Designing Housing Benefits: an Application with French Data

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Outline

Motivation of the paper

Overview of housing benefits

- **Housing policy is a major component of French social policy**
  - 41 billion euros (1.9 % of GDP)
  - Of which 18 billion euros allocated to individual housing benefits
- **Main goals of individual housing benefits**
  - Help modest households pay their rent
  - Favor access to decent housing
- **Eligibility criteria depends on**
  - The composition of the household (m),
  - The rent under a certain rent ceiling (L_1),
  - The geographical area (z),
  - Household income (R) Formula

A social benefit heavily criticized

- **Contributes to the rent increase and the capture of the benefit by owners**
  - Owners capture between 70 and 100 % of the benefit (Lafferère and le Blanc (2002), Fack (2006), Grislain-Letremy and Trevien (2014))
  - Under the rent ceiling (only 13 % of recipients), one to one relationship between the rent and the benefit Graph
  - Above the ceiling, the mechanisms are less clear-cut :
    - Labeling effect (Abeler and Marklein, 2013 ; Beatty et al., 2014)
    - Salience of the benefit (Chetty et al., 2009 ; Finkelstein, 2009)
    - Segregation of housing market (Fack, 2005)
    - Third-party payment system

A social benefit heavily criticized

- **Poor coordination with other social benefits creating disincentives to a return to paid work**
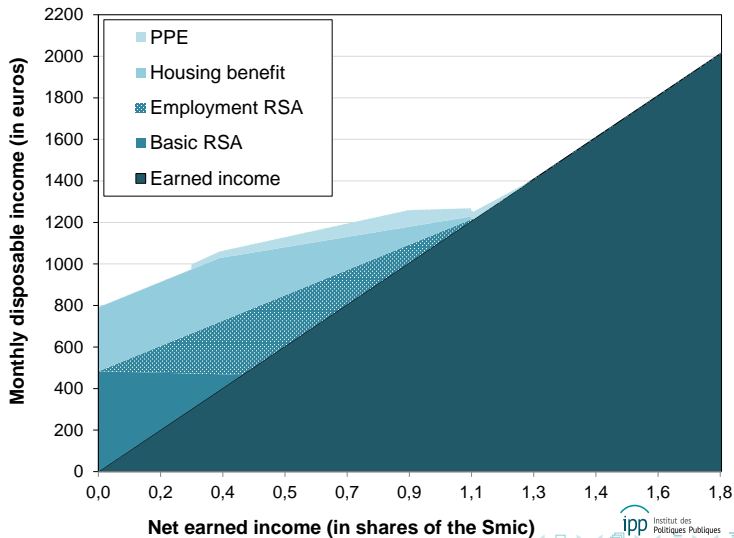
- **Reform proposal aimed at restoring the efficiency of housing benefits by :**
  - Simplifying the formula
  - Reducing the inflationary effects of the benefit
  - Restoring the incentives to a return to paid work
- **Constraints :**
  - Constant budget constraint
  - Limited vertical and horizontal redistributive effects

TAXIPP mircrosimulation model and data

TAXIPP microsimulation model

- **A static microsimulation model**
  - Simulate the legislation of the French tax and benefit system
  - One block for each dimension of the tax-benefit system
  - Representative sample of the population
- **TAXIPP documentation**
  - Barèmes IPP : legislation parameters
  - Bozio et al. (2014) : exhaustive presentation of the TAXIPP model

- **French Survey on Fiscal and Social Revenues (ERFS FPR 2011)**
  - Gives information on households ressources, taxes and benefits
  - Representative sample of the population
- **Housing Survey 2006**
  - Gives information on rents
  - Reweighted to 2011 data and matched statistically with the ERFS
- **National Sample of Recipients 2013 (ENA 2013)**
  - Gives information on the total amount of benefits allocated
  - Aggregates used to calibrate our data

Description of the reform scenario

Reform proposal

- **Merging housing benefits, the RSA and the PPE**
  - Three social benefits targeting modest households and sharing similar objectives
  - Function of households' composition and its resources
- **Formula for the new benefit**

New benefit = basic benefit +
a share of earned income +
geographic zone premium −
(household resources + imputed rent)

- **Calibration of the benefit**
    - Two parameters can be freely fixed :
        1. Minimum benefit : 624 euros for a single person without ressources
        2. Phase-out rate : 32 %, i.e. a 100 euros increase in income leads to a 32 euros decrease in benefits
    - Different benefit scales can be defined depending on priorities : fighting poverty versus work incentives

Shape of the new benefit
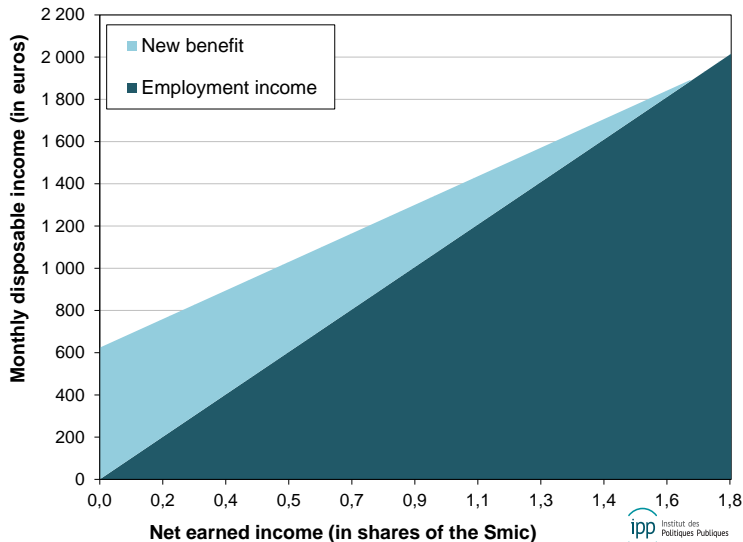
Redistributive effects of the reform

Redistributive effects of the reform

Decile of disposable income by unit of consumption

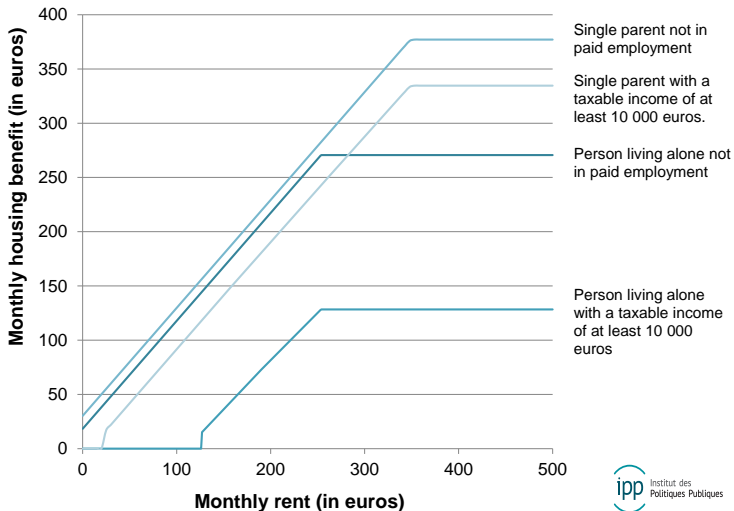# Redistributive effects on disposable income
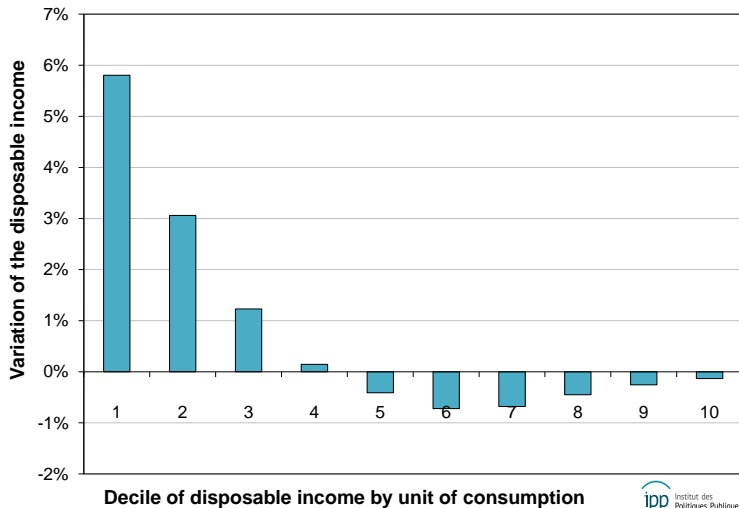
- **By income decile**
  - Mostly benefits the first 4 deciles ($+$ 6 % and $+$ 3 % for the first and second deciles)
  - Losses for other deciles less than 1 %
- **Main winners and losers**
  - Winners : individuals under 25, poor owners and single parent households
  - Losers : unemployed persons cumulating the RSA and housing benefits (and the PPE when working), poor owners with a highly valued property

Conclusion

- Housing benefits are plagued with a complex formula, rent inflation, and a poor coordination with other benefits
- Reform proposal : merge housing benefits with the income support and the employment bonus
- Small step towards a Universal credit and a simplification of the system
- Need to progress in the understanding of the incidence of in-kind VS. in-cash benefits on rent levels.

Additional material

Monthly housing benefits as a function of rent for different household categories in 2013

Monthly housing benefit (in euros) vs Monthly rent (in euros)

- Single parent not in paid employment
- Single parent with a taxable income of at least 10 000 euros.
- Person living alone not in paid employment
- Person living alone with a taxable income of at least 10 000 euros

Complete housing benefits formula

$$\mathrm{AL}(z, m, L_1, R) = \underbrace{\min[L_1; L_2(z,m)]}_{L} + \underbrace{C(m)}_{C}$$

$$- \underbrace{\left[\max\left(35, 53; \frac{8,5}{100} * (L + C)\right)\right]}_{P_0}$$

$$+ \underbrace{(T_f(m) + T_l(z, m, L_1))}_{T_p} *$$

$$\max[R - \underbrace{\frac{90}{100} * 12 * (R_1(m) - R_2(m))}_{R_0}] \boxed{\text{Formula TI}}$$