

Exploring Basic Income
in Scotland –
Workshop 4
Background Paper

Basic Income and
Housing

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UBI, Affordable Housing and Housing Support

1 Affordable housing

Whether housing is affordable depends partly on people's income or resources, and partly on price; and the price of housing depends on a combination of the housing market and the systems of finance which support it. Housing markets are complex. Most of the housing in the UK is still owner-occupied, and a major part of owner-occupation is paid for by borrowing. In the 1990s, mortgages were still being subsidised by government, and low-income owner occupation became widespread; the situation has become much more constrained, primarily as a result of the economic crash in 2007/08. The combination of high capital values and restricted finance for mortgages have made it difficult for households even with two moderate incomes to purchase. Basic Income may have some role in low-income owner-occupation, because the presence of a stable, predictable income would normally be taken into account in determining the level of a mortgage that a purchaser is able to repay. This would also affect the economic demand for housing, and the gains in income may be cancelled out by rising housing prices or rents.

The market for private renting has grown substantially in recent years. Although this reflects the constraints on owner occupation to some degree, the reasons for the expansion of private renting have little directly to do with the income of tenants. One factor has been the privatisation of the public housing stock, often through the sale of council housing. Another has been the ability to command higher rents, which reflects the inability of people with one or two moderate incomes to purchase. However, the economic incentive for landlords to rent out property depends not on rent levels alone, but on the rate of return. That depends on the balance between capital values and income. Low rates of interest and the expectation of high capital gains have made renting more attractive than some many other investment opportunities. A Basic Income should not be expected materially to alter the calculation. Most discussions of "affordable housing" focus on social rented housing for people on low incomes, and the provision of that sort of housing is heavily dependent on the system of benefits. Most social tenants are in receipt of low income benefits, particularly Housing Benefit, and social housing providers have to gear their operations to the rental income that can be raised through benefits.

2 Benefits and housing support

In 1970, shortly before the development of Housing Benefit, there were seven main components to housing support in the benefits system. These were





- support for council housing, in the form of the payment of rent and rates (council tax) through Supplementary Benefit;
- the general subsidy to council rents, which kept rents low;
- support for private rented housing, in the form of the payment of rent and rates through Supplementary Benefit;
- payments for supported housing, through Supplementary Benefit;
- rent controls on private rented housing;
- support for owner-occupiers, in the form of the payment of mortgage interest in Supplementary Benefit; and
- general support for owner-occupiers, in the form of tax relief on mortgage interest.

Housing Benefits (originally Rent Rebate and Rent Allowance) were introduced in 1972-73 in the belief that it would be better to withdraw general housing subsidies and to replace them with a cash benefit. Housing Benefit was "unified" in 1982, but it took 15-20 years for most of the changes in the rest of the system to take hold.

In relation to private renting,

- most rent controls were removed in 1988. The rents payable are subject to Local Housing Allowance rates, the levels of rent demanded by private landlords and the amount in benefit paid to social tenants.

In relation to social housing,

- general subsidies were gradually withdrawn from 1972 to the mid-1990s.
- many council properties were transferred to housing associations
- Council rents in England were deliberately increased through phased increases in order to reach "market rents". Central government intended this process to be completed by 2012 but in practice the process could not be completed as private rents continued to increase. This policy has led to a substantial increase in the costs of Housing Benefit. Attempts to reduce those costs have led to other policy changes, including lower Local Housing Allowances, caps and the bedroom tax.
- Housing Associations have been required to finance their activities substantially through rents, and so through Housing Benefit.

In relation to supported housing,

- residential care for older people was developed at speed in the 1980s through payments from Supplementary Benefit. Many of the provisions were transferred to the social care budget after 1990; for other forms of supported housing, Housing Benefit meets a substantial proportion of the costs.

In relation to owner-occupation,

- subsidies were maintained for much longer than for council housing; but after 2000 mortgage interest relief at source was phased out.
- Support for mortgages on benefit has more recently been reduced, at first paying mortgage interest only after an initial waiting period, then being limited to payments for two years (104 weeks) and after April 2018 only as a loan.[1] The rules are



extremely complicated - frequent changes in policy mean that entitlement depends on when claims were made, when loans were taken out, which benefit is under consideration and how much the loan is for.

The key issues to consider in any reform are that

1. Support for housing costs is as much a matter of housing policy as it is about benefits.
2. Benefits have been used for a range of purposes, including financing the system of social housing and developing the system of social care. They have served as a housing subsidy, a low income benefit, a form of market regulation and an attempt to manage rented housing, all at the same time.
3. Benefits are not just about paying for low-income housing. Many of the arrangements have been made to ensure that people who have liabilities to pay for housing can meet those liabilities during periods when income is interrupted.

3 The role of UBI

If UBI is intended to be adequate to cover minimum costs and to guarantee a standard of living, there is an argument for making the benefit sufficient to cover the necessary costs of housing. There are several problems in doing so:

- Housing costs are highly variable.
- Benefits are used to do much more than maintaining people's income.
- While some people pay for housing, others do not. Part of the general philosophy of UBI has been to equalise payments, and to compensate for those inequalities through taxation. In the UK it was once the practice to tax owner-occupiers households on the imputed rental value of the property they occupied. The rationale was that if they were renting property, they would be taxed on the money that paid the rent before the rent was paid; owner-occupiers do not have to face that. Mortgage Interest Relief was then granted to equalise the position of different owner-occupiers, ensuring that they could offset the costs against the imputed income. The policy was deeply unpopular and was ended in the 1960s.

The main problem in introducing UBI while retaining Housing Benefit, or the housing component of Universal Credit, is that these benefits are means-tested. Housing Benefit (or Universal Credit including Housing Benefit) is means-tested, and either is withdrawn at 63% - a very high rate that creates a poverty trap. If Housing Benefit treats UBI as income, then two-thirds of the new benefit will be taken away from anyone who has to claim HB. If UBI is not taken into account, that problem does not arise, but the implication is that most of the millions currently claiming Housing Benefit will still have to claim complex, confusing benefits, and suffer the poverty trap.



4 A Universal Housing Allowance

A different kind of argument might be made for a Universal Housing Allowance. Part of the case is an argument for decoupling benefit payments from the actual rent paid. Housing Benefit, and the housing component of Universal Credit, are hugely complicated. Reforming the benefits will be difficult, because they serve several functions at once, but a universal allowance could become part of the mix. This could also help to break the perverse link that has been established between the levels of rent demanded by private landlords and the amount in benefit paid to social tenants.

The other issue that this might address is the problem of equivalence. A universal allowance paid for each distinct dwelling could be used to address the issue of equivalence as well as contributing some payment for housing. The first person in a household has more expenses to bear than the second, and approaching 30% of all households in the UK have only one person in them. If however there is a differentiation in UBI between individuals and couples, as there is in the Green Party proposal for UBI,[2] there has to be a way of identifying who is, and who is not, a member of a couple, with all the problems that entails.

The table which follows considers three standards: the equivalence scales used by the OECD, the test of Minimum Income Standards developed by Jonathan Bradshaw and his colleagues, and a modified MIS taking account of child care.[3] The income needs of the first person are nearly double those of each subsequent adult or child. A very simple scale in the final column relates to minimum income needs rather more effectively than the much more complex OECD scale. The distribution could be achieved by giving the same benefit to every person, but then giving the equivalent amount for each dwelling.

Equivalence Scales				
	OECD scale Minimum Income	Standard	Minimum Income Standard with child-care	Flat scale of 0.5 after first person
Single	1.00	1.00	1.00	1.00
Couple	1.49	1.46	1.46	1.50
Single pensioner	1.00	0.89	0.89	1.00
Couple pensioner	1.49	1.26	1.26	1.50
Couple + 1 (aged 1)	1.79	1.68	2.36	2.00
Couple + 2 (aged 3/8)	2.09	2.13	3.08	2.50



Couple + 3 (aged 3/8/14)	2.58	2.65	3.58	3.00
Couple + 4 (aged 1/3/8/14)	2.88	2.82	4.11	3.50
Lone parent + 1 (aged 1)	1.30	1.31	2.00	1.50
Lone parent + 2 (aged 3/8)	1.60	1.71	2.66	2.00
Lone Parent + 3 (aged 3/8/14)	2.09	2.23	3.18	2.50

References:

[1] See G Morgan, 2018, Support for mortgage interest: a loan alone,
<https://medium.com/adviser>

[2] Green Party of England and Wales, 2015, Basic Income: a detailed proposal,
<https://policy.greenparty.org.uk/assets/files/Policy%20files/Basic%20Income%20Consultation%20Paper.pdf>.

[3] See P Spicker, Why refer to poverty as a proportion of median income?, *Journal of Poverty and Social Justice* 2012 20(2) 165-177



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