003). In monetary terms, expenditure on the housing benefit in 2002–03 was an estimated £12.6 billion ($23.6 billion). As of May 2003, there were 3.8 million housing benefit recipients, of which 1.84 million (48 percent) were local authority tenants, 1.24 million (33 percent) were housing association tenants, and 0.71 million (19 percent) were private tenants (DWP 2002).

The housing benefit suffers from a number of major structural and administrative problems (Hills 2001; Kemp 1998; Social Security Committee 2000). Delays in the processing of claims have already been mentioned. In addition, the program has a relatively high level of fraud and error. Poor administration

[3] Private sector decontrol was introduced in January 1989 for new rentals. More than 90 percent of all private rentals are now deregulated (Kemp 2004).

is believed to act as a disincentive for claimants to leave the rolls and take up paid employment or to increase their hours of work (DWP 2002). Thus, the DWP has argued that

> [o]ne of the most damaging effects of delays in processing and paying Housing Benefit claims is to discourage benefit recipients from moving into work. The transition into work can be a difficult period in any case, since entry wages are usually lower than for those already in employment, and there are additional difficulties in adjusting to work. Delays in processing claims can make it difficult for tenants to be sure they will be better off in work and can lead to rent arrears and debt. There is evidence that this can be a significant deterrent to people considering taking up a job. (2002, 15)

Moreover, the tax-back rate (income taper) on the housing benefit as incomes rise is very high at 65 percent of net income and is also believed to act as a disincentive to work (Wilcox 1993). Because the rules are very complex, they are also very opaque, and few recipients understand how their benefit is calculated. Recipients have relatively little financial incentive to shop around for reasonably priced units. Because of the need to have complicated administrative rules to prevent overconsumption as a result of the lack of a shopping incentive, private tenants on housing benefit often do not know how much rent they can afford. Those caught out by these rules are left with shortfalls that they have to make up out of the income intended for their nonhousing living expenses (Kemp, Wilcox, and Rhodes 2002). These manifold problems have been recognized by the Labour Government (DWP 2002) and help explain why major changes to the program are being introduced (see the "Relationship between housing support and rent level" section).

The Dutch housing allowance program

Income-related housing allowances were first introduced in the Netherlands on a limited scale in 1970. In the beginning, the program emerged as a fairly unimportant, modest, rather specific provision that had little effect on the overall development of Dutch housing (Priemus 1984, 1986). The scope of the program was expanded considerably in 1975, when it became a general entitlement program. This lasted until 1984, when it was codified in the Housing Allowance Act (Priemus 1998a).

Housing allowances have been evaluated several times (Boelhouwer 1989; Lucassen and Priemus 1977; Ooms and Papa 1989; Van der Schaar 1994), and as a result, the program has improved step by step. In hard economic times, budget cuts prevent an escalation of public expenditures on housing allowances.

In the Netherlands, every tenant whose rent is relatively high in relation to household income and who meets certain conditions is entitled to a housing allowance (Netherlands Ministry of Housing, Spatial Planning, and the Environment 2004). For the 2004–05 period, these conditions relate to the following:

1. *The type of unit:* The dwelling must be a self-contained unit, one or more rooms in a residential building designated by the Minister of Housing, or a mobile home meeting certain legislative requirements.

2. *The duration of the lease:* The tenancy must not be temporary.

3. *The (financial) suitability of the unit:* The dwelling is deemed suitable when the rent is no more than the capping limit of €466.48[4] per month for households of one or two persons and €499.92 per month for larger households, or when no unit with a rental price below these limits is available.

4. *The rental price:* The rent (adjusted for the purposes of calculating housing allowance entitlement) must not exceed the legal maximum for the protected rental sector, that is, €597.45 per month when the tenant is aged 23 or over or the household includes a dependent minor, or when the unit is designated suitable for a person with a disability. In all other cases, the maximum is €325.91. When the rental price is higher than the cap, no housing allowance at all is provided. Only a limited number of rented units (mostly less than 10 percent in a region) have a rent that is higher than the cap.

5. *Domicile:* The unit must be the recipient's main permanent residence.

6. *Occupancy:* Only those persons whose names appear in the Municipal Register as living at that address are deemed members of the household for the purposes of calculating the housing allowance entitlement.

7. *Age/marital status of the tenant:* The applicant must be at least 18 years of age on the reference date or must be (or have been) married.

8. *Residency status of household members:* The applicant and all members of the household must hold Dutch nationality or must have been granted

[4] As of June 24, 2005, 1 Euro = 1.2097 dollars.

leave to maintain a domicile in the Netherlands in accordance with the 2000 *Vreemdelingenwet* (Foreign Nationals Act).

9. *Application date:* Housing allowance is not paid retrospectively (backdated) but is paid only for the remaining months of the current entitlement period (July 1 to June 30).
10. *Household income:* Annual income (adjusted for the purposes of calculating housing benefit entitlement) must not exceed €18,700 for single-person households or €25,075 for multiple-person households. When the single occupant is 65 or older, the maximum is €16,625, and when the main earner of a multiple-person household is 65 or older, the maximum is €21,675. In calculating income, there is a deductible allowance of €4,100 for each child 22 or younger in full-time residence at the address.
11. *Personal assets:* Single persons under 65 may not have personal assets exceeding €20,300; the maximum for multiple-person households (where all members are under 65) is €37,600. Single persons 65 or older may hold assets up to €34,725, and multiple-person households in which the main earner is 65 or older may hold up to €48,050 in personal assets.

The so-called calculation rent is derived from

1. The basic (= net + €12) rental charge
2. Any supplementary charge for business premises
3. Any supplementary charge for the use of a garage
4. Certain service charges

whereby the calculation rent is the basic rent, *minus* the actual charge for the use of business premises, *minus* a set amount (€22) for the use of a garage, *plus* these service charge components if applicable: the charges for elevator, ventilation, water pump, and alarm installations; the charges for lighting common areas; the charges for cleaning the elevators and common areas; the charges for the services of a concierge and/or capital; and the maintenance charges for maintaining common areas and utility rooms. Where the household includes one or more subtenants or lodgers, the calculation rent is reduced by 25 percent.

Any rent above the capping limit will generally not be subject to the housing allowance, although in some circumstances, the excess will attract subsidy at 50 percent (for instance, units for persons with disabilities). In all other cases, no subsidy is payable on the part of the rent above the capping limit.

Under Articles 38 to 40 of the *Huursubsidiewet* (Housing Allowance Act) of 1997, a relocation norm applies: No more than 4 percent of the housing allowance grants in any one local authority area may be made to tenants who move into a unit with a (calculation) rent above the current capping limit. A local authority that exceeds this 4 percent limit must pay €450 to the central government for each instance.

In 2002, 963,108 households (31.3 percent of all tenants) received a housing allowance (Netherlands Ministry of Housing 2004). There is widespread consensus that Dutch housing allowances have been successful in making decent, affordable rental housing available to low-income households (Pommer and Jonker 2003). Given the dominant position of the social housing sector (which is essentially private), with a market share of 36 percent (Priemus 2001b), the relationship between social housing and housing allowances is particularly close in the Netherlands. Current policy goals, aiming at a more liberalized rent policy, including the social rented sector, could put the current housing allowances program at risk (Priemus 2004). Rent liberalization will lead to more differentiation in rents and to rent increases. Given the current housing allowance program, this will lead to higher public expenditures on housing allowances. If rents are liberalized, Dutch housing associations are willing to pay €250 million annually to the national government to largely cover these additional public expenditures (Priemus 2005a, 2005b).

Differences among the U.S., British, and Dutch systems

The U.S., British, and Dutch housing voucher programs have evolved over time. We will now focus on the major similarities and differences among them.

Budgeted program or entitlement?

The first noticeable difference is that both Great Britain and the Netherlands have adopted a full-entitlement approach: Everybody who has a household income below a certain threshold, pays a high rent, and meets program requirements has the right to apply for income-related housing support and to receive a housing benefit or housing allowance, irrespective of the cost to the housing benefit budget. In the United States, the housing voucher program is a budget item. A qualifying household is usually added to a waiting list. It is sometimes not even possible to apply because there are so many applicants compared with the number of available vouchers. As a result, waits are often very long, in some cases as long as eight years (Maney and Crowley 1999, 2000; Van der Bos 2003). The current approach meets the needs of only a small proportion of qualified households. Ironically, satisfaction among voucher recipients is high (Anderson 1995), probably higher than among recipients of housing support in Europe, because the latter cannot compare themselves with similar households that do not receive support because of a lack of public money. We do not, however, know of any study that has compared U.S. and European housing assistance recipients with regard to housing satisfaction. To summarize, the U.S. system scores higher in terms of fiscal responsibility, while the two European programs score higher in terms of equity.

Relationship between housing support and rent level

A second difference is found in the way the programs deal with rent levels. In the United States, the amount of the housing voucher is calculated by applying two formulas and taking the lower:

1. Gross rent minus own contribution
2. Payment standard minus own contribution[5]

The voucher payment is related to both the FMR and the actual rent. The HCVP, which consolidated the previously separate voucher and rent certificate programs in 1998, provides an economic incentive for families to choose a unit whose rent does not exceed the allowable payment standard. In that case, the government will make up the difference between the family's income and the payment standard. If the family rents a more expensive unit (one that would necessitate paying more than 40 percent of household income for rent), it will need to pay the additional rent beyond the allowable payment standard. In practice, very high housing costs for recipients can occur in tight housing markets. Frail elderly people may need to rent more expensive units to find features suitable to their physical and health needs.

The U.S. housing voucher system recognizes the potential benefits to low-income families if they move to suburban areas that are safer and have better educational and employment opportunities than the inner city. HUD allows localities to provide higher voucher payments so that households can move

[5] This example should be helpful in understanding the HCVP:

1. Assuming that the benefit payment standard, the maximum amount that the local PHA will provide for a family of a particular size, given housing costs in that county, is $760.
2. The total tenant payment (in this case, $360) is based on a household's paying 30 percent of monthly household income for rent.
3. In this case, the household rented a unit for $800—above the maximum benefit standard.
4. This family's monthly adjusted income is $1,200. Forty percent of that, $480, is the maximum that a family could spend on housing.
5. The family's subsidy would be $400 and the tenant would pay $400.

from the inner city to more affluent suburban areas with higher rents.[6] Further, HUD allows recipients to move (while retaining their voucher) from the jurisdiction of one PHA to that of another. Households that change jurisdictions exercise the portability aspect of vouchers.

Considered at the micro level, a housing voucher that is not related to the recipient's rent has clear advantages.[7] A household that wishes to cut back on housing costs, for example, by doing without some services and taking on some of the maintenance theoretically could benefit from such savings. This would stimulate households to take action to reduce costs. In practice, however, there are all kinds of barriers in the U.S. and European programs that prevent households from taking full advantage of savings of this type.

In the current British system, changes in the rent (whether up or down) tend to be fully matched by changes in the housing benefit. It has been argued that this 100 percent marginal subsidy may encourage tenants to move upmarket to more expensive units (Hills 1991) or act as a disincentive to shop around for a good deal in the private rental housing market (Kemp 1998). Although there is little systematic evidence of housing benefit recipients' "upmarketing" or failing to shop around in comparison with nonrecipients in the private rental sector (Kemp and McLaverty 1998), the possibility that it could happen has undermined confidence in the program (Kemp 1998).

However, the British government is testing a new local housing allowance (LHA) that will be implemented nationally by 2008 for tenants renting in the private sector. Under this new plan, the amount of the LHA is not related to the tenant's own rent but to average rents in the locality: A standard amount is paid to households of similar size irrespective of their rent.[8] This means that recipients incur all of the cost of any rent increase and gain all of the savings resulting from any decrease (DWP 2002).

In the Netherlands, a household that wants to move to a more expensive unit usually pays a quarter of the extra rent, while the remaining three-quarters is covered by a higher housing allowance (Priemus 1998a). The Dutch

[6] The PHA can set different payment standards for different neighborhoods, up to 110 percent of the HUD-determined FMR. If the PHA thinks that a higher payment standard is needed to access housing in a particular neighborhood, it can request HUD approval of the higher amount. It should be noted that while this legal structure is still in place, HUD, as part of its cost-cutting strategy, has sharply limited the approval of higher payment standards since fall 2003, and the changes that Congress has made in the funding formula for 2005 will discourage PHAs from using the flexibility they have, since they will not be able to get additional funds to cover the higher costs resulting from such higher payment standards (Sard 2004).

[7] This is not the case in the United States. The voucher is good only for the amount of rent charged for the unit (less the family's contribution), not the full FMR if the rent is less.

[8] The means test will continue to apply under the LHA.

system contains relatively little incentive for a household to restrict housing costs and set priorities. Landlords in the Netherlands often encounter little market resistance when they raise the rent on a vacant cheap unit. In some cases, private sector landlords and tenants collude and set the rent so as to receive the maximum rent subsidy (De Vrije 1983; Economisch Instituut voor de Bouwnijverheid 1985).

Work and housing consumption disincentives

Work disincentives

Income-related subsidies, including housing vouchers, create two kinds of disincentives (Allers 2002). First, there is the unemployment trap, in which people receiving state benefits are discouraged from taking a job because of the lack of any significant increase in their purchasing power. Second, there is the poverty trap in which some employees are deterred from seeking to earn more (for example, by bettering their position through extra work or training, promotion, or more hours) because the high marginal deduction rates mean that they will hardly be better off (Deacon and Bradshaw 1983). This rate is 65 percent for housing benefit recipients in Great Britain, and 56 percent for one-person households with a very low income in the Netherlands (Van Steen 2004).

The poverty trap and the unemployment trap are closely related. The unemployment trap can be considered an aspect of the poverty trap that affects unemployed poor people. The common mechanism is that increased nominal earnings would face high marginal tax rates or benefit take-back rates that would reduce their benefit from increased earnings.

The poverty trap can be tackled by reducing the income tax rates or raising the income tax starting threshold of low-income households. Reducing the taper or tax-back rate of housing allowances or vouchers would also reduce recipients' marginal tax rates, but would increase the number of recipients faced with high marginal rates. Thus, there is a trade-off between the depth and the incidence of the poverty trap. The unemployment trap could be tackled by providing in-work social benefits such as housing allowances or by giving bonuses to the employed. All of these approaches imply a shift in purchasing power.

The EITC tackles the unemployment trap by providing extra income for low-paid workers. Although the EITC—like the Working Tax Credit in Great Britain—does increase the financial incentive to enter the labor market, the disadvantage is that it would become less appealing for an employee to work more hours or go for a promotion during the period in which the EITC is reduced.

In general, it is sensible not to view housing vouchers, benefits, and allowances in isolation, but rather to link them to other income-related support in areas like unemployment, health care, and education. In cases where all of these programs come together and a family receives several of these forms of support, the poverty trap is a real concern. A considerable portion of the increase in purchasing power resulting from a rise in income seeps away because of the attendant decrease in income-related support. The recipient would say, "The extra income goes straight into the government's pocket," and this can lead to perverse incentives for households operating in local housing and labor markets (Kempson, White, and Forth 1997; Shroder 2002). In the eyes of those who are affected, it does not pay to go from receiving benefits to taking a job, nor does it pay for a spouse or partner to take a job (since any net increase in household income will be negligible) or to keep an eye open for a home with a lower rent (since income-related housing support may be reduced so that this barely results in an increase in spending power).

Taking these considerations into account, it makes sense to assess not only the first-order effects of housing allowances (the reduction in the net expenditure for the household that receives support), but also the second-order effects on the housing market (moving to a more expensive home, moving from a bought home to a rental) and on the labor market (having the breadwinner and/or partner give up a paid job or transition to a low-paying job, for example, by working fewer hours). Both categories of second-order effects are strongly related to the extent to which vouchers promote, increase, or reduce self-sufficiency.

In opposition to the positive, intended primary effect, which makes a larger part of the housing stock more affordable, there is often a less desirable, unintentional rebound effect with negative impacts on housing and labor markets. It may be possible to defend the position that in Europe, the pursuit of a higher gross rent is not considered to be a negative effect, but rather is largely a positive and perhaps even an intended effect. Moving to a unit with a higher rent—within a given locality—generally (but not always) means an increase in housing quality. Income-related housing support not only promotes affordability, but it can also stimulate (in an indirect way) improved housing quality in countries like Great Britain and the Netherlands. It can remove barriers (for instance, objections by tenants) to urban renewal and urban revitalization aimed at improving the quality of urban housing, because the rent increase stemming from renovation will be largely (in the Netherlands) or completely (in Great Britain) compensated for by higher housing allowances.

The perverse impacts that income-related housing support and other income-related subsidies have on labor market behavior are a real problem. The most radical way to avert the danger of the poverty trap is to abolish income-related support altogether. This would conflict with European policy objectives for income-related housing support, which exists to redistribute resources by providing decent, affordable housing for low-income families. A second way to avoid the danger of the poverty trap is to counteract the cumulative effects of different income-related programs (housing vouchers, food stamps, public health plans). The poverty trap could be brought under control by restructuring the program in such a way that a rise in income does not lead to a corresponding reduction in benefits and a rent increase does not mean a corresponding increase in benefits. This stimulates households to stay in (or move to) a unit with a lower rent and to improve their position in the labor market. Such a restructuring will lead to increased budgetary control of income-related housing support.

For the macro economy, it is crucial that households have enough incentives to enter the labor market and to strive for better-paying jobs. The cumulative effect of all income-related plans on employment-related behavior is at stake here. It makes sense to reduce the impact of income differences in housing allowance programs like those in Great Britain and the Netherlands. Countries that are considering welfare reform can learn a lot from the United States, where reform has produced mixed economic and social benefits.[9]

Moral hazard

Moral hazard—the possibility that claimants may manipulate the system by changing their behavior in ways that increase their benefit entitlement (Barr 1999)—is a problem with all means-tested welfare payments, and this is especially true of income-related housing support (Kemp 2000). In the United States, this has also been a problem with respect to supply-side programs; that is, housing inspectors have sometimes approved dilapidated properties for subsidized loans (Bovard 1994; Tucker 1990).

[9] The U.S. welfare reform act was passed in 1996. Between 1994 and 2001, welfare rolls declined by about 60 percent, a result of the act's "workfare" (mandatory work) requirements along with an expanding economy. However, with average wages of $6 to $8 an hour, most mothers leaving welfare have had difficulty becoming self-sufficient (Edin and Lein 1997; Ehrenreich 2001). Further, welfare reform has not led to fundamental changes in the lives of these families (the incidence of marriage has not increased, for example; see DeParle 2004). As Besharov put it, "Thus, if caseload decline is the measure, then welfare reform…can be considered a success. But if self-sufficiency and stronger families are the test, then, at best, the jury is still out" (2003, 14).

Both households and landlords have various opportunities to make improper or even illegal use of income-related housing programs. As mentioned earlier, some U.S. landlords charge higher rents for voucher recipients than would be dictated by the market. Similarly, in the Netherlands, tenants and landlords sometimes collude to set artificially high rents (De Vrije 1983; Economisch Instituut voor de Bouwnijverheid 1985). In the United States, this appears to happen more often in loose rather than tight housing markets. (In tight markets in the United States, landlords can choose not to take any voucher recipients.) The best way to prevent collusion is to create a transparent housing market where information about rents for each unit can easily be obtained. Since the beginning of the housing voucher program, HUD has encouraged local PHAs to develop methodologies to set reasonable rents that reflect market rents in particular neighborhoods and to move away from setting rent standards based on median rents for the entire metropolitan area (HUD 2001).

This is not to say that U.S. landlords are a homogeneous group. There are two types of landlords. The first consists of professional managers of relatively large complexes owned by corporations. These managers generally understand HUD programs. The second consists of individuals or couples (mom and pop landlords) who own one or two properties and who are not professionally trained and are often unfamiliar with government regulations. In the Netherlands, a similar distinction exists between professional real estate investors with a large stock and small-scale individual landlords. Although we know of no corroborating research, we consider it likely that professional managers are less inclined than mom and pop landlords to collude with tenants in setting rents.

A very stubborn problem is that almost by definition, household income is difficult to determine and control. First, the composition of the household must be determined: Who is a member and who is not? When income-related housing support can be increased by splitting a household (a couple breaks up to form two 1-person households), it is tempting to do so in reality or to fake a split. In the United States, however, few single men are voucher recipients (Burke 1998).

There are all kinds of modern relationships, like "living together apart," that facilitate and can at least be partly explained by the financial gain of formally splitting households. This may stimulate an inefficient use of the housing stock and the overconsumption of public funds. The solution may be found in different housing allowance plans for one-person, two-person, and larger households, as is done in the Netherlands.

According to HUD guidelines, only family members can be put on a lease. However, HUD gives local authorities flexibility in defining what constitutes a family. This flexibility is illustrated by the different criteria used by the two agencies that offer housing vouchers in Hamilton County, OH (which includes, but is not limited to, the city of Cincinnati): the Hamilton County Department of Community Development (HCDCD) and the Cincinnati Metropolitan Housing Authority (CMHA). HCDCD defines a family member as one with ties based on blood or marriage or based on a legal contract (e.g., a foster child). Thus, if a man is a friend of a single mother (but is not married to her) and is a father of one of the children in the home (that is, he has a blood relationship), he can be added to the lease, but his income must be included in the rent calculation. HCDCD does not allow a boyfriend who does not have a child at the location to be listed on the lease, but CMHA does. CMHA and HCDCD receive complaints every day about men living off the lease in voucher units. If either agency ascertains that someone is living off the lease, then assistance is terminated. It is easier for officials to terminate assistance for unauthorized household members who are creating problems because there are public records (arrest reports) listing permanent residence. Together, HCDCD and CMHA receive hundreds of complaints annually about people illegally occupying units, and over 100 vouchers are terminated annually as a result of this infraction.[10]

Thus, the impact of housing assistance on U.S. family stability is minimal. Given the lack of entitlement to housing assistance, the only incentive to split households is to avoid having the income of one adult count toward the subsidy determination. This is probably an uncommon occurrence because of the additional costs incurred for two units.

Some PHAs like the ones in Cincinnati allow voucher recipients (regardless of marital status) to be listed on the lease, but their income then counts in determining the tenant's contribution to the rent. No one can live in these units legally and not have his or her income count.

A few PHAs have implemented programs that promote marriage by bringing the man back into the family, but since these programs are controversial, they are unlikely to have much of an impact nationally (Hymowitz 2004; Kotlowitz 2002; Rabinovitz 1996). The financial incentive to split households, either genuinely or ostensibly, must be reduced as much as possible.

Subletting units, either legally or illegally, can also undermine the purpose of the regulation. Control is difficult and sometimes impossible because of the difficulty of defining the concept of a household and the problem of carrying

[10] This paragraph draws from a telephone interview conducted by David Varady with Susan Walsh, Deputy Director, HCDCD, on July 15, 2005, and e-mail correspondence from Donald Troendle, Executive Director, CMHA, to David Varady on July 20, 2005.

out effective checks without resorting to unlawful entry or infringement of privacy. In this regard, recertification must be done regularly to check the consistency of databases. Because of privacy concerns, this strategy is probably less applicable to the United States than to European countries. Cross-checking data with the records held by tax authorities and the population administration is crucial. The rent administration of housing associations and PHAs is also important. Officials from the municipality of Amsterdam and the housing associations in that city estimate that about 10 percent of all renting in social housing in Amsterdam is illegal (Priemus 2005a, 2005b).

Good management means strict management. Clear legislation and severe sanctions can help make householders aware of their responsibilities. A tenant or a landlord who violates the rules should be barred from participating in the program. The structure of an income-related housing program should be tested as far as possible for its vulnerability to moral hazard. Even so, this problem will never be completely eliminated, particularly in the implementation of income-related housing support programs.

Administrative problems and the need to control public budgets

Although governments are invariably anxious to control expenditures, from time to time the impetus is particularly strong. Such is the case in the United States,[11] in Great Britain (Brown 2005), and in the Netherlands (Korthals Altes and Hoekstra 2003). Various courses of action can be taken to achieve this goal:

1. Make excessive rent increases impossible or attempt to limit them. The demand for housing allowances increases if rents rise at a relatively high rate. The rent policy of the central government in Great Britain and the Netherlands is therefore partly geared toward controlling expenditures on housing allowances (Department of the Environment, Transport, and the Regions [DETR] and Department of Social Security [DSS] 2000).

2. Reduce the incentives to split households. This issue is at the root of the differences between the way allowances are calculated in the Netherlands for one-person and multiple-person households.

3. Introduce maximum and minimum rent thresholds, above and below which no housing allowance is granted. This system would need to recog-

[11] Facing record budget deficits since 2001, the Bush administration has responded with deep cuts in nondefense domestic spending. HUD has experienced a larger cut in discretionary spending (11.5 percent) than any other federal agency (OMB Watch 2005).

nize variations in rental costs among metropolitan areas; for example, the threshold in a tight housing market like Boston would need to be quite high. This is the case in the U.S. FMR system. However, PHAs' ability to set payment standards 10 percent above or below FMR mitigates the problem.

4. Perform effective checks on the accuracy of data on the composition of households, household income, and rent level. Tenants' rights are certainly crucial, but should not impede such checks.

The administration of housing allowances is rarely considered in international comparisons. This may be partly due to the fact that administration is generally one of the less exciting, less controversial, and less problematic aspects of income-related housing support. Nevertheless, administration costs, fraud, and loss of time may play an important role.

In Great Britain, unlike the Netherlands and seemingly most other countries, the administration of the housing benefit program has proved to be highly problematic since it was first introduced in 1982–83. There are a number of reasons. The British program is very complicated (far more so than its Dutch equivalent), and its detailed rules are frequently changed. The benefit entitlement is too finely tuned to individual circumstances, and adjustments to entitlement are made even when relatively minor changes in claimants' circumstances occur (DETR/DSS 2000; DWP 2002; Hills 2001; Kemp 1998; Social Security Committee 2000). Great Britain has failed to heed John Maynard Keynes's advice that it is better to be roughly right than precisely wrong.

In the Netherlands, housing allowances are administered by the Ministry of Housing, Spatial Planning, and the Environment, which is in a position to compare the information provided by the claimant with information from the tax authorities and social security services. The administration is considered very efficient, and complaints were seldom heard until 2002, when for the first time there were delays in the payment of allowances (Priemus and Kemp 2004). The current national government announced in 2003 that the implementation of housing allowances will be transferred to the income tax authorities (Korthals Altes and Hoekstra 2003). Cooperation between the tax authorities and housing associations is essential, because the latter play a key role in helping families apply for and use housing allowances.

HUD has recognized the wide variations in management quality by implementing the Section 8 Management Assessment System (SEMAP). Whether a PHA performs annual housing quality standard inspections is subject to audit. Further, SEMAP also assesses compliance with rent reasonableness and income determinations, among other measures.

Recent experience in the three countries we studied underlines the observations made in this section. Claimants' information should be compared with data gathered by the tax authorities and the population agencies (European municipal departments that deal with requests for citizenship and residency). There is room for improvement in each of the countries we studied. In addition, programs should be kept as simple as possible.

Conclusion: Perspectives for the future

Income-related housing support is a public instrument that bridges at least two policy fields: housing policy and income support. On the one hand, housing allowances provide income support; on the other, they allow low-income households to realize affordable housing quality in the market. This dual relationship has helped make income-related housing support a critical policy tool in tackling affordability problems. In addition, it interacts with income taxation and labor market policies and creates potential poverty traps.

In Great Britain and the Netherlands, rising rents, the greater emphasis on the role of the market, the desirability of achieving something like tenure neutrality between tenants and homeowners (referring to a policy that supports housing consumption by tenants and homeowners in the same way as much as possible; see Priemus 2001a), the close relationship between income support and housing benefits and the interrelatedness of income policy and housing policy, and increased income inequality all mean that income-related housing supports are likely to remain indispensable in the immediate future, although reform is clearly necessary (Hills 2001; Kemp 1998).

By contrast, in the United States, housing vouchers are viewed as a straightforward solution to the housing affordability problem rather than as part of a strategy to reduce inequalities in wealth. At present, some policy analysts are suggesting time limits to make voucher policy consistent with welfare reform (Husock 2004). In Europe, dependency on annual subsidies without time limits seems to be more broadly accepted, but this could change as fiscal pressures mount.

U.S. success in maintaining the incentives on both the housing market (the incentive to find a less expensive unit) and the labor market (the incentive to get a job or improve one's income) provides important lessons for Great Britain and the Netherlands on how to design efficient and effective policy instruments, even if these need to be modified to take into account different institutional and cultural contexts.

In addition, European policy makers should take a look at the growing U.S. literature on the relationship between housing vouchers and residential mobility. The most recent results from the Moving to Opportunity (MTO) demonstration indicate that moves to low-poverty neighborhoods had virtually no impact on employment, earnings, or receipt of public assistance (Goering and Feins 2003; Orr et al. 2003).[12] Householders making such moves did, however, feel safer at their new locations. There is an urgent need for European housing researchers to carry out comparable sophisticated empirical studies on the link between housing vouchers/housing benefits and residential mobility.

In the United States, there is a fixed budget for housing vouchers, while in Great Britain and the Netherlands, housing benefits and housing allowances are an entitlement, and hence expenditures for them are demand led. The United States may want to emulate this key feature of the British and Dutch approach. When we take the main goals—promoting housing affordability, strengthening consumer sovereignty, and providing access to better neighborhoods—into account, an entitlement is superior to a budgeted program. The crucial question here is whether a country is willing and able to afford a full entitlement program.

Learning from the British and Dutch experiences, it would appear desirable from an equity perspective to convert the HCVP from a capped to a full entitlement program. The change would allow HUD to address the housing needs of all low-income families; the current budget-driven approach meets the needs of only a small proportion of those who qualify for assistance. Grigsby and Bourassa (2004) have, in fact, suggested making housing vouchers an entitlement program while integrating vouchers with other elements of the federal safety net. Whether such an expansion of the program is feasible is hard to say. In their discussion, Grigsby and Bourassa did not present a clear assessment of program costs, and their proposal to drop housing inspections would break the link between housing vouchers and housing quality improvement (Armstrong and Basgal 2004; Sard 2004).

Nevertheless, in this respect, the United States could learn from European countries. Perhaps an expansion of the voucher program could be feasible if the American public were convinced that the program was more closely linked to self-sufficiency objectives. That is, the only people who would be promised a voucher indefinitely would be those who are disabled or cannot enter or remain in the labor force. All others would receive a voucher for a limited period along with help in either getting a job or getting another job that makes

[12] It is not clear why the MTO demonstration has resulted in less positive findings than were obtained from the earlier Gautreaux housing program (Rubinowitz and Rosenbaum 2000). It is possible that improvements in employment and education may require more than 4 to 7 years of participation, the amount of time covered in the MTO interim report. The final report, which will cover 10 years of participation, may provide more conclusive results.

them financially independent. For the future design of income-related housing support, U.S. policy makers could learn from Europe, and policy makers in Great Britain and the Netherlands could learn from U.S. policy and practices.

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