

AHI: United States: Means-testing: poverty trap?

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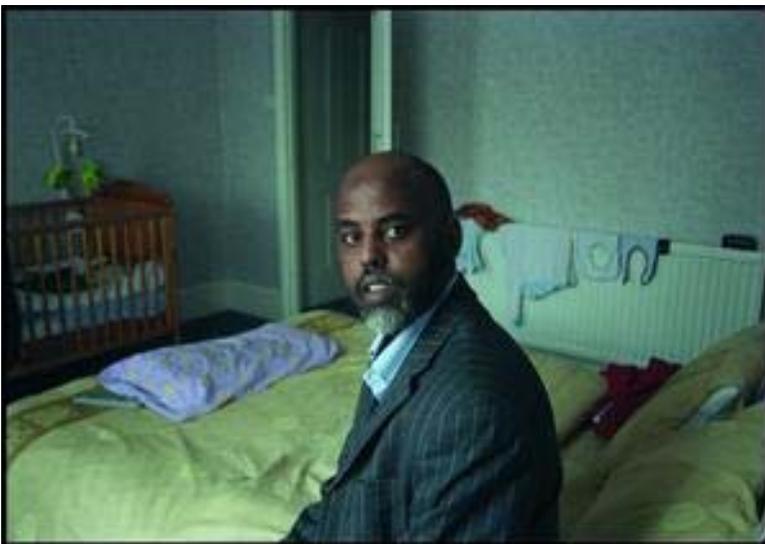
By David A. Smith

Do good intentions trap people in poverty?

They do in Britain; this we can prove.

I think we can also show convincingly that they do here.

Efforts to calibrate housing affordability to households' ability to pay can act as a powerful deterrent to raising those families' income and helping them to economic self-sufficiency.



He wants to work ... but it's economic suicide.

Significantly, the UK is now experimenting with work-boosting initiatives, and the early US experience (eye-popping statistics below) suggests that they may work in both countries.

The British experience ... and experiment

In the UK, eligible recipients receive '[housing benefit](#)' (the British analog of [Section 8 Housing Choice Vouchers](#)), but, as documented in this recent report from the UK's [Housing Today \(subscription required\)](#), the economics of housing benefit delivery make it economic suicide for some people to work:

Ahmed Osman has not worked for three years. It's not because he doesn't want to – he simply can't afford it. When his wife died suddenly in August 2001, Osman gave up his driving job to look after his three young children. Now they are older, he wants to find a job, but he knows that his wages would not be enough to cover the rent for his family's three-bedroom semi in the east London borough of [Redbridge](#). So

instead, he is forced to stay at home and subsist on state benefits.

Osman is caught in the “poverty trap”, one of the most intractable and perplexing social problems of our age. It means his rent is so high that, were he to take a job and lose his housing benefit, he would be considerably worse off.

Of course, above some income level, Mr. Osman could make a go of it, but the hurdle is too high:

Figures from the [ODPM](#) indicate that a couple with three children in temporary accommodation, paying the east London average of £300 a week in rent ...

They quote in weeks, so multiply by 4.3 for monthly, and don't forget that £1=\$1.90 these days -- yikes!

... would need to have combined earnings of about £960 a week before they made any significant gain from taking a job.

But £960 a week is far beyond Osman's grasp. His temporary accommodation rent of £320 a week is paid with housing benefit and he receives £132 a month in income support and £482 a month in child benefits, a grand total of £614 a month. **Recently he has applied for a post with a security company, which would pay about £350 a week, and a job at the Post Office for £520 a week – both uneconomic compared with benefits.**

In other words, Mr. Osman's practical employment alternatives offer him between 36% and 54% of what he needs to making working facially equivalent (to say nothing of incremental costs he might incur). His employment barrier is higher because London housing costs are so high:

If he were living in social housing, the gap would be much smaller – he has applied, but in London, openings are scarce.

So, recognizing the poverty trap, the Labour government is proposing a variation of what we over here call 'income disregard' -- allowing people to take a job and not lose their housing assistance:

The [Working Future scheme](#) will help households who have applied for housing through the council and who are currently living in homes rented from private landlords by East Thames. The scheme will subsidise their rents down to £97 – low enough to allow them to stop claiming housing benefit when their pay reaches a modest £385 a week.

The government is doing this for motives both social and budgetary:

According to homelessness minister [Lord Rooker](#) at the ODPM, the government is motivated by more than

just the financial benefits of the scheme. “Employment is one of the key interventions that can empower people who have experienced homelessness to begin turning their lives around. Regular work can be a stabilising influence that enables people to build the self-esteem and independence they need to make the move from temporary to settled accommodation. Working and training for work also helps tackle the sense of exclusion and isolation that unemployed people in temporary accommodation can experience.”

The poverty trap has multiple sides, including barriers to employability:

On its own, Working Future is not the panacea for such an entrenched social problem. “People aren’t going to rush out and find work,” says [Berwyn Kinsey](#), head of the [London Housing Federation](#). “Many have been unemployed for a long time and may not have the skills and experience. **They need support to get re-skilled**, and that’s not a quick process. It’s not a criticism of the project, but it may take time to yield results and people must be patient.”

In addition to job training, family circumstances are also a barrier:

[Victor da Cunha](#), managing director of [East Homes](#), the [East Thames Group](#)'s general needs housing division, concedes there are other barriers to work, including **childcare, mental health and drug issues**, that should be addressed as part of the scheme.

You may cluck that of course, in the USA would we never do that, but consider the plight of the typical Section 8 recipient. **A family who moves from joblessness to income faces at least 48% marginal cost** of doing so:

- Resident share of rent equals [30% of income](#).
- [Income taxes](#) equal to at least 10%.
- Withholding [takes another 7.5%](#).

Plus, in individual circumstances, workers lose Medicaid, to stay nothing of the marginal costs of working: day care, transportation, and so on.

Once upon a time, I read a lengthy *Wall Street Journal* article [*If anyone can find it, please email me a link or the text! -- Ed.*] analyzing the Zero Improvement Wage -- that is, the wage at which a benefit recipient would have the same take-home cash, factoring in (a) incremental and inescapable costs of employment, and (b) loss of mean-testing benefits. It was in the range of \$10 an hour, above that person's likely entry-level capacity. In short, she (for it was a single mother) was economically trapped just as surely as if the hurdle rate had been the UK's 100%.

The US experiments ... in spite of themselves?

Meanwhile, over here we have [Moving to Work](#), a five-year demonstration program whose goals echo those of Working Futures:

Since May 1999, as a participant in HUD's [Moving To Work](#) (MTW) demonstration, the [Housing Authority of the County of Tulare](#) has been operating a program of flat rents in its public housing and fixed subsidies in its voucher programs. **Families participating in the MTW program either pay a fixed rent for public housing or receive a fixed subsidy for voucher.** Because rents are not tied to income, MTW participants are able to keep the full amount of any extra earnings they make while on the program. However, **assistance is terminated** when a family's income reaches 120 percent of the area median or **after five years in the program**, whichever comes first.

We thus see income disregard, self-selection (as in the [micro-homeownership pilot in Tacoma](#)), and proper household incentives:

MTW gives participants the opportunity to save as their incomes rise, thus providing an incentive to seek out employment or better jobs. The five-year time limit on assistance also increases the impetus for families to gain employment and self-sufficiency skills, so that they will be able to afford alternative housing once their assistance is terminated. The time limits also reinforce the notion that rental assistance is not a lifetime benefit but a helping hand to families as they move toward employment and self-sufficiency. The Housing Authority hopes that at the end of five years, some families will have earned and saved enough to purchase a home.

Does it work? [Check out these statistics](#) (original in .pdf) from [Tulare County](#), California:

INCOME INCREASE COMPARISON				
May 1999 - October 2003				
Section 8:				
Type	Number of Households	Increase in Family Income	Number of Households	Increase in Elderly/Disabled Income
Income Based	298	13%	562	17%
Welfare to Work	363	9%	n/a	n/a
Moving to Work - Conversion	665	50%	108	51%
Moving to Work - New Move-Ins	547	51%	52	49%
Public Housing:				
Type	Number of Households	Increase in Family Income	Number of Households	Increase in Elderly/Disabled Income
Flat Rent-HUD Style	39	36%	27	40%
Income Based	83	10%	118	10%
Moving to Work - Conversion	148	36%	18	35%
Moving to Work - New Move-Ins	157	49%	16	28%

Let's be clear: those Section 8 voucher holders who moved into moving to work saw their incomes jump **fifty percent**, while those on the classical income-based (means-tested) formula saw their income rise 17%. Three times

as much income increase by making this one change.

For public housing recipients, the contrast is likewise striking: 10% increase for the control group, 28-35% on Moving To Work, and 40% on income disregard (flat rent).

Look at the most recent quarter and the differential is even larger:

Income Increase Comparison as of 03/31/05 (Excluding elderly/disabled households)		
Section 8:		
Type	<u>Number of Households</u>	<u>Increase in Income</u>
Income Based	212	11%
Welfare to Work	170	7%
Moving to Work - Conversion	564	72%
Moving to Work - New Move-Ins	414	59%
Public Housing:		
Type	<u>Number of Households</u>	<u>Increase in Income</u>
HUD Flat Rent	33	49%
Income Based	64	13%
Moving to Work - Conversion	134	47%
Moving to Work - New Move-Ins	145	58%

Where we might go with this is a subject for some future post. For now it's enough to recognize the phenomenon.

(Hat tip: [Ophelia Basgal](#), executive director, [Housing Authority of Alameda County](#))

Posted by ahi on April 11, 2005 01:46 PM to AHI: United States

http://www.affordablehousinginstitute.org/blogs/us/2005/04/meanstesting_po.html