



Spatial Economics Research Centre

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Housing Benefit Reform

The housing benefit reforms are certainly generating a [great deal of debate](#). So far, I would argue, precious little light.

Here are some of my observations and my "known unknowns".

Placing a cap on housing benefit either reduces the overall cost of housing provision or increases the amount of housing that is provided with a fixed budget (because the state stops paying high prices for some of the housing it is purchasing).

Some people will have to move from high price accommodation in high price areas. This will be a cause of considerable distress for the individuals involved. We have estimates of how many people will be affected but very little idea of what will happen in terms of where these households relocate. I suspect that stories about them all having to move to Hastings greatly exaggerated.

There must be some effects on house prices because of the redistribution of public sector demand. These effects will differ by area (down in the higher cost places, up in the cheaper places). The effects of this will be complicated and not all negative. For example, we might see middle income families who currently face long commutes able to move closer to their work. A (big) part of the problem is the overall supply of housing. Will government reform to address this problem, such as the new homes bonus, be enough to offset the move towards more local say on planning decisions?

The changes to the rules will put upward pressure on wages for the lowest paid workers in high cost areas. In the private sector firms will have to respond. In the public sector national pay structures already prevent wages from correctly reflecting costs of living. That is why some of the worst affordability problems (or at least the ones which get a lot of attention) involve nurses, social workers and teachers on low levels of public sector pay. Will the government do something to address this issue?

In terms of the move to 80% rents for new social housing, to what extent will this simply be a transfer from capital expenditure to revenue expenditure? Will the implicit subsidy via rents be enough to offset the fall in per housing capital subsidy? What will all this do to work incentives for individual households? It must change them, but how?

I do not currently know the answers to any of these questions and what I have read of the debate suggests no one else knows them either.

Posted by [Prof Henry G. Overman](#) on [Wednesday, October 27, 2010](#)



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