Spatial Economics Research Centre

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Is Building Social Housing better than the Benefit Cap?

I just read through Left Foot Forward's latest on why building social housing would cut the housing benefit bill three times faster than the benefit cap.

The idea of spending 'more on social housing' appeals to many involved in the housing debate regardless of the impact on the overall fiscal position. Ir addition, LFF suggest that social housing for all 67,000 families affected by the benefit cap would save £8.1bn (way more than the 2.7bn that would be saved by the benefit cap). This sounds like "win-win". Is it?

Here's how LFF calculation works. Assume that social housing could house 67,000 families at a cost of £100,000. This gives a total cost of £6.7bn. Th Office for Budget Responsibility suggests that spending an extra £1 on infrastructure increases national income by £1 per year (see table C.8). LFF thi that 0.65p of that £1 would go to the exchequer in revenues. This means 67,000 homes cost the exchequer £2.3bn.

Two crucial assumptions underpin this calculation. The first is the exchequer benefit of 65p out or £1. I don't fully understand where this comes from, b it certainly seems a high figure for the marginal tax take out of output in the UK context. The second problematic figure is the use of the infrastructure multiplier. This is open to dispute on two levels. First in terms of it's overall magnitude. For example, Jonathan Portes of NIESR, talking on the Today programme a couple of week's ago suggested that the infrastructure multiplier was probably closer to 0.7. Second, it's not clear why the infrastructure multiplier for roads, rail and other productive infrastructure should apply to housing. In short, £6.7bn of expenditure on social housing is likely to cost th government considerably more than £2.3bn.

The next big saving according to LFF's calculations is in rental payments. They suggest that social housing rents "are much lower [than private sector] perhaps as much as £300 per week". That adds up to £15,600 per family per year and a whopping £8.1bn over 10 years.

LFF don't give a source for these figures but they, again, seem pretty high. According to DCLG, private sector rents in London average £198 per week (see table 715 of live tables on rents etc). In London, registered social landlords charge about £85 per week (table 715 again). These figures aren't a li for like comparison (as the underlying portfolio of properties differ) so they exaggerate the difference that would apply to equivalent properties. In short savings of £300 per week (or £15,600 per year) for moving families from equivalent private sector to social sector flats seems a tall order (although it's hard to understand exactly what calculation LFF are making).

Finally, LFF assume that the land comes free from Local Authorities. That ignores the cost in terms of the large capital receipts that LAs could get from selling off valuable land (which the government is just about to let them realise through land auction pilots).

In short, there is an argument to be had about social housing provision, but it's not obvious that 'huge fiscal savings' are a big part of that argument.

Posted by Prof Henry G. Overman on Tuesday, February 21, 2012

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